



OVATO LIMITED
ABN 39 050 148 644

Appendix 4C - 31 MARCH 2020

Company Update & Quarterly cash flow report for entities subject to Listing Rule 4.7B

30 April 2021: Ovato Limited ("Ovato") (ASX: OVT) lodges the attached Appendix 4C for the three-month period ended 31 March 2021.

About Ovato Limited

The principal activities of Ovato are commercial printing, marketing services, digital premedia, residential letterbox delivery and magazine distribution services. Ovato operates nationally in Australia and in New Zealand with some of the biggest and most recognised retail brands as our print customers.

Quarterly Review

During the quarter Ovato successfully completed the remaining steps of its restructure through the schemes of arrangement which were approved in December. Management will continue to execute "fit for market" strategic initiatives and invest in new technology platforms that will enhance the core commercial print operations. The Board continues to review the appropriate capital structure of the Company with its advisers.

Pleasingly, sales in books, packaging, retail distribution and marketing services have continued to perform solidly and as expected in the quarter.

Decreasing volumes as a result of Covid-19 continue to impact heatset catalogue printing and residential distribution, and it is expected that the normalising of volumes post COVID-19 may now not occur until the first half of FY22 resulting in FY21 revenue being less than previously expected. Tight cost control will help mitigate the impact of this reduced revenue on the underlying trading results of the Group for the last quarter of FY21.

Overall, the debt profile and balance sheet of Ovato was significantly enhanced by the restructuring activities undertaken late last year.

Cashflow commentary

The cashflow from operating activities, as set out below, was negatively impacted by a number of significant non-recurring outflows amounting to \$7M arising from the successful implementation of the restructuring initiatives undertaken during the December quarter.

Cashflows were also impacted by a \$6M negative working capital movement resulting from the timing of payments in the Retail Distribution business.

Operating cash flows were also negatively impacted by the ongoing impact of COVID-19 on our core customer base and delays in returning to previous trading terms with a number of suppliers.

Cash and equivalents as at 31st March were \$15.3M.

Name of entity

Ovato Limited

ABN

39 050 148 644

Quarter ended ("current quarter")

31 March 2021

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	202,598	630,801
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(164,897)	(476,981)
(c) advertising and marketing	(120)	(379)
(d) leased assets	(3,396)	(10,647)
(e) staff costs	(43,921)	(140,565)
(f) administration and corporate costs	(4,768)	(22,914)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	137	636
1.5 Interest and other costs of finance paid	(1,831)	(7,582)
1.6 Income taxes paid	-	(4)
1.7 Government grants and tax incentives	2,843	23,210
1.8 Other		
(a) AASB16 lease interest payments	(1,882)	(6,474)
1.9 Net cash from / (used in) operating activities	(15,237)	(10,899)

2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) Entities	-	-
(b) businesses (cash in liquidated entities)	-	(2,030)
(c) property, plant and equipment	(221)	(373)
(d) investments	-	-
(e) intellectual property	(28)	(76)
(f) other non-current assets	-	-
2.2 Proceeds from disposal of:		
(a) entities	-	-
(b) businesses	-	-

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Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
(c) property, plant and equipment	1	71
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	-	-
2.3 Cash flows from loans to other entities	-	-
2.4 Dividends received (see note 3)	-	-
2.5 Other	-	-
2.6 Net cash from / (used in) investing activities	(248)	(2,408)

3. Cash flows from financing activities		
3.1 Proceeds from issues of equity securities (excluding convertible debt securities)	-	38,992
3.2 Proceeds from issue of convertible debt securities	-	-
3.3 Proceeds from exercise of options	-	-
3.4 Transaction costs related to issues of equity securities or convertible debt securities	-	-
3.5 Proceeds from borrowings*	5,099	25,722
3.6 Repayment of borrowings*	(7,817)	(18,749)
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 Other		
(a) AASB 16 lease principal payments	(5,684)	(16,638)
(b) Cash backing ANZ Guarantees and other facilities	244	(16,884)
3.10 Net cash from / (used in) financing activities	(8,158)	12,943

* Proceeds & Repayments for the Receivables Facility are determined by the net movement in the quarter of the receivables funding.

4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of period	39,022	16,200
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(15,237)	(10,899)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	252	(1,063)
4.4 Net cash from / (used in) financing activities (item 3.10 above)	(8,658)	11,148

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Quarterly cash flow report for entities subject to Listing Rule 4.7B

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	(100)	(107)
4.6	Cash and cash equivalents at end of period	15,279	15,279

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	15,279	39,022
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	15,279	39,022

6.	Payments to related parties of the entity and their associates	Current quarter \$A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	1,092
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.

