

Ovato Limited
Appendix 4E
Preliminary final report

1. Company details

Name of entity:	Ovato Limited
ABN:	39 050 148 644
Reporting period:	For the year ended 30 June 2021
Previous period:	For the year ended 30 June 2020

2. Results for announcement to the market

		Percentage Change %	Amount \$'000
Sales revenue	up/(down)	(17.90%) to	442,721
Revenue	up/(down)	(10.40%) to	504,657
EBITDA (including significant items) ¹	up/(down)	to	
		-	13,010
EBITDA (excluding significant items)	up/(down)	to	
		(4.20%) to	31,054
Net loss after income tax for the year	up/(down)	to	
		38.30%	(67,086)

¹ Refer to note 7 for details of significant items.

Dividends

There were no dividends paid, recommended or declared during the current financial period.

Brief explanation of financial results

A statutory net loss after tax of \$67.1M was recorded for the 2021 year which was an improvement of \$41.7M on the previous corresponding period ("pcp"). Statutory EBITDA before significant items at \$31.1M was down \$1.4M on the pcp

For the year ended 30 June 2021, Ovato's sales at \$442.7M were down \$96.6M or (17.9%) after a \$90.5M sales reduction at Ovato Australia with Print and residential distribution revenues down \$88.8M due to substantially lower revenues mainly from weak retail markets through the continued impact of COVID-19. In H1 revenue was down \$76.7M or 33.2% with customers either not returning to print or returning at lower levels. Statutory EBITDA (before significant items) at \$31.1M is 4.4% down pcp. 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.

Ovato Australia sales at \$358.8M was down \$90.5M or 20.1% on the pcp mostly from \$67.1M lower print sales, with \$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 Australia statutory EBITDA (before significant items) at \$29.0M was down 7.7% or \$2.2M due mostly to lower print and residential distribution revenues from weak retail markets through the continued impact of COVID-19 which was partially offset by VIC heatset site closure savings, tight cost controls and Government wage subsidies.

Ovato NZ sales at \$84.0M was down \$6.0M or 7.2% with lower print and residential distribution revenues. Statutory EBITDA (before significant items) at \$2.1M was up 69.1% mostly due tight cost controls and Government wage subsidies which offset the impact of lower print revenues.

Statutory cashflow from operations in FY21 was (\$5.2M) which is \$13.3M worse than pcp. Net debt at June 2021 of \$39.8M is \$33.1M lower versus June 2020.

During the 1st quarter of FY21 the Asset Secure receivable finance facility ("RFF") was replaced by a 3 year \$50M RFF facility with Scottish Pacific.

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During the 2nd quarter of FY21 Ovato undertook a recapitalisation/restructure of its balance sheet. Elements of the restructuring included the closure of the our Victorian heatset plant, debt forgiveness, deferrals and equity conversions, a new enterprise agreement for the Australian print business, a new \$17M secured debt facility to replace the existing bank guarantee facility, the exit of various onerous leases, the reduction of the \$40M corporate bond to \$15M and the note holders consenting to the conversion of the \$15M into equity by a further issue of shares in Ovato.

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.

During 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). Ovato entered into an agreement to sell its magazine distribution businesses (ORD) in Australia and New Zealand to Are Media for a headline price of \$15M. Ovato also borrowed \$2.3M from ARE Media as part of this proposed sale. This sale was approved by shareholders at an EGM on 15 July 2021 with the sale completing at the end of July 2021. Ovato entered into a Put Option to sell its marketing services business (OMS) to Ballygriffin on 4 June 2021 for \$9M. The put option was exercised on 29 July 2021 following shareholder approval at an EGM on 29 July 2021. As part of the Put Option, the company entered into a loan agreement with Ballygriffin to allow for the advance of \$2.3M.

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.

Comments

The loss for the Group after providing for income tax amounted to \$67,086,000 (30 June 2020: \$108,750,000).

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	0.35	8.97

4. Dividends

Current period

There were no dividends paid, recommended or declared during the current financial period.

Previous period

There were no dividends paid, recommended or declared during the previous financial period.

5. Audit qualification or review

Details of audit/review dispute or qualification (if any):

This report is based upon accounts that are in the process of being audited.

There are no likely disputes or qualifications to the accounts.

6. Attachments

Details of attachments (if any):

The Preliminary Final Report of Ovato Limited for the year ended 30 June 2021 is attached.

Authorised for release by the Board

Date: 30 August 2021

Ovato Limited

ABN 39 050 148 644

Preliminary Final Report - 30 June 2021

Ovato Limited
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Ovato Limited
Consolidated statement of profit or loss and other comprehensive income
For the year ended 30 June 2021

	Note	Consolidated 2021 \$'000	2020 \$'000
Revenue	4	442,721	539,270
Other income	5	61,936	23,960
Expenses			
Raw materials and consumables used		(167,915)	(210,568)
Cost of finished goods sold		(8,613)	(5,125)
Employee benefits expense		(182,635)	(230,592)
Outside production services		(11,608)	(12,241)
Freight	6	(49,007)	(59,666)
Repairs and maintenance		(9,915)	(12,863)
Occupancy costs		(15,059)	(7,770)
Impairment of goodwill		-	(37,244)
Impairment of plant and equipment		(26,930)	(6,670)
Other expenses		(19,586)	(20,231)
Depreciation and amortisation		(32,573)	(36,966)
Loss on sale of assets		(379)	-
Finance costs	6	(18,160)	(18,660)
Loss before income tax expense		(37,723)	(95,366)
Income tax expense	8	(29,363)	(13,384)
Loss after income tax expense for the year attributable to the owners of Ovato Limited		(67,086)	(108,750)
Other comprehensive income			
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Defined benefit plan actuarial losses		637	(447)
Income tax relating to items that will not be reclassified subsequently		(190)	134
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		(82)	(435)
Loss on cash flow hedges taken to equity		28	(275)
Income tax relating to items that may be reclassified subsequently		(8)	83
Other comprehensive income for the year, net of tax		385	(940)
Total comprehensive income for the year attributable to the owners of Ovato Limited		<u>(66,701)</u>	<u>(109,690)</u>
		Cents	Cents
Basic earnings per share	17	(1.2)	(14.9)
Diluted earnings per share	17	(1.2)	(14.9)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

