+61 2 9412 6100
Level 1, 100 Harris St
Pyrmont NSW 2009
www.ovato.com.au

2 July 2021

Company Announcements Office
ASX Limited
20 Bridge Street
Sydney NSW 2000

Update to sale of Retail Distribution Australia and Retail Distribution New Zealand to Are Media Limited

Ovato Limited (ASX:OVT) (**Ovato**) refers to its previous announcement released on 4 June 2021 in respect of the proposed sale of the entire issued share capital of each of Ovato Retail Distribution Pty Ltd (**Retail Distribution Australia**) and Ovato Retail Distribution NZ Limited (**Retail Distribution New Zealand**) to Are Media Limited (**Are Media**) (the **Transaction**), and provides the following update to the Transaction.

The Transaction was, amongst other things, subject to clearance by the competition authorities in Australia and New Zealand and was structured on the completion of Retail Distribution New Zealand and Retail Distribution Australia occurring at the same time.

Receiving competition clearance in New Zealand is likely to take longer than that of receiving clearance in Australia. Rather than delay the completion of the Transaction, the parties are proposing that the sale and purchase of each of Retail Distribution Australia and Retail Distribution New Zealand be completed separately.

Subject to receiving clearance by the ACCC, the parties currently expect to complete the sale of Retail Distribution Australia on 31 July 2021 and subject to receiving clearance by New Zealand Commerce Commission, Retail Distribution New Zealand on by 30 August 2021 or as soon as possible thereafter

The proposed separate sale and purchase of each of Retail Distribution Australia and Retail Distribution New Zealand is intended to follow the terms of the existing agreement, amended where necessary to reflect the separate sales.

The headline purchase price of A$15 million will be split with A$10.0 million allocated to Retail Distribution Australia and A$5.0 million to Retail Distribution New Zealand. The acceptance of the A$27 million negative working capital position will be split with A$22.5 million allocated to Retail Distribution Australia and $4.5 million to Retail Distribution New Zealand.

The amount borrowed by Ovato from Are Media Holdco Pty Ltd (**Are Media Holdco**), an associate of Are Media, under the loan agreement between Ovato, Ovato NZ Limited and Are Media Holdco dated 17 May 2021 will be repaid on completion of the sale of Retail Distribution Australia. As at the date of this announcement, the amount drawn down by Ovato under the Loan Agreement is $2.3 million.

The independent expert that was engaged to determine whether the Transaction is fair and reasonable to Ovato shareholders who are not associated with Are Media, Lonergan Edwards & Associates, has concluded that based on the terms of the sales outlined above, each of the sales of Retail Distribution Australia and Retail Distribution New Zealand is fair and reasonable to non-associated shareholders. See the attached addendum to the independent expert's report for further details.

Ovato will continue to seek shareholder approval in respect of the Transaction to comply with ASX Listing Rule requirements on 15 July 2021.

This announcement was authorised for release by the board of directors of Ovato.

For further information contact:

James Hannan
Chief Executive Officer
+61 (0)2 9412 6082

Attachment – Addendum to independent expert's report

LONERGAN EDWARDS
& ASSOCIATES LIMITED

ABN 53 095 445 560
AFS Licence No 246532
Level 7, 64 Castlereagh Street
Sydney NSW 2000 Australia
GPO Box 1640, Sydney NSW 2001

Telephone: [61 2] 8235 7500
www.lonerganedwards.com.au

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

2 July 2021

Subject: Proposed sale of Ovato Retail Distribution (ORD)

Introduction

1 On 4 June 2021, Ovato Limited (Ovato or the Company) announced that it had entered into a binding sale agreement to sell 100% of the ordinary issued share capital of each of Ovato Retail Distribution Pty Ltd (ORD Australia) and Ovato Retail Distribution NZ Limited (ORD NZ) (together ORD) to Are Media Limited (Are Media) for a cash payment of A$15.0 million[1] (Proposed Sale of ORD).

2 On 8 June 2021 we prepared an Independent Expert's Report (IER) on the Proposed Sale of ORD which concluded that the proposal was fair and reasonable to Ovato shareholders other than Are Media or its associates[2].

3 Whilst our opinion on the Proposed Sale of ORD has not changed, we understand that, with competition clearance in New Zealand likely to take longer than Australia, Ovato and Are Media now intend to split the sale agreement to allow for separate completion of the sale of ORD Australia and ORD NZ. With separate completions, there is a risk that only one may complete. Ovato has therefore requested that we opine on whether each separate sale of ORD Australia and ORD NZ would be fair and reasonable.

