

ASX ANNOUNCEMENT

25 February 2021

OVATO Limited FY21 Half Year Results

Key Financials Half Year FY21

\$m	H1 FY21	H1 FY20	Var \$	Var %
Sales Revenue (before significant items) ¹	236.2	328.9	(92.8)	(28.2) %
EBITDA (before significant items) ²	22.3	25.0	(2.7)	(10.7) %
EBIT (before significant items)	4.5	6.3	(1.9)	(29.5) %
Net (LOSS) (before significant items)	(3.3)	(2.4)	(0.9)	-
Net (LOSS) before income tax expense	(14.9)	(57.0)	42.1	-
Net (LOSS) (after significant items)	(9.7)	(58.3)	48.6	-
Net Cash Flow ³	13.1	(46.3)	59.3	-
Net Debt ⁴	(34.7)	(90.9)	56.2	-

CEO Commentary

For the six months ending 31 December 2020 sales (before significant items) at \$236.2M were 28.2% lower than the corresponding six month period which was prior to the impact of the COVID-19 pandemic. To put this in context, sales in the 8 months to February 2020 (pre COVID-19) were down 9.3% pcp and at the peak of COVID-19 in the month of April 2020 sales were down 57.9% pcp.

Statutory Half Year FY21 EBITDA before significant items was \$22.3M down \$2.7M or 10.7% pcp and included \$18.3M of Australian JobKeeper income and \$1.6M of New Zealand Wage Subsidy income. While the operating performance of Retail Distribution and Book Printing improved and Marketing Services was steady during this period, the Print and Residential Distribution businesses were severely impacted by the pandemic resulting in the need to undertake the restructure and recapitalisation of the Ovato Group during the course of the first half of FY21.

The restructure and recapitalisation involved:

- Renegotiation of the Print Australia Enterprise Agreement with reduced redundancy scales and more flexible work practices.
- Reduction of the \$40M corporate bond to \$15M with note holders consenting to the conversion of the \$15M into equity by a further issue of shares in Ovato (subject to existing shareholder approval).
- A Court approved Creditors' and Members' Scheme of Arrangement resulting in certain debt being forgiven and the liquidation of certain companies within the Group allowing the closure of the Clayton plant.
- Negotiation with landlords allowing the termination and re-establishment of terms for certain onerous property leases and deferral of equipment financing loans.
- Establishment of a new \$17M secured debt facility to cash back the existing bank guarantee facility.
- Raising of \$40M in new equity.

As a result of the restructure and recapitalisation, Ovato has been able to reset its manufacturing and fixed cost base to better reflect expected future volumes and de-leverage its balance sheet with net debt at 31 December 2020 being \$34.7M⁴ (down from \$72.9M⁴ at June 2020 and \$90.9M⁴ at December 2019). Cash and equivalents as at 31st December were \$39.0M.

FY21 Half Year Results Commentary

Overview

Net Sales Revenue ⁵ (\$m)	H1 FY21	H1 FY20	Var \$	Var %
Ovato Australia Group	191.2	271.7	(80.4)	(29.6) %
Ovato New Zealand Group	44.9	57.2	(12.3)	(21.5) %
Total	236.2	328.9	(92.8)	(28.2) %

EBITDA ⁵ (\$m)	H1 FY21	H1 FY20	Var \$	Var %
Ovato Australia Group	19.9	22.3	(2.3)	(10.5) %
Ovato New Zealand Group	2.4	2.8	(0.3)	(11.7) %
Total	22.3	25.0	(2.7)	(10.7) %

Half year FY21 Group Sales at \$236.2M⁵ were down \$92.8M or 28.2%, primarily due to \$80.4M lower revenues at Ovato Australia. This was mainly due to lower Print and Residential Distribution sales resulting from the COVID-19 impact. Revenues at Ovato New Zealand were \$12.3M lower mostly in heatset print after the business continued to be impacted by COVID-19.

Statutory Half Year FY21 EBITDA before significant items was \$22.3M down \$2.7M or 10.7% pcp and included \$18.3M of Australian JobKeeper income and \$1.6M of New Zealand Wage Subsidy income. Ovato Australia EBITDA⁵ at \$19.9M was down \$2.3M pcp and New Zealand EBITDA⁵ of \$2.4M was down \$0.3M pcp. While the business benefited from wage subsidies as well as very tight cost controls, this was not sufficient to offset the impact of lower revenues.

Significant Items

Significant items booked in Half Year FY21 were \$10.5M pre-tax expense. This included \$36M of gains; \$25M on the bond compromise and \$11M creditor forgiveness (as part of the Creditors' Scheme of Arrangement) and \$46M of expenses comprising primarily plant & equipment impairments and onerous lease provisions from the Clayton site closure. Cash impact was (\$13M) in H1 FY21. See Appendix 4D for further details.

Debt

The schemes of arrangement were approved by the NSW Supreme Court on the 21st of December 2020, details of this are included in the Appendix 4D.

Net Debt⁴ at 31 December 2020 of \$34.7M was better than the previous provided guidance of \$45M due to stronger than expected debtor collections in late December which is a favourable timing variance. Net debt⁴ at December 2020 is \$56.2M below December 2019 levels of \$90.9M (and \$38.2M lower than June 2020).

A new three year \$17M facility was arranged with ScotPac in December 2020 and these funds were used to cash back \$17M of bank guarantees issued by ANZ Bank. The ANZ overdraft facility was repaid in December 2020. In February 2021, the ScotPac facility was reduced by \$7.5M and replaced with a 3-year NZ\$ ScotPac receivables financing facility.

The \$40M corporate bond was reduced to \$15M in December 2020 with noteholders consenting to convert this \$15 million into equity. An extraordinary general meeting will be held on the 19th of March 2021 to approve the conversion.

Commerzbank principal repayments deferrals have been agreed and are subject to final loan documentation and Euler Hermes approval expected to occur in March 2021. The balance sheet



in the Appendix 4D reflects current liabilities before the new deferrals. A new proforma balance sheet as at December 2020 has been included in the Investor Presentation to show the consequent reduction in current liabilities of \$14.0M.

Equity proceeds of \$40M have been used to make payments to trade creditors, transaction fees, repay the \$7M ANZ overdraft facility and improve liquidity. Following the schemes of arrangement, the company has made payments as required to the scheme administrator and is re-establishing trade terms with its key suppliers to the print business.

Outlook

The restructure has reset our balance sheet and allowed us to reduce our manufacturing footprint and fixed cost base to better match future demand.

Our new Ovato Print Australia Enterprise Agreement allows us to be more flexible in managing our workforce and to affordably adapt to future changing demand.

We are evolving other parts of the business to take advantage of growth areas that sit well within our existing infrastructure and which do not require material capital investment.

Books, packaging, retail distribution and marketing services are seeing increased opportunities whereas heatset catalogue printing and residential distribution volumes are not returning as quickly as expected due to the lingering impacts of COVID-19.

It is expected that FY21 EBITDA before significant items will be at or about the lower end of the previous provided guidance range of \$31M-\$35M.

Guidance for fiscal 2022 will be provided at the AGM in November 2021.

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This announcement has been authorised for release by the Board of Ovato.

¹ Excludes \$0.5M write off benefit from previous period

² Includes \$19.9 million of JobKeeper and Wage Subsidy income

³ Net Cashflow equals cash from operations, cash used in investing activities, repayment of lease liabilities, cash backing of guarantees and proceeds from share issue

⁴ Excludes lease liabilities under AASB 16

⁵ Before significant items