Ovato Limited
Consolidated statement of financial position
As at 30 June 2021

	Note	Consolidated 2021 \$'000	2020 \$'000
Assets			
Current assets			
Cash and cash equivalents		16,652	16,200
Trade and other receivables		46,936	50,654
Inventories		20,169	87,871
Derivative financial instruments		-	80
Other		22,944	6,278
		106,701	161,083
Assets classified as held for sale	9	14,988	-
Total current assets		121,689	161,083
Non-current assets			
Property, plant and equipment		67,104	105,952
Right-of-use assets		41,957	58,341
Intangibles		-	1,410
Deferred tax		9,094	41,559
Other		5,930	13,082
Total non-current assets		124,085	220,344
Total assets		245,774	381,427
Liabilities			
Current liabilities			
Trade and other payables		31,452	131,394
Interest bearing liabilities	10	7,597	37,192
Lease liabilities		18,687	23,878
Derivative financial instruments		-	110
Current tax liabilities		7	8
Provisions		29,349	29,804
		87,092	222,386
Liabilities directly associated with assets classified as held for sale	11	39,241	-
Total current liabilities		126,333	222,386
Non-current liabilities			
Interest bearing liabilities	10	46,866	48,829
Lease liabilities		57,998	83,776
Provisions		7,106	8,678
Total non-current liabilities		111,970	141,283
Total liabilities		238,303	363,669
Net assets		7,471	17,758
Equity			
Issued capital	12	553,937	497,523
Reserves	13	11,014	11,076
Accumulated losses		(557,480)	(490,841)
Total equity		7,471	17,758

The above consolidated statement of financial position should be read in conjunction with the accompanying notes

Ovato Limited
Consolidated statement of changes in equity
For the year ended 30 June 2021

Consolidated	Issued capital \$'000	Foreign currency translation reserve \$'000	Cashflow hedge reserve \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 July 2019	497,523	11,531	172	(367,353)	141,873
Change in accounting policy - AASB 16 Leases	-	-	-	(14,425)	(14,425)
Balance at 1 July 2019 - restated	497,523	11,531	172	(381,778)	127,448
Loss after income tax expense for the year	-	-	-	(108,750)	(108,750)
Other comprehensive income for the year, net of tax	-	(435)	(192)	(313)	(940)
Total comprehensive income for the year	-	(435)	(192)	(109,063)	(109,690)
Balance at 30 June 2020	<u>497,523</u>	<u>11,096</u>	<u>(20)</u>	<u>(490,841)</u>	<u>17,758</u>

Consolidated	Issued capital \$'000	Foreign currency translation reserve \$'000	Cashflow hedge reserve \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 July 2020	497,523	11,096	(20)	(490,841)	17,758
Loss after income tax expense for the year	-	-	-	(67,086)	(67,086)
Other comprehensive income for the year, net of tax	-	(82)	20	447	385
Total comprehensive income for the year	-	(82)	20	(66,639)	(66,701)
Right Issue ¹	40,004	-	-	-	40,004
Debt Conversion to Equity ²	17,400	-	-	-	17,400
Transaction Costs ³	(990)	-	-	-	(990)
Balance at 30 June 2021	<u>553,937</u>	<u>11,014</u>	<u>-</u>	<u>(557,480)</u>	<u>7,471</u>

¹ On 1 December 2020, Ovato Ltd announced a conditional and partially underwritten pro-rata entitlement offer to existing shareholders. The offer consisted of 10.93 new fully paid ordinary shares in Ovato for every 1 share held at the record date at \$0.005 cents per new share. Gross proceeds of \$40M was raised. 8,000,807,935 shares were issued on 24 December 2020 and trading commenced on 29 December 2020.

² On March 23 2021, as part of the restructuring of the Ovato Group in connection with the Schemes, the company entered agreements with the holders of and the landlord of Properties to convert debt to equity. \$15,000,000 for Note holders and \$2,400,000 for the landlords (exit of lease agreement) were converted to 3,480,000 at 0.005c per share.

³ Transaction costs arising from the rights issues and debt conversion of \$990,000 were accounted for as a deduction from equity during the financial period.