4 The total cash consideration to be paid by Are Media for both businesses is unchanged at A$15.0 million. However, the cash consideration for each individual business is allocated as follows:

(a) A$10.05 million for ORD Australia; and

(b) A$4.95 million for ORD NZ.

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

2 Are Media owns 16.38% of the issued share capital in Ovato , and is an associate of a substantial holder of the Company (Are Media Pty Limited) under the *Corporations Act 2001* (Cth) (Corporations Act).

5 Consequently, we have now been requested to provide separate opinions on whether:

(a) the Proposed Sale of ORD Australia is fair and reasonable to Ovato shareholders other than Are Media Pty Limited or its associates; and

(b) the Proposed Sale of ORD NZ is fair and reasonable to Ovato shareholders other than Are Media Pty Limited or its associates.

Business overview

6 ORD Australia (formerly Gordon & Gotch) is regarded as Australia's oldest publication distributor, with operations dating back to 1853. The business distributes approximately 2,700 titles in Australia, and is the largest magazine distributor to retailers.

7 ORD NZ distributes approximately 1,800 titles in NZ, and is also the largest magazine distributor in that country.

8 Further background information on ORD is set out in Section IV of our IER dated 8 June 2021.

Summary of financial performance

9 The historical financial performance of ORD 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 set out in paragraph 67 of our IER dated 8 June 2021. The table below also provides this information for ORD Australia and ORD NZ:

ORD - Summary of financial performance

	FY18 A$m	FY19 A$m	FY20 A$m	FY21 A$m
Revenue				
Australian business	57.2	55.6	51.2	50.1
NZ business(1)	14.6	11.6	9.5	10.4
Total	71.8	67.2	60.7	60.5
EBIT				
Australian business	2.5	4.4	3.7	4.9
NZ business	1.8	1.4	1.3	2.1
Total	4.3	5.8	5.0	7.0
EBIT margin				
Australian business	4.4%	7.9%	7.2%	9.8%
NZ business	12.3%	12.1%	13.7%	20.2%
Total	6.0%	8.6%	8.2%	11.6%
Gross magazines distributed (m)				
Australian business	190.0	174.1	151.2	125.1
NZ business	36.2	36.4	26.3	25.2
Total	226.1	210.5	177.5	150.3

Note:

1 The results of ORD in NZ have been converted to Australian dollars using a constant exchange rate of A$1.00 = NZ$1.077 (being the average closing exchange rate in the one month period to 17 May 2021).

Commentary on results

10 Both ORD Australia and ORD NZ have seen similar declines in the number of gross magazines distributed of around 11% to 12% per annum over the past four years.

11 As noted in our IER, EBIT has increased since FY18 despite large declines in the number of magazines distributed. This has occurred due to the combined effect of lower magazine volumes being offset by increases in the price received per magazine distributed, cost savings being generated and new product streams utilising the existing delivery platform to newsagents (e.g. stationery, gifts and toys through TheMarketHub[3]).

12 The NZ business experienced significantly larger revenue declines than the Australian business in FY19 and FY20. This reflected, inter-alia, the decision by Bauer NZ to close its operations in NZ from April 2020. However, Are Media has subsequently restarted some of the NZ magazines in September 2020, which is expected to result in higher revenues in NZ in FY21 compared to FY20.

13 In contrast, the revenue generated by the Australian business (excluding revenue from TheMarketHub) is expected to decline by around 12% in FY21.

Outlook

14 Consumer demand for printed magazines has declined sharply in recent years as rising internet connectivity has enabled more consumers to access similar content for free through online platforms. This trend is projected to continue, which is expected to result in continuing revenue and related profit declines over the medium to long term (notwithstanding recent improvements in reported profitability).

Valuation

EBIT multiple

15 In our IER dated 8 June 2021 our valuation of ORD reflected an EBIT multiple of around 2.0 to 2.6 times the level of EBIT expected to be achieved in FY21.

16 In our opinion, these EBIT multiples can also be applied when separately valuing ORD Australia and ORD NZ. In forming this view we note that:

(a) both businesses have experienced similar declines in revenue and gross magazines distributed over the last four years

(b) the outlook for both businesses is similar (for the reasons stated above)

(c) whilst ORD NZ is significantly smaller than ORD Australia[4], the ORD NZ business generates significantly higher EBIT margins than ORD Australia.

