

PMP LIMITED FY17 FULL YEAR RESULTS

PMP meets revised EBITDA guidance, print integration well advanced

KEY POINTS

- **FY17 results in line with revised guidance**
 - EBITDA (before significant items) at \$32.2M, down 37% pcp
 - Net Loss (after tax and significant items) of \$126.4M compared to \$0.2M Profit (pcp)
 - Free cashflow² at \$37.2M vs \$37.5M, down \$0.3M pcp
 - Net Debt at \$18.5M is well ahead of guidance, vs Net Cash of \$0.7M at 30 June 2016

- **Integration well advanced**
 - Press fleet rationalisation completed in 4 months - improved scale, capability/utilisation
 - \$40M of annualised cost savings already actioned, payback improved
 - \$142.6M significant items - \$105M merger related

- **FY18 and FY19 guidance reaffirmed,**
 - FY18 EBITDA (before significant items) \$70M - \$75M
 - FY19 EBITDA (before significant items) \$90M - \$100M
 - Net debt free (in FY19). Capital management to resume in 2HFY18

\$M	FY17	FY16	Var \$	%
Sales Revenue - Statutory	1,051.5	816.0	235.5	28.9%
Sales Revenue - Underlying ¹	563.3	493.5	69.7	14.1%
EBITDA (before significant items)	32.2	51.2	(19.0)	(37.0%)
EBIT (before significant items)	3.7	23.3	(19.6)	(84.2%)
Net (Loss)/Profit (before significant items)	(1.9)	11.8	(13.8)	(116.4%)
Net (Loss)/Profit (after significant items)	(126.4)	0.2	(126.6)	-
Free Cash Flow ²	37.2	37.5	(0.3)	(0.9%)
Net Cash / (Net Debt)	(18.5)	0.7	19.2	-
Significant Items (post tax)	(124.5)	(11.6)	(112.8)	-

1. Calculated using distribution fee basis for Gordon & Gotch revenues rather than cover price of the magazine - see page 7 for details

2. Free cashflow is defined as EBITDA (before significant items) less interest paid, income tax, capex and movement in working capital

Commentary

Post merger integration on track

PMP today announced EBITDA (pre significant items) of \$32.2M, within guidance issued on 2 June 2017. The financial results reflects PMP's stalled first half while waiting for ACCC approval of its merger with IPMG, and its post-merger second half, as the Group executed its integration program.

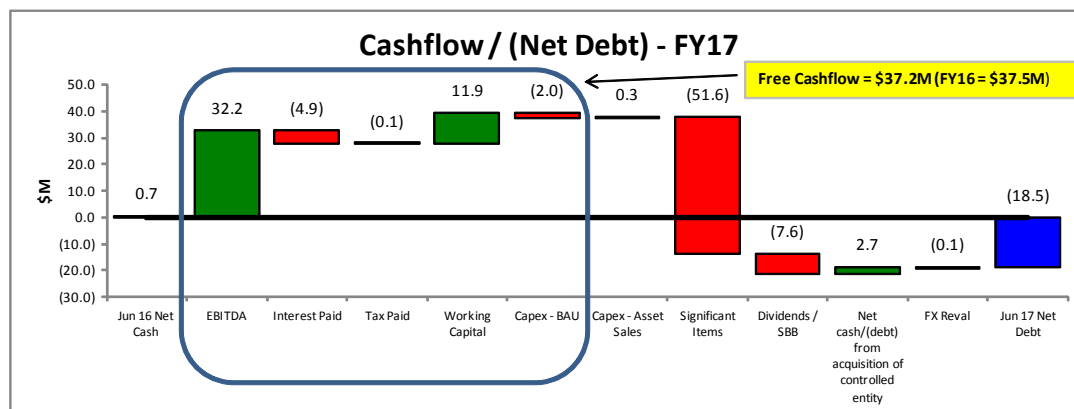
Reflecting on the year, CEO Peter George said: "Fiscal 2017 was both challenging and rewarding, marked by print industry consolidation and the completion of the merger with IPMG. I am pleased to report that our transformation program has run smoothly and on schedule. We end the year with the press fleet rationalisation complete, a new optimised national manufacturing footprint and \$40M of annualised cost savings actioned within four months of the merger."