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes

Ovato Limited
Consolidated statement of cash flows
For the year ended 30 June 2021

	Note	Consolidated 2021 \$'000	2020 \$'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		838,159	1,001,886
Payments to suppliers and employees (inclusive of GST)		(849,695)	(986,241)
		(11,536)	15,645
Government grants received		23,175	9,013
Fee for early termination of corporate bond		(173)	-
Interest received		752	631
Dividends received		-	276
Interest and other finance costs paid		(9,165)	(9,033)
Lease interest payments		(8,217)	(8,386)
Income taxes paid		(16)	(57)
Net cash from/(used in) operating activities	16	(5,180)	8,089
Cash flows from investing activities			
Payments for property, plant and equipment		(682)	(20,151)
Payments for development and licence costs		(129)	(393)
Cash funds to liquidator for scheme		(2,030)	-
Proceeds from disposal of property, plant and equipment		277	1,124
Receipts from subleases, excluding the financing component		1,835	1,243
Net cash used in investing activities		(729)	(18,177)
Cash flows from financing activities			
Lease principal payments		(22,810)	(17,698)
Cash for Bank Guarantees		(17,249)	-
Proceeds from close out of cross currency swap		-	1,866
Repayment of borrowings		(11,858)	(17,506)
Proceeds from new borrowings		19,507	21,197
Proceeds from issue of shares	12	39,014	-
Net cash from/(used in) financing activities		6,604	(12,141)
Net increase/(decrease) in cash and cash equivalents		695	(22,229)
Cash and cash equivalents at the beginning of the financial year		16,200	38,701
Effects of exchange rate changes on cash and cash equivalents		(43)	(272)
Cash and cash equivalents at the end of the financial year		16,852	16,200
Cash and cash equivalents at end of the financial year		16,852	16,200
Cash Held for Resale		(200)	-
Reported Cash		16,652	16,200

The above Consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Note 1. Significant accounting policies

This preliminary final report has been prepared in accordance with ASX Listing Rule 4.3A.

The financial report does not include all notes of the type normally included within the annual financial report. As a result it should be read in conjunction with the 30 June 2020 annual financial report of Ovato Limited together with any public announcements made by Ovato Limited during the financial year ended 30 June 2020.

Statement of compliance

Compliance with IFRS

The financial statements are presented in accordance with Australian Accounting Standards which comply with International Financial Reporting Standards ("IFRS").

Going concern

The financial statements have been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and discharge of liabilities in the normal course of business. The Directors believe this is appropriate based on the successful completion of restructuring activities during the financial period, the subsequent events referred to in note 36, and on cashflow forecasts prepared by management. There remains uncertainty in respect of the ongoing effects of the COVID-19 pandemic on the operations of the consolidated entity. Following these restructuring activities, the consolidated entity is in a much stronger financial condition and there exists a greater ability to manage costs in line with actual revenue generated.

Note 2. Critical accounting judgements, estimates and assumptions

(i) Fair value measurement and valuation process

Ovato has financial instruments that are carried at fair value in the Consolidated statement of financial position. The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, Ovato determines fair value by using various valuation models. The objective of using a valuation technique is to establish the price that would be received to sell an asset or paid to transfer a liability between market participants. The chosen valuation models make maximum use of market inputs and relies as little as possible on entity specific inputs. The fair values of all positions include assumptions made on the recoverability based on the counterparty's and Ovato's credit risk.

(ii) Goodwill, intangible assets, property, plant and equipment

In accordance with Ovato policy, impairment testing has been undertaken at 30 June 2021 for all cash generating units ("CGU's") with indefinite useful life intangible assets or where there is an indication of impairment. CGU testing undertaken did not include those business units held for sale at the end of June 2021 (nor did it include the Residential Distribution Australia business that closed on 31 July 2021).

Value in use

The testing has been conducted using the value in use method. In assessing value in use, the estimated future cash flows, excluding future uncommitted restructurings and associated benefits, are discounted to their present value using a post-tax discount rate. The key assumptions used and the impact on them for various sensitivities are disclosed in the table below.

Impairment

Based on testing carried out at 30 June 2021, the Ovato Australia business unit impairment analysis showed a surplus of \$14.0M.

The impairment analysis for Ovato New Zealand is showing a deficit. Therefore, assets associated with this CGU were impaired by \$7.5M at 30 June 2021.

Key Assumptions

Management judgement is required in assessing whether the carrying value of assets can be supported by the net present value of future cash flows. The following are the key estimates and assumptions used in determining the net present value of future cash flows using a value in use calculation:

Note 2. Critical accounting judgements, estimates and assumptions (continued)

- Budgeted EBITDA which is internally approved by senior management. This includes changes in volumes, new business assumptions, the impact of COVID-19 and various cost saving initiatives for various CGU's
- Budgeted capital expenditure
- WACC rates
- Working capital movements

Sensitivities

The valuation continues to be highly sensitive to a range of assumptions particularly given the economic impacts of the COVID-19 pandemic. The impact of changes in key assumptions is shown in the table below. Each change has been calculated in isolation from other changes.

Key Assumption	Assumption	Ovato Australia
EBITDA	(10%)	\$13m - \$15m impairment
EBITDA	(20%)	\$42m - \$44m impairment
WACC @ 10.0%	+ 0.5%	\$4m - \$6m impairment

(iii) Deferred tax assets

Deferred tax assets are recognised for all unused tax losses and future deductible temporary differences to the extent that it is probable that future taxable profits will be available against which the losses and deductions can be utilised. Significant management judgement is required to determine the amount of deferred tax asset that can be recognised, based on the likely timing and level of future taxable profits.

The Directors have written off the previously recognised tax losses of \$5.9M and have impaired the amount of deductible temporary differences recognised as part of the deferred tax asset by \$27.0M, given the losses and these impaired temporary differences are no longer forecast to be recouped over a 6 year period, being the time frame the Directors consider is a reasonable recovery period.

The deferred tax assets of \$12.3M pertaining to the current financial year Australian tax loss and \$1.5M pertaining to the current New Zealand tax loss were not recognised in the financial statements as at 30 June 2021, consistent with prior year treatment.

Despite the non-recognition of tax losses on the consolidated statement of financial position, the losses will be available indefinitely for offset against future taxable profits, subject to continuing to meet the statutory tax tests of continuity of ownership or failing that, the same business test (this test only applying to the Australian tax losses, which make up the majority of the groups unrecognised tax losses).

