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OVATO LIMITED

ABN 39 050 148 644

Appendix 4C - 30 SEPTEMBER 2020

Company Update & Quarterly cash flow report

for entities subject to Listing Rule 4.7B

29 October 2020: Ovato Limited ("Ovato Group") (ASX: OVT) lodges the attached Appendix 4C for the three-month period ended 30 September 2020.

About Ovato Limited

The principal activities of the Ovato Group are marketing services, digital premedia, commercial printing, letterbox delivery and magazine distribution services.

Activities update

Sales revenues (unaudited) for the 3 months to 30th September 2020 at $109.0M was down 31.9% vs prior year with the business still being impacted by COVID–19.

Sales for Ovato Australia were $89.4M. Heatset print sales were down 41.4% vs prior year and residential distribution sales were down 44.3%. Pleasingly sales at Book printing were up 13.7% and Retail Distribution Australia sales were only down 4.3%.

Sales at Ovato New Zealand at $19.6M were down 27.1% on last year with print sales down 30.4%.

EBITDA for the 1st quarter fiscal 2021 (pre significant items) and unaudited is 2.7% lower year on year as lower volumes are offset by tight cost controls and Jobkeeper income. Ovato Australia is 5.4% lower while Ovato New Zealand is $0.3M higher vs previous period.

Cashflow commentary

Cash from operation for the 1st quarter of fiscal 2021 was negative $1.2M and net cashflow from investing activities was $0.4M and net cashflow for the quarter was negative $0.8M.

Cash and equivalents as at 30th September was $11.7M.

Unused facilities at 30th September was $32.1M which consisted of $7.5M unused overdraft and $24.6M of unused RFF limit.[1]

As at 30th September, cash and unused overdraft available to support liquidity was $19.2M.

During the first quarter:

- Scottish Pacific replaced Asset Secure with a $50M three-year receivables facility.
- ANZ agreed to extend its facilities and continues to provide banking facilities (transactional, overdraft and credit support) to Ovato through to 30 January 2021.

Other

In the full year results announcement on 28th August 2020 the company advised it was pursuing plans to deleverage the business via possible asset sales and/or equity re-capitalisation. The company advises it is continuing to progress these plans and will update the market as appropriate.

Name of entity	
Ovato Limited	
ABN	**Quarter ended ("current quarter")**
39 050 148 644	30 September 2020

[1] The RFF drawdown represents the amount lent against available receivables so the $24.6M is not in practice available to be fully drawn.

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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	196,844	196,844
1.2	Payments for		
	(a) research and development	-	-
	(b) product manufacturing and operating costs	(151,767)	(151,767)
	(c) advertising and marketing	(118)	(118)
	(d) leased assets	(1,778)	(1,778)
	(e) staff costs	(46,052)	(46,052)
	(f) administration and corporate costs	(6,428)	(6,428)
1.3	Dividends received (see note 3)	-	-
1.4	Interest received	259	259
1.5	Interest and other costs of finance paid	(2,572)	(2,572)
1.6	Income taxes paid	(4)	(4)
1.7	Government grants and tax incentives	12,908	12,908
1.8	Other (AASB 16 lease interest payments)	(2,476)	(2,476)
1.9	**Net cash from / (used in) operating activities**	**(1,184)**	**(1,184)**

2.	**Cash flows from investing activities**		
2.1	Payments to acquire or for:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	(81)	(81)
	(d) investments	-	-
	(e) intellectual property	(30)	(30)
	(f) other non-current assets	-	-
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	5	5
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-

Consolidated statement of cash flows		Current quarter $A'000	Year to date (3 months) $A'000
2.5	Other (Receipts from sub-leases excluding financing component)	462	462
2.6	**Net cash from / (used in) investing activities**	**356**	**356**

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	3,984	3,984
3.6	Repayment of borrowings	(1,760)	(1,760)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (AASB 16 lease principal payments)	(5,846)	(5,846)
3.10	**Net cash from / (used in) financing activities**	**(3,622)**	**(3,622)**

4.	**Net increase / (decrease) in cash and cash equivalents for the period**		
4.1	Cash and cash equivalents at beginning of period	16,200	16,200
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,184)	(1,184)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	356	356

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Consolidated statement of cash flows		Current quarter $A'000	Year to date (3 months) $A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(3,622)	(3,622)
4.5	Effect of movement in exchange rates on cash held	(47)	(47)
4.6	**Cash and cash equivalents at end of period**	**11,703**	**11,703**

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	11,703	16,200
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)**	**11,703**	**16,200**

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	1,714
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

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

Some companies in the Ovato Group lease some properties from a trust of which a Non-Executive Director is a beneficiary. Total property outgoings paid excluding GST for the quarter ended 30 September 2020 to the related party was $0.6M and is included in item 1.2. AASB 16 property lease interest payments for the quarter ended 30 September 2020 was $1.0M and is included in item 1.8. Salaries and superannuation paid to related parties and their associates of $0.1M is included in item 1.2. AASB 16 property lease principal payments for the quarter ended 30 September 2020 was $1.5M and is included in item 3.9.

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7.	**Financing facilities** *Note: the term "facility' includes all forms of financing arrangements available to the entity.* *Add notes as necessary for an understanding of the sources of finance available to the entity.*	**Total facility amount at quarter end $A'000**	**Amount drawn at quarter end $A'000**
7.1	Loan facilities	83,480	51,386
7.2	Credit standby arrangements	-	-
7.3	Other (Corporate bond)	40,000	40,000
7.4	**Total financing facilities**	123,480	91,386

7.5	**Unused financing facilities available at quarter end**	32,094

7.6 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.

-Australian dollar floating interest rate export financing facility secured against a press. Lender Commerzbank AG. Loan drawn to A$16.9M. Matures December 2023.

-Euro denominated floating interest rate export financing facility secured against a press. Lender Commerzbank AG. Loan drawn to Euro 4.0M (A$6.6M). Matures September 2021.

-$A50M receivables financing facility with Scottish Pacific. Floating interest rate + margin (5.85%). Loan drawn to A$25.4M. 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.

-A$10M overdraft facility provided by ANZ Banking Group. Secured by a charge over the assets of the Group. Drawn to A$2.5M. Facility extended to 31 January 2021. The Group also has a $17M bank guarantee facility with ANZ Banking Group.

-$A40M corporate bond. Fixed coupon of 8.25% per annum. Secured by a charge over the assets of the Group. Matures November 2022.

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8.	Estimated cash available for future operating activities	$A'000
8.1	Net cash from / (used in) operating activities (item 1.9)	(1,184)
8.2	Cash and cash equivalents at quarter end (item 4.6)	11,703
8.3	Unused finance facilities available at quarter end (item 7.5)	32,094
8.4	Total available funding (item 8.2 + item 8.3)	43,797
8.5	**Estimated quarters of funding available (item 8.4 divided by item 8.1)**	37

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.

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?

Answer:

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?

Answer:

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?

Answer:

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.

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: 29 October 2020

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.

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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.

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