Peter George confirmed that PMP will achieve the expected run rate synergy numbers in FY18. “Further reductions in indirect costs, including procurement are already well underway to deliver the net \$55M of synergies by fiscal 2019. Pleasingly, we expect the total cash cost spend to achieve these savings to be \$5M lower than originally estimated, falling to \$75M#.”

The Australian web heat-set printing industry has consolidated from five to two players – a more efficient industry structure. With the merger, PMP has enhanced it’s scale and capability, enabling better capacity management and improved fleet utilisation.

“It is very pleasing to see the successful transition to the new national print manufacturing footprint while at the same time achieving the expected annualised cost savings quickly and efficiently.” Peter George said.

The results demonstrate PMP’s continued commitment to cashflow, with free cashflow remaining a key feature of the PMP business model and is its key financial metric. Free cashflow at \$37.2M was down \$0.3M pcp as better working capital movements, lower interest expense and capex broadly offset lower EBITDA. Working capital movements were favourable \$11.9M in FY17 vs (\$2.9M) pcp an \$14.8M variance. This came predominantly from a change in trading terms at Gordon & Gotch Australia along with better than expected debtor collections across the Group.



“This achievement is a clear sign of our cash-generating capability and our strong debt management through continued tight control over working capital and capital expenditure.” Peter George said.

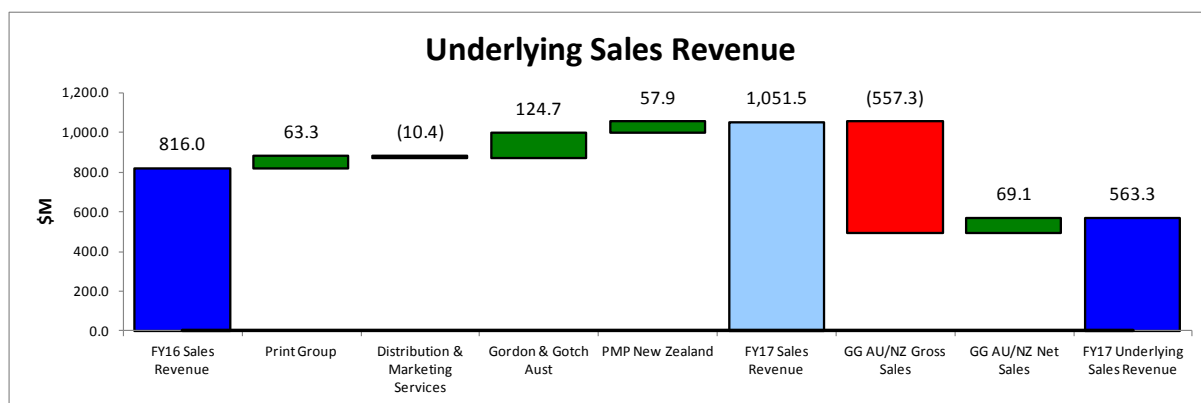
“Our balance sheet remains strong with Net Debt at \$18.5M which is \$26.5M lower than guidance due to better than expected working capital outcomes from changes in trading terms as well as very strong debtor collections, lower inventory and cautious cash forecasting. Capital expenditure and redundancies were also lower than forecast.”

Capital expenditure at \$2.0M was down \$2.3M pcp as focus centred around moving to the new heatset manufacturing footprint. Given the useful life of PMP’s heatset press fleet, capex should remain low. Cashflow from operations at (\$12.5M) was \$44.5M lower pcp after a \$41.9M increase in cash significant items in FY17.

Sales at \$1,051.5M were up by \$235.5M or 28.9% pcp. Gordon & Gotch sales were up \$185M in Australia/New Zealand as the full year run rate came through on new contracts while Print Australia sales rose by \$63.3M or 31.7% pcp on four months of IPMG trading, partially offset by lower print sales at PMP.