(iv) Fair value measurement and valuation process

Ovato has financial instruments that are carried at fair value in the Statement of financial position. The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, Ovato determines fair value by using various valuation models. The objective of using a valuation technique is to establish the price that would be received to sell an asset or paid to transfer a liability between market participants. The chosen valuation models make maximum use of market inputs and relies as little as possible on entity specific inputs. The fair values of all positions include assumptions made on the recoverability based on the counterparty's and Ovato's credit risk.

(v) Leases

The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and ROU assets recognised.

Note 3. Operating segments

Description of segments

Management has determined the operating segments based on the manner in which the Group is structured and managed by the Executive Management Team ("EMT"). All reports regularly reviewed by the Chief Executive Officer and the EMT are presented on this basis which group similar operations or geographic locations.

Note 3. Operating segments (continued)

Ovato Australia Group includes all of the Print businesses in Australia, Ovato Residential Distribution, Ovato Retail Distribution, the digital businesses and corporate. Ovato New Zealand Group segment includes all businesses in New Zealand.

The operational segment and the geographic segment are the same. Therefore the geographical segment is not shown separately.

Transactions between segments are carried out at arm's length and are eliminated on consolidation.

Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable segment for the periods presented:

(a) Operational and Geographical Segments

	Ovato Australia Group 2021 \$'000	Ovato Australia Group 2020 \$'000	Ovato New Zealand Group 2021 \$'000	Ovato New Zealand Group 2020 \$'000	Consolidated 2021 \$'000	Consolidated 2020 \$'000
Revenue						
External sales	346,943	433,626	77,439	82,546	424,382	516,172
External sales significant items	500	(1,000)	-	-	500	(1,000)
Freight	11,319	16,645	6,520	7,453	17,839	24,098
Other revenue ¹	23,716	16,539	478	1,098	24,194	17,637
Other revenue significant items	37,742	6,323	-	-	37,742	6,323
Total revenue	420,220	472,133	84,437	91,097	504,657	563,230
	Ovato Australia Group 2021 \$'000	Ovato Australia Group 2020 \$'000	Ovato New Zealand Group 2021 \$'000	Ovato New Zealand Group 2020 \$'000	Consolidated 2021 \$'000	Consolidated 2020 \$'000
EBITDA ~ before significant items	28,982	31,202	2,072	1,225	31,054	32,427
Depreciation and amortisation	(26,929)	(31,069)	(5,644)	(5,897)	(32,573)	(36,966)
EBIT ^A before significant items	2,053	133	(3,572)	(4,672)	(1,519)	(4,539)
Significant items before income tax	(10,387)	(68,960)	(7,657)	(3,207)	(18,044)	(72,167)

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Note 3. Operating segments (continued)

	Ovato Australia Group 2021 \$'000	Ovato Australia Group 2020 \$'000	Ovato New Zealand Group 2021 \$'000	Ovato New Zealand Group 2020 \$'000	Consolidated 2021 \$'000	Consolidated 2020 \$'000
Segment EBIT after significant items	(8,334)	(68,827)	(11,229)	(7,879)	(19,563)	(76,706)
Significant items - Finance costs	-	-	-	-	(2,382)	(321)
Finance costs	-	-	-	-	(15,778)	(18,339)
Loss before income tax	(8,334)	(68,827)	(11,229)	(7,879)	(37,723)	(95,366)
Income tax expense	-	-	-	-	(29,363)	(13,384)
Net loss after income tax	(8,334)	(68,827)	(11,229)	(7,879)	(67,086)	(108,750)

1. Other revenue includes government assistance through the Australian Federal Government Jobkeeper program of \$18.3M (2020: \$9.7M) and the New Zealand Government Employer Wage Subsidy Scheme of \$1.6M (2020: \$2.5M).

~ EBITDA - Profit/(loss) before depreciation, amortisation, finance costs and income tax

^ EBIT - Profit/(loss) before finance costs and income tax

(b) Significant items by operating segments

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Note 3. Operating segments (continued)

	Ovato Australia Group 2021 \$'000	Ovato Australia Group 2020 \$'000	Ovato New Zealand Group 2021 \$'000	Ovato New Zealand Group 2020 \$'000	Consolidated 2021 \$'000	Consolidated 2020 \$'000
Significant items of revenue						
Scheme of Arrangement	37,742	-	-	-	37,742	-
Sales rebate	500	(1,000)	-	-	500	(1,000)
Net gain on disposal of plant and equipment	-	347	-	-	-	347
Gain on de-recognition of ROU assets and recognition of finance lease receivables	-	5,976	-	-	-	5,976
Total segment significant items of revenue	38,242	5,323	-	-	38,242	5,323
Significant items of expenses						
Net loss on disposal of plant and equipment	(292)	-	(61)	-	(353)	-
Site closures	(16,655)	(24,723)	(505)	(718)	(17,160)	(25,441)
Onerous leases and make good provisions	(8,778)	(1,326)	-	-	(8,778)	(1,326)
Relocation of presses	(127)	(4,219)	-	-	(127)	(4,219)
Impairment of goodwill	-	(35,203)	-	(2,041)	-	(37,244)
Impairment of plant and equipment due to restructure initiatives	(18,702)	(6,670)	(4,758)	-	(23,460)	(6,670)
Impairment of ROU assets	(747)	-	(2,723)	-	(3,470)	-
Impairment of inventory	(3,328)	(2,142)	390	(448)	(2,938)	(2,590)
Total segment significant items of expense	(48,629)	(74,283)	(7,657)	(3,207)	(56,286)	(77,490)
Total segment significant items before income tax	(10,387)	(68,960)	(7,657)	(3,207)	(18,044)	(72,167)
	Ovato Australia Group 2021 \$'000	Ovato Australia Group 2020 \$'000	Ovato New Zealand Group 2021 \$'000	Ovato New Zealand Group 2020 \$'000	Consolidated 2021 \$'000	Consolidated 2020 \$'000
Significant items - finance costs						
Loss on cross currency swap realised	-	(133)	-	-	-	(133)
Fee for corporate bond covenant waivers	(173)	(188)	-	-	(173)	(188)
Unwind Bank Fees	(2,209)	-	-	-	(2,209)	-
Total segment significant items - finance costs	(2,382)	(321)	-	-	(2,382)	(321)

