

Notice of Extraordinary General Meeting

Ovato Limited

ACN 050 148 644



29 July 2021

10.30 AM AEST

The Non-Interested Directors recommend you vote in favour of the resolutions contained in this notice of meeting.

The Independent Expert has determined that:

- the Share Sale Transaction is fair and reasonable in the absence of a superior offer, and
- the Security Increase is fair and reasonable, to holders of the Company's ordinary securities who are permitted to vote and whose votes are not to be disregarded.

For personal use only

OVATO LIMITED

ACN 050 148 644

29 June 2021

Dear Shareholder

Approval of (1) the sale of shares in the "Marketing Services" business; and (2) the increase in the amount secured by a security in relation to the provision of a loan, in each case to a related party of the Company

As announced on 4 June 2021, each of IPMG Digital Pty Ltd ACN 122 262 819 (**IPMG**), Show-Ads Pty Ltd ACN 004 879 627 (**Show-Ads**) and PMP Wholesale Pty Ltd ACN 004 386 663 (**PMP**) entered into a binding put option deed with Ballygriffin Holdings Pty Ltd ACN 615 964 139 (the **Hannan Buyer**) under which IPMG, Show-Ads and PMP (the **Sellers**) have the right but not the obligation to require the Hannan Buyer to acquire certain of the Company's subsidiaries comprising the "Marketing Services" business for A\$9 million (**Put Option Deed**).

Relevantly, this notice relates to the seeking of Shareholder approval for the following **Transactions**:

(a) the sale:

- (i) by IPMG of 100% of the shares in each of Ovato Creative Services Pty Ltd ACN 001 098 157 (**Ovato Creative**), Ovato Technology Pty Ltd ACN 092 342 375 (**Ovato Technology**), Ovato Communications Pty Ltd ACN 125 826 655 (**Ovato Communications**) and all of the shares that IPMG holds in Ovato Technology Chennai Private Ltd (**Ovato Chennai**);
- (ii) by Show-Ads of 100% of the shares in Ovato Creative Services Clayton Pty Ltd ACN 004 386 672 (**Ovato Clayton**); and
- (iii) by PMP of one ordinary share in Pacific Intermedia Pty Limited ACN 004 333 439 (**Pacific Intermedia**) (the other shareholder of which is Ovato Clayton),

to the Hannan Buyer (which is an entity controlled by the Hannan Family, who together hold a relevant interest of approximately 43.29% in the Company as at the date of this notice), pursuant to a Share Sale Agreement to be entered into between the Sellers and the Hannan Buyer (**SSA**) if the put option under the Put Option Deed is exercised by the Sellers (together the **Share Sale Transaction**); and

- (b) the Company increasing the amount that is able to be borrowed from the Hannan Buyer, pursuant to a loan agreement between the Hannan Buyer, the Company, the Sellers, Ovato Creative, Ovato Technology, Ovato Communications, Ovato Clayton, Ovato Geebung and Pacific Intermedia dated 18 June 2021 (the **Loan Agreement**) from A\$2.3 million to such amount as agreed between the Company and the Hannan Buyer, resulting in an increase in the amount secured (from A\$2.3 million to an amount to be agreed between the Company and the Hannan Buyer) under the security taken by HC Management Pty Ltd ACN 169 916 885, in its capacity as trustee of the PMP Security Trust (as security trustee under a Security Trust Deed dated 26 June 2009) (the **Security Trustee**) over the shares in Ovato Creative, Ovato Technology, Ovato Communications, Ovato Clayton, Ovato Geebung and Pacific Intermedia for the benefit of, among others, the Hannan Buyer (the **Security Increase**).

The Hannan Buyer is a related party of the Company for the purposes of the Corporations Act, and for the purposes of Listing Rule 10.1.1.

The Company is seeking the approval of Shareholders for the Transactions for the purposes of the ASX Listing Rules and Chapter 2E of the Corporations Act on the terms set out in this notice.

The Independent Expert has determined that:

- (a) the Share Sale Transaction is fair and reasonable in the absence of a superior offer, and
- (b) the Security Increase is fair and reasonable,

to holders of the Company's ordinary securities who are permitted to vote and whose votes are not to be disregarded. Shareholders should carefully consider the Independent Expert's Report, which is attached to this notice at Annexure A.

The Non-Interested Directors unanimously recommend that Shareholders vote to approve the Transactions. The reasons for this recommendation are contained in the explanatory notes to the resolutions proposed in this notice.

The Non-Interested Directors intend to vote any shares in the Company under their control in favour of the Transactions.

Due to the ongoing COVID-19 pandemic, the meeting will be held online. Information on how to participate in the meeting is included in the notice of meeting.

If you are unable to attend the meeting on Thursday, 29 July 2021, at 10.30 am (AEST), we ask that you complete and send your proxy form to the Company which must reach us by no later than 10.30 am (AEST) on Tuesday, 27 July 2021.

A handwritten signature in black ink, appearing to be 'James Hannan', with a stylized loop and a trailing line.

Yours sincerely
James Hannan
Chief Executive Officer
Ovato Limited ACN 050 148 644

OVATO LIMITED

ACN 050 148 644

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS GIVEN that an extraordinary general meeting of Ovato Limited ACN 050 148 644 will be held virtually on Thursday, 29 July 2021, at 10.30 am (AEST) online.

The business of the extraordinary general meeting affects your shareholding and your vote is important.

Voting online

Due to the ongoing uncertainty about restrictions on social gatherings as a consequence of the global COVID-19 pandemic, the Company has taken steps to ensure all Shareholders can participate in the meeting virtually online while maintaining their health and safety, and abiding by Federal and State Government requirements and guidelines regarding COVID-19. Shareholders will not be able to attend the meeting in person.

Shareholders do not need to attend the meeting physically in order to cast their votes or participate in the meeting. Accordingly, the Company strongly encourages all Shareholders who wish to vote to do so by:

- (a) participating in the virtual meeting and casting a vote online;
- (b) appointing the chair of the meeting as their proxy (and where desired, direct the chair how to vote on resolutions) by completing and returning the proxy form; or
- (c) lodging their votes online at www.investorvote.com.au.

Virtual attendance

To enable participation by Shareholders in the meeting without physical attendance, the Company will hold the meeting online via the Lumi platform at <https://web.lumiagm.com> with meeting ID 351-312-486.

Shareholders can access this platform by navigating to <https://web.lumiagm.com> on the latest versions of Chrome, Safari, Edge or Firefox. Please ensure your browser is compatible.

Upon entering the meeting ID into the Lumi platform, Shareholders should then log in to the virtual meeting using their SRN/HIN and postcode (Australian resident) or their SRN/HIN and three letter country code (overseas resident). Any appointed third party proxies should contact the Company's share registry, Computershare Investor Services, on +61 3 9415 4024 to receive their login information.

Shareholders attending the meeting online will be able to ask questions in writing and vote during the meeting via the Lumi platform.

All resolutions will be conducted by poll. Online voting registration will commence 30 minutes prior to the start of the meeting. More information regarding virtual attendance at the meeting (including how to vote, comment and ask questions virtually during the meeting) is available in the virtual meeting guide, which can be accessed at www.computershare.com.au/virtualmeetingguide.

Appointment of proxies

Shareholders who do not plan to attend the meeting are encouraged to complete and return the proxy form for each of their holdings of shares. A proxy form and a replacement proxy form may be obtained from:

Computershare Investor Services Pty Limited

Enquiries within Australia: 1300 556 161

Enquiries outside Australia: +61 3 9415 4000

Investor Centre contact details: www.investorcentre/contact

Technical difficulties may arise during the course of the meeting. The chairman has discretion as to whether and how the meeting should proceed in the event that technical difficulties arise. In exercising his discretion, the chairman will have regard to the number of members impacted and the extent to which participation in the business of the meeting is affected.

Where the chairman considers it appropriate, the chairman may continue to hold the meeting and transact business, including conducting a poll and voting in accordance with valid proxy instructions. For this reason, Shareholders are encouraged to lodge a proxy by 10.30 am (AEST) on Tuesday, 27 July 2021 even if they plan to attend online.

ITEMS OF BUSINESS

1. RESOLUTION 1 – APPROVAL OF THE SHARE SALE TRANSACTION

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

"That:

- a) *Pursuant to the terms of the Put Option Deed and Share Sale Agreement as described in the Explanatory Notes, the sale by IPMG of 100% of the issued share capital in each of Ovato Creative, Ovato Technology, Ovato Communications and all of the shares that IPMG holds in Ovato Chennai, the sale by Show-Ads of 100% of the issued share capital in Ovato Clayton and the sale by PMP of one ordinary share in Pacific Intermedia, to the Hannan Buyer;*
- b) *the entry into the associated transitional services agreement between IPMG, PMP, Show-Ads and the Hannan Buyer; and*

be approved under and for the purposes of ASX Listing Rule 10.1, Chapter 2E of the Corporations Act 2001 (Cth) and for all other purposes."

VOTING EXCLUSION STATEMENT

The ASX Listing Rules and the Corporations Act requires that some Shareholders be excluded from voting on Resolution 1.

In accordance with ASX Listing Rule 14.11, the Company will disregard any votes cast in favour of Resolution 1 by or on behalf of the Hannan Buyer and any other person who will obtain a material benefit as a result of the Share Sale Transaction (except a benefit solely by reason of being a holder of ordinary securities in the Company) (including the members of the Hannan Family), and any associate of such persons.

However, this does not apply to a vote cast in favour of Resolution 1 by:

- (a) a person as proxy or attorney for a person who is entitled to vote on Resolution 1, in accordance with directions given to the proxy or attorney to vote on Resolution 1 in that way; or
- (b) the chair of the meeting as proxy or attorney for a person who is entitled to vote on Resolution 1, in accordance with a direction given to the chair to vote on Resolution 1 as the chair decides; or
- (c) a holder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:
 - (i) the beneficiary provides written confirmation to the holder that the beneficiary is not excluded from voting, and is not an associate of a person excluded from voting, on Resolution 1; and
 - (ii) the holder votes on Resolution 1 in accordance with directions given by the beneficiary to the holder to vote in that way.

For the purposes of Chapter 2E of the Corporations Act, a vote on Resolution 1 must not be cast (in any capacity) by or on behalf of:

- (a) Hannan Buyer (being the related party) and members of the Hannan Family; and
- (b) any associate of the Hannan Buyer,

however, a vote may be cast by a person as a proxy appointed by writing that specifies how the proxy is to vote on Resolution 1 and it is not cast on behalf of the Hannan Buyer or its associates.

2. RESOLUTION 2 – APPROVAL OF THE SECURITY INCREASE

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

"That the increase in the facility limit of the loan from the Hannan Buyer to the Company (from A\$2.3 million to such amount as agreed between the Company and the Hannan Buyer) and the corresponding increase in the amount secured by the security taken by the Security Trustee for the

benefit of the Hannan Buyer, over the shares in Ovato Creative, Ovato Technology, Ovato Communications, Ovato Clayton, Ovato Geebung and Pacific Intermedia, be approved under and for the purposes of ASX Listing Rule 10.1."

VOTING EXCLUSION STATEMENT

The ASX Listing Rules requires that some Shareholders be excluded from voting on Resolution 2.

In accordance with ASX Listing Rule 14.11, the Company will disregard any votes cast in favour of Resolution 2 by or on behalf of the Hannan Buyer and any other person who will obtain a material benefit as a result of the Security Increase (except a benefit solely by reason of being a holder of ordinary securities in the Company) (including the members of the Hannan Family), and any associate of such persons.

However, this does not apply to a vote cast in favour of Resolution 2 by:

- (a) a person as proxy or attorney for a person who is entitled to vote on Resolution 2, in accordance with directions given to the proxy or attorney to vote on Resolution 2 in that way; or
- (b) the chair of the meeting as proxy or attorney for a person who is entitled to vote on Resolution 2, in accordance with a direction given to the chair to vote on Resolution 2 as the chair decides; or
- (c) a holder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:
 - (i) the beneficiary provides written confirmation to the holder that the beneficiary is not excluded from voting, and is not an associate of a person excluded from voting, on Resolution 2; and
 - (ii) the holder votes on Resolution 2 in accordance with directions given by the beneficiary to the holder to vote in that way.

The chair of the meeting intends to vote open proxies in favour of each Resolution.

The Non-Interested Directors recommend that the Company's Shareholders carefully read all of the material contained in this notice of meeting (including the Independent Expert's Report) before deciding whether or not to vote in favour of the Resolutions.

VOTING ENTITLEMENT

In accordance with regulation 7.11.37 of the *Corporations Regulations 2001* (Cth), all ordinary shares in the Company that are quoted securities as at 7.00pm (AEST) on Tuesday, 27 July 2021 will be taken, for the purposes of the meeting, to be held by the persons who held them at that time.

PROXIES

If you are a Shareholder entitled to attend and vote, you are entitled to appoint one or two proxies. Where two proxies are appointed, you may specify the number or proportion of votes that each may exercise, failing which each may exercise half of the votes. A proxy need not be a Shareholder of the Company and can be an individual or a body corporate.

If you want to appoint one proxy, please use the proxy form provided. If you want to appoint two proxies, please follow the instructions on the front page of the proxy form.

If you appoint a proxy who is also a Shareholder or is also a proxy for another Shareholder your directions will be effective on a poll and your proxy votes.

A body corporate appointed as a Shareholder's proxy may appoint a representative to exercise any of the powers the body may exercise as a proxy at the extraordinary general meeting. The representative should bring to the meeting evidence of his or her appointment, including any authority under which the appointment is signed, unless it has previously been given to the Company.

A proxy may vote or abstain from voting as he or she chooses except where the appointment of the proxy directs the way the proxy is to vote on a particular resolution. If an appointment directs the proxy is to vote on a particular resolution:

- if the proxy is the chair – the proxy must vote on a poll and must vote that way; and
- if the proxy is not the chair – the proxy need not vote on a poll, but if the proxy does so, the proxy must vote that way.

To cast a vote, a Shareholder will need to take one of the following steps:

1. attend the meeting online and cast the Shareholder's vote at the meeting;
2. cast the Shareholder's vote online by visiting www.investorvote.com.au and entering the Shareholder's Control Number, SRN/HIN and postcode, which are shown on the first page of the enclosed proxy form; or
3. complete and lodge the manual proxy form at the share registry for the Company, Computershare Investor Services Pty Limited:
 - a. by post at the following address: GPO Box 242, Melbourne VIC 3001; or
 - b. by facsimile on 1800 783 447 (within Australia) or +61 3 9473 2555 (outside Australia); or
4. for Intermediary Online subscribers only (custodians), cast the Shareholder's vote online by visiting www.intermediaryonline.com, so that it is received no later than 10.30 am (AEST) on Tuesday, 27 July 2021.

Date 29 June 2021

By order of the Board



Alistair Clarkson

Company Secretary

EXPLANATORY NOTES

This information forms part of the Notice of Extraordinary General Meeting and has been prepared to provide information about the item of business contained in the Notice of Extraordinary General Meeting.

The Non-Interested Directors recommend that Shareholders read this information in full before making any decision in relation to the Resolutions.

Each Resolution to be put to Shareholders at the meeting is an ordinary resolution. Ordinary resolutions require approval by a simple majority of votes cast by Shareholders present (either in person, or by representative or proxy) and entitled to vote on the resolutions, in order to be passed.

