



OVATO LIMITED
ABN 39 050 148 644

Appendix 4C - 30 SEPTEMBER 2021
Company Update & Quarterly cash flow report
for entities
subject to Listing Rule 4.7B

28 October 2021: Ovato Limited ("Ovato") (ASX: OVT) lodges the attached Appendix 4C for the three-month period ended 30 September 2021.

About Ovato Limited

The principal activities of Ovato for that period are marketing services, digital premedia, commercial printing, letterbox delivery and magazine distribution services.

Activities update

During the quarter, Ovato completed the sale of two businesses, Ovato Retail Distribution Australia and New Zealand and Ovato Marketing Services Australia.

Ovato also discontinued its Australian letterbox distribution business, Ovato Residential Distribution and announced and closed its printing plant in Christchurch, transferring much of its business there to Auckland.

Significant further restructuring was undertaken and executed around the core business of Print Australia and the corporate services supporting the business.

Like many businesses, the ongoing impact of the COVID-19 pandemic during quarter has placed the business under operational and financial pressure. The business was impacted by the lockdowns in New Zealand and Australia (which are now easing) and with the supply chain challenges currently impacting retailers and manufacturers.

Management are doing everything they can to support all stakeholders including our customer base whom are also trying to navigate their businesses through these changing and challenging times.

Cashflow commentary

Cash from operations for the first quarter of FY22 was negative A\$18.9M and net cashflow from investing activities was positive A\$27.8M.

Cash and equivalents at September 30 2021 was \$12.8M.

During the quarter, Ovato repaid all concessions received from suppliers from the previous quarter, made principal payments to reduce debt in relation to our Scottish Pacific Chattel Mortgage Facility and also paid down our Australian Dollar Receivables financing facility with Scottish Pacific for the portion relating to the divested OMS business.

Significant restructuring costs were incurred during the quarter with the aim of 'right sizing' the business, production efficiency measures and closing loss making areas of the business. Whilst the cash cost is reflected in the quarter the profit (and cashflow) benefits will be ongoing and further evolve as we continue to fine tune operations.

Name of entity

Ovato Limited

ABN

39 050 148 644

Quarter ended ("current quarter")

30 September 2021

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	124,156	124,156
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(100,116)	(100,116)
(c) advertising and marketing	(36)	(36)
(d) leased assets	(1,548)	(1,548)
(e) staff costs	(36,067)	(36,067)
(f) administration and corporate costs	(2,707)	(2,707)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	108	108
1.5 Interest and other costs of finance paid	(998)	(998)
1.6 Income taxes paid/received	(26)	(26)
1.7 Government grants and tax incentives	-	-

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
1.8 Other	-	-
(a) AASB16 lease interest payments	(1,640)	(1,640)
1.9 Net cash from / (used in) operating activities	(18,874)	(18,874)

2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses (cash in liquidated entities)	-	-
(c) property, plant and equipment	(265)	(265)
(d) investments	-	-
(e) intellectual property	(16)	(16)
(f) other non-current assets	-	-
2.2 Proceeds from disposal of:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	78	78
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	-	-
2.3 Proceeds from Sales of Non-core Business's	27,515	27,515
2.4 Dividends received (see note 3)	-	-
2.5 Other (Receipts from sub-leases excluding financing component)	509	509
2.6 Net cash from / (used in) investing activities	27,821	27,821

3. Cash flows from financing activities		
3.1 Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
3.2 Proceeds from issue of convertible debt securities	-	-
3.3 Proceeds from exercise of options	-	-
3.4 Transaction costs related to issues of equity securities or convertible debt securities	-	-
3.5 Proceeds from borrowings	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
3.6	Repayment of borrowings	(8,594)	(8,594)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other		
	(a) AASB 16 lease principal payments	(4,728)	(4,728)
	(b) Cash backing ANZ G'tee's and other facilities	245	245
3.10	Net cash from / (used in) financing activities	(13,077)	(13,077)

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

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	16,852	16,852
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(18,874)	(18,874)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	27,821	27,821
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(13,077)	(13,077)
4.5	Effect of movement in exchange rates on cash held	114	114
4.6	Cash and cash equivalents at end of period	12,836	12,836

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	12,836	16,852
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	12,836	16,852

6. Payments to related parties of the entity and their associates	Current quarter \$A'000
6.1 Aggregate amount of payments to related parties and their associates included in item 1	1,497
6.2 Aggregate amount of payments to related parties and their associates included in item 2	-
<i>Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.</i>	

Included in the cash flow report are payments made to Rathdrum Properties Pty Ltd (Rathdrum) and SBM Group of companies (SBM) of which a Non-Executive Director and Managing Director are related parties. The Company leases properties from Rathdrum and obtain marketing services from SBM.