Revenue by product set

(c) Other segment information

i. Disaggregation of revenue by major product and service offerings

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Note 3. Operating segments (continued)

The Group derives revenue at a point in time and over time. Set out below is the disaggregation of the Group's revenue from contracts with customers by operating segment.

	Ovato Australia Group 2021 \$'000	Ovato Australia Group 2020 \$'000	Ovato New Zealand Group 2021 \$'000	Ovato New Zealand Group 2020 \$'000	Consolidated 2021 \$'000	Consolidated 2020 \$'000
Segment Revenue						
Commercial printing, marketing services and residential distribution	265,186	353,462	67,435	73,457	332,621	426,919
Book printing	31,943	28,987	-	-	31,943	28,987
Magazine distribution	50,314	50,177	10,004	9,089	60,318	59,266
Freight	11,319	16,645	6,520	7,453	17,839	24,098
Total sales revenue	358,762	449,271	83,959	89,999	442,721	539,270

ii. Major customers

Included in the Ovato Australia Group and the Ovato New Zealand Group segments are sales revenue of approximately \$82.6M (19% of Group gross sales) which arose from sales to the Group's largest customer (2020: The sales revenue from this customer was \$105M, 19% of the Group's gross sales).

Note 4. Revenue

	Consolidated 2021 \$'000	2020 \$'000
External sales	424,882	515,172
Freight	17,839	24,098
Revenue	442,721	539,270

Note 5. Other income

Included in the loss before income tax are the following items of other revenue:

Ovato Limited
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Note 5. Other income (continued)

	Consolidated	
	2021	2020
	\$'000	\$'000
Government grants	19,947	12,172
Scheme of Arrangement	37,742	-
Recoveries from the manufacturing process	2,964	3,867
Dividends	-	276
Interest income	12	151
Gain on de-recognition of ROU assets and recognition of finance lease receivables	-	5,976
Other income - external	410	336
Net gain on disposal of plant and equipment	-	501
Rental income	121	63
Unwind of discount on finance lease receivables	740	618
	<hr/>	<hr/>
Other income	61,936	23,960
	<hr/>	<hr/>

Note 6. Expenses

	Consolidated	
	2021	2020
	\$'000	\$'000
Loss before income tax includes the following specific expenses:		
Depreciation		
Leasehold improvements	1,123	1,153
Plant and equipment	16,087	19,204
Right-of-use assets	14,595	15,804
	<hr/>	<hr/>
Total depreciation	31,805	36,161
	<hr/>	<hr/>
Amortisation		
Development and licence costs	768	805
	<hr/>	<hr/>
Total depreciation and amortisation	32,573	36,966
	<hr/>	<hr/>
Loss before income tax is arrived at after charging/(crediting) the following items:		
Lease rental expenses - operating leases	9,316	8,184
Net remeasurement of expected credit loss allowance	461	1,734
	<hr/>	<hr/>
	9,777	9,918
	<hr/>	<hr/>

Note 6. Expenses (continued)

	Consolidated	
	2021	2020
	\$'000	\$'000
Total finance costs	18,160	18,660
Interest income	(12)	(151)
Unwind of discount on finance lease receivables	(740)	(618)
Net finance costs	17,408	17,891

Note 7. Significant items

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Note 7. Significant items (continued)

Significant items have been included in the Consolidated statement of profit or loss and other comprehensive income within the following categories:

		Consolidated 2021 \$'000	Consolidated 2020 \$'000
External sales	- Sales rebate	(500)	1,000
Other revenue	- Scheme of arrangement	(37,742)	-
Other revenue	- Net gain on sale of equipment	-	(347)
Other revenue	- Gain on de-recognition of ROU asset and recognition of finance lease receivable	-	(5,976)
Raw materials and consumables used		1,146	1,486
Cost of finished goods sold		2,938	2,590
Employee expenses		5,014	20,289
Freight		741	571
Repairs and maintenance		113	136
Occupancy costs		8,804	1,326
Impairment of plant and equipment	- ROU assets	3,470	-
	- Plant and equipment	23,460	43,914
Other expenses	- Legal and professional fees	10,098	2,773
	- Relocation of presses	127	4,219
	- Net loss on disposal of plant and equipment	353	-
	- Other expenses	21	186
Finance costs		2,382	321
		20,425	72,488

Note 8. Income tax expense

(a) Reconciliation of income tax expense

	Consolidated 2021 \$'000	Consolidated 2020 \$'000
<i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>		
Loss before income tax expense	(37,723)	(95,366)
Tax at the statutory tax rate of 30%	(11,317)	(28,610)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Effect of differences in overseas tax rate	252	185
Income tax under/(over) provided in previous year	508	75
Net non-assessable items for tax purpose	(8,110)	-
Non-deductible items for tax purposes	1,924	11,495
Benefit of tax losses not brought to account	13,279	20,239
Impairment of deferred tax asset	32,827	10,000
Income tax expense	29,363	13,384

Note 8. Income tax expense (continued)

	Consolidated	
	2021	2020
	\$'000	\$'000
Major component of income tax expense:		
Current tax benefit	(12,009)	(20,039)
Deferred tax expense	41,372	33,423
Income tax expense attributable to loss	<u>29,363</u>	<u>13,384</u>

(b) Deferred tax assets and deferred tax liabilities

At 30 June 2021 there is no recognised or unrecognised deferred tax liability for taxes that would be payable on the unremitted earnings of Ovato's wholly owned subsidiaries, as the Ovato Group has no liability for additional taxation should such amounts be remitted or any such tax due would be offset by existing unrecognised deferred tax losses (2020: \$nil).