1. THE SHARE SALE TRANSACTION

On 4 June 2021, the Sellers entered into the Put Option Deed with the Hannan Buyer pursuant to which the Sellers have the right but not the obligation to exercise the put option by issuing a put option notice to the Hannan Buyer, requiring the Hannan Buyer to enter into the SSA (**Put Option**). The Put Option is not subject to any conditions precedent and will lapse if the Put Option is not exercised by the Sellers by 6:00pm on 4 September 2021.

If the Put Option is exercised, the Hannan Buyer is obliged to enter into the SSA within 1 business day of the issue of the put option notice, and, subject to the satisfaction or waiver of certain conditions precedent and other termination events in the SSA:

- (a) IPMG will sell the entire issued share capital of each of Ovato Creative, Ovato Technology, Ovato Communications and all of the shares that it holds in Ovato Chennai;
- (b) Show-Ads will sell the entire issued share capital of Ovato Clayton; and
- (c) PMP will sell the one ordinary share that it holds in Pacific Intermedia (the other shareholder of which is Ovato Clayton),

(each of the companies the shares of which are proposed to be sold, the **Sale Companies**) to the Hannan Buyer on completion of the SSA.

The headline purchase price payable by the Hannan Buyer in respect of the Share Sale Transaction is A\$9,000,000 (excluding indirect taxes). The purchase price is not subject to any post-completion adjustments (except to the extent of any claims). An amount equal to the amounts outstanding from the Company to the Hannan Buyer under the Loan Agreement (as at the date of this notice of meeting, A\$2.3 million, but to be increased to such amount as agreed between the Company and the Hannan Buyer (likely to be A\$4.8 million) if Resolution 2 is passed) will be set off by the Hannan Buyer against the portion of the purchase price to be paid at completion of the Share Sale Transaction. The purchase price is also subject to hold-back provisions in respect of certain taxes payable by the Company and its subsidiaries.

Under the Put Option Deed (and the SSA, if entered into), an option fee is payable by the Sellers to the Hannan Buyer, if (as the case may be):

- the Put Option lapses;
- the Put Option Deed or the SSA (if entered into) is terminated by the Hannan Buyer because an insolvency event occurs in respect of a Seller or the Sellers materially breach the Put Option Deed or the SSA and fails to remedy the breach;
- the Put Option Deed or SSA (if entered into) is terminated by the Sellers because the Company or its related bodies corporate receive a bona fide third-party proposal for the Sale Companies (or their assets); or
- the conditions precedent are not satisfied or waived by 30 September 2021 (including the shareholder approval being sought pursuant to this Notice of Meeting) and either the Sellers or the Hannan Buyer terminate the SSA,

being an aggregate amount equal to the reasonable professional costs and expenses incurred by the Hannan Buyer in connection with the transactions contemplated in this Notice of Meeting, up to an amount of \$165,000 (exclusive of indirect taxes) within 2 business days of lapsing or termination (as applicable).

In connection with the Share Sale Transaction, the Sellers will also enter into a transitional services agreement under which they will provide certain transitional services to the Hannan Buyer up to 12 months post-completion of the Share Sale Transaction on a cost recovery basis (the **TSA**), the entry into which is a completion deliverable under the SSA.

Further material terms in respect of the SSA are set out in Section 1.1(g) below.

1.1 Listing Rule requirements

ASX Listing Rule 10.1 provides that the Company and its controlled entities or subsidiaries must not dispose of or agree to dispose of a substantial asset to certain persons of influence, unless it obtains the approval of its Shareholders.

The Share Sale Transaction constitutes the disposal of substantial assets, because the total headline purchase price to be received by the Sellers, for the disposal of the Sale Companies (as applicable) under the SSA is A\$9,000,000 (excluding indirect taxes), which is more than 5% of the equity interests of the Company as set out in the latest accounts given to ASX under the ASX Listing Rules.

Further, the disposal of substantial assets of the Company is to a person of influence for the purposes of ASX Listing Rule 10.1.1, which includes a related party of the Company. The buyer under the SSA, the Hannan Buyer, is a related party of the Company for the purposes of the ASX Listing Rules. The Hannan Buyer is controlled by the Hannan Family, who together hold a relevant interest of approximately 43.29% in the Company.

For the purposes of ASX Listing Rule 10.5, the Company provides the following information in respect of the SSA, which the Hannan Buyer must enter into if the Put Option is exercised by the Sellers:

- (a) **(person to whom the Company is disposing of the substantial asset)** the person to whom the Company is disposing of the substantial assets is the Hannan Buyer;
- (b) **(person of influence)** the Hannan Buyer is a person of influence for the purposes of ASX Listing Rule 10.1.1 as it is a related party of the Company. The Hannan Buyer is controlled by the Hannan Family, who together hold a relevant interest of approximately 43.29% in the Company as at the date of this notice;
- (c) **(substantial assets)** the substantial assets that are the subject of the Share Sale Transaction are the entire issued share capital of Ovato Creative, Ovato Technology, Ovato Communications, Ovato Clayton, all of the shares that IPMG holds in Ovato Chennai and one ordinary share in Pacific Intermedia (**Sale Shares**);
- (d) **(consideration)** the aggregate consideration payable by the Hannan Buyer to the Sellers for the disposal is A\$9,000,000 (excluding indirect taxes). The purchase price is not subject to any post-completion adjustments (except to the extent of any claims). An amount equal to the amounts outstanding from the Company to the Hannan Buyer under the Loan Agreement (as at the date of this notice of meeting, A\$2.3 million, but to be such amount as agreed between the Company and the Hannan Buyer (likely to be A\$4.8 million) if Resolution 2 is passed) will be set off by the Hannan Buyer against the portion of the purchase price to be paid at completion of the Share Sale Transaction. The purchase price is also subject to hold-back provisions in respect of certain taxes payable by the Company and its subsidiaries;
- (e) **(intended use of funds from disposal)** the Company will use the proceeds arising from the Share Sale Transaction to ensure that the Company's corporate group is able to continue to operate as a going concern and for general working capital purposes;
- (f) **(timetable for completing disposal)** the sale of the Sale Shares is the date that is the last business day of that calendar month on which all conditions precedent under the SSA have been satisfied or waived (other than any condition precedent which by its

nature may only be satisfied immediately prior to completion) or such other date as agreed by the parties. If the Put Option is exercised and the conditions in the SSA are all satisfied, the parties currently expect that the Share Sale Transaction will complete on or around 30 July 2021.

- (g) **(SSA)** Further material terms in respect of the SSA (which the Hannan Buyer must enter into if the Put Option is exercised by the Sellers) are as follows:
- (i) the completion of the Share Sale Transaction remains subject to certain termination events and the satisfaction or waiver of conditions precedent, including:
 - the Shareholders approving the Share Sale Transaction for the purposes of Listing Rule 10.1, the Corporations Act and for all other purposes; and
 - releases of certain encumbrances and certain secured parties of the Sale Companies providing consent to the proposed sale of the Sale Shares under the SSA.
 - (ii) the headline purchase price is A\$9,000,000 (excluding indirect taxes). The purchase price is not subject to any post-completion adjustments (except to the extent of any claims). An amount equal to the amounts outstanding from the Company to the Hannan Buyer under the Loan Agreement (as at the date of this notice of meeting, A\$2.3 million, but to be such amount as agreed between the Company and the Hannan Buyer (likely to be A\$4.8 million) if Resolution 2 is passed) will be set off by the Hannan Buyer against the portion of the purchase price to be paid at completion of the Share Sale Transaction. The purchase price is also subject to hold-back provisions in respect of certain taxes payable by the Company and its subsidiaries;
 - (iii) the Sellers have agreed to customary restrictions on the conduct of the business of the Sale Companies in the period in between execution of the SSA (which are also reflected in the Put Option Deed) and completion of the Share Sale Transaction;
 - (iv) the Sellers will be required to deliver a number of customary documents at completion of the Share Sale Transaction (including an copy of the TSA executed by the Sellers);
 - (v) the SSA is subject to customary limitations on claims against the Sellers, including:
 - a cap on tax claims and claims for breach of title and capacity warranties and warranties relating to the Sale Companies of 100% of the purchase price for the Sale Shares under the Share Sale Transaction;
 - a cap on all other claims of 50% of the purchase price for the Sale Shares under the Share Sale Transaction;
 - a time limit of 5 years from the date of completion in respect of tax claims brought by the Hannan Buyer;
 - a time limit of 18 months from the date of completion in respect of all other claims brought by the Hannan Buyer;
 - (vi) the SSA may be terminated:
 - by either party if:
 - the conditions precedent are not satisfied on or before 30 September 2021;
 - an insolvency event occurs in respect of the other party under the Share Sale Transaction;

- the other party under the SSA breaches the SSA in a material respect which cannot be remedied, or if it may be remedied is not remedied within 10 business days of a request for the breach to be remedied;
- by the Hannan Buyer on one month's written notice; or
- by the Sellers if the Company or any of its related bodies corporate receives a bona fide third-party proposal to acquire an interest in some or all of the Sale Shares, or the business or assets of one or more of the Sale Companies.

(vii) If the SSA is terminated:

- by the Hannan Buyer because an insolvency event occurs in respect of a Seller or the Sellers materially breach the SSA and fails to remedy the breach;
- by the Sellers because the Company or its related bodies corporate receive a bona fide third-party proposal for the Sale Companies (or their assets); or
- by either the Sellers or the Hannan Buyer if the conditions precedent are not satisfied or waived by 30 September 2021 (including the shareholder approval being sought pursuant to this Notice of Meeting),

the Sellers must pay to the Hannan Buyer an aggregate amount equal to the reasonable professional costs and expenses incurred by the Hannan Buyer in connection with the transactions contemplated in this Notice of Meeting, up to an amount of \$165,000 (exclusive of indirect taxes).

The SSA is otherwise on customary terms for an agreement of that nature, including warranties as to title and capacity and the operation of the Sale Companies. The Sellers also provide customary indemnities for breach of warranty and a tax indemnity; and

- (h) **(voting exclusion statement)** the voting exclusion statement is set out directly under the Resolution on page 6 of the notice of meeting.

1.2 Chapter 2E of the Corporations Act

Chapter 2E of the Corporations Act prohibits a public company or an entity that the public company controls from giving a financial benefit to a related party of the public company unless the benefit falls within a prescribed exception to the general prohibition.

Section 210 of the Corporations Act provides an exception to the requirement to obtain shareholder approval to the giving of a financial benefit to a related party where the financial benefit is given on terms that:

- (a) would be reasonable in the circumstances if the Company and the related party were dealing at arm's length; or
- (b) are less favourable to the related party than an arm's length transaction.

Alternatively, pursuant to section 208 of the Corporations Act, the financial benefit must be approved by the public company's shareholders in a general meeting in circumstances where certain requirements specified in Chapter 2E in relation to the convening of that meeting have been met.

A 'related party' is defined widely in section 228 of the Corporations Act and relevantly includes a director of a public company, any entity that is controlled by a director of the public company or if the entity believes or has reasonable grounds to believe that it is likely to become a related party of the public company of a kind referred to in the Corporations Act.

A 'financial benefit' for the purposes of the Corporations Act also has a very wide meaning and relevantly includes the related party acquiring assets from the public company or entities controlled by the public company, or the public company or entities controlled by the public company granting encumbrances over their assets, or providing services to the related party.

The Share Sale Transaction and the TSA

All Non-Interested Directors, in the interests of good governance, believe that it is prudent to seek Shareholder approval for the purposes of section 208 of the Corporations Act in respect of the Share Sale Transaction and the associated TSA (the entry into which is a completion deliverable under the SSA).

For the purposes of section 219 of the Corporations Act, the Company provides the following information in respect of the Share Sale Transaction and the associated TSA:

- (a) **(related party)** the related party to whom Resolution 1 would permit the financial benefit to be given is the Hannan Buyer, as the Hannan Buyer is a related party to the Company for the purposes of the Corporations Act;
- (b) **(financial benefit)** the nature of the financial benefit for the purposes of section 219(1)(b) of the Corporations Act is the sale by each of the Sellers of the relevant Sale Shares to the Hannan Buyer under the SSA for A\$9,000,000 (excluding indirect taxes) on the terms described above in Section 1.1(g), and the provision by each of the Sellers of certain transitional services (relating to payroll, invoicing, accounts receivable and accounts payable, IT systems and infrastructure, human resources and recruitment services) to the Hannan Buyer on the terms of the TSA on a cost recovery basis;
- (c) **(no recommendation from Michael Hannan and James Hannan)** as both Michael Hannan and James Hannan are excluded from voting on Resolution 1 as members of the Hannan Family and are also related parties of the Company as directors of the Company, they have declined to make a recommendation in relation to Resolution 1 and will not be providing a recommendation to Shareholders on how to vote on Resolution 1;
- (d) **(recommendation from the independent directors)** each Non-Interested Director recommends that Shareholders vote in favour of Resolution 1 as they believe it is in the best interests of the Company for the following reasons:
 - the consideration payable to the Sellers in respect of the Share Sale Transaction will ensure that the Company's corporate group is able to continue to operate as a going concern and will provide funds for general working capital purposes; and
 - the Company has made a strategic decision to focus on its core business, being the printing business.
- (e) **(Other information)** The Non-Interested Directors:
 - do not consider that there are any adverse tax consequences in relation to the Share Sale Transaction or the TSA;
 - do not consider that there are any opportunity costs or benefits forgone by the Company or any of its related bodies corporate as a result of the Share Sale Transaction or the TSA (other than the loss of revenue in relation to business conducted by the Sale Companies), on the basis that none of the Company nor the Sellers have ever received any binding or non-binding third party offers in acquiring the shares of the Sale Companies, or the relevant businesses or assets of the Sale Companies as part of the Share Sale Transaction. The Company and the Sellers will continue to proceed to elicit offers for the Sale Companies and the relevant businesses or assets of the Sale Companies, pending the exercise of the Put Option.

The Put Option Deed and the SSA (to be entered into upon exercise of the Put Option) are also terminable by the Sellers, if the Company or any of its related bodies corporate

receives a bona fide third-party proposal to acquire an interest in some or all of the Sale Shares, or the business or assets of one or more of the Sale Companies.

The Non-Interested Directors consider that this notice of meeting sets out all other information that is known to the Company (and its Directors) and that is reasonably required by Shareholders in order to decide whether or not it is in the Company's interests to pass Resolution 1.

2. THE SECURITY INCREASE

On 18 June 2021, the Company entered into the Loan Agreement with amongst others, the Hannan Buyer, pursuant to which:

- (a) the Hannan Buyer agreed to lend A\$2.3 million to the Company; and
- (b) the Hannan Buyer acceded to a Security Trust Deed dated 26 June 2009 to which HC Management Pty Ltd ACN 169 916 885, in its capacity as trustee of the PMP Security Trust is the **Security Trustee**, in order for the Hannan Buyer to obtain the benefit of security over the shares in Ovato Creative, Ovato Technology, Ovato Communications, Ovato Clayton, Ovato Geebung and Pacific Intermedia (the **Secured Shares**) held by the Security Trustee in its capacity as trustee under the Security Trust Deed.

The Company and, amongst others, the Hannan Buyer now propose to increase the facility limit under the Loan Agreement by an amount to be agreed between the Company and the Hannan Buyer.

