

Ovato Ltd – Company Update

21 May 2019

Summary

- On 20 May 2019, Ovato Ltd (Ovato, Company) announced its intention to raise approximately AUD15.5m via equity capital markets. The offer will be open to institutional investors and retail investors. The offer has been underwritten by Wilsons Corporate Finance Limited, and major shareholders Michael Hannan, James Hannan, Sayman Pty Ltd (in its capacity as trustee of the Lindsay Hannan Family Trust), Adrian O'Connor and Richard O'Connor have agreed to subscribe to additional shares in the event any shortfall is not taken up by institutional and retail investors.
- The equity raising will enable acceleration of Ovato's Site Consolidation plan, which will see Warwick Farm becoming the Company's main production site in NSW. The project is currently progressing on time and budget, although the proposed acceleration means that project costs have been brought forward which will be supported by the proceeds from the equity raising.
- The other purpose of the equity raising is to strengthen the Company's balance sheet following a downward revision of Ovato's FY19 EBITDA guidance to AUD30m-AUD33m, against an AUD37m-AUD40m range previously.
- Softer earnings have been driven by lower volume and margin pressures, with softness predominantly on the newspaper side (the catalogue side has performed well). In relation to lower volume, the reduction in activity stemmed from the recent State and Federal elections which led to lower than anticipated uncontracted new business.
- The alignment between Fairfax and News Corp has led to increased competition for Ovato's publishing and retail business, leading to the business units printing each other's regional titles. Revenues from New Zealand have also been softer; a mixture of industry overcapacity and price led pursuit for market share has seen price declines by an average of 20 to 25%.
- As a consequence of the aforementioned headwinds, we have revised our forecast with revenue for FY19 falling to AUD657.7m and EBITDA to AUD31.6m, in line with management's updated guidance range between AUD30m-AUD33m. Our revised EBITDA reflects both the revenue drop and EBITDA margin compression.
- Total debt and leverage is forecasted to peak in FY19 at AUD91m and 4.4x, respectively. We expect the Company to delever its balance sheet as cost savings from the Site Consolidation begin to filter through to the bottom line. See Figure 1 for the key highlights of our revised forecast.
- While the downward revision of the FY19 guidance is disappointing, this is somewhat compensated by the Company's willingness to raise equity in order to support the balance sheet, even at a time when the share price is trading at a 12-month low. Also positive is the continued support of the Hannan family, through their agreement to support the equity raising.

Ovato Finance Pty Ltd
AUD40m 8.25% Nov 2022

Francis Odong

Credit Analyst
+61 2 9697 8748
francis.odong@fiig.com.au

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Figure 1: Revised Forecast

(AUDm)	FY19	Variance(*)	FY20	Variance(*)
Total revenue	657.8	-5.1%	634.7	-5.0%
EBITDA	31.6	-15.3%	39.4	-12.1%
EBITDAR	58.6	-8.9%	68.4	-7.3%
Gross Debt	91.0	--	86.0	--
Net Debt	40.1	-23.2%	52.1	-11.5%
Lease adjusted net debt/EBITDAR	4.4x	+ 0.2x	4.2x	+ 0.3x
<i>Covenant: LAND/EBITDAR</i>	4.75x		4.75x	
EBITDAR/interest+lease+note capital	1.6x	- 0.2x	1.8x	- 0.2x
<i>Covenant: EBITDAR/Int+lease+note cap</i>	1.25x		1.25x	0.0
<i>Headroom</i>	0.7x		0.7x	0.0
Net Debt / EBITDA	1.3x	- 0.1x	1.3x	--

Source: FIIG Securities

Note: (*) Reflects the difference compared to our prior forecast

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