(c) Franking credits

	Consolidated	
	2021	2020
	\$'000	\$'000
The amount of franking credits available are:		
Franking account balance as at the end of the financial year at 30% (2020: 30%)	62,559	62,559

(d) Tax consolidation and tax effect accounting by members of the tax consolidated group

Effective 1 July 2003, for the purposes of income taxation, Ovato Limited and its 100% owned Australian subsidiaries formed a tax consolidated group. Members of the group have entered into a tax sharing agreement in order to allocate income tax expense to the wholly owned subsidiaries on a pro-rata basis. The agreement also provides for the allocation of income tax liabilities between the entities should the head entity default on its obligations. At the balance date the possibility of default is remote. The head entity of the tax consolidation group is Ovato Limited.

Members of the Australian tax consolidated group have also entered into a tax funding agreement. The tax funding agreement provides for the allocation of current tax assets and liabilities between wholly owned group members. Each group member of the Ovato tax group calculates its current year tax liability/tax loss on the basis of the standalone approach. Once each member has calculated its own current year tax liability/tax loss the head entity will then assume these current year tax liabilities/tax losses and be paid/pay compensation for this assumption by way of an intercompany receivable/payable. Allocations under the tax funding agreement are made on a yearly basis.

All 100% owned Ovato entities operating in New Zealand are members of the Ovato NZ Limited tax consolidated group. Although there is no NZ tax funding agreement, Ovato NZ Limited and its group members have also calculated their current year tax liabilities/tax losses, and Ovato NZ Limited is paid/pays compensation for this assumption by way of an intercompany receivable/payable on a yearly basis, in the same manner as the Australian tax funding agreement operates.

(e) Tax losses not brought to account

	\$000	\$000
	Gross	
	Current Year	Tax effected
Revenue losses	473,443	141,750
Capital losses	282,942	84,883

Note 8. Income tax expense (continued)

The benefit of these revenue losses has not been brought to account as realisation is not probable. Refer to Note 10 for further details. In addition, capital losses are only able to be used against capital gains and so are not recognised until used in any tax year. The revenue losses have been reduced for gains associated with the Scheme of Arrangement under the commercial debt forgiveness rules, but overall the losses have increased due to the current year losses not recognised and the impairment of tax losses previously recognised.

Note 9. Assets classified as held for sale

On 4 June 2021, the Board & Management announced the following sales of their non-core businesses:

- Ovato Retail Distribution Pty Ltd and Ovato Retail Distribution NZ Limited ('Retail Distribution Australia and New Zealand') to Are Media Limited ("Are Media"); and
- Ovato Creative Services Pty Ltd, Ovato Technology Pty Ltd, Ovato Communications Pty Ltd and Ovato Creative Services Clayton Pty Ltd ('Marketing Services (Australia)') to Ballygriffin Holdings Pty Limited.

The sales of Retail Distribution Australia and Marketing Services (Australia) were completed on 30 July 2021, with the sale of Retail Distribution NZ scheduled to be completed on 31 August 2021.

The Board considered the subsidiaries to meet the criteria to be classified as held for sale at the end of the reporting date for the following reasons:

- The subsidiaries are available for immediate sale and can be sold to the buyer in its current condition;
- The actions to complete the sale were initiated and expected to be completed within one year from the date of initial classification; and
- The potential buyers have been identified and the Company entered into binding agreements to sell the subsidiaries prior to the financial year end.
- These businesses were regarded as non-core following a decision by the board to focus on its core print business.

As the operating results of these non core businesses were not material to the operational segments there is no separate disclosure of the profit or loss relating to these businesses for the year to 30 June 2021.

	Retail Distribution (Australia and New Zealand) 2021 \$'000	Marketing Services 2021 \$'000	Total 2021 \$'000
As at 30 June 2021			
Current Assets			
Cash and cash equivalents	-	200	200
Receivables	1,446	3,926	5,372
Inventories	874	329	1,203
Other	85	204	289
Total current assets	2,405	4,659	7,064
Non-current assets			
Property, plant and equipment	726	536	1,262
Right-of-use assets	1,490	1,261	2,751
Deferred tax assets	2,339	560	2,899
Goodwill and intangible assets	240	772	1,012
Total non-current assets	4,795	3,129	7,924
Total assets	7,200	7,788	14,988

Refer to note 11 for liabilities directly associated with assets classified as held for sales.

