Ovato Limited
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ASX ANNOUNCEMENT

28 February 2020

OVATO LIMITED FY20 HALF YEAR RESULTS

$M	H1 FY20 (Statutory)	H1 FY20 (pre AASB16) [1]	H1 FY19 (Statutory / pre AASB16)	Var $ (pre AASB16)	% (pre AASB16)
Sales Revenue	**328.9**	**328.9**	363.0	(34.1)	(9.4%)
EBITDA (before significant items)	**25.0**	**13.4**	18.6	(5.2)	(27.9%)
EBIT (before significant items)	**6.3**	**2.7**	3.9	(1.2)	(30.1%)
Net (Loss)/Profit (before significant items)	**(2.4)**	**(1.3)**	0.1	(1.4)	-
(Loss) before Income Tax Expense	**(57.0)**	**(58.0)**	(7.6)	(50.4)	-
Net (Loss) (after significant items)	**(58.3)**	**(59.0)**	(10.9)	(48.2)	-
Net Cash Flow [2]	**(36.4)**	**(46.3)**	(8.6)	(37.7)	-
Net Debt [3]	**(90.9)**	**(90.9)**	(41.4)	(49.5)	-

1 Unaudited

2 Net Cash Flow equals Net Cash Flow from Operations less Investing Cash Flows

3 Excludes Lease Liabilities from the adoption of AASB 16

Statutory results for H1 FY20 include adoption of AASB 16 leasing standard "AASB 16". Prior period comparatives have not been restated for the impact of AASB 16 as the modified retrospective approach has been adopted. The H1 FY20 results have been adjusted where applicable to exclude the impact of AASB 16 to enable financial users to better understand underlying comparatives on a like for like basis. See Appendix 1.

Pre AASB 16 results compared to prior comparative period "pcp" are as follows :

- FY20 Half year sales revenue at $328.9M is $34.1M or 9.4% lower
- FY20 Half Year EBITDA* of $13.4M down 27.9 % or $5.2M
- Ovato Aust EBITDA* of $12.4M down $2.7M
- Ovato NZ EBITDA* of $1.0M down $2.5M
- Net debt at December 2019 pre AASB 16 at $90.9M

* Before significant items

CEO Commentary

Overview

H1 FY20 marked the completion of the NSW site consolidation with the Moorebank facility being closed and production ceasing prior to Christmas. All make-good costs and redundancies relating to this site closure will be completed before the end of the financial year enabling the Company to return to positive cash flows as we move into FY21. The closure of Moorebank will deliver a significant reduction in our underlying manufacturing cost base with annualised savings exceeding $20M.

While volumes for all tier-one food & beverage catalogue customers have remained strong year-on-year, the first half of FY20 has been negatively impacted by greater than expected volume reductions in newspapers and non-food & beverage retail catalogues aligned to subdued retail conditions. The competitive landscape has also been challenging with pricing pressure in recent tender activity and the incurrence of greater than expected disruption costs associated with the NSW site consolidation while we ensured all client demands were met. Similar market conditions were experienced in New Zealand with both volume and price reductions impacting on H1 FY20 results.

We remain committed to the continual evaluation of the most effective and efficient footprint for our manufacturing operations, executing the next phase of our strategic priorities to enhance our capabilities in data, and return to positive cash flow leading into FY21.

Outlook

We continue to take a cautious stance on the short-term macro outlook with expected soft retail conditions and lower consumer confidence.

We will continue to execute our margin improvement strategies and control costs to mitigate the effect of the current market conditions.

We remain confident of improved profit margins and positive cash flows as we move towards FY21 through a lower manufacturing cost base and higher margin revenues in our evolving data capabilities.

In light of the challenging market conditions as evidenced in the H1 FY20 financial results, we have appointed financial advisers to assist in reducing debt levels. Initiatives being considered include non-core asset sales, raising equity and other strategic initiatives.

Maintenance capital expenditure to remain circa $5M p.a.

H1 FY20 Results Commentary

Net Sales Revenue ($M)	1H FY20 (Statutory)	1H FY19 (Statutory)	Var $	Var %
Ovato Australia Group	271.7	300.4	(28.8)	(9.6%)
Ovato New Zealand Group	57.2	62.6	(5.3)	(8.5%)
TOTAL GROUP	**328.9**	**363.0**	**(34.1)**	**(9.4%)**

EBITDA ($M) - Statutory	1H FY20 (Statutory)	1H FY19 (Statutory)	Var $	Var %
Ovato Australia Group	22.3	15.1	7.1	47.2%
Ovato New Zealand Group	2.8	3.5	(0.8)	(21.5%)
TOTAL GROUP	**25.0**	**18.6**	**6.4**	**34.3%**

EBITDA ($M) - Pre AASB16	1H FY20 (pre AASB16)	1H FY19 (pre AASB16)	Var $	Var %
Ovato Australia Group	12.4	15.1	(2.7)	(18.0%)
Ovato New Zealand Group	1.0	3.5	(2.5)	(70.7%)
TOTAL GROUP	**13.4**	**18.6**	**(5.2)**	**(27.9%)**

H1 FY20 Group Sales at $328.9M were down $34.1M primarily due to $28.8M lower sales from Ovato Australia.

Statutory H1 FY20 EBITDA* was $25.0M up $6.4M and included $11.6M of favourable AASB 16 adjustments. H1 FY20 EBITDA* (pre AASB16) at $13.4M was down $5.2M or 27.9% pcp mostly due to lower earnings from Ovato NZ and Print AU and Residential Distribution, while Marketing Services and Retail Distribution were broadly in line pcp.