The increase to the facility limit will be conditional on Shareholder approval, because it is proposed that the amount of the loan under the Loan Agreement will increase to an amount to be agreed between the Company and the Hannan Buyer (likely to be A\$4.8 million) and, accordingly, the value of the consideration being received by the Company under the Loan Agreement for the security already granted by the Company to the Security Trustee for the benefit of, among others, the Hannan Buyer will exceed 5% of the equity interests of the Company.

2.1 Listing Rule requirements

ASX Listing Rule 10.1 provides that the Company and its controlled entities or subsidiaries must not dispose of or agree to dispose of a substantial asset to certain persons of influence, unless it obtains the approval of its Shareholders.

The Security Increase will now constitute the disposal of substantial assets, because the value of the consideration being received by the Company under the Loan Agreement for the security already granted by the Company to the Security Trustee for the benefit of the Hannan Buyer is increasing to such amount as agreed between the Company and the Hannan Buyer (likely to be A\$4.8 million) and therefore now exceeds 5% of the equity interests of the Company. Relevantly, a grant of security over the Secured Shares is considered to be a 'disposal' which, for the purposes of ASX Listing Rule 10.1, includes using an asset as collateral.

Further, the disposal of substantial assets of the Company is to a person of influence for the purposes of ASX Listing Rule 10.1.1, which includes a related party of the Company. The person that is receiving the benefit of the security, the Hannan Buyer, is a related party of the Company and is controlled by the Hannan Family, who together hold a relevant interest of 43.29% in the Company as at the date of this notice.

For the purposes of ASX Listing Rule 10.5, the Company provides the following information:

- (a) **(person to whom the Company is disposing of the substantial assets)** the person to whom the Company is disposing of the substantial assets is the Security Trustee for the benefit of, among others, the Hannan Buyer;
- (b) **(person of influence)** the Hannan Buyer is a person of influence for the purposes of ASX Listing Rule 10.1.1 as it is a related party of the Company. The Hannan Buyer is controlled by the Hannan Family, who together hold a relevant interest of 43.29% in the Company as at the date of this notice;

- (c) **(substantial assets)** the substantial assets that are the subject of the Security Increase are the Secured Shares, being the relevant shares in Ovato Creative, Ovato Technology, Ovato Communications, Ovato Clayton, Pacific Intermedia and Ovato Geebung;
- (d) **(consideration)** the consideration received by the Company for the deemed "disposal" of the substantial assets pursuant to the security already granted by the Company to the Security Trustee for the benefit of, among others, the Hannan Buyer is an amount to be agreed between the Company and the Hannan Buyer (being the amount of the loan under the Loan Agreement, post increase to the facility limit as agreed between the parties);
- (e) **(intended use of funds from disposal)** the Company will use the proceeds arising from drawing down an additional amount (to be agreed between the Company and the Hannan Buyer) under the Loan Agreement to enhance the Company's working capital position, repay debt and assist in restructuring the Company's business;
- (f) **(timetable for completing disposal)** it is anticipated that if Shareholders approve the Security Increase, the Company will request that the Hannan Buyer lends the additional amount (to be agreed between the Company and the Hannan Buyer) to the Company. If the Company and the Hannan Buyer agree an additional amount to be lent by the Hannan Buyer, the Security Increase will occur shortly after the date that Shareholders approve the Security Increase;
- (g) **(Loan Agreement)** Further material terms in respect of the Loan Agreement are as follows:
- (i) the Company's ability to draw down an additional amount under the Loan Agreement remains subject to the agreement between the Company and the Hannan Buyer;
 - (ii) the Company must repay any amounts outstanding in respect of the loan under the Loan Agreement on the earlier of:
 - 30 July 2021, if the SSA is not agreed and signed before that date;
 - the date of completion of the SSA;
 - the date of termination of the SSA;
 - the date which is 6 months after the date the loan was first made under the Loan Agreement;
 - (iii) the Company may make early repayments of the loan under the Loan Agreement prior to the maturity date at any time;
 - (iv) interest (other than customary default interest) is not payable on the loan under the Loan Agreement;
 - (v) the Loan Agreement is otherwise on customary terms for an agreement of that nature; and
- (h) **(voting exclusion statement)** the voting exclusion statement is set out directly under Resolution 2 on page 7 of the notice of meeting.

2.2 Chapter 2E of the Corporations Act

As noted above, Chapter 2E of the Corporations Act prohibits a public company or an entity that the public company controls from giving a financial benefit to a related party of the public company unless the benefit falls within a prescribed exception to the general prohibition.

Loan Agreement and the Security Increase

The related party in respect of the Loan Agreement and the Security Increase is the Hannan Buyer as a related party to the Company for the purposes of the Corporations Act.

The financial benefit given by the Company, the Sellers, Ovato Creative, Ovato Technology, Ovato Communications, Ovato Clayton, Ovato Geebung and Pacific Intermedia was the entry into the Loan Agreement and associated security package (**Loan Arrangements**), pursuant to which the Hannan Buyer obtained the benefit of security over the Secured Shares held by the Security Trustee in its capacity as trustee under the Security Trust Deed and which is now proposed to be increased as a result of the proposed increase in the loan to be granted under the Loan Agreement (subject to the passing of Resolution 2).

Prior to entry into the Loan Arrangements on 18 June 2021, the Non-Interested Directors had carefully considered the nature of the Loan Arrangements and formed the view that shareholder approval under section 208 of the Corporations Act was not required in respect of the Loan Arrangements, on the basis that the Loan Arrangements would, in each case, be reasonable in the circumstances if the Company and its subsidiaries and the Hannan Buyer were dealing on arm's length terms or are otherwise less favourable to the related party than an arm's length transaction as the loan is given on an interest-free basis (other than customary default interest). The Non-Interested Directors have now also carefully considered the proposed increase to the facility limit and the Security Increase and have formed the view that shareholder approval under Chapter 2E of the Corporations Act is not required in respect of the proposed increase to the facility limit or the Security Increase, on the basis that such transactions would, in each case, be reasonable in the circumstances if the Company and its subsidiaries and the Hannan Buyer were dealing on arm's length terms or are otherwise less favourable to the related party than an arm's length transaction as the loan is given on an interest-free basis (other than customary default interest).

3. **INDEPENDENT EXPERT'S REPORT**

ASX Listing Rule 10.5.10 requires a notice of meeting containing a resolution under Listing Rule 10.1 to include a report on the relevant transaction from an independent expert.

Lonergan Edwards & Associates Limited (the **Independent Expert**) has been engaged by the Company and has prepared the Independent Expert's Report set out in **Annexure A** to this notice of meeting, and takes responsibility for that report. The Independent Expert is not responsible for any other information contained within this notice of meeting.

The Independent Expert has determined that:

- (a) the Share Sale Transaction is fair and reasonable in the absence of a superior offer, and
- (b) the Security Increase is fair and reasonable,

to holders of the Company's ordinary securities who are permitted to vote and whose votes are not to be disregarded.

4. **NON-INTERESTED DIRECTORS' RECOMMENDATION**

The Non-Interested Directors recommend that Shareholders vote in favour of the Resolutions because:

- (a) the consideration payable to the Sellers in respect of the Share Sale Transaction and the increased limit of the facility able to be drawn down under the Loan Agreement will together ensure that the Company's corporate group is able to continue to operate as a going concern and for general working capital purposes; and
- (b) the Company has made a strategic decision to focus on its core business, being the printing business.

5. **WHAT HAPPENS IF THE RESOLUTIONS ARE PASSED OR NOT PASSED?**

Each Resolution seeks the required Shareholder approval to the sale of shares and grant of security as part of the Transactions under and for the purposes of Listing Rule 10.1, section 208 of the Corporations Act 2001 (Cth) and for all other purposes.

Resolution 1

If Resolution 1 is passed, subject to the exercise of the Put Option by the Sellers and the satisfaction or waiver of other conditions precedent to the Share Sale Transaction, the Sellers will be able to complete the Share Sale Transaction and enter into the associated TSA.

If Resolution 1 is NOT passed, the Sellers will not be able to complete the Share Sale Transaction or enter into the associated TSA. If the Hannan Buyer or the Sellers terminate the SSA after 30 September 2021 because the conditions precedent have not been satisfied or waived by that date (including if Resolution 1 is not passed), then the Sellers must pay to the Hannan Buyer an aggregate amount equal to the reasonable professional costs and expenses incurred by the Hannan Buyer in connection with the transactions contemplated in this Notice of Meeting, up to an amount of \$165,000 (exclusive of indirect taxes) within 2 business days of termination.

Resolution 2

If Resolution 2 is passed, the Company will be able to draw down an additional amount to be agreed between the Company and the Hannan Buyer (in addition to the A\$2.3 million it has already drawn down) in respect of the Loan Agreement between the Company, and amongst others, the Hannan Buyer dated 18 June 2021, subject to the Hannan Buyer's agreement.

If Resolution 2 is NOT passed, the Company will not be able to draw down any additional amounts pursuant to the Loan Agreement between the Company, and amongst others, the Hannan Buyer dated 18 June 2021.

GLOSSARY

A\$ means Australian dollars.

ASX means the Australian Securities Exchange.

ASX Listing Rules means the listing rules of the ASX.

Company means Ovato Limited ACN 050 148 644.

Corporations Act means the *Corporations Act 2001* (Cth).

Directors means the directors of the Company.

Hannan Buyer means Ballygriffin Holdings Pty Ltd ACN 615 964 139.

Hannan Family means Michael Hannan, James Hannan, Lindsay Hannan, Sayman Pty Ltd as trustee for the Lindsay Hannan Family Trust, Richard O'Connor, Adrian O'Connor, Wicklow Properties Pty Limited ACN 123 501 477, Rathdrum Properties Pty Limited ACN 123 510 001 as trustee of the Rathdrum Property Trust, Josproud Pty Limited ACN 615 514 513, Peter Parker Pty Limited ACN 615 514 531, Lafim Pty Limited ACN 615 514 497 and F. Hannan Pty Limited ACN 615 514 504.

Independent Expert means Lonergan Edwards & Associates Limited.

Independent Expert's Report means the report prepared by the Independent Expert as set out in Annexure A.

IPMG means IPMG Digital Pty Ltd ACN 122 262 819.

Non-Interested Directors means the directors of the Company other than Mr Michael Hannan and Mr James Hannan, being Ms Dhun Karai and Mr Andrew McMaster.

Ovato Chennai means Ovato Technology Chennai Private Ltd.

Ovato Clayton means Ovato Creative Services Clayton Pty Ltd ACN 004 386 672.

Ovato Communications means Ovato Communications Pty Ltd ACN 125 826 655.

Ovato Creative means Ovato Creative Services Pty Ltd ACN 001 098 157.

Ovato Geebung means Ovato Creative Services Geebung Pty Ltd ACN 010 958 200.

Ovato Technology means Ovato Technology Pty Ltd ACN 092 342 375.

Pacific Intermedia means Pacific Intermedia Pty Limited ACN 004 333 439.

PMP means PMP Wholesale Pty Ltd ACN 004 386 663.

Put Option Deed means the Put Option Deed between IPMG, Show-Ads, PMP and the Hannan Buyer dated 4 June 2021 (as amended from time to time).

Resolution means the resolutions that are the subject of this notice of meeting.

Shareholder means a registered holder of quoted securities in the Company as at 7:00pm (AEST) on Tuesday, 27 July 2021.

Show-Ads means Show-Ads Pty Ltd ACN 004 879 627.

SSA means the Share Sale Agreement to be entered into between IPMG, Show-Ads, PMP and the Hannan Buyer if the Put Option is exercised by the Sellers.

Annexure A
Independent Expert's Report

LONERGAN EDWARDS & ASSOCIATES LIMITED

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The Independent Directors
Ovato Limited
Level 4
60 Union Street
Pyrmont NSW 2009

25 June 2021

Subject: Proposed sale of Ovato Marketing Services (OMS)

Dear Independent Directors

Introduction

1 On 4 June 2021, certain of Ovato Limited's (Ovato or the Company) wholly owned subsidiaries, IPMG Digital Pty Ltd (IPMG), Show-Ads Pty Ltd (Show-Ads) and PMP Wholesale Pty Ltd (PMP) (the Sellers) entered into a binding put option deed (the Deed)¹ with Ballygriffin Holdings Pty Limited (Ballygriffin)² under which the Sellers could require Ballygriffin to enter into a share sale agreement (Sale Agreement) for the purposes of acquiring:

- (a) from IPMG, the entire issued share capital of Ovato Creative Services Pty Ltd (Ovato Creative), Ovato Technology Pty Ltd (Ovato Technology), Ovato Communications Pty Ltd (Ovato Communications) and all of the shares that IPMG holds in Ovato Technology Chennai Private Ltd (Ovato Chennai)
- (b) from Show-Ads, the entire issued share capital of Ovato Creative Services Clayton Pty Ltd (Ovato Clayton); and
- (c) from PMP, one ordinary share in Pacific Intermedia Pty Limited (Pacific Intermedia) (the other shareholder of which is Ovato Clayton),

(together OMS) for A\$9.0 million³ (excluding indirect taxes) and the entry by the Sellers into a transitional services agreement with Ballygriffin under which they will provide certain transitional services to Ballygriffin for a period of up to 12 months post-completion of the Sale Agreement on a cost recovery basis (the TSA), the entry into which is a completion deliverable under the Sale Agreement (the Proposed Transaction).

¹ Including an amendment thereto signed 18 June 2021.

² Ballygriffin is an entity owned by the Hannan Family, the major shareholder in Ovato.

³ On a cash and debt free basis.

Authorised Representatives:

Wayne Lonerган • Craig Edwards* • Hung Chu • Martin Hall • Martin Holt* • Grant Kepler* • Julie Planinic* • Nathan Toscan • Jorge Resende

* Members of Chartered Accountants Australia and New Zealand and holders of Certificate of Public Practice.
Liability limited by a scheme approved under Professional Standards Legislation

- 2 The Deed is not subject to any conditions precedent and will lapse if the put option is not exercised by the Sellers by 6:00pm on 4 September 2021. However, we understand that Ovato intends to exercise the put option in the absence of a superior offer for OMS.
- 3 Once the put option is exercised, Ballygriffin is obliged to enter into the Sale Agreement within 1 business day of the issue of the put option notice. Completion under the Sale Agreement is subject to the satisfaction and waiver of a number of conditions precedent (including receiving shareholder approval for the Proposed Transaction⁴) and other termination events in the Sale Agreement (these conditions and termination events are summarised in Section I of this report).
- 4 The Hannan family collectively holds 43.29% in Ovato (the Hannan Family) and controls Ballygriffin. Ballygriffin is a related party of the Company under the *Corporations Act 2001* (Cth) (Corporations Act).
- 5 In connection with the Proposed Transaction, we understand that Ballygriffin may also lend an amount (likely to be \$4.8 million)⁵ (Loan) to Ovato.

Scope

- 6 Chapter 2E of the Corporations Act prohibits a public company or an entity that the public company controls from “giving a financial benefit” to a related party of the public company without the approval of the shareholders (excluding those shareholders that are prohibited from voting)⁶.
- 7 Australian Securities Exchange (ASX) Listing Rule 10.1 states that an entity must ensure that it does not acquire a substantial asset from, or dispose of a substantial asset to a substantial holder (of > 10% of the entity’s voting power) or an associate of a substantial holder without the approval of holders of the entity’s ordinary securities. Approval is required by ordinary resolution at a general meeting.
- 8 ASX Listing Rule 10.2 states that an asset is substantial if its value, or the value of the consideration for it, is 5% or more of the book value of the equity interests of the entity.
- 9 ASX Listing Rule 10.5.10 requires that the notice of general meeting includes a report from an independent expert stating whether the transaction is fair and reasonable to holders of the entity’s ordinary securities whose votes are not to be disregarded.
- 10 Accordingly, the independent directors of Ovato have requested that Lonergan Edwards & Associates (LEA) prepare an independent expert’s report (IER) stating whether, in our opinion:

⁴ Ovato is also seeking shareholder approval to sell 100% of the ordinary issued share capital of each of Ovato Retail Distribution Pty Ltd and Ovato Retail Distribution NZ Limited (together ORD) to Are Media Limited (Are Media) for a cash payment of A\$15 million. A separate report has been prepared by us in relation to this transaction.

