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# H1 FY20 Results Presentation

ASX: OVT

28 February 2020

The Board has approved this announcement for release.

# Our Vision

## We are creating a smarter and sustainable business to deliver integrated marketing solutions that turn audiences into customers

# Alignment of action and strategy

## 1. Grow Retail Marketing Business

- Food and Beverage sector remains strong
- With Quantium we can measure the impact of catalogue in retail dollars allowing us to prove and improve the return of our clients marketing spend above other channels

## 2. Optimise Publishing

- Strong partnerships with traditional publishers and emerging content agencies
- Innovation in publishing including augmented reality covers
- Sole provider of retail distribution network for magazines in Aust & NZ

## 3. Operational Efficiency

- NSW site consolidation reducing our manufacturing cost base
- Investment in new 80page press and retirement of seven older, less efficient presses

## 4. Create a Robust Distribution Platform

- Two of the top three retailing supermarkets are now committed to our network
- Investment in data analytics allowing ROI and targeted mapping for each campaign
- Increased sampling through the network

# "Working with Ovato, we reach 234,552 more liquour shoppers for the same marketing investment."

Melissa LoBianco,

Marketing Manager – Value & Trade
Dan Murphy's

# Financial Overview H1 FY20

(pro forma and pre AASB16)

| Sales | EBITDA[1] | Net Debt | Net Loss[2] |
|---|---|---|---|
| $328.9M | $13.4M | $90.9M | ($59.0M) |
| down 9.4% pcp | down 27.9% pcp | up $46.2M vs June 19 | |

**Sales**

- *Tier 1 Food & Beverage Catalogue volumes held strong*
- *Lower than expected newspaper & magazine volumes*
- *Tier 2/3 catalogue volumes impacted by subdued retail conditions*
- *Pricing pressure through recent tenders*

**EBITDA**

- *Aust Print & Residential Distribution down $2.7M on lower volumes*
- *Ovato NZ down $2.5M*
- *Retail Distribution & Marketing Services broadly in line pcp*

**Net Debt**

- *Increased net debt vs June 2019 due to new loan for manroland 80 page press and spend on NSW site consolidation*

**Net Loss**

- *Non recurring costs associated with NSW site consolidation and $35.2M non cash impairment of IPMG merger goodwill*

1. Before significant items
2. Net Loss excludes $0.7M benefit from the adoption of AASB 16

# Overview of H1 FY20

- Renewal of a significant number of key clients across Print and Distribution
- Volumes for all tier-one food & beverage catalogue customers have remained strong year-on-year
- First half of FY20 has been negatively impacted by competitive pricing pressure and greater than expected volume reductions in newspapers and non-food & beverage retail catalogues aligned to the subdued retail conditions
- Physical completion of the NSW site consolidation with the Moorebank facility being closed.
- The NSW site consolidation will deliver a significant reduction in our underlying manufacturing cost base with annualised savings in excess of $20m
- Incurrence of greater than expected disruption costs associated with the NSW site consolidation to ensure all client demands were met
- We remain committed to the continual evaluation of the most effective and efficient footprint for our manufacturing operations
- We are now executing the next phase of our strategic priorities of enhancing our capabilities in data and returning to positive cash flow leading into FY21
- Ovato New Zealand continues to operate in an over capacity market – as industry leaders we are proactively seeking industry led solutions

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# 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.

# Financials

# Income Statement

| $M | H1 FY20 (Statutory) | H1 FY20 (pre AASB 16) | H1 FY19 (Statutory / pre AASB 16) | % (pre AASB 16) |
|---|---|---|---|---|
| Sales Revenue | 328.9 | 328.9 | 363.0 | (9.4%) |
| EBITDA (before significant items) [1] | 25.0 | 13.4 | 18.6 | (27.9%) |
| Depreciation & Amortisation | (10.7) | (10.7) | (14.7) | 27.4% |
| Depreciation Right-Of-Use-Asset | (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 Right-Of-Use-Assets | (5.1) | - | - | - |
| Net (Loss)/Profit After Tax (before significant items) | (2.4) | (1.3) | 0.1 | - |
| Significant items (pre tax) – cash | (20.3) | (22.8) | (8.9) | - |
| Significant items (pre tax) – non cash | (34.0) | (34.0) | 0.9 | - |
| Tax effect – Significant items | (1.6) | (0.9) | (3.0) | - |
| Net (Loss) (after significant items) | (58.3) | (59.0) | (10.9) | - |

Statutory results for H1 FY20 include adoption of AASB 16 lease 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.