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Note 10. Interest bearing liabilities

	Consolidated	
	2021	2020
	\$'000	\$'000
<i>Current liabilities</i>		
Bank overdraft (AUD)	-	4,280
Export Financing - repayable in Euros*	3,148	4,887
Export Financing (AUD)	-	4,229
Receivables Financing (AUD)	-	21,401
Corporate bond (AUD)	-	3,750
Bank loan (ScotPac) (AUD)	3,157	-
Are Media Loan	2,300	-
Prepaid finance costs	(1,008)	(1,355)
Total current interest bearing liabilities	7,597	37,192
<i>Non-current liabilities</i>		
Export financing - repayable in Euros*	3,148	1,628
Export financing (AUD)	16,917	12,688
Corporate bond (AUD)	-	36,250
Receivables Financing (AUD)	22,906	-
Bank loan (ScotPac) (AUD)	4,966	-
Prepaid finance cost	(1,071)	(1,737)
Total non-current interest bearing liabilities	46,866	48,829
Total interest bearing liabilities	54,463	86,021

* Represents Euro denominated export financing facility of \$4.0M (2019: \$5.0M) measured at the exchange rate prevailing at balance date.

(a) Interest bearing liabilities - facility details

	Facility	Drawn	Available
	\$'000	\$'000	\$'000
2021			
Secured			
Euro Export Finance Facility *	6,296	6,296	-
Export Finance Facility	16,917	16,917	-
Receivables Financing Facility #	22,906	22,906	-
Bank loan (ScotPac)	8,123	8,123	-
Are Media Loan	2,300	2,300	-
Bally Griffin	2,300	-	2,300
Total facilities	58,842	56,542	2,300

Note 10. Interest bearing liabilities (continued)

	Facility \$'000	Drawn \$'000	Available \$'000
2020			
Secured			
Overdraft facility	10,000	4,280	5,720
Euro Export Finance Facility *	6,515	6,515	-
Export Finance Facility	16,917	16,917	-
Receivables Financing Facility #	39,500	21,401	18,099
Corporate Bond	40,000	40,000	-
Total facilities	112,932	89,113	23,819

* Represents the export finance facility measured at the exchange rate prevailing at balance date.

The drawn amount 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.

(b) Terms and conditions

Australian Dollar Receivables financing facility with Scottish Pacific. Floating interest rate + margin. Loan drawn to A\$19.5M. 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 June 2021.

Scottish Pacific Chattel Mortgage Facility (amortising) for \$8.1M secured by a charge over the assets of the Group. The facility matures December 2023.

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\$6.3M). Matures June 2023 (renegotiated new amortisation schedule).

Ovato Limited entered into a loan agreement with Are Media Holdco Pty Ltd dated 17 May 2021 to borrow \$2.3M which was repaid on the completion of the sale of the shares in Ovato Retail Distribution Pty Ltd was completed on 30 July 2021, other than for \$10,000 which was repaid on 16 August 2021. The loan had no ordinary interest payable. The loan was secured by a first ranking security over the shares of Ovato Retail Distribution Pty Ltd and Ovato Retail Distribution NZ Ltd and the facility has now expired.

Ovato Limited entered into a loan agreement with Ballygriffin Holdings Pty Ltd dated 18 June 2021 to borrow \$2.3M that was to be repaid on the completion of the sale of the shares in the Marketing Services companies. The loan was not drawn against and the facility has now expired. The loan had no ordinary interest payable. The loan was secured by a first ranking security over the shares and assets of the Marketing Services companies.

(c) Net debt

Note 10. Interest bearing liabilities (continued)

	Consolidated 2021 \$'000	2020 \$'000
Cash	(16,652)	(16,200)
Overdraft	-	4,280
Corporate Bond: Australian dollars	-	40,000
Export Financing - repayable in Euros - measured at the exchange rate prevailing at balance date	6,296	6,515
Export Financing: Australian dollars	16,917	16,917
Receivables Financing: Australian dollars	22,906	21,401
Bank loan (ScotPac)	8,123	-
Equipment Financing: Australian dollars	2,300	-
Net debt	39,890	72,913
Lease Liabilities	76,685	107,654
Net lease adjusted debt	116,575	180,567

(d) Reconciliation of liabilities arising from financing activities

	2020 \$'000	Cash flows \$'000	Other \$'000	Foreign exchange movement \$'000	Fair Value Changes \$'000	Held for sale \$'000	2020 \$'000
Overdraft	4,280	(4,280)	-	-	-	-	-
Corporate Bond	40,000	-	(40,000)	-	-	-	-
Export Financing - EUR	6,515	-	-	(219)	-	-	6,296
Are Media	-	2,300	-	-	-	-	2,300
Scotpac Loan	-	8,123	-	-	-	-	8,123
Export Financing	16,917	-	-	-	-	-	16,917
Receivables Financing	21,401	1,505	-	-	-	-	22,906
Total current & non-current interest bearing liabilities #	89,113	7,648	(40,000)	(219)	-	-	56,542
Lease liabilities	107,654	(31,027)	3,061	(73)	-	(2,930)	76,685
Total liabilities from financing activities	196,767	(23,379)	(36,939)	(292)	-	(2,930)	133,227

A reconciliation between the opening and closing balances arising from financing activities. This includes changes from cash flows (refer to Consolidated statement of cash flows) and non-cash changes.

Excludes prepaid financing costs as does not form part of cash flow from financing activities reconciliation.

Ovato Limited
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Note 11. Liabilities directly associated with assets classified as held for sale

	Retail Distribution (Australia and New Zealand) 2021 \$'000	Marketing Services 2021 \$'000	Total 2021 \$'000
As at 30 June 2021			
Current liabilities			
Payables	29,695	1,880	31,575
Lease liabilities	473	465	938
Income tax payable	-	44	44
Provisions	2,053	1,810	3,863
Total current liabilities	32,221	4,199	36,420
Non-current liabilities			
Lease Liabilities	1,094	899	1,993
Provisions	350	478	828
Total non-current liabilities	1,444	1,377	2,821
Total liabilities	33,665	5,576	39,241

Refer to note 9 for further details on assets classified as held for sales.