⁵ Consisting of an existing loan of \$2.3 million with, subject to shareholder approval, an increase (likely to be a \$2.5 million increase if agreed between Ballygriffin and Ovato) in the facility limit of the loan agreement under which that loan was made.

⁶ We note that shareholder approval is not needed to “give a financial benefit” on terms where the entity and the related party are dealing at arm’s length or where the terms are less favourable to the related party than an arm’s length transaction.

- (a) the Proposed Transaction is fair and reasonable to Ovato shareholders who are permitted to vote on the Proposed Transaction; and
- (b) the terms of the Loan which may be provided by Ballygriffin to Ovato are fair and reasonable to Ovato shareholders who are permitted to vote on the resolution to approve the Loan.

- 11 LEA is independent of Ovato and the Hannan Family and has no other involvement or interest in the proposed transactions.

Summary of opinion

Opinion on the Proposed Transaction

- 12 We have concluded that the Proposed Transaction is “fair” and “reasonable” to Ovato shareholders who are permitted to vote on the transaction in the absence of a superior offer for OMS. We are of this opinion for the reasons stated below.

Fairness

- 13 Under RG 111, the Proposed Transaction is “fair” if the value of the consideration is equal to or greater than the value of OMS being sold by the Sellers. This comparison is set out below:

Proposed Transaction – fairness			
	Low \$m	High \$m	Mid-point \$m
Value of consideration	9.0	9.0	9.0
Value of 100% of OMS ⁽¹⁾	9.0	10.5	9.8
Extent to which the consideration exceeds (or is less than) the value of OMS	-	(1.5)	(0.8)

Note:

- 1 Refer paragraph 100 below.

- 14 As the consideration of \$9.0 million to be paid by Ballygriffin under the Sale Agreement is consistent with the low end of our assessed valuation range for OMS on a 100% controlling interest basis, in our opinion, the Proposed Transaction is “fair” when assessed based on the guidelines in RG 111.

Reasonableness

- 15 Under RG 111 the Proposed Transaction is “reasonable” if it is “fair”. Accordingly, we have also concluded that the Proposed Transaction is “reasonable” in the absence of a superior offer for OMS.

Other matters

- 16 In this regard we note that Ovato appointed an experienced external adviser to undertake a formal sale process for OMS in 2020 (2020 Sales Process). This sale process did not result in any binding offer, and was curtailed due to the impact of the COVID-19 pandemic.

- 17 More recently (in May 2021), the external adviser has re-engaged with those parties who expressed an interest in acquiring OMS in the 2020 Sales Process. However, as at the date of this report, no superior offer to the consideration price under the Sale Agreement for the Proposed Transaction has been received. This suggests that the net realisable value of the OMS business in the current environment may be toward the low end of our valuation range.
- 18 Furthermore, we understand that the Deed has been entered into by the Sellers (in part) as the Ovato directors have determined that OMS represents a non-core business within the Ovato Group and that a sale of OMS will prima facie benefit Ovato shareholders in that a sale will (inter alia):
- (a) allow Ovato management to have increased focus on the core printing business of the group, which is currently unprofitable; and
 - (b) provide Ovato with additional financial flexibility as regards the future funding requirements of the core printing business. In this regard, we understand that some of the proceeds of the OMS sale will be used to provide additional capital to restructure and improve the profitability of the core printing business. Following implementation of these initiatives, Ovato management expect that the printing business will become profitable on what is expected to be a sustainable basis.

Opinion on the Loan

- 19 While Ballygriffin has already advanced \$2.3 million pursuant to the Loan, subject to shareholder approval, Ovato will be able to request an advance of an additional amount (likely to be \$2.5 million) under the Loan which (if advanced) would be provided prior to the completion of the Proposed Transaction. However, Ballygriffin is under no obligation to advance an additional amount under the Loan, but may choose to do so.
- 20 The key terms of the Loan are summarised in Section I. Importantly, the additional amount (likely to be \$2.5 million) under the Loan (if advanced) will be made on an interest-free basis (other than customary default interest), and no facility or other fees will be charged by Ballygriffin in connection with the provision of the Loan.
- 21 Accordingly, in our opinion, the terms of the Loan are fair and reasonable to Ovato shareholders other than shareholders whose votes are to be disregarded.

Summary of advantages and disadvantages

- 22 Given the above, we set out below a summary of the advantages and disadvantages of the Proposed Transaction and Loan from the perspective of Ovato shareholders who are permitted to vote on the transaction:

Advantages	Disadvantages
<ul style="list-style-type: none"> The Proposed Transaction is fair based on the guidelines set out in RG 111. No superior offer for OMS has been received to date. Further, should a superior offer for OMS be received at any time before completion of the Proposed Transaction, Ovato will be free to accept this superior offer. The Directors consider that OMS is a non-core business. The sale of OMS will allow Ovato to reduce debt and restructure the printing business. The Loan is interest free. 	<ul style="list-style-type: none"> The sale price for OMS is at the low end of our valuation range. OMS is currently profitable, whereas the core printing business (which is being retained) is not.

General

- 23 In preparing this report, we have considered the interests of Ovato shareholders as a whole (other than those who are not permitted to vote on the Proposed Transaction). Accordingly, this report only contains general financial advice and does not consider the personal objectives, financial situations or requirements of individual shareholders.
- 24 The ultimate decision by Ovato shareholders whether to approve the Proposed Transaction and the Loan should be based on each shareholder's assessment of the Proposed Transaction and the Loan.
- 25 If in doubt about the Proposed Transaction, the Loan or matters dealt with in our report, Ovato shareholders should seek independent professional advice. For our full opinion on the proposed transactions, and the reasoning behind our opinion, we recommend that Ovato shareholders read the remainder of our report.

Yours faithfully



Craig Edwards
Authorised Representative



Martin Holt
Authorised Representative

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Appendices

- A Financial Services Guide**
- B Qualifications, declarations and consents**
- C Glossary**

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I Key terms of the Proposed Transaction and the Loan

Background

- 26 On 4 June 2021, the Sellers entered into the Deed with Ballygriffin under which the Sellers could require Ballygriffin to enter into the Sale Agreement to acquire OMS for A\$9 million⁷. The Deed is not subject to any conditions precedent and will lapse if the put option is not exercised by the Sellers by 6:00pm on 4 September 2021. Once the put option is exercised, Ballygriffin is obliged to enter into the Sale Agreement within one business day of the issue of the put option notice. On completion under the Sale Agreement, the Sellers and Ballygriffin will enter into the TSA under which the Sellers will provide certain transitional services to Ballygriffin for a period of up to 12 months post-completion of the Sale Agreement on a cost recovery basis.
- 27 Ballygriffin is an entity owned by the Hannan Family, which collectively owns 43.29% of the issued share capital in Ovato⁸. Ballygriffin is a related party of the Company under the Corporations Act.
- 28 In connection with the Proposed Transaction, Ballygriffin may also lend an amount (likely to be \$4.8 million)⁹ (Loan) to Ovato.

Key terms

Proposed Transaction

- 29 Subject to exercise of the put option, completion under the Sale Agreement is subject to certain termination events and the satisfaction or waiver of the following conditions precedent:
- (a) releases of certain encumbrances and certain secured parties of OMS providing consent to the Proposed Transaction; and
 - (b) the passing of a resolution at a general meeting of members of Ovato in accordance with the listing rules of the ASX and the Corporations Act approving the Proposed Transaction.
- 30 The Sale Agreement is also terminable:
- (a) by either party if:
 - (i) the conditions precedent are not satisfied on or before 30 September 2021
 - (ii) an insolvency event occurs in respect of the other party under the Sale Agreement

⁷ On a cash and debt free basis.

⁸ As at 4 June 2021.

⁹ Consisting of an existing loan of \$2.3 million with, subject to shareholder approval, an increase (likely to be a \$2.5 million increase if agreed between Ballygriffin and Ovato) in the facility of the loan agreement under which that loan was made.

- (iii) the other party under the Sale Agreement breaches the Sale Agreement in a material respect which cannot be remedied, or if it may be remedied is not remedied within 10 business days of a request for the breach to be remedied
- (b) by Ballygriffin on one month's written notice; or
- (c) by the Sellers if Ovato or any of its related bodies corporate receives a bona fide third-party proposal to acquire an interest in some or all of the shares, business or assets of OMS.

31 In addition, it is required (inter alia) that:

- (a) the Sellers must ensure that, until completion¹⁰, OMS carries on its business as a going concern in the ordinary and usual course; and
- (b) the Deed also specifies:
 - (i) customary restrictions on the conduct of the OMS business pre-completion (subject to no exclusivity¹¹) (e.g. no disposal or acquisition of material assets, no incurring of indebtedness exceeding a certain threshold, no encumbering the shares in OMS); and
 - (ii) customary permitted activities that may be undertaken by the Sellers and OMS
 - (iii) an option fee of an aggregate amount equal to the reasonable professional costs and expenses incurred by Ballygriffin in connection with the Proposed Transaction up to an amount of \$165,000 (excluding indirect taxes) is payable by the Sellers in the event that the put option lapses or is terminated in certain circumstances^{12, 13}.

The Loan

32 The key terms of the Loan in connection with Proposed Transaction are summarised below:

- (a) Ballygriffin is under no obligation to make the advance of an additional amount (likely to be \$2.5 million) under the Loan, but may choose to do so

¹⁰ Completion of the sale of shares in OMS (Completion) will occur on the last business day of that calendar month on which all conditions precedent under the Sale Agreement have been satisfied or waived (other than any condition precedent which by its nature may only be satisfied immediately prior to completion) or such other date as agreed by the parties.

¹¹ As stated above, for the avoidance of doubt, following execution of the Deed, if Ovato or one of its related bodies corporate receives a bona fide third-party proposal to acquire an interest in some or all of the shares, business or assets of one or more of the entities comprising OMS, the Sellers may terminate the Deed by notice to Ballygriffin.

¹² The Sellers may terminate the put option if Ovato or any of Ovato's related bodies corporate receives a bona fide third-party proposal to acquire an interest in some or all of the shares, or the business or assets of one or more of the Sellers.

¹³ Ballygriffin may terminate the put option if:

- (a) after the date of the Deed, an insolvency event occurs in respect of a Seller; or
- (b) a Seller breaches a provision of the Deed in a material respect which cannot be remedied, or if it may be remedied is not remedied within 10 business days of receiving a written request from Ballygriffin to remedy the relevant breach.

- (b) the Loan is to be provided on an interest-free basis (other than customary default interest)
- (c) the Loan will be secured by a fixed charge over the shares in the various entities that comprise OMS
- (d) the Loan is repayable (in full) on the earlier of:
 - (i) 30 June 2021, if the Sale Agreement is not signed before that date
 - (ii) the date of completion of the Proposed Transaction¹⁴
 - (iii) the date of termination of the Sale Agreement
 - (iv) the date which is six months after the date the Loan was first made.

¹⁴ In the circumstances of paragraph (ii), as an offset to the purchase price.

II Scope of our report

Purpose

- 33 Chapter 2E of the Corporations Act prohibits a public company or an entity that the public company controls from “giving a financial benefit” to a related party of the public company without the approval of the shareholders (excluding those shareholders that are prohibited from voting)¹⁵.
- 34 ASX Listing Rule 10.1 states that an entity must ensure that it does not acquire a substantial asset from, or dispose of a substantial asset to a substantial holder (of > 10% of the entity’s voting power) or an associate of a substantial holder without the approval of holders of the entity’s ordinary securities. Approval is required by ordinary resolution at a general meeting.
- 35 ASX Listing Rule 10.2 states that an asset is substantial if its value, or the value of the consideration for it, is 5% or more of the book value of the equity interests of the entity.
- 36 ASX Listing Rule 10.5.10 requires that the notice of general meeting includes a report from an independent expert stating whether the transaction is fair and reasonable to non-associated holders of the entity’s ordinary securities.
- 37 Accordingly, the independent directors of Ovato have requested that LEA prepare an IER stating whether, in our opinion:
- (a) the Proposed Transaction is fair and reasonable to Ovato shareholders who are permitted to vote on the Proposed Transaction; and
 - (b) the terms of the Loan (if advanced) are fair and reasonable to Ovato shareholders who are permitted to vote on the resolution to approve the Loan.
- 38 LEA is independent of Ovato and the Hannan Family and has no other involvement or interest in the transactions.

Basis of assessment

- 39 In preparing our report, we have given due consideration to the ASX Listing Rules noted above and Regulatory Guides issued by the Australian Securities & Investments Commission (ASIC), in particular Regulatory Guide 111 – *Content of expert reports* (RG 111) and Regulatory Guide 76 – *Related Party Transactions* (RG 76)¹⁶.
- 40 RG 111 states that “fair and reasonable” should not be applied as a composite test and states there should be a separate assessment of “fair” and “reasonable”. RG 111 provides that a proposed related party transaction:

¹⁵ Shareholder approval is not needed to “give a financial benefit” on terms where the entity and the related party are dealing at arm’s length or where the terms are less favourable to the related party than an arm’s length transaction.

¹⁶ We have also had regard to Consultation Paper 142 – *Related Party Transactions* and the guidance with respect to IERs.

- (a) is “fair” if the value of the financial benefit to be provided by the entity to the related party (i.e. the value of OMS to be acquired by Ballygriffin) is equal to or less than the value of the consideration being provided to the entity by the related party. This comparison is required to be made assuming an arm’s length transaction between knowledgeable and willing, but not anxious parties
- (b) is “reasonable” if it is “fair”. A related party transaction may also be “reasonable” despite being “not fair” if the expert believes there are other reasons for non-associated shareholders to vote for the proposal.

41 Given the above, in our opinion, the most appropriate basis upon which to evaluate whether the proposed transactions (being the Proposed Transaction and the Loan) are “fair” and “reasonable” to the non-associated shareholders is to consider:

- (a) the market value of OMS
- (b) the consideration to be paid by Ballygriffin for OMS (assuming the put option is exercised, all conditions precedent are satisfied or waived and the termination events are not triggered)
- (c) the extent to which (a) differs from (b) in order to assess whether Proposed Transaction is “fair” under RG 111
- (d) the sale process undertaken in respect of OMS in 2020
- (e) the financial position of Ovato and need to reduce debt (noting that Ovato is also seeking shareholder approval to sell 100% of the ordinary issued share capital of each of Ovato Retail Distribution Pty Ltd and Ovato Retail Distribution NZ Limited (together ORD) to Are Media Limited (Are Media) for a cash payment of A\$15 million)¹⁷
- (f) the position of Ovato before and after the Proposed Transaction, and the net benefits inherent in the proposed transactions
- (g) the terms of the Loan; and
- (h) the advantages and disadvantages of the Proposed Transaction and the Loan from the perspective of Ovato shareholders who are permitted to vote on the Proposed Transaction and resolution to approve the Loan.