1. The statutory EBITDA for H1 FY20 includes a favorable increase of $11.6M due to the adoption of AASB 16

# Operations Summary

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| Sales Revenue ($M) - Statutory | H1 FY20 | H1 FY19 | 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[1] ($M) – Statutory[2]** | | | | |
| Ovato Australia Group | 22.3 | 15.1 | 7.1 | 47.2% |
| Ovato New Zealand Group | 2.8 | 3.5 | (0.8) | (21.5%) |
| Total Group | 25.0 | 18.6 | 6.4 | 34.3% |
| **EBITDA[1] ($M) – Pre AASB16** | | | | |
| 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%) |

1. Before significant items

2. The statutory EBITDA for H1 FY20 includes a favorable increase of $11.6M due to the adoption of AASB 16

# Key Metrics

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| | H1 FY20 (Statutory) | H1 FY20 (pre AASB 16) | H1 FY19 (Statutory / pre AASB16) | Var % (pre AASB 16) |
|---|---|---|---|---|
| Cash Flow from Operating Activities ($M) | (18.4) | (28.0) | (3.5) | - |
| Net Cash Flow ($M)[1] | (36.4)[1] | (46.3) | (8.6) | - |
| EBITDA[2] to Sales Revenue (%) | 7.6% | 4.1% | 5.1% | - |
| Net Debt / EBITDA[2] | | 3.5x | 1.1x | - |
| Net Debt ($M) | | 90.9 | 41.4 | 49.5 |

1. For H1 FY20, Statutory results excludes $9.9M of lease principal repayments which under AASB 16 are classified as a financing cash flow

2. Before significant items

# Reconciliation of Cash Flow

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| $M | H1 FY20 (Statutory) | H1 FY20 (pre AASB 16) | H1 FY19 (Statutory / pre AASB 16) | Var $ (pre AASB 16) |
|---|---|---|---|---|
| EBITDA[1] | 25.0 | 13.4 | 18.6 | (5.2) |
| AASB 16 Lease Interest payments | (5.1) | - | - | - |
| Borrowing Costs | (4.4) | (4.4) | (5.3) | 0.9 |
| Movement in Trade Working Capital | (10.0) | (10.0) | (3.1) | (6.8) |
| Working Capital – Onerous Lease & Makegood Provisions Payments | (3.3) | (6.4) | (4.7) | (1.7) |
| Trading Cash Flow | 2.1 | (7.4) | 5.5 | (12.9) |
| Significant Items | (20.6) | (20.6) | (8.9) | (11.6) |
| Cashflow From Operations (Appendix 4D) | (18.4) | (28.0) | (3.5) | (24.5) |
| Capital Expenditure & Asset Sales | (18.3) | (18.3) | (5.1) | (13.2) |
| Other | 0.3 | - | - | - |
| Net Cash Flow | (36.4) | (46.3) | (8.6) | (37.7) |
| AASB 16 Lease principal payments | (9.9) | - | - | - |
| Gain / (Loss) on Translation of FX Cash & Other | 0.1 | 0.1 | 0.0 | 0.1 |
| Reconciliation to Net Debt Movement (before lease liabilities) | (46.2) | (46.2) | (8.6) | (37.6) |

1. Before significant items

# Balance Sheet Metrics

| | H1 FY20 | H1 FY19 |
|---|---|---|
| Total Assets ($M) | 470.1 | 501.2 |
| Shareholders Funds ($M) | 68.8 | 199.8 |
| Net Debt ($M) – excluding lease liabilities | 90.9 | 41.4 |
| Net Debt (excl Lease Liabilities) to EBITDA[1] (times) | 3.5x | 1.1x |
| Net Debt (excl Lease Liabilities) to Equity (%) | 132.1% | 20.7% |
| Net Tangible Assets per share (cps) | 0.09 | 0.31 |
| Trade Working Capital ($M) | 54.3 | 49.8 |
| Debtor Days | 32.5 | 32.6 |

1. Before Significant items

# Debt Profile

- Net Debt[1] December 2019 is $90.9M :
  - vs $44.7M Net Debt at June 2019
  - Debt increases from new 80 page press and spend on NSW site consolidation

- New $50M Facility with Asset Secure to Dec 2022 :
  - Replaces previous ANZ Facility

- Commerzbank A$16.9M loan for new press :
  - 4-year semi-annual amortizing loan

- ANZ extended Transactional facilities to 30 June 2020 and re-established a $10M overdraft under it's existing facilities with the credit support of the major shareholder, the Hannan family

1. Excludes lease liabilities from the adoption of AASB 16

# Significant Items

| $M | Cash | Non Cash | Total |
|---|---|---|---|
| Redundancies / Press relocations / Other | 20.6 | 0.0 | 20.6 |
| Impairment – PP&E and Inventory | 0.0 | 1.3 | 1.3 |
| Loss on Cross currency swap close out | 0.0 | 0.1 | 0.1 |
| Gain on derecognition of ROU asset & recognition of finance lease receivable | 0.0 | (2.6) | (2.6) |
| Sub Total H1 FY20 | 20.6 | (1.2) | 19.4 |
| (Gain)/Loss on sale of disposal of PP&E | (0.3) | (0.0) | (0.3) |
| Impairment of goodwill | 0.0 | 35.2 | 35.2 |
| Total Significant Items (as per note 2(iii) of the Appendix 4D) | 20.3 | 34.0 | 54.3 |
| Tax Expense on Significant Items (as per note 2(iii) of the Appendix 4D) | | | 1.6 |
| Total (post tax) | | | 55.9 |

# Impact of AASB 16 – Leases

Ovato adopted AASB 16 on 1 July 2019, using the modified retrospective approach.