* Before significant items

Ovato Australia Group

Statutory H1 FY20 EBITDA* of $22.3M includes a positive AASB 16 impact of $9.9M. H1 FY20 EBITDA* (pre AASB 16) for Ovato Australia at $12.4M was down 18.0% or $2.7M pcp with the impact of the reducing cost base being offset by reduced print and distribution revenues.

Revenue in Australia was down $28.8M or 9.6% pcp. While revenues for tier one food & beverage retail catalogues have remained relatively consistent with H1 FY19, there has been a general decline in non-food & beverage sectors impacting both print and residential distribution revenues. The continuation of subdued consumer confidence and soft retail conditions has also seen the volumes of magazines and real estate dependent publications continue to fall. Ovato Marketing Services profitability has remained relatively stable year-on-year as we continue to build momentum through our focus on innovation and data.

* Before significant items

Ovato New Zealand Group

Statutory H1 FY20 EBITDA* was $2.8M including $1.7M of favourable AASB 16 impact. H1 FY20 EBITDA* (pre AASB 16) at $1.0M down $2.5M mostly due to lower heatset and sheetfed revenues in an increasingly competitive market. Higher paper costs were offset by favourable price/mix.

New Zealand continues to be impacted by overcapacity in the heatset printing market and fierce competition for residential distribution volumes to support two separate delivery networks resulting in continued intense pricing pressure leading to lower revenues and reduced margins.

We continue taking a market leadership position in proactively seeking an industry led solution to the current market dynamics.

* Before significant items

Other

H1 FY20 statutory loss after tax including AASB 16 was $58.3M vs $10.9M loss in H1 FY19 up $47.4M pcp mostly due to $46.3M higher significant items. The post-tax impact of AASB 16 in H1 FY20 was $0.7M benefit.

Net cash flow (pre AASB 16) in H1 FY20 December 2019 of negative $46.3M was worse by $37.7M pcp with lower EBITDA, unfavourable working capital (timing), higher capital expenditure (new press) and significant items. Net debt (pre AASB 16) at $90.9M is up $46.2M from June 2019 and net debt (pre AASB 16) to EBITDA (before significant items) was up from 1.1x to 3.5x (pre AASB 16).

Significant Items

Significant items booked in H1 FY20 were $54.3M pre-tax up $46.3M pcp. Cash significant items at $20.6M includes $13.3M of employee related costs, $3.5M of press relocation costs and $3.8M of NSW site consolidation related items. Non-cash significant items at $34.0M were up year on year. Lower profitability at Ovato Australia has resulted in a $35.2M non cash impairment of IPMG merger related goodwill. There was also $0.3M gain on asset sales.

Debt

Net Debt at December 2019 was $90.9M[1] which is $46.2M higher than at June 2019. In the first half the new Commerzbank loan was drawn $16.9M and $20.6M was spent on significant items mainly for NSW site consolidation.

1. Excludes Lease Liabilities from the adoption of AASB 16

The Board has approved this announcement for release.

FOR FURTHER INFORMATION CONTACT:

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Appendix 1

Profit & Loss impact from adoption of AASB 16

The adoption of AASB 16 in H1 FY20 has resulted in a net benefit of $0.7M post tax expense.

$M	1H FY20 (Statutory)	1H FY20 (pre AASB16)	1H FY19 (Statutory / pre AASB16)	% (pre AASB16)
Sales Revenue - Statutory	**328.9**	**328.9**	363.0	(9.4%)
EBITDA (before significant items)	**25.0**	**13.4**	18.6	(27.9%)
Depreciation & Amortisation	**(10.7)**	**(10.7)**	(14.7)	27.4%
Depreciation - ROUA	**(8.0)**	**-**	-	-
EBIT (before significant items)	**6.3**	**2.7**	3.9	(30.1%)
Finance Costs	**(3.9)**	**(3.9)**	(3.6)	(10.0%)
Finance Costs - ROUA	**(5.1)**	**-**	-	-
Net (Loss)/Profit After Tax (before significant items)	**(2.4)**	**(1.3)**	0.1	-
Significant items post tax	**(55.9)**	**(57.7)**	(10.9)	-
Net (Loss) before tax	**(57.0)**	**(58.0)**	(7.6)	-
Net (Loss) (after significant items)	**(58.3)**	**(59.0)**	(10.9)	-

Changes in the Income Statement due to AASB16 - H1 FY20	**$'000**
Operating lease expenses (previous lease accounting)	11,591
EBITDA (pre Significant Items uplift to to AASB16)	**11,591**
Depreciation of ROU assets	(8,004)
Gain on recognition of finance sub-lease receivable (Significant Item)	2,573
EBIT (after Significant Items)	**6,160**
Net finance costs	(5,120)
EBT	**1,040**
Income tax expense	(311)
Benefit for the half-year	**729**

Balance sheet impact from adoption of AASB16

- AASB 16 brings leases on balance sheet as a Right-Of-Use (ROU) asset and corresponding lease liability.
- Recognition at 1 July 2019 of ROU assets of $79.0M, lease liabilities of $122.9M, finance lease receivables of $4.1M and deferred tax assets of $6.0M.
- ROU assets reduced at 1 July 2019 by $19.0M of onerous lease provisions and finance lease receivables.
- Adjustment of $14.4M taken to opening accumulated losses.
- Increase in net debt at 31 December 2019 by $113.6M, due to recognition of lease liabilities.
- No material impact on debt covenants.