Limitations and reliance on information

42 Our opinions are based on the economic, sharemarket, financial and other conditions and expectations prevailing at the date of this report. Such conditions can change significantly over a relatively short period of time.

43 Our report is also based upon financial and other information provided by Ovato. We have considered and relied upon this information and believe that the information provided is reliable, complete and not misleading and we have no reason to believe that material facts have been withheld.

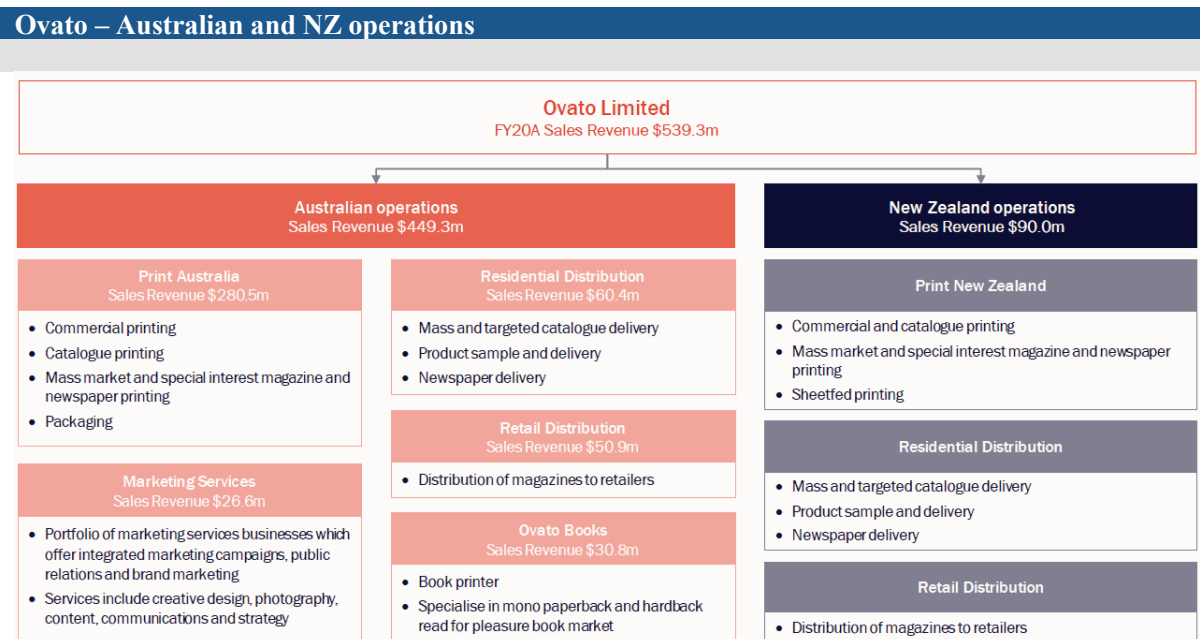
¹⁷ On a cash and debt free basis, and subject to a working capital adjustment.

- 44 The information provided was evaluated through analysis, equity and review to the extent considered appropriate for the purpose of forming an opinion on the proposed transactions from the perspective of Ovato shareholders who are permitted to vote and whose votes are not to be disregarded. However, we do not warrant that our enquiries have identified or verified all of the matters which an audit, extensive examination or “due diligence” investigation might disclose. Whilst LEA has made what it considers to be appropriate enquiries for the purpose of forming its opinion, “due diligence” of the type undertaken by companies and their advisers in relation to (for example) prospectuses or profit forecast is beyond the scope of an IER.
- 45 Accordingly, this report and the opinions expressed therein should be considered more in the nature of an overall review of the anticipated commercial and financial implications of the proposed transactions rather than a comprehensive audit or investigation of detailed matters.

III Profile of Ovato

Overview

- 46 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 NZ with some of the biggest and most recognised retail brands as print customers.
- 47 An organisational diagram is set out below showing the divisions under the Australian and NZ operations of Ovato (respectively):



Source: Ovato Investor Presentation dated 7 December 2020, page 20.

Key risks

- 48 The printing industry has been affected by challenges during the past decade arising from changes in demand. A shift in consumer preferences away from magazines, newspapers and catalogues has changed the advertising landscape with reduced demand resulting in overcapacity.
- 49 Ovato's business segments are primarily in pre-media, printing and distribution of publications including catalogues, magazines and books. There is a risk that Ovato's product demand and pricing could continue to be subject to adverse impact from¹⁸:
- reductions in demand volume and the effect of consumer confidence on retail marketing
 - pagination reductions and title closures by magazine and newspaper publishers

¹⁸ Source: Ovato Investor Presentation dated 7 December 2020, page 35.

- (c) competitive market pricing pressure, and
- (d) migration of advertising, entertainment and information media from print to digital platforms.

Restructure during H1 FY21

50 During the six months to 31 December 2020 (H1 FY21), Ovato completed an extensive balance sheet restructure to deleverage the business which reduced net debt to \$34.7 million at 31 December 2020. The key aspects of this restructure included the following¹⁹:

- (a) renegotiation of the Print Australia Enterprise Agreement with reduced redundancy scales and more flexible work practices
- (b) reduction of the \$40 million corporate bond to \$15 million with note holders consenting to the conversion of the \$15 million into equity by a further issue of shares in Ovato
- (c) 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
- (d) negotiation with landlords allowing the exit of some onerous property leases, the negotiation of reduced rental with another, and the deferral of equipment financing loans
- (e) establishment of a new \$17 million secured debt facility to cash back the existing ANZ bank guarantee facility
- (f) raising of \$40 million in new equity, which was used for debt reduction and working capital requirements.

Statement of financial performance

51 The financial performance of Ovato for the three years ended 30 June 2020 and the six months ended 31 December 2020 is summarised below:

¹⁹ Source: 1H FY21 investor presentation, page 2.

Ovato – Statement of financial performance⁽¹⁾

Year ended	30 Jun 18 Audited \$m	30 Jun 19 Audited \$m	30 Jun 20 Audited \$m	6 mths to 31 Dec 20 Unaudited \$m
Sales revenue				
Ovato Australia Group	613.9	554.9	449.3	191.2
Ovato New Zealand Group	120.1	114.3	90.0	44.9
Total sales revenue	734.0	669.2	539.3	236.2
EBITDA⁽²⁾	40.6	30.8	9.2	7.8
Less depreciation and amortisation	(31.3)	(28.6)	(21.2)	(10.1)
EBIT⁽²⁾⁽³⁾	9.4	2.2	(11.9)	(2.2)
Less net finance costs	(7.4)	(8.4)	(8.5)	(4.2)
Net loss before income tax and significant items	2.0	(6.2)	(20.4)	(6.5)
Add income tax benefit / (expense)	(0.8)	1.8	5.4	1.7
Net loss after income tax before significant items	1.1	(4.4)	(15.0)	(4.7)
Less significant items	(39.4)	(63.6)	(78.5)	(7.9)
Less income tax benefit / (expense) on significant items	(5.6)	(16.3)	(17.8)	3.3
Net loss after income tax and significant items	(43.8)	(84.3)	(111.2)	(9.3)

Note:

1 The FY20 and H1 FY21 results have been adjusted to exclude the impact of changes required under Australian Accounting Standards Board (AASB) Standard AASB 16 – *Leases* (AASB 16). In summary, the adoption of AASB 16 increased reported earnings before interest, tax, depreciation and amortisation (EBITDA) as rent expenses are replaced by amortisation charges and interest expenses. However, in our view this EBITDA uplift should be excluded as it is simply an accounting treatment which has no cash flow impact or impact on the underlying profitability of Ovato.

2 Before significant items unless advised otherwise.

3 Earnings before interest and tax (EBIT).

Rounding differences exist.

Source: Ovato Annual Reports for the years ended 30 June 2019 and 30 June 2020; Ovato Half-year Report for the period ended 31 December 2020.

Historical performance

Half year ended 31 December 2020²⁰

52 For the half-year ended 31 December 2020, Ovato's revenue fell 28.2% from the previous corresponding period (pcp) as the business continued to be adversely impacted by the COVID-19 pandemic. EBITDA before significant items included \$18.3 million from the Australian Government JobKeeper scheme and \$1.6 million from the NZ Government Wage Subsidy Scheme.

²⁰ Source: Ovato Half-year Report for the period ended 31 December 2020, page 4.

Year ended 30 June 2020²¹

- 53 Ovato was significantly impacted by the effects of COVID-19 during the year ended 30 June 2020 with year to date sales at February 2020 some 9% lower in the pcg in the face of tough retail markets. The onset of COVID-19 from March 2020 impacted Ovato's business greatly with sales revenues in the period down by 41% in the pcg.
- 54 Overall, FY20 Ovato group sales were down 19.4% on the prior year, primarily due to \$105.7 million in lower revenues at Ovato Australia. This was mainly from lower print and residential distribution sales in weak retail markets, combined with the unfavourable COVID-19 impact in the second half of the year. Revenues at Ovato NZ were \$24.3 million lower, mostly in heatset print after the business was forced to temporarily close by government directive as that country entered lockdown for several weeks at the onset of COVID-19.
- 55 Due to the impact of COVID-19, the Ovato group received \$12.2 million during FY20 in government assistance through the Australian Federal government JobKeeper program and NZ Government Employer Wage Subsidy Scheme.
- 56 In addition, COVID-19 delayed previously announced initiatives to de-leverage the business through asset sales and/or equity recapitalisation.

Year ended 30 June 2019²²

- 57 During the year ended 30 June 2019, Ovato experienced a fall in newspaper volumes, increased competition following the printing alignment between Fairfax and News Corp and softer retail conditions than expected, the combination of which negatively impacted on revenues.
- 58 In addition, repositioning and rebranding of the company to Ovato (from PMP) was undertaken during the 2019 fiscal year.

Statement of financial position

- 59 The statement of financial position of Ovato as at 31 December 2020 is set out below:

²¹ Source: Ovato FY20 Investor presentation; Ovato FY20 Annual Report, pages 31 and 55.

²² Source: Ovato FY19 Investor presentation.

Ovato – Statement of financial position⁽¹⁾

	31 Dec 20 Unaudited \$m
Cash and cash equivalents	39.0
Receivables	66.1
Inventories	62.2
Other ⁽¹⁾	26.3
Total current assets	193.7
Property, plant and equipment	80.4
Right-of-use assets ⁽²⁾	51.8
Deferred tax assets	46.7
Goodwill and intangible assets	1.1
Other ⁽³⁾	6.9
Total non-current assets	186.8
Total assets	380.5
Payables	127.1
Interest bearing liabilities ⁽⁴⁾	16.7
Lease liabilities	22.1
Provisions	35.8
Total current liabilities	201.7
Interest bearing liabilities ⁽⁴⁾	54.6
Lease liabilities	68.4
Provisions	8.6
Total non-current liabilities	131.6
Total liabilities	333.3
Net assets	47.2
Reported net tangible assets per share	\$0.01

Note:

- 1 As at 31 December 2020, other current assets consists of cash backing ANZ guarantees and other facilities (\$17.1 million), prepayments (\$7.1 million) and finance lease receivables (\$2 million).
- 2 As per AASB 16.
- 3 As at 31 December 2020, other non-current assets consists of finance lease receivables (\$5.3 million), defined benefit plan asset (\$1.2 million) and other (some \$381,000).
- 4 Refer paragraph 60 below.

Rounding differences exist.

Source: Ovato Half-year Report for the period ended 31 December 2020, pages 7 and 20; Ovato Appendix 4D Half-year Financial Statements 31 December 2020, page 2.

Interest bearing liabilities

60 The interest bearing liabilities of Ovato as at 31 December 2020 are set out below:

Ovato – Interest bearing liabilities	
	31 Dec 20 Unaudited \$m
Secured	
Chattel mortgage facility: \$A ⁽¹⁾	3.1
Equipment financing: repayable in Euros ⁽²⁾	6.4
Equipment financing: \$A ⁽³⁾	8.5
Prepaid financing costs	(1.2)
Total current interest bearing liabilities	16.7
Secured	
Chattel mortgage facility: \$A ⁽¹⁾	13.6
Equipment financing: \$A	8.5
Receivables financing: \$A ⁽⁴⁾	18.7
Corporate bond: \$A ⁽⁵⁾	15.0
Prepaid financing costs	(1.1)
Total non-current interest bearing liabilities	54.6
Total interest bearing liabilities	71.3

Note:

- On 22 December 2020, Ovato entered into a new \$17 million secured chattel mortgage debt facility with Scottish Pacific. The security is supported by a first ranking fixed and floating charge over the assets of Ovato, including the subsidiaries in Australia and New Zealand. The facility has a maturity date of December 2023.
- Ovato entered into a €17 million export financing loan agreement in February 2013, secured against an offset rotary press. As at 31 December 2020, this loan was fully drawn and had a balance of €4.0 million. This facility has a maturity date of 30 September 2021 with semi-annual amortisations. The lender is Commerzbank AG. The facility is subject to the warranties and conditions of the agreement during the term of it.
- Ovato entered into an Australian dollar floating rate equipment financing bank loan agreement in April 2019, secured against an offset rotary press. As at 31 December 2020, this loan was drawn to A\$16.9 million. This facility has a maturity date of 7 July 2023 with semi-annual amortisations. The lender is Commerzbank AG.
- Ovato entered into a \$50 million receivables financing facility with Scottish Pacific on 5 August 2020. As at 31 December 2020, this loan was drawn to \$18.7 million which represented the amount of receivables able to be sold into the facility at that date. This facility has a maturity date of 4 August 2023.
- Ovato issued a secured A\$40 million corporate bond on 22 November 2018 with a maturity date of 22 November 2022. The bond principal amount outstanding was reduced from A\$40 million to A\$15 million on 16 December 2020 via a bond holder vote. The bond holders also consented to the removal of the security securing the notes and the removal of the amortisation of the principal outstanding under the notes. These amendments to the notes were implemented on 22 December 2020. The bond holders also resolved to seek the approval of the shareholders of Ovato, at an extraordinary general meeting, to convert the notes balance of A\$15 million to ordinary shares in Ovato. The Extraordinary General Meeting was held on 19 March 2021 at which the resolution was passed.

Rounding differences exist.

Source: Ovato Half-year Report for the period ended 31 December 2020, pages 21 and 22.

Net debt

61 As at 31 December 2020, Ovato's net debt²³ of \$34.7 million²⁴:

- (a) was better than the previous provided guidance of \$45 million due to stronger than expected debtor collections in late December which is a favourable timing variance
- (b) was \$56.2 million below December 2019 levels of \$90.9 million (and \$38.2 million lower than June 2020) due to the impact of the restructure discussed in paragraph 50 above.