In accordance with AASB15, PMP has decided to record Gordon & Gotch sales on a distribution fee basis for management reporting purposes. Recent contract wins for this business along with the impending change in revenue recognition standards has meant this is a suitable time to make such a change (see Additional Disclosures section for more details). The impact of the distribution fee basis for sales is outlined in the following chart :

cash implementation costs, before any post completion impacts of onerous lease provisions



FY17 EBITDA (before significant items) at \$32.2M was \$19.0M or 37% lower compared to \$51.2M pcp as lower profits across the PMP Group more than offset 4 months profits from the IPMG merged entities.

Group EBITDA (before significant items)/Sales ratio for FY17 is 5.7% vs 10.4% pcp on an underlying basis on lower EBITDA year on year.

Statutory loss after tax was \$126.4M vs \$0.2M profit in FY16 due to higher significant items up \$112.8M (details in significant item section) and \$19M lower EBITDA.

PMP Print Australia

\$M	FY17	FY16	%
Sales Revenue - statutory	263.0	199.7	31.7
Sales Revenue - underlying	263.0	199.7	31.7
EBITDA(before significant items)	16.7	26.4	(36.8)

“Following the merger with IPMG, PMP has the strongest tier 1 customer base in the industry. The merger has enabled us to upgrade our press fleet without capital expenditure. PMP now has the widest range of web presses in the industry which gives our customers greater flexibility for scheduling.” said Peter George.

Underlying revenues were 31.7% or \$63.3M higher pcp. The main factors behind this were four months of IPMG print revenues partially offset by lower PMP print revenues.

Market conditions and consumer sentiment continued to remain very tough with many retailers controlling costs via format changes/pagination while magazine publisher print runs were also reducing. Since completing the merger on 1 March 2017, PMP has won a number of new print contracts and also retained - \$130M pa of sales with key existing print customers.

The combined print sales volumes were up 26.6% pcp as higher tonnes from IPMG outweighed lower PMP activity. EBITDA (before significant items) at \$16.7M was down \$9.7M, as the impact of higher profits from IPMG print and synergy savings were more than offset by lower sell prices and volumes at PMP heatset print.

PMP New Zealand

\$M	FY17	FY16	%
Sales Revenue - statutory	193.5	135.6	42.7
Sales Revenue - underlying	119.3	114.4	4.3
EBITDA(before significant items)	12.4	15.0	(17.2)

Underlying revenues were \$119.3M up \$5.0M or 4.3% pcp with higher Gotch sales mostly offset by lower heatset print revenues.

PMP New Zealand EBITDA (before significant items) of \$12.4M, was down \$2.6M or 17.2% pcp as higher profits at Gordon & Gotch were offset by lower EBITDA in Print which was impacted by lower sell prices and volumes while tight cost controls provided a partial offset. Gotch volumes were 250% higher and Sheetfed sales up 2%. Heatset volumes were 2.7% lower pcp while Distribution activity was down 1%.

Distribution & Marketing Services

\$M	FY17	FY16	%
Sales Revenue - statutory	595.0	480.7	23.8
Sales Revenue - underlying	180.9	179.5	0.8
EBITDA(before significant items)	6.5	13.5	(51.5)

The new Distribution & Marketing Services business comprises Distribution AU, Digital (PMP and IPMG), Gordon & Gotch AU and the Griffin Press book printing business. In this business, underlying revenue at \$180.9M was up by \$1.5M pcp as higher Gotch revenues were offset by lower sales at both Distribution and Griffin.

PMP Distribution volumes were down 12% pcp with 6% of this due to customer withdrawals from the market (eg Dick Smith) and the balance due to retailers reducing their marketing budgets given challenging market conditions. In FY18 higher volumes are expected on the back of a recent contract win.

From an industry perspective, 6.9 billion catalogues were delivered in the last 12 months. This is lower than previous years (down 7.3% pcp) due to lower volumes predominantly from tier 2 and 3 customers and the withdrawal from the market of two major distribution customers which accounted for 30% of the year-on-year reduction. The four year CAGR is (3.3%).

Volumes at Gordon & Gotch were up 29% pcp from new contracts while Griffin tonnes fell 18% on contract losses.

Griffin Press has been adversely impacted by the major shift to small order demand which has put significant pressure on delivery schedules, necessitated a shift to digital printing and, along with very aggressive market conditions, resulted in lower sales and profits. Management has stabilised the business and is looking to rebuild sales and profitability over the medium term.