---

3 The MarketHub business only operates in Australia.

4 Revenue in FY21 at ORD Australia is some five times larger than ORD NZ.

Net working capital deficiency

17 As noted in our IER dated 8 June 2021, the ORD business operates with a large net working capital (NWC) deficiency. This arises because:

(a) retailers and newsagents are charged and pay for all magazines delivered, and only receive credits for unsold magazines at a later date

(b) receivables are relatively low because amounts owed by retailers and newsagents are reduced by an allowance for returns

(c) publishers are generally paid on deferred payments terms based on an estimate of actual magazine sales to consumers (which are adjusted in future once actual sales volumes are known), resulting in a large accounts payable balance.

18 However, this negative working capital position is expected to unwind over time as magazine revenues continue to decline and the level of business activity further reduces. We have allowed for this in our valuation below.

Valuation summary

19 Based on the above, our valuation of ORD Australia and ORD NZ (together with the total ORD business) is set out below:

ORD - Valuation summary

	ORD Aust		ORD NZ		Total	
	Low A$m	High A$m	Low A$m	High A$m	Low A$m	High A$m
FY21 EBIT	4.9	4.9	2.1	2.1	7.0	7.0
EBIT multiple	2.0	2.6	2.0	2.6	2.0	2.6
Value of business before NWC deficiency	9.8	12.6	4.2	5.4	14.0	18.0
Less present value of NWC deficiency(1)	(10.8)	(8.3)	(2.2)	(1.7)	(13.0)	(10.0)
Value of business	(1.0)	4.3	2.0	3.7	1.0	8.0

Note:
1 Being the present value of the unwinding of the NWC deficiency as revenue declines over the Forecast Period. We note that the large majority of the NWC deficiency is in ORD Australia.

Opinion on the Proposed Sale of ORD Australia

20 Under RG 111, the Proposed Sale of ORD Australia is "fair" if the value of the consideration being paid by Are Media is equal to or greater than the value of ORD Australia being sold by Ovato. This comparison is set out below:

Proposed Sale of ORD Australia – fairness

	Low A$m	High A$m	Midpoint A$m
Value of consideration for ORD Australia	10.05	10.05	10.05
Value of 100% of ORD Australia	(1.0)	4.3	1.65
Extent to which the consideration exceeds the value of ORD Australia	11.05	5.75	8.4

21 As the consideration being paid by Are Media is significantly above our assessed valuation range for ORD Australia on a 100% controlling interest basis, in our opinion, the Proposed Sale of ORD Australia is "fair" to Ovato shareholders not associated with the transaction.

22 Pursuant to RG 111, a transaction is "reasonable" if it is "fair". Consequently, in our opinion, the Proposed Sale of ORD Australia is both "fair" and "reasonable".

Opinion on the Proposed Sale of ORD NZ

23 The Proposed Sale of ORD NZ is "fair" if the value of the consideration being paid by Are Media is equal to or greater than the value of ORD NZ being sold by Ovato. This comparison is set out below:

Proposed Sale of ORD NZ – fairness	Low A$m	High A$m	Mid-point A$m
Value of consideration for ORD NZ	4.95	4.95	4.95
Value of 100% of ORD NZ	2.0	3.7	2.85
Extent to which the consideration exceeds the value of ORD NZ	2.95	1.25	2.1

24 As the consideration being paid by Are Media is significantly above our assessed valuation range for ORD NZ on a 100% controlling interest basis, in our opinion, the Proposed Sale of ORD NZ is "fair" to Ovato shareholders not associated with the transaction.

25 Pursuant to RG 111, a transaction is "reasonable" if it is "fair". Consequently, in our opinion, the Proposed Sale of ORD NZ is both "fair" and "reasonable".

Other matters

26 In preparing this report, we have considered the interests of Ovato shareholders as a whole (other than those associated with Are Media). Accordingly, this report only contains general financial advice and does not consider the personal objectives, financial situations or requirements of individual shareholders.

27 The ultimate decision by Ovato shareholders whether to approve the Proposed Sale of ORD Australia and ORD NZ should be based on each shareholder's assessment of each proposed transaction. This report has been provided for the benefit of shareholders in Ovato not associated with Are Media.

28 If in doubt about the proposed transactions or matters dealt with in our report, Ovato shareholders should seek independent professional advice. Further, this report should be read in conjunction with our IER dated 8 June 2021.

Yours faithfully

C Edwards

Craig Edwards
Authorised Representative

Martin Holt
Authorised Representative