Some companies in the Ovato Group lease some properties from a trust of which a Non-Executive Director is a beneficiary. Total property outgoings paid excluding GST for the quarter ended 31st March 2021 to the related party was \$0.3M and is included in item 1.2. AASB 16 property lease interest payments for the quarter ended 31st March 2021 was \$0.7M and is included in item 1.8 and AASB 16 property lease principal payments for the quarter ended 31st March 2021 was \$0.8M and is included in item 3.9. Salaries and superannuation paid to related parties and their associates of \$0.1M is included in item 1.2.

7.	Financing facilities <i>Note: the term "facility" includes all forms of financing arrangements available to the entity.</i> <i>Add notes as necessary for an understanding of the sources of finance available to the entity.</i>	Total facility amounts at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1	Loan facilities	55,747	55,747
7.2	Credit standby arrangements	-	-
7.3	Other (Corporate bond)	-	-
7.4	Total financing facilities	55,747	55,747
7.5	Unused financing facilities available at quarter end		0
7.6	<p>Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.</p> <div style="border: 1px solid black; padding: 10px;"> <p>Commerzbank AG (Commerzbank) On 6 April 2021, principal repayment deferrals were agreed with Commerzbank on the two loans:</p> <ul style="list-style-type: none"> Australian dollar floating interest rate export financing facility secured against presses funded against. Loan drawn to A\$16.9M. Matures June 2027 (renegotiated new amortisation schedule). Euro denominated floating interest rate export financing facility secured against presses funded against. Loan drawn to Euro 4.0M (A\$6.1M). Matures June 2023 (renegotiated new amortisation schedule). <p>Scottish Pacific Business Finance Pty Ltd (ScotPac) Australian Dollar \$50M Receivables financing facility with ScotPac. Floating interest rate + margin. Loan drawn to A\$19.5M. The drawn amount on the receivable financing facility represents the amount lent against the relevant receivables that were available to be sold into the facility as per the terms and conditions of the facility at each reporting date. Matures August 2023.</p> <p>New Zealand NZD\$10M Receivables financing facility with ScotPac. Floating interest rate + margin. Loan drawn to A\$4.3M. The drawn amount on the receivable financing facility represents the amount lent against the relevant receivables that were available to be sold into the facility as per the terms and conditions of the facility at each reporting date. Matures February 2024.</p> <p>Australian Dollar \$17M Chattel Mortgage Facility with ScotPac amortised to \$8.9M, secured by a charge over the assets of the Group. The facility matures December 2023.</p> <p>Corporate Bond Bond holders voted in December 2020 to write-down the corporate bond from A\$40M to A\$15M and for the A\$15M balance to be converted into 3 billion fully paid ordinary shares in Ovato Ltd at the issue price of \$0.005 per share. This was approved by the Ovato shareholders at an extraordinary general meeting on 19 March 2021 and the notes converted on 23 March 2021.</p> </div>		

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (item 1.9)	(15,237)
8.2 Cash and cash equivalents at quarter end (item 4.6)	15,279
8.3 Unused finance facilities available at quarter end (item 7.5)	-
8.4 Total available funding (item 8.2 + item 8.3)	15,279
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	1.0
<i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i>	
8.6 If item 8.5 is less than 2 quarters, please provide answers to the following questions:	
8.6.1 Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?	
<p>Answer: The March quarter was negatively impacted by a number of significant non-recurring outflows amounting to \$7M arising from the successful implementation of the restructuring initiatives undertaken during the December quarter.</p> <p>The March quarter was also negatively impacted by a \$6M negative working capital movement resulting from the timing of payments in the Retail Distribution business.</p> <p>Operating cash flows were also negatively impacted by the ongoing impact of COVID-19 on our core customer base and delays in returning to previous trading terms with a number of suppliers.</p>	
8.6.2 Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?	
<p>Answer: The entity is undertaking the following steps to raise further cash and is confident these steps will be successful:</p> <ul style="list-style-type: none"> • Sale of assets/businesses • Implementing improved trading terms with suppliers • Short-term funding options. 	
8.6.3 Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?	
<p>Answer: The entity expects to be able to continue its operations and to meet its business objectives as the benefits of the corporate restructure are realised, along with the actions noted above and with further improvement in trading performance flowing from increased revenue as the broader economy continues to recover from the COVID-19 pandemic.</p>	
<i>Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.</i>	

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Date: 30 April 2021

Authorised by: By the Board
(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.