EBITDA (before significant items) at \$6.5M was \$7.0M lower pcp mainly due to lower outcomes and both Distribution and Griffin Press.

Significant Items

Significant items in FY17 were \$142.6M[#](pre tax) up \$128M pcp with \$61.6M of cash items and \$61.0M of non-cash items as set out in the Additional Disclosures.

Cash significant items in FY17 totalled \$61.6M, mainly for redundancies - mostly direct wages employees at the closed sites, press relocations, the initial phase of streamlining back office functions and costs relating to the IPMG merger.

[#] includes \$20.0 M of onerous lease provisions at closed sites

Debt

The company has a Net Debt position at June 2017 of \$18.5M. Net debt was \$26.5M better than guidance due mainly to changes in trading terms and better than expected debtor collections as well as lower capital expenditure, reduced significant items spend and cautious cash forecasting.

The company has arranged \$65M new ANZ facilities to support the cash spend for the merger integration, at June 2017 it was drawn to \$14.8M. Once integration is complete, PMP intends to pay down debt quickly. PMP is currently on track to be net debt free in FY19.

Capital Management

Given the cash demands of delivering synergies, PMP suspended both dividends and share buy backs during the integration period. Capital management is intended to recommence in the second half of FY18. The Board expects that no cash tax will be paid in Australia for the next four to five years as a consequence of the losses carried forward. Shareholders will also benefit from the \$62M in franking credits available following the merger.

OUTLOOK

The FY17 results included four months sales from IPMG. In FY18 a further eight months of IPMG sales will flow through into the business adding circa \$160M sales revenue.

Similarly, FY17 EBITDA before significant items of \$32.2M included only four months for IPMG. On a normalised 12 months basis, the merged entity would have had a FY17 EBITDA before significant items of \$49M.

PMP expects challenging print industry market conditions to continue into FY18, with major print contracts still subject to strong price competition and some volatility while the market adjusts to the new industry structure. Tough retail conditions are expected to continue.

“We expect to continue to strengthen our position in the key print and distribution markets and the company’s disciplined focus on generating free cashflow will remain front and centre for the foreseeable future. The implementation of further cost out initiatives during FY18 is expected to achieve annualised net savings of \$55M by FY19,” said Peter George.

Capital expenditure will continue to remain low and net debt is expected to peak in October-November 2017 at \$60M - \$65M, lower than the earlier guidance of \$75M as much of the lower net debt position at June 2017 is a permanent benefit.

The company will provide a trading update for FY18 at the Annual General Meeting in November 2017 and reaffirms it’s key guidance measures :

- FY18 EBITDA (pre sigs) \$70M - \$75M and \$90M - \$100M for FY19
- Capital Management recommences 2018
- Net debt free post transformation in fiscal 2019.

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Additional Disclosures

Significant Items

Significant items totalled \$142.6M as below :

FY17 Significant Items

\$M	<u>Cash</u> ¹	<u>Non cash</u>	<u>Total</u>
Redundancies/Other	49.9	0.0	49.9
Press & Property relocations	3.7	0.0	3.7
Merger costs	8.0	0.0	8.0
Post-merger impairments (mainly PP&E)	0.0	36.4	36.4
Goodwill & Intangible impairments ³	0.0	24.6	24.6
Sub total FY17	61.6	61.0	122.6
Onerous lease provisions ⁴ (to be released 2018-2024)			20.0
Total			142.6

(1) \$51.6M spent in FY17, \$10.0M to be spent in FY18 (redundancies/press relocations)

(2) Includes \$6.4m impairment at Griffin Press

(3) Includes \$5.0m impairment of Goodwill at Griffin Press, \$19.4m impairment of Goodwill at Maxum/Heatset NZ and \$0.2m impairment of software intangibles at PMP Digital

(4) After closing 3 print sites, an onerous lease provision has been booked in FY17 for \$20.0M. \$0.8M of this provision was paid in Q4 FY17. Accounting Standards require us to recognise the difference between the external rent expense on those sites and the expected sub lease rental income between 2018-2024 as an onerous lease provision.

Non cash significant Items

- The new heatset manufacturing footprint involved closing 3 print sites and the assets surplus to requirements at these sites makes up the