Note 12. Issued capital

	2021 Shares '000	Consolidated 2020 Shares '000	2021 \$'000	2020 \$'000
Ordinary shares - fully paid	12,212,812	732,004	553,937	497,523

Movements in ordinary share capital

Details	Date	Shares '000	Issue price	\$'000
Balance	1 July 2019	732,004		497,523
Balance	30 June 2020	732,004		497,523
Right issue	24 December 2020	8,000,808	\$0.005	40,004
Conversion of debt to equity - lease exit consideration	23 March 2021	480,000	\$0.005	2,400
Conversion of outstanding corporate bond to equity	23 March 2021	3,000,000	\$0.005	15,000
Share issue costs		-	\$0.000	(990)
Balance	30 June 2021	12,212,812		553,937

Note 13. Reserves

	Consolidated	
	2021	2020
	\$'000	\$'000
Foreign currency reserve	11,014	11,096
Other reserves	-	(20)
	<u>11,014</u>	<u>11,076</u>

Movements in reserves

Movements in each class of reserve during the current and previous financial year are set out below:

Consolidated	Foreign currency translation reserve \$'000	Share-based payment reserve \$'000	Cash flow hedge reserve \$'000	Total \$'000
Balance at 1 July 2019	11,531	-	172	11,703
Foreign currency translation	(435)	-	-	(435)
Cash flow hedge	-	-	(275)	(275)
Tax effect of cash flow hedge	-	-	83	83
Balance at 30 June 2020	11,096	-	(20)	11,076
Foreign currency translation	(82)	-	-	(82)
Cash flow hedge	-	-	28	28
Tax effect of cash flow hedge	-	-	(8)	(8)
Balance at 30 June 2021	<u>11,014</u>	<u>-</u>	<u>-</u>	<u>11,014</u>

Note 14. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by RSM Australia Partners, the auditor of the Company:

	Consolidated	
	2021	2020
	\$'000	\$'000
RSM Partners and related network firms (2020: Deloitte and related network firms)		
<i>Audit or review of financial reports</i>		
- Group	302,000	448,518
- Subsidiaries	63,000	106,267
	<u>365,000</u>	<u>554,785</u>
<i>Other services</i>		
- Corporate advisory services	29,200	237,115
- Taxation and related compliance services	20,575	199,752
	<u>49,775</u>	<u>436,867</u>

Note 15. Events after the reporting period

Sales of Retail Distribution (Australia and New Zealand) and Marketing Services (Australia)

On 4 June 2021, the Company announced the sales of its retail distribution business in Australia and New Zealand and its market services business in Australia. The sales of its retail distribution and marketing services in Australia were completed on 30 July 2021 and the sale of the New Zealand retail distribution business is expected to be completed by 31 August 2021.

The Retail Distribution (Australia) was sold for a cash consideration of A\$10M and the acceptance of a negative working capital position of approximately A\$27M to Are Media Limited, with the New Zealand retail distribution to receive \$5.0m on completion of sale.

The Marketing Services (Australia) which comprise of Ovato Creative Services Pty Ltd, Ovato Technology Pty Ltd, Ovato Communications Pty Ltd, Ovato Creative Services Clayton Pty Ltd, and a related entity to India ('Marketing Services (Australia)') were sold for a cash consideration of A\$9M to Ballygriffin Holdings Pty Limited (along with their subsidiaries).

Closure of Residential Distribution

The Ovato Residential Distribution business in Australia ceased operating on 30 July 2021. The closure of the business will predominantly incur redundancy and leasing costs, all of which will be recovered well within the current financial year as the company avoids on going trading losses in a business where volumes have continued to steeply decline.

No other matter or circumstance has arisen since 30 June 2021 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Note 16. Reconciliation of loss after income tax to net cash from/(used in) operating activities

	Consolidated	
	2021	2020
	\$'000	\$'000
Loss after income tax expense for the year	(67,086)	(108,750)
Adjustments for:		
Depreciation and amortisation	32,573	36,966
Scheme of arrangement	(22,315)	-
Impairment of property, plant and equipment	23,460	6,670
Impairment of non-current assets	3,470	-
Impairment of goodwill	-	37,244
(Credit)/provision for doubtful debts/bad debts written off	221	986
Net loss/(gain) on disposal of property, plant and equipment	379	(501)
Gain on de-recognition of ROU asset and recognition of finance lease receivable	-	(5,976)
Lease adjustments	(601)	-
Non-cash superannuation expense	-	142
Other non-cash items	(2,489)	10
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	(1,876)	30,142
Decrease in inventories	66,500	14,821
Decrease in other current assets	797	13,344
Decrease in non-current asset	29,624	-
Decrease/(increase) in prepayments	(1,754)	1,676
(Decrease) in liabilities	(61,847)	(19,693)
Increase/(Decrease) in provision for employee benefits	(4,236)	1,008
Net cash from/(used in) operating activities	<u>(5,180)</u>	<u>8,089</u>

Note 17. Earnings per share

	Consolidated	
	2021 \$'000	2020 \$'000
Loss after income tax attributable to the owners of Ovato Limited	(67,086)	(108,750)
	Number '000	Number '000
Weighted average number of ordinary shares used in calculating basic earnings per share	5,828,313	732,004
Weighted average number of ordinary shares used in calculating diluted earnings per share	5,828,313	732,004
	Cents	Cents
Basic earnings per share	(1.2)	(14.9)
Diluted earnings per share	(1.2)	(14.9)