Ovato Limited
ABN 39 050 148 644

ASX ANNOUNCEMENT

30 August 2021

OVATO LIMITED FY21 FULL YEAR RESULTS

Key financials full year FY21[1]

$M	FY21	FY20	Var $	Var %
Sales revenue	**442.7**	539.3	(96.6)	(17.9%)
EBITDA (before significant items)[2]	**31.1**	32.4	(1.3)	(4.2%)
EBIT (before significant items)	**(1.5)**	(4.5)	3.0	67%
Net (loss) (after tax before significant items)	**(15.7)**	(16.7)	1.0	6.0%
Net (loss)[3] (after significant items before income tax expense)	**(32.4)**	(95.4)	63.0	66.0%
Net (loss) (after significant items and income tax expense)	**(67.1)**	(108.8)	41.7	38.3%
Net cash flow[4]	**(5.9)**	(10.1)	4.2	71.2%
Net debt[5]	**(39.8)**	(72.9)	33.1	45.4%

[1] Unaudited
[2] Includes $19.9 M in FY21 of wage support schemes from Australian and New Zealand Governments
[3] The tax expense of $29.4M comprises a $1.6M tax benefit on trading losses offset by a significant tax expense of $31 million, mainly relating to the non-cash impairment of the deferred tax asset
[4] Net Cash Flow equals Net Cash Flow from Operations less Investing Cash Flows
[5] Excludes lease liabilities from the adoption of AASB16

FY21 Results commentary

Overview

FY21 Group Sales at $442.7M were down $96.6M or 17.9%. Australian operations account for a $90.5M reduction while revenues at Ovato NZ were down $6.0M with lower print and residential distribution volumes noted across the board.

FY21 Group EBITDA (before significant items) at $31.1M is 4.2% down year on year. While Ovato Australia benefited from Government wage subsidies and very tight cost controls they were unable to fully offset the adverse impact from lower revenues.

Asset sales, alongside our other restructure and recapitalisation activities throughout the year have improved our overall current ratio from 0.96 to 1.23 (0.72 in 2020).

Ovato Australia

EBITDA (before significant items) at $29.0M was down 7.7% or $2.2M due to the drop in revenue which was partially offset by the savings from the closure of the heatset print site in Victoria, tight cost controls and Government wage subsidies.

Revenue in Australia at $358.8M was down $90.5M or 20.1% mostly from $67.1M lower print sales, made up by $49.5M reductions in print catalogues and $19.5M reductions in print magazines & newspapers. While tier 1 food & beverage catalogue sales were down in H1, sales in H2 were broadly in line with last year. Non-food and beverage catalogues were down 38%, driven largely by a major retailer not returning to catalogue printing in FY21. Residential Distribution sales fell 35.8% or $21.7M on lower existing customer volumes as a result of very slow COVID-19 retail conditions.

Ovato New Zealand

Statutory EBITDA (before significant items) at $2.1M was up 69.1% mostly due to tight cost controls and Government wage subsidies which offset the impact of lower print revenues.

Significant items

Significant items booked in FY21 were $20.4M pre-tax, down $52.1M pcp. Cash significant items at $17.4M includes employee related costs, the Victorian heatset print site closure costs, legal, professional fees and finance costs. Non-cash significant items at ($3.0M) include a net benefit from the scheme of arrangement of $37.7M less impairments of PP&E and right of use assets, onerous lease provisions and inventory write downs.

Income tax expense was significantly impacted by the $32.9M non-cash impairment of the deferred tax asset .

Debt

Net Debt at June 2021 was $39.9M[1] which is $33.0M lower than at June 2020.

CEO commentary

Revenue was slower to recover than expected in FY21. Throughout the course of the year we have undertaken significant work to align our fixed cost base to the lower revenues and further restructuring to both our manufacturing and support infrastructure is required into FY22, which is already well underway.

Despite the negative variance in revenue year on year, it is encouraging to see the impacts from an extremely challenging year soften at the EBITDA level and to see significant improvements to Ovato's EBIT and net loss figures.

[1] Excludes Lease Liabilities from the adoption of AASB16

During the 2nd quarter of FY21, Ovato undertook a recapitalisation & restructure of its balance sheet. This was largely complete by the 3rd quarter when the remaining $15m of the corporate bond and the surrender of an onerous lease were converted to equity through a further issue of shares in Ovato.

In the 4th quarter of FY21, Ovato entered into agreements to enable the sale of two business units, Ovato Retail Distribution (ORD) and Ovato Marketing Services (OMS). In July, Ovato completed the sale of the magazine distribution businesses (ORD) in Australia to Are Media for a headline price of $10 million (with the New Zealand sale expected to be completed as at the end of August for a headline price of $5 million) and also sold its marketing services business (OMS) to Ballygriffin for $9 million.

These asset sales have had a significantly positive impact on Ovato's Balance Sheet of approximately $48M by the end of August 2021, with an improvement in working capital of $24M together with sales proceeds of $24M. As a consequence, Ovato is in a much stronger financial position to complete further restructuring and to respond to any ongoing impacts of the COVID-19 pandemic.

On 5th July 2021 Ovato announced its intention to close its letterbox distribution business with effect from 30 July 2021, which is also expected to achieve savings for the Ovato group in FY22.

FY21 was truly transformational. We have and continue to make the hard decisions necessary to ensure a sustainable future for the Ovato business. Our new management team understands the challenge we have ahead of us and are committed to the effort and excellence it will require.

We are returning our business to a singular focus and to the thing we do best – print production. When we hold a shared & focussed vision, success will follow.

The recent restructuring and recapitalisation have strengthened our balance sheet and provided funds for further transformation and to help us find profitability in the future.

Extended reporting and lodgement deadline

While Ovato is endeavouring to lodge its full year financial reports, directors' reports and auditors reports in relation to its financial year ended 30 June 2021 by 30 September 2021, Ovato gives notice that it intends to rely upon the Amended ASIC Relief [2] and ASX's Class Waiver Decision – Extended Reporting and Lodgement Deadlines (ASX Waiver) should it be delayed in doing so as its reporting processes have been impacted by COVID-19 and it does not want to be precluded from relying upon the Amended ASIC Relief and the ASX Waiver by failing to give timely notice. Ovato will also immediately make a further announcement to the market if there is a material difference between its unaudited accounts released with this announcement and its audited accounts where it has not lodged its full year reports by 30 September 2021.

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[2] ASIC Corporations (Extended Reporting and Lodgment Deadlines—Listed Entities) Instrument 2020/451 dated 15 May 2020, as extended by ASIC Corporations (Amendment) Instrument 2020/1080 dated 25 November 2020 and ASIC Corporations (Amendment) Instrument 2021/315 dated 26 April 2021 (the '**Amended ASIC Relief**')