Statement of cash flows

62 The statement of cash flows of Ovato for the six months to 31 December 2020 is summarised below:

Ovato – Statement of cash flows	
Year ended	6 mths to 31 Dec 20 Unaudited \$m
Cash flows from operating activities	
Receipts from customers	428.2
Payments to suppliers and employees	(434.4)
Government grants received	20.4
Fee for bond holder consent to forgive corporate bond debt	(0.2)
Interest received	0.5
Interest and other costs of finance paid	(5.6)
Interest expense of lease liabilities	(4.6)
Net cash inflow from operating activities	4.3
Cash flows from investing activities	
Payments for property, plant and equipment	0.2
Cash funds given up to liquidator under the scheme of arrangement	(2.0)
Receipts from subleases, excluding the financing component	0.8
Net cash outflow from investing activities	(1.3)
Net cash outflow (before financing activities)	3.0
Cash flows from financing activities	
Repayments of lease liabilities	(11.8)
Cash backing ANZ guarantees and other facilities	(17.1)
Repayment of borrowings	(10.9)
Proceeds from borrowings	20.7
Proceeds from share issue net of transaction costs	39.0
Net cash inflow from financing activities	19.8
Net increase / (decrease) in cash and cash equivalents	22.8
Cash and cash equivalents at beginning of financial year	16.2
Cash and cash equivalents at end of financial year	39.0

Source: Ovato Half-year Report for the period ended 31 December 2020, page 8.

²³ Excludes lease liabilities under AASB 16.

²⁴ Source: Ovato FY21 Half Year Results Commentary, page 2.

- 63 In the six months to 31 December 2020, Ovato's statutory cash flow from operations was \$4.3 million, which is \$22.8 million better than pcp due to favourable working capital movements, lower significant items and receipt of government assistance through the JobKeeper and Wage Subsidy schemes.²⁵

Outlook

- 64 In the 1H FY21 investor presentation, management commented on the outlook noting²⁶:
- (a) the restructure has allowed Ovato to reduce its manufacturing footprint and fixed cost base to better match future demand
 - (b) the new Ovato Print Australia Enterprise Agreement allows flexibility in managing the workforce and to affordably adapt to future changing demand
 - (c) the company is evolving other parts of the business to take advantage of growth areas that sit well within the existing infrastructure of Ovato and which do not require material capital investment
 - (d) increased opportunities lie within the areas of books, packaging, retail distribution and marketing services
 - (e) heatset catalogue printing and residential distribution volumes are not returning to pre COVID-19 levels as quickly as expected due to lingering impacts of the pandemic.

Share capital and performance

- 65 As at 31 March 2021, Ovato had 12.213 billion fully paid ordinary shares on issue.²⁷

Substantial shareholders

- 66 As at 31 March 2021, there were five substantial shareholders in Ovato (being those with a relevant interest of 5.0% or more), as shown in the following table:

Ovato – substantial shareholders (as at 31 March 2021)		
	No. of shares held	% of issued capital
Hannan Family	5,286,527,599	43.29
Are Media	2,000,000,000	16.38
Tozer and Co	1,012,500,000	8.29
Trojan Investment Management	915,000,000	7.49
FIIG Securities	668,725,000	5.48

Source: Ovato management.

²⁵ Source: Ovato Half-year Report for the period ended 31 December 2020, page 4.

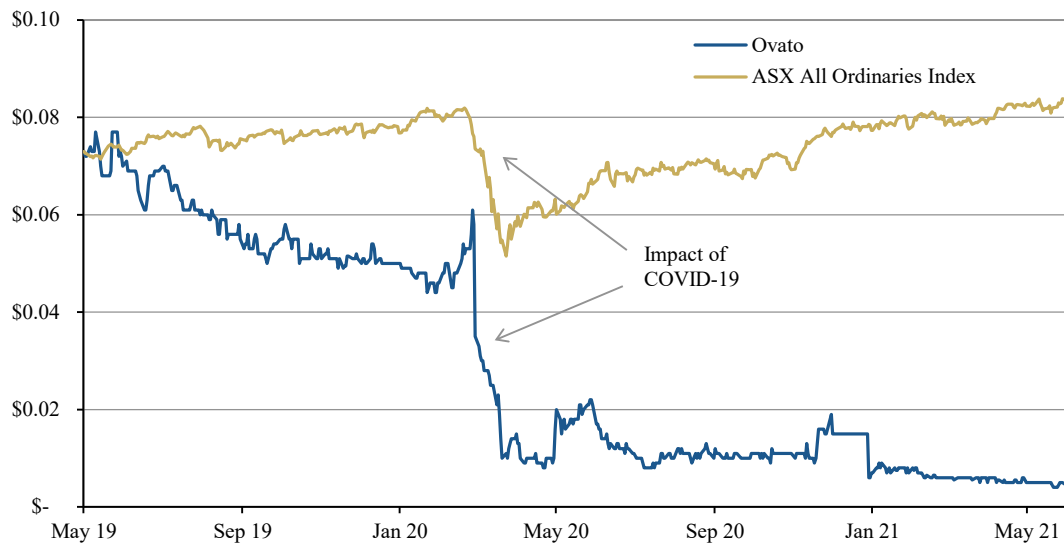
²⁶ Source: 1H FY21 investor presentation, page 5.

²⁷ Source: Ovato management.

Share price performance

67 The following chart illustrates the movement in the share price of Ovato from 1 May 2019 to 3 June 2021 (being the last day of trading prior to the announcement of the proposed transaction):

Ovato – share price history⁽¹⁾
1 May 2019 to 3 June 2021



Note:

1 Based on closing prices. The ASX All Ordinaries Index has been rebased to Ovato's last traded price on 1 May 2019 being \$0.073.

Source: Bloomberg.

68 As shown above, the onset of the COVID-19 pandemic has had a material adverse impact on Ovato.

IV Profile of OMS

Overview

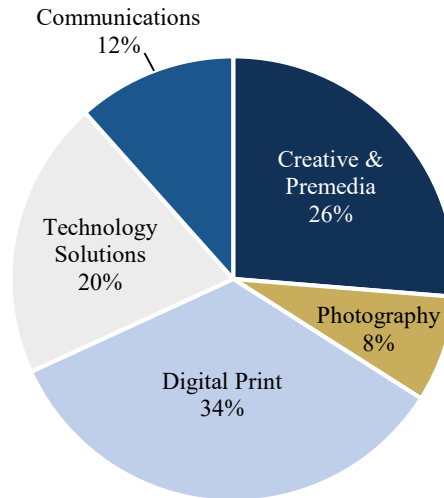
- 69 OMS is an Australian marketing services group that has historically operated as part of the broader Ovato business, offering a range of creative, digital and print marketing services to a diverse customer base. The range offered includes a full-service suite of integrated marketing solutions, comprising creative design, brand strategy, business consulting, marketing automation, photography, videography, point-of-sale, content creation, digital marketing, public relations, influencer and social programs.
- 70 OMS services their customers primarily from office locations across the Australian east coast, as well as satellite support offices in India and the United Kingdom. The group has over 140 staff located in Silverwater (NSW), Geebung (QLD), Clayton (VIC), Pyrmont (NSW and Chennai (India).

Key segments

- 71 Further detail on the key segments and services provided is set out below²⁸:
- (a) **Communications:** Full range of communication services from public relations, content creation and marketing, social media and digital support
 - (b) **Creative and Pre-Media:** Offers speciality media production across a wide range of products to create bespoke brand advertising for clients through concept design, packaging, and digital content
 - (c) **Photography:** Produces still and dynamic content with image manipulation and video editing capabilities offered both in its own studios and on-location
 - (d) **Technology solutions:** Provides technology based solutions using internally developed marketing automation technology to assist and grow clients' brands
 - (e) **Digital Print:** Dynamic and effective visual marketing for a broad range of mediums, i.e. catalogues, magazines, in-store, and campaign marketing, etc.
- 72 The breakdown of OMS revenue by the abovementioned key segments for FY21 (reflecting the 10 months actual results to 30 April 2021 and management's forecasts for May and June 2021) is summarised in the diagram below:

²⁸ Source: Ovato Investor Presentation dated 7 December 2020, page 24.

OMS – segment revenue for FY21



Source: Ovato management.

Customer concentration

- 73 OMS revenue is primarily repeat revenue from the existing customer base, with the top 100 customers representing c.93% of expected FY21 revenue. The majority of OMS customers are blue chip companies with a strong history of repeat business, rather than one-off projects. OMS is embedded within the businesses of some of these customers, who are generally serviced by OMS staff that work on site on an integrated basis with the customer.
- 74 In FY21²⁹, the top five customers of the business represented some 51% of revenue and the top ten customers made up some 67% of revenue.
- 75 OMS has focused on maintaining and cross selling additional work into these key customers, demonstrated by revenue from the existing customer base being broadly stable (reflecting the inherent benefit of incumbency). Churn has primarily related to small (less than \$10,000 per annum) project based customers of OMS that transact infrequently.

Financial performance

- 76 The historical financial performance of OMS from FY18 to FY20, and management's forecast for FY21 (reflecting the 10 months actual results to 30 April 2021 and management's forecasts for May and June 2021), is summarised below:

²⁹ Reflecting the 10 months actual results to 30 April 2021 and management's forecasts for May and June 2021.

OMS - Summary of profitability⁽¹⁾

	FY18	FY19	FY20	FY21⁽²⁾
	\$m	\$m	\$m	\$m
Revenue	34.8	32.6	28.1	26.0
EBITDA (normalised) ^{(3), (4)}	3.8	4.8	3.1	3.2
EBIT (normalised) ^{(3), (4)}	2.7	3.7	1.9	2.1
<i>EBIT (normalised) margin</i>	<i>7.7%</i>	<i>11.4%</i>	<i>6.7%</i>	<i>7.9%</i>

Note:

- 1 The FY20 and FY21 results have been adjusted by management to exclude the impact of changes required under AASB 16. In summary, the adoption of AASB 16 increased reported EBITDA as rent expenses are replaced by amortisation charges and interest expenses. However, in our view this EBITDA uplift should be excluded as it is simply an accounting treatment which has no cash flow impact or impact on the underlying profitability of OMS.
- 2 Based on the actual results for the 10 months to 30 April 2021 and management's forecasts for May and June 2021.
- 3 The historical results of OMS reflect significant group recharges for shared services including IT systems and support, rent, payroll and accounting functions, human resources, legal and marketing. For valuation purposes, we have adjusted the results above to reflect a standalone cost estimate of \$0.4 million per annum for the required shared services (being the mid-point of the estimate provided by Ovato (and OMS) management that the standalone costs which would be incurred by OMS for these services is more likely to be between \$0.3 million and \$0.5 million per annum).
- 4 JobKeeper wage subsidy receipts amounted to (approximately) \$115,000 in FY20 and \$400,000 in FY21. The EBITDA and EBIT figures stated above exclude the JobKeeper wage subsidies.

Commentary on results

77 In respect of the financial performance of OMS set out in the table above, we note that:

- (a) for the period from FY18 to FY20 (pre COVID-19), revenue declines were primarily driven by difficult retail trading conditions impacting on the marketing budgets of OMS's retail customer base
- (b) improvements in EBITDA in FY19 were driven by growth in the existing customer base and management initiatives to streamline the labour cost base, partially offset by churn of certain smaller customers
- (c) during FY20 and FY21 a number of OMS' customers (including its largest customer which accounts for around 19% of expected revenue in FY21) either ceased or scaled down their printed catalogue work. As approximately 52% of revenue in FY21 is directly related to the pre-production of printed marketing materials for retailers, this trend (which was accelerated due to the impact of COVID-19) had a negative impact on business performance.

Financial position

- 78 The financial position of OMS (on a cash and debt free basis) as at 30 April 2021 is set out below:

OMS – Financial position as at 30 April 2021	
	A\$m
Receivables	4.3
Inventory	0.3
Other current assets	0.2
Accounts payable and accruals	(1.9)
Current provisions	(2.0)
Net working capital	1.0
Property, plant and equipment	0.6
Intangibles	0.9
Deferred tax assets (net)	0.4
Non-current provisions	(0.3)
Other non-current liabilities	(1.5)
Net assets	1.2

Rounding differences exist.

- 79 As shown in the table above, OMS was in a positive net working capital position as at 30 April 2021. Further, the net assets of OMS are relatively minor, as the business is primarily service related.

V Valuation of OMS

Methodology

- 80 We have adopted the capitalisation of EBITDA approach as our primary valuation method as:
- (a) the OMS business:
 - (i) has a history of profitability (which is expected to continue)
 - (ii) is not expected to exhibit significant revenue and earnings growth; and
 - (iii) is not capital intensive³⁰
 - (b) most transaction evidence in the sector is reported in terms of enterprise value (EV) as a multiple of EBITDA.
- 81 Under this method the EBITDA (before non-recurring items) is capitalised at an appropriate EBITDA multiple.

EBITDA adopted for valuation purposes

- 82 In order to assess the appropriate level of EBITDA for valuation purposes we have had regard to the historical and forecast results of OMS, and have discussed the financial performance, operating environment and prospects with OMS management.
- 83 The historical results for FY18 to FY20, and management's forecast results for FY21 (based on the actual results for the 10 months to 30 April 2021 and management's forecasts for May and June 2021) are set out in Section IV. In particular, we note that:
- (a) the level of EBITDA expected to be achieved in FY21 of around \$3.2 million (normalised) excludes approximately \$0.4 million in JobKeeper wage subsidies (which will not be received in FY22)
 - (b) during FY20 and FY21 a number of OMS' customers (including its largest customer which accounts for around 19% of expected revenue in FY21) either ceased or scaled down their printed catalogue work. As approximately 52% of revenue in FY21 is directly related to the pre-production of printed marketing materials for retailers, this trend (which was accelerated due to the impact of COVID-19, and is expected to continue) had a negative impact on business performance
 - (c) the expected result in FY21 does not reflect the full year impact of the revenue reductions experienced during the year due to (b). The full year impact of these revenue reductions is expected to reduce EBITDA by a further \$0.4 million. This is expected to offset any increase in EBITDA arising from any post COVID-19 recovery in business activity (noting that revenue was trending down prior to COVID-19).
- 84 Having regard to the above, we have adopted EBITDA for valuation purposes of \$3.0 million.

³⁰ Whilst depreciation and amortisation charges are expected to be around \$1.1 million in FY21, ongoing capital expenditure costs (including development costs on software) are expected to be significantly lower. The carrying value of fixed assets and intangibles (software development) was only \$0.6 million and \$0.9 million respectively as at 30 April 2021.

EBITDA multiple

- 85 The selection of the appropriate EBITDA multiple to apply is a matter of judgement but normally involves consideration of a number of factors including, but not limited to:

<ul style="list-style-type: none"> • The stability and quality of earnings • The quality of the management and the likely continuity of management • The nature and size of the business • The spread and financial standing of customers • The financial structure of the company and gearing level • The multiples attributed by share market investors to listed companies involved in similar activities or exposed to the same broad industry sectors • The multiples that have been paid in recent acquisitions of businesses involved in similar activities or exposed to the same broad industry sectors 	<ul style="list-style-type: none"> • The future prospects of the business including the growth potential of the industry in which it is engaged, strength of competitors, barriers to entry, etc • The cyclical nature of the industry • Expected changes in interest rates • The asset backing of the underlying business of the company and the quality of the assets • The extent to which a premium for control is appropriate • Whether the assessment is consistent with historical and prospective earnings
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- 86 We discuss below specific factors taken into consideration when assessing the appropriate EBITDA multiple range for OMS.

Listed company multiples

- 87 There are no directly comparable companies to OMS listed on the ASX. However, we set out below the EV / EBITDA multiples for Enero Group Limited (Enero) and IVE Group Limited (IVE) for FY21:

EV / EBITDA multiples – Enero and IVE		
	EV ⁽¹⁾ \$m	FY21 EBITDA multiple ⁽²⁾
Enero ⁽³⁾	194	5.5
IVE ⁽⁴⁾	301	3.0

Note:

- 1 Market capitalisation as at 31 May 2021 plus net debt (excluding AASB 16 liabilities).
- 2 Based on EBITDA prior to the impact of AASB 16.
- 3 Refer paragraph 88 below.
- 4 Refer paragraph 89 below.