Comparatives have not been restated and the cumulative impact of application is recognised in accumulated losses at 1 July 2019.

Impact on Ovato at transition and the half-year ended 31 December 2019 is summarised:

**Impact on Balance Sheet**

- 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.

**Impact on Profit and Loss**

- Operating lease rental expense replaced by straight-line depreciation of ROU asset and interest charge on reducing liability balance.
- HY20 depreciation of ROU assets $8.0M.
- HY20 interest on lease liabilities $5.1M.
- Increase in EBITDA before significant items of $11.6M.
- Net benefit after tax of $0.7M.

# Impact of AASB 16 – Leases

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**Impact on Cash Flows**

- No change in cash at bank. Accounting change only.
- Reclassification of cash flows in the statement of cash flows.
- Operating cash flow for HY20 has increased by $9.9M due to reclassification of the principal component of lease payments from operating activities to financing activities.

**Impact on business**

- No impact on how Ovato runs the business and no impact on Ovato's future plans.

# Impact of AASB 16 – Balance Sheet

| | 30 June 2019 (Statutory) $000 | AASB 16 Adjustments $000 | 1 July 2019 (Post Transition) $000 |
|---|---|---|---|
| Cash & cash equivalents | 38,701 | - | 38,701 |
| Receivables | 81,783 | - | 81,783 |
| Inventories | 102,692 | - | 102,692 |
| Financial Assets | 1,205 | - | 1,205 |
| Other | 4,739 | (12) | 4,726 |
| Total Current Assets | 229,120 | (12) | 229,107 |
| Plant & equipment | 113,410 | (99) | 113,311 |
| ROU assets | - | 78,989 | 78,989 |
| Deferred tax assets | 48,812 | 6,020 | 54,832 |
| Goodwill & intangible assets | 39,117 | - | 39,117 |
| Financial assets | 1,207 | - | 1,207 |
| Other | 2,011 | 4,123 | 6,134 |
| Total Non-Current Assets | 204,557 | 89,033 | 293,590 |
| Total Assets | 433,677 | 89,020 | 522,697 |

Amounts are rounded to the nearest thousand therefore slight rounding differences may exist

# Impact of AASB 16 – Balance Sheet

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| | 30 June 2019 (Statutory) $000 | AASB 16 Adjustments $000 | 1 July 2019 (Post Transition) $000 |
|---|---|---|---|
| Payables | 143,875 | - | 143,875 |
| Interest bearing liabilities | 39,735 | - | 39,735 |
| Lease liabilities | - | 20,403 | 20,403 |
| Income tax payable | 8 | - | 8 |
| Financial liabilities | 144 | - | 144 |
| Provisions | 43,172 | (5,923) | 37,249 |
| Total Current Liabilities | 226,934 | 14,481 | 241,415 |
| Interest bearing liabilities | 43,243 | - | 43,243 |
| Lease liabilities | - | 102,471 | 102,471 |
| Provisions | 21,627 | (13,506) | 8,121 |
| Total Non-Current Liabilities | 64,870 | 88,965 | 153,835 |
| Total Liabilities | 291,804 | 103,446 | 395,250 |
| Net Assets | 141,873 | (14,426) | 127,447 |
| Contributed equity | 497,523 | - | 497,523 |
| Reserves | 11,703 | - | 11,703 |
| Accumulated losses | (367,353) | (14,426) | (381,779) |
| Net Assets | 141,873 | (14,426) | 127,447 |

# Impact of AASB 16 – Profit & Loss

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| H1 FY20 | Pre AASB 16 $M | AASB 16 Adjustments $M | Post AASB 16 (Statutory) $M |
|---|---|---|---|
| Australia | 12.4 | 9.9 | 22.3 |
| New Zealand | 1.0 | 1.7 | 2.8 |
| EBITDA before significant Items | 13.4 | 11.6 | 25.0 |
| Depreciation and amortisation | (10.7) | (8.0) | (18.7) |
| EBIT before significant items | 2.7 | 3.6 | 6.3 |
| Significant items before income tax - cash | (20.2) | 0.0 | (20.2) |
| Significant items before income tax [1] - non cash | (36.5) | 2.6 [1] | (34.0) |
| EBIT after significant items | (54.0) | 6.2 | (47.8) |
| Significant items - Finance costs | (0.1) | - | (0.1) |
| Finance costs | (3.9) | (5.1) | (9.0) |
| EBT after significant items | (58.0) | 1.0 | (57.0) |
| Income tax expense | (1.0) | (0.3) | (1.3) |
| Net loss after tax | (59.0) | 0.7 | (58.3) |

1. AASB 16 adjustment for significant items included a gain on derecognition of ROU asset and recognition of finance lease receivable of $2.6M

# Disclaimer

The material in this presentation is a summary of the results of Ovato Limited (OVT) for the half year ended 31 December 2019 and an update on Ovato's activities and is current at the date of preparation, 28 February 2020. Further details are provided in the Company's half year accounts and results announcement released on 28 February 2020.

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