Payments for the quarter ended 30th September 2021 excluding GST;

- Rathdrum \$1.0M
- SBM \$0.2M

Salaries and superannuation paid to related parties and their associates \$0.3M.

Financing facilities <i>Note: the term "facility" includes all forms of financing arrangements available to the entity.</i> <i>Add notes as necessary for an understanding of the sources of finance available to the entity.</i>		Total facility amounts at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1	Loan facilities	48,060	48,060
7.2	Credit standby arrangements	-	-
7.3	Other	-	-
7.4	Total financing facilities	48,060	48,060
7.5	Unused financing facilities available at quarter end		-
7.6	<p>Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.</p> <div> <p>Commerzbank AG (Commerzbank)</p> <ul style="list-style-type: none"> - Australian dollar floating interest rate export financing facility secured against a press. The lender is Commerzbank. Loan drawn to A\$16.9M. Matures June 2027 (renegotiated new amortisation schedule). - Euro denominated floating interest rate export financing facility secured against a press. Lender Commerzbank. Loan drawn to Euro 4.0M (A\$6.4M). Matures June 2023 (renegotiated new amortisation schedule). <p>Scottish Pacific Business Finance Pty Ltd (ScotPac)</p> <ul style="list-style-type: none"> - Australian Dollar Receivables financing facility with Scottish Pacific. Floating interest rate + margin. Loan drawn to A\$15.3M. The drawn amount on the receivable financing facility represents the amount lent against the relevant receivables that were available to be sold into the facility as per the terms and conditions of the facility at each reporting date. Matures August 2023. There is the ability to draw up to \$50M under this facility, however there were not sufficient debtors to draw further amounts as at 30 September 2021. - New Zealand Dollar Receivables financing facility with Scottish Pacific. Floating interest rate + margin. Loan drawn to A\$3.2M. The drawn amount on the receivable financing facility represents the amount lent against the relevant receivables that were available to be sold into the facility as per the terms and conditions of the facility at each reporting date. Matures February 2024. There is the ability to draw up to NZ\$10M under this facility, however there were not sufficient debtors to draw further amounts as at 30 September 2021. - Scottish Pacific Chattel Mortgage Facility (amortising) for \$6.2M secured by a charge over the assets of the Group. The facility matures December 2023 </div>		

8.	Estimated cash available for future operating activities	\$A'000
8.1	Net cash from / (used in) operating activities (item 1.9)	(18,874)
8.2	Cash and cash equivalents at quarter end (item 4.6)	12,836
8.3	Unused finance facilities available at quarter end (item 7.5)	-
8.4	Total available funding (item 8.2 + item 8.3)	12,836
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1)	0.6800
<p><i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i></p>		
8.6	If item 8.5 is less than 2 quarters, please provide answers to the following questions:	
8.6.1	Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?	
	<p>Answer: No, Q1 of FY22 contains significant one-off operating events that will not re-occur. Enhanced one off creditor terms were agreed in Q4 of FY21 and those were paid back in the Q1 of FY22 over inflating the operating cashflow expenses for that quarter. Significant one off restructuring costs were also incurred.</p>	
8.6.2	Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?	
	<p>Answer: Yes, the entity has a number of initiatives it is working on in this area. Further business asset sales and plant asset sales are being progressed along with other working capital opportunities. It is difficult to predict the likely or unlikely outcome of these initiatives at this stage.</p>	
8.6.3	Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?	
	<p>Answer: The entity expects to be able to continue its operation, based on current budget forecasts. Though we also note the unpredictability of the market due to the recent pandemic and the recent lockdown of Melbourne and Sydney.</p>	
<p><i>Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.</i></p>		

Compliance statement

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

Date: 28 October 2021

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

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An

entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.

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