Enero

- 88 Enero provides integrated marketing and communication services in Australia, the United Kingdom (UK), Europe and the United States of America (US). The company's services include strategy, market research and insights, advertising, digital, public relations, communications planning, designing, events management, direct marketing, corporate communications and programmatic media.

IVE

89 IVE engages in the marketing, communications and print businesses in Australia. The company provides:

- (a) conceptual and creative design across print, mobile and interactive media
- (b) printing of catalogues, magazines, marketing and corporate communications materials and stationery
- (c) manufacturing of point of sale display material and large format banners for retail applications
- (d) personalised communications including marketing automation, marketing mail, publication mail, eCommunications, multi-channel solutions and call centre services
- (e) data analytics, customer experience strategy, client relationship management; and
- (f) outsourced communications solutions for large organisations including development of customised multi-channel management models covering creative and digital services, supply chain optimisation, inventory management, warehousing and logistics.

Commentary on listed EV / EBITDA multiples

90 The higher EV / EBITDA multiple for Enero compared to IVE is likely to reflect the greater growth being achieved by Enero. In the six months ended 31 December 2020 Enero's revenue increased 19% to \$81 million, and operating EBITDA increased 129% to \$24.3 million. In contrast, during the same period IVE's revenue fell 3.2% to \$341 million and underlying EBITDA from continuing operations³¹ increased 18.5% to \$59.2 million.

91 It should also be noted that the above EV / EBITDA multiples are based on the listed market price of each company's shares (and therefore exclude a premium for control). Empirical evidence from research undertaken by LEA indicates that the average premium paid above the listed market price in successful takeovers in Australia ranges between 30% and 35% (assuming the pre-bid market price does not reflect any speculation of the takeover)³². This broadly translates to a premium of 20% to 25% at the EBITDA multiple or enterprise value level, although this varies depending on the level of debt funding employed in each company.

92 Both Enero and IVE are significantly larger and have more diverse operations than OMS business divisions, and (based on reported earnings) are higher margin businesses. As one of Australia's leading valuation firms, LEA has an extensive database of Australian company transactions, including details of prices paid, implied enterprise values and earnings multiples. This evidence indicates that small companies generally trade on significantly lower earnings multiples than larger companies (provided other variables such as expected earnings growth are similar).

³¹ Including JobKeeper wage subsidies.

³² LEA has analysed the control premiums paid in successful takeovers and other change in control transactions involving cash consideration in Australia over the period 2000 to 2019. LEA's study covered around 500 transactions in all sectors excluding real estate investment trusts, based on data sourced from Bloomberg, Connect4 and public company transaction documents and ASX announcements. Scrip transactions were excluded from the analysis because the value of the scrip consideration can vary materially depending on the date of measurement.

Transaction evidence

93 We have been unable to identify any recent transactions of similar businesses of a comparable size to OMS. However, we set out below a summary of the implied EV / EBITDA multiples paid in the advertising and marketing sector for selected transactions on which information is publicly available (noting that these cover a period of some 10 years):

Transaction multiples				
Date ⁽¹⁾	Target	Acquirer	EV \$m	EBITDA multiple
Dec 20	WPP AUNZ Limited ⁽⁴⁾	WPP plc	679.3	6.5 F
Mar 21	Frank Public Relations ⁽⁵⁾	MBO	2.0	2.4 H ⁽²⁾
Aug 17	The Works ⁽⁶⁾	RXP	29.0 ⁽³⁾	7.4 F
Feb 15	Belgiovame Williams Mackay ⁽⁷⁾	Dentsu Aegis	30.0	7.1 F
Jun 14	Active Display Group ⁽⁸⁾	STW Group	35.2	< 5.0 F ⁽²⁾
Mar 14	theLab LLC ⁽⁹⁾	Wellcom	7.2	3.5 F
Oct 12	Markitforce ⁽¹⁰⁾ Maverick Marketing and Communications ⁽¹¹⁾ Switched on Media ⁽¹²⁾ Amblique ⁽¹³⁾	STW Group	30.6	5.0 F
Nov 11	Field marketing and retail agency businesses ⁽¹⁴⁾	Navis Capital Partners	146.5	7.0 H

Note:

- 1 Date of announcement.
 - 2 EBIT multiple (rather than EBITDA multiple)
 - 3 Includes contingent consideration at 50% of potential payment.
 - 4 Refer paragraph below.
 - 5 UK public relations firm.
 - 6 Digital and creative agency providing digital and technical services, as well as strategy and consulting.
 - 7 Advertising agency.
 - 8 Designs, manufactures and implements retail marketing campaigns for seasonal promotions and permanent in-store fixtures.
 - 9 Supplies digital, print and creative solutions.
 - 10 Provides promotional campaign execution and point of sale fulfilment for local and global clients.
 - 11 Provides experiential marketing solutions.
 - 12 Digital agency specialising in search engine marketing and social media.
 - 13 Digital agency specialising in online strategy, e-commerce and web development.
 - 14 Advertising agency and related businesses previously owned by Photon Group (which became Enero).
- F – forecast. H – historical.

94 Of the above transactions, the most notable transaction in our view is the recent acquisition of WPP AUNZ Limited (WPP AUNZ) by WPP plc (which completed in 2021). WPP AUNZ provides advertising, marketing and communication services in Australasia, across the following four business segments:

- (a) Global Integrated Agencies – provides integrated advertising services and media investment management
- (b) Large Format Production - provides end-to-end retail sales solutions in point of sale, display, print and visual merchandising
- (c) Public Relations & Public Affairs – provides public relations and public affairs servicing a variety of sectors including Government
- (d) Specialist Communications – provides specialist digital service, branding, events and training.

95 WPP AUNZ's recent revenue and earnings trends have been similar to OMS, as shown below:

WPP AUNZ and OMS - Summary of revenue and EBIT ⁽¹⁾				
	FY18 Actual \$m	FY19 Actual \$m	FY20 Actual \$m	FY21 Forecast \$m
OMS⁽¹⁾:				
Revenue	34.8	32.6	28.1	26.0
EBIT (normalised)	2.7	3.7	1.9	2.1
<i>EBIT (normalised) margin</i>	<i>7.7%</i>	<i>11.4%</i>	<i>6.7%</i>	<i>7.9%</i>
WPP AUNZ⁽²⁾:				
Revenue	731.9	712.5	612.3	645.7
EBIT	100.6	91.8	61.9	91.5
<i>EBIT margin</i>	<i>13.7%</i>	<i>12.9%</i>	<i>10.1%</i>	<i>14.2%</i>

Note:

- 1 OMS results are for the year to 30 June.
- 2 WPP AUNZ results are for the year to 31 December. WPP AUNZ figures are sourced from page 18 of the IER on the WPP AUNZ scheme dated 16 March 2021.

96 However, notwithstanding the similar financial performance trends, WPP is materially larger than OMS and (based on reported earnings) is a higher margin business. Accordingly, in our view, the appropriate EV / EBITDA multiple for OMS would be materially lower than WPP AUNZ's forecast EV / EBITDA multiple of 6.5.

97 In this regard we also note that the businesses which now comprise OMS were independently valued in 2009 when IPMG (which subsequently merged with PMP to become Ovato) acquired BlueFreeway Limited. This independent valuation valued the OMS businesses using a capitalisation of EBITDA approach, and adopted an EV / EBITDA multiple range of 3.5 to 4.5. Whilst this transaction took place some 12 years ago, we note from the transaction evidence in paragraph 93 above that (implied) multiples paid in the advertising and marketing sector have not changed significantly over time.

Other matters

98 In addition to the above, we note that:

- (a) whilst OMS has continued to operate profitably (including during the COVID-19 pandemic), the profitability of the OMS business has declined significantly since IPMG acquired the business in 2009 (as EBITDA was some \$6.3 million in 2009)
- (b) in part, OMS has suffered (at least in recent years) from the inability of Ovato to invest in the business due to Ovato's overall financial position
- (c) OMS is expected to experience challenging operating conditions in the future as the COVID-19 pandemic has accelerated the move away from printed advertising material to digital advertising. Major retailers such as Coles, Woolworths, IKEA, Big W, Dan Murphy's, Kmart and Harvey Norman have either ceased or scaled down their distribution of printed catalogues during the last 12 to 18 months. As approximately 52% of OMS' revenue in FY21 is directly related to the pre-production of printed marketing materials for retailers, it may be difficult for OMS to maintain current revenues given the smaller proportion of revenue from digital marketing services (notwithstanding that these revenues should grow)
- (d) OMS has a high level of customer concentration (as the top 10 customers account for around 67% of expected revenue in FY21). However, we note that OMS has long-standing embedded relationships with its key customers³³.

Conclusion on appropriate EBITDA multiples

99 Based on the above, in our opinion, an EBITDA multiple range of 3.0 to 3.5 is appropriate when applied to the level of EBITDA adopted for valuation purposes. This reflects, in particular:

- (a) the challenging outlook for the OMS business given the level of current revenue which is derived from providing pre-production services in connection with printed advertising material to retailers
- (b) the small size of OMS relative to the listed companies and recent transaction evidence.

Value of OMS

100 On this basis, the value of OMS (on a cash and debt free basis) is as follows:

OMS – value of business on a cash and debt free basis		
	Low \$m	High \$m
EBITDA ⁽¹⁾	3.0	3.0
EBITDA multiple ⁽²⁾	3.0	3.5
Enterprise value	9.0	10.5

Note:

- 1 Refer paragraph 82 above.
- 2 Refer paragraph 99 above.

³³ As stated in paragraphs 73 and 75 above.

Implied intangible value / goodwill

- 101 We have cross-checked our assessed enterprise value of OMS having regard to the level of implied intangible value / goodwill.
- 102 In businesses such as OMS, which by their nature are not capital intensive and hence require a relatively low investment in net tangible assets (NTA) to operate, there is a natural limit on the extent to which purchasers are prepared to pay for (what is effectively) goodwill. This primarily reflects that (for example) any loss of key staff and/or customers could have a materially adverse effect on business performance and the earnings thereof.
- 103 We set out below the implied level of goodwill based on our assessed enterprise value of OMS, together with the number of years earnings (EBITDA) that it would take to recoup this implied goodwill based on the level of EBITDA adopted for valuation purposes.

OMS – goodwill		
	Low \$m	High \$m
Assessed value of OMS ⁽¹⁾	9.0	10.5
Less NTA as at 30 April 2020 ⁽¹⁾	0.3 ⁽²⁾	0.3 ⁽²⁾
Implied goodwill	8.7	10.2
<i>% of value attributed to goodwill</i>	96.7%	97.1%
<i>Value of goodwill / EBITDA⁽³⁾</i>	2.9	3.4

Note:

- 1 On a cash and debt free basis.
- 2 Net assets of \$1.2 million (refer Section IV) less book value of intangibles of \$0.9 million.
- 3 Being the EBITDA of \$3.0 million adopted for valuation purposes.

- 104 Based on the above we note:
- (a) consistent with the nature of the OMS business, goodwill comprises the significant majority of our assessed enterprise value
 - (b) the implied goodwill pay back period (based on EBITDA) of between 2.9 and 3.4 years is, in our opinion, reasonable and consistent with observed commercial practice.

VI Opinion on the Proposed Transaction under the Deed

Put Option Deed

- 105 As stated in Section I, on 4 June 2021 the Sellers entered into the Deed with Ballygriffin (an entity owned by the Hannan Family) under which the Sellers could require Ballygriffin to enter into the Sale Agreement to, subject to the satisfaction or waiver of conditions precedent and other termination events not being triggered, acquire (the entities that comprise) OMS for \$9.0 million (excluding indirect taxes). On completion under the Sale Agreement, the Sellers and Ballygriffin will enter into a TSA under which the Sellers will provide certain transitional services to Ballygriffin for a period of up to 12 months post-completion of the Sale Agreement on a cost recovery basis.
- 106 The consideration price payable under the Sale Agreement of \$9.0 million assumes that OMS is sold on a cash and debt free basis.
- 107 The Deed is not subject to any conditions precedent and will lapse if the put option is not exercised by the Sellers by 6:00pm on 4 September 2021. However, we understand that Ovato intends to exercise the put option in the absence of a superior offer for OMS.

Scope

- 108 We have been requested to provide an opinion on whether the Proposed Transaction is fair and reasonable to Ovato shareholders who are permitted to vote and whose votes are not to be disregarded.

Opinion

- 109 We have concluded that the Proposed Transaction is fair and reasonable to Ovato shareholders entitled to vote on the transaction in the absence of a superior offer for OMS. We are of this opinion for the reasons stated below.

Fairness

- 110 Under RG 111, the Proposed Transaction is “fair” if the value of the consideration is equal to or greater than the value of OMS being sold by the Sellers. This comparison is set out below:

Proposed Transaction – fairness			
	Low \$m	High \$m	Mid-point \$m
Value of consideration	9.0	9.0	9.0
Value of 100% of OMS ⁽¹⁾	9.0	10.5	9.8
Extent to which the consideration exceeds (or is less than) the value of OMS	-	(1.5)	(0.8)

Note:

- 1 Refer paragraph 100 above.

- 111 As the consideration of \$9.0 million to be paid by Ballygriffin under the Sale Agreement is consistent with the low end of our assessed valuation range for OMS on a 100% controlling interest basis, in our opinion, the Proposed Transaction is “fair” when assessed based on the guidelines in RG 111.

Reasonableness

- 112 Under RG 111 the Proposed Transaction is “reasonable” if it is “fair”. Accordingly, we have also concluded that the Proposed Transaction is “reasonable” in the absence of a superior offer for OMS.
- 113 Further, when considering the reasonableness of the Proposed Transaction we have considered the following matters.

Likelihood of an alternative offer

- 114 In February 2020, Ovato appointed an experienced external advisory firm to commence a process to sell OMS (2020 Sales Process). We have discussed this sale process with management and the external adviser, and have been provided with a listing of those entities which either expressed an interest in potentially acquiring OMS or were contacted by the external adviser in this regard.
- 115 In summary, in relation to the 2020 OMS Sale Process we understand that:
- (a) commencing late February 2020, the external adviser solicited interest from parties who may have an interest in acquiring OMS. Parties contacted included industry participants as well as financial (i.e. private equity) investors
 - (b) a detailed financial due diligence report on OMS (prepared by a leading accounting firm) was provided to interested parties, together with an information memorandum on the business
 - (c) in total, 42 parties were contacted by the external adviser or expressed an interest in acquiring OMS
 - (d) management presentations on OMS were held with four potential acquirers
 - (e) the onset of the COVID-19 pandemic (and related lockdowns) resulted in all parties withdrawing from the sale process, and no non-binding indicative offers for OMS were received.
- 116 Notwithstanding the prima facie negative outcome of the 2020 OMS Sale Process (which primarily reflected a curtailment of the sale process due to the impact of the COVID-19 pandemic), in our opinion, the 2020 OMS Sales Process appears to have been appropriate and comprehensive, and it is reasonable to conclude that the sale process identified all interested parties likely to have the financial capacity to acquire OMS.
- 117 Further, more recently (in May 2021), the external adviser has re-engaged with those parties who expressed an interest in acquiring OMS in the 2020 Sales Process. However, as at the date of this report, no superior offer to the Proposed Transaction has been received. This suggests that the net realisable value of the OMS business in the current environment may be toward the low end of our valuation range.
- 118 However, it is possible that a superior offer could be received before the date of the Ovato shareholder meeting to approve the Proposed Transaction, although Ovato consider that possibility to be unlikely based on feedback received from the external adviser.

Option fee

- 119 Whilst the option fee of up to \$165,000³⁴ appears high as a percentage of the consideration of \$9.0 million to be paid by Ballygriffin (i.e. some 1.8%), this is due to the small size of transaction and is only payable by the Sellers in the event that the put option is not exercised or is terminated in certain circumstances. Furthermore, we understand that Ovato intends to exercise the put option (subject to obtaining shareholder approval) in the absence of a superior offer³⁵.
- 120 Thus, the option fee is only likely to be payable by the Sellers in the event of a superior offer. That is, in circumstances where the consideration being received for the sale of OMS (net of the option fee) exceeds the consideration of \$9.0 million to be paid by Ballygriffin.

Other matters

- 121 We understand that the Deed has been entered into by the Sellers (in part) as the Ovato directors have determined that OMS represents a non-core business within the Ovato Group and that accordingly a sale of OMS will prima facie benefit Ovato shareholders in that a sale will (inter alia):
- (a) allow Ovato management to have increased focus on the core printing business of the group, which is currently unprofitable; and
 - (b) provide Ovato with additional financial flexibility as regards the future funding requirements of the core printing business. In this regard, we understand that some of the proceeds of the OMS sale will be used to provide additional capital to restructure and improve the profitability of the core printing business. Following implementation of these initiatives, Ovato management expect that the printing business will become profitable on what is expected to be a sustainable basis.

Summary of advantages and disadvantages

- 122 Given the above, we set out below a summary of the advantages and disadvantages of the Proposed Transaction from the perspective of Ovato shareholders who are permitted to vote on the transaction:

Advantages	Disadvantages
<ul style="list-style-type: none"> The Proposed Transaction is fair based on the guidelines set out in RG 111. No superior offer for OMS has been received to date. Further, should a superior offer for OMS be received at any time before completion of the Proposed Transaction, Ovato will be free to accept this superior offer. The Directors consider that OMS is a non-core business. The sale of OMS will allow Ovato to reduce debt and restructure the printing business. 	<ul style="list-style-type: none"> The sale price for OMS is at the low end of our valuation range. OMS is currently profitable, whereas the core printing business (which is being retained) is not.

³⁴ Refer paragraph 31(b)(iii) above.

³⁵ Of at least \$9.165 million (being the sum of the \$9 million consideration plus the (maximum) option fee).

Conclusion

- 123 Given the above, we have concluded that the Proposed Transaction is fair and reasonable to Ovato shareholders entitled to vote on the transaction in the absence of a superior offer for OMS.

For personal use only

VII Opinion on the Loan

Background

- 124 As stated in Section I above, in connection with the Proposed Transaction, Ballygriffin may lend an amount (likely to be \$4.8 million)³⁶ (Loan) to Ovato. In this regard we understand that the Ballygriffin are under no obligation to make the Loan, but may choose to do so.

Opinion

- 125 As stated above, the Loan (if advanced) is being provided in advance of the completion of the Proposed Transaction. The key terms of the Loan are set out in Section I.
- 126 Importantly, the Loan is being made on an interest-free basis (other than customary default interest), and no facility or other fees are being charged by Ballygriffin in connection with the provision of the Loan.
- 127 Accordingly, in our opinion, the terms of the Loan are fair and reasonable to Ovato shareholders who are permitted to vote and whose votes are not to be disregarded.

³⁶ Consisting of an existing loan of \$2.3 million with, subject to shareholder approval, an increase (likely to be a \$2.5 million increase if agreed between Ballygriffin and Ovato) in the facility limit of the loan agreement under which that loan was made.

Appendix A

Financial Services Guide

Lonergan Edwards & Associates Limited

- 1 Lonergan Edwards & Associates Limited (ABN 53 095 445 560) (LEA) is a specialist valuation firm which provides valuation advice, valuation reports and Independent Expert's Reports (IER) in relation to takeovers and mergers, commercial litigation, tax and stamp duty matters, assessments of economic loss, commercial and regulatory disputes.
- 2 LEA holds Australian Financial Services Licence No. 246532.

Financial Services Guide

- 3 The Corporations Act 2001 authorises LEA to provide this Financial Services Guide (FSG) in connection with its preparation of this IER in connection with the proposed transactions.
- 4 This FSG is designed to assist retail clients in their use of any general financial product advice contained in the IER. This FSG contains information about LEA generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the IER, and if complaints against us ever arise how they will be dealt with.

Financial services we are licensed to provide

- 5 Our Australian financial services licence allows us to provide a broad range of services to retail and wholesale clients, including providing financial product advice in relation to various financial products such as securities, derivatives, interests in managed investment schemes, superannuation products, debentures, stocks and bonds.

General financial product advice

- 6 The IER contains only general financial product advice. It was prepared without taking into account shareholders' personal objectives, financial situation or needs.

Fees, commissions and other benefits we may receive

- 7 LEA charges fees to produce reports, including this IER. These fees are negotiated and agreed with the entity who engages LEA to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the person who engages us. In the preparation of this IER, LEA is entitled to receive a fee estimated at \$40,000 plus GST.
- 8 Neither LEA nor its directors and officers receives any commissions or other benefits, except for the fees for services referred to above.
- 9 All of our employees receive a salary. Our employees are eligible for bonuses based on overall performance and the firm's profitability, and do not receive any commissions or other benefits arising directly from services provided to our clients. The remuneration paid to our directors reflects their individual contribution to the company and covers all aspects of performance. Our directors do not receive any commissions or other benefits arising directly from services provided to our clients.

Appendix A

- 10 We do not pay commissions or provide other benefits to other parties for referring prospective clients to us.

Complaints

- 11 If you have a complaint, please raise it with us first, using the contact details listed below. We will endeavour to satisfactorily resolve your complaint in a timely manner.
- 12 If we are not able to resolve your complaint to your satisfaction within 45 days of your written notification, you are entitled to have your matter referred to the Australian Financial Complaints Authority (AFCA), an external complaints resolution service. You will not be charged for using the AFCA service.

Contact details

- 13 LEA can be contacted by sending a letter to the following address:

Level 7
64 Castlereagh Street
Sydney NSW 2000
(or GPO Box 1640, Sydney NSW 2001)

Appendix B

Qualifications, declarations and consents

Qualifications

- 1 LEA is a licensed investment adviser under the Corporations Act. LEA's authorised representatives have extensive experience in the field of corporate finance, particularly in relation to the valuation of shares and businesses and have prepared more than 100 Independent Expert's Reports to shareholders.
- 2 This report was prepared by Mr Craig Edwards and Mr Martin Holt, who are each authorised representatives of LEA. Mr Edwards and Mr Holt have over 27 years and 35 years' experience respectively in the provision of valuation advice.

Declarations

- 3 This report has been prepared at the request of the Independent Directors of Ovato. It is not intended that this report should serve any purpose other than as an expression of our opinion as to whether or not the Proposed Transaction and the Loan are fair and reasonable to the Ovato shareholders who are permitted to vote and whose votes are not to be disregarded.

Interests

- 4 At the date of this report, neither LEA, Mr Edwards nor Mr Holt have any interest in the outcome of the proposed transactions. With the exception of the fee shown in Appendix A, LEA will not receive any other benefits, either directly or indirectly, for or in connection with the preparation of this report.
- 5 We have considered the matters described in ASIC RG 112 – *Independence of experts*, and consider that there are no circumstances that, in our view, would constitute a conflict of interest or would impair our ability to provide objective independent assistance in this engagement.

Indemnification

- 6 As a condition of LEA's agreement to prepare this report, Ovato agrees to indemnify LEA in relation to any claim arising from or in connection with its reliance on information or documentation provided by or on behalf of Ovato which is false or misleading or omits material particulars or arising from any failure to supply relevant documents or information.

Appendix C

Glossary

Abbreviation	Definition
2020 Sales Process	The 2020 sale process for OMS
AASB	Australian Accounting Standards Board
AASB 16	AASB 16 – <i>Leases</i>
AFCA	Australian Financial Complaints Authority
Are Media	Are Media Limited
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange
Ballygriffin	Ballygriffin Holdings Pty Limited, an entity owned by the Hannan Family
Completion	Completion of the sale of shares in OMS will, subject to the termination events in the Sale Agreement not being triggered, occur on the last business day of that calendar month on which all conditions precedent under the Sale Agreement have been satisfied or waived (other than any condition precedent which by its nature may only be satisfied immediately prior to completion) or such other date as agreed by the parties.
Corporations Act	<i>Corporations Act 2001</i> (Cth)
Deed	A binding put option deed dated 4 June 2021 under which the Sellers can require Ballygriffin to enter into a Sale Agreement for the purposes of acquiring the entire issued share capital of OMS for \$9 million (excluding indirect taxes), including an amendment thereto signed 18 June 2021
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
Enero	Enero Group Limited
EV	Enterprise value
FSG	Financial Services Guide
FY	Financial year
H1	Six months to 31 December
Hannan Family	means Michael Hannan, James Hannan, Lindsay Hannan, Sayman Pty Ltd as trustee for the Lindsay Hannan Family Trust, Richard O'Connor, Adrian O'Connor, Wicklow Properties Pty Limited, Rathdrum Properties Pty Limited as trustee of the Rathdrum Property Trust, Josproud Pty Limited, Peter Parker Pty Limited, Lafim Pty Limited and F. Hannan Pty Limited, who collectively hold 43.29% in Ovato (as at 4 June 2021)
IER	Independent expert's report
IPMG	IPMG Digital Pty Ltd
IVE	IVE Group Limited
LEA	LonerGAN Edwards & Associates Limited
Loan	The Hannan Family may lend an amount (likely to be \$4.8 million) to Ovato in connection with the Proposed Transaction, consisting of an existing loan of \$2.3 million with, subject to shareholder approval, an increase (likely to be a \$2.5 million increase if agreed between Ballygriffin and Ovato) in the facility limit of the loan agreement under which that loan was made
NTA	Net tangible assets
OMS	The Ovato Marketing Services business
ORD	Collectively, Ovato Retail Distributy Pty Ltd and Ovato Retail Distribution NZ Limited
Ovato Chennai	Ovato Technology Chennai Private Ltd
Ovato Clayton	Ovato Creative Services Clayton Pty Ltd
Ovato Communications	Ovato Communications Pty Ltd

Appendix C

Abbreviation	Definition
Ovato Creative	Ovato Creative Services Pty Ltd
Ovato Marketing Services	Ovato Creative, Ovato Technology, Ovato Communications, Ovato Chennai, Ovato Clayton and Pacific Intermedia, together
Ovato or the Company	Ovato Limited
Ovato Technology	Ovato Technology Pty Ltd
Pacific Intermedia	Pacific Intermedia Pty Limited
pcp	Prior corresponding period
PMP	PMP Wholesale Pty Ltd
Proposed Transaction	Refer paragraph 1 of this report
RG 111	Regulatory Guide 111 – <i>Content of expert reports</i>
RG 76	Regulatory Guide 76 – <i>Related Party Transactions</i>
Sale Agreement	Share sale agreement between Ballygriffin and the Sellers pursuant to the Deed
Sellers	Collectively IPMG, Show-Ads and PMP
Show-Ads	Show-Ads Pty Ltd
TSA	Transitional services agreement between the Sellers and Ballygriffin
UK	United Kingdom
US	United States of America
WPP AUNZ	WPP AUNZ Limited

Need assistance?



Phone:
1300 556 161 (within Australia)
+61 3 9415 4000 (outside Australia)



Online:
www.investorcentre.com/contact



YOUR VOTE IS IMPORTANT

For your proxy appointment to be effective it must be received by **10:30am (AEST) on Tuesday, 27 July 2021.**

Proxy Form

How to Vote on Items of Business

All your securities will be voted in accordance with your directions.

APPOINTMENT OF PROXY

Voting 100% of your holding: Direct your proxy how to vote by marking one of the boxes opposite each item of business. If you do not mark a box your proxy may vote or abstain as they choose (to the extent permitted by law). If you mark more than one box on an item your vote will be invalid on that item.

Voting a portion of your holding: Indicate a portion of your voting rights by inserting the percentage or number of securities you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.

Appointing a second proxy: You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of securities for each proxy, otherwise each proxy may exercise half of the votes you are entitled to cast at the meeting. When appointing a second proxy write both names and the percentage of votes or number of securities for each in Step 1 overleaf.

A proxy need not be a securityholder of the Company.

SIGNING INSTRUCTIONS FOR POSTAL FORMS

Individual: Where the holding is in one name, the securityholder must sign.

Joint Holding: Where the holding is in more than one name, all of the securityholders should sign.

Power of Attorney: If you have not already lodged the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please sign in the appropriate place to indicate the office held. Delete titles as applicable.

PARTICIPATING IN THE MEETING

Corporate Representative

If a representative of a corporate securityholder or proxy is to participate in the meeting you will need to provide the appropriate "Appointment of Corporate Representative". A form may be obtained from Computershare or online at www.investorcentre.com under the help tab, "Printable Forms".

Lodge your Proxy Form:

Online:

Lodge your vote online at www.investorvote.com.au using your secure access information or use your mobile device to scan the personalised QR code.

Your secure access information is

Control Number: 185305

SRN/HIN:

For Intermediary Online subscribers (custodians) go to www.intermediaryonline.com

By Mail:

Computershare Investor Services Pty Limited
GPO Box 242
Melbourne VIC 3001
Australia

By Fax:

1800 783 447 within Australia or
+61 3 9473 2555 outside Australia



PLEASE NOTE: For security reasons it is important that you keep your SRN/HIN confidential.

☐ **Change of address.** If incorrect, mark this box and make the correction in the space to the left. Securityholders sponsored by a broker (reference number commences with 'X') should advise your broker of any changes.

Proxy Form

Please mark ☒ to indicate your directions

Step 1 Appoint a Proxy to Vote on Your Behalf

I/We being a member/s of Ovato Limited hereby appoint

☐ the Chairman of the Meeting **OR**

PLEASE NOTE: Leave this box blank if you have selected the Chairman of the Meeting. Do not insert your own name(s).

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, and to the extent permitted by law, as the proxy sees fit) at the Extraordinary General Meeting of Ovato Limited to be held virtually via an online platform at <https://web.lumiagm.com> with meeting ID 351-312-486 on Thursday 29 July 2021 at 10:30am (AEST) and at any adjournment or postponement of that meeting.

Step 2 Items of Business

PLEASE NOTE: If you mark the **Abstain** box for an item, you are directing your proxy not to vote on your behalf on a poll and your votes will not be counted in computing the required majority.

		For	Against	Abstain
Item 1	Approval of the Share Sale Transaction	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Item 2	Approval of the Security Increase	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business. In exceptional circumstances, the Chairman of the Meeting may change his/her voting intention on any resolution, in which case an ASX announcement will be made.

Step 3 Signature of Securityholder(s) *This section must be completed.*

Individual or Securityholder 1

Sole Director & Sole Company Secretary

Securityholder 2

Director

Securityholder 3

Director/Company Secretary

/ /

Date

Update your communication details (Optional)

Mobile Number

Email Address

By providing your email address, you consent to receive future Notice of Meeting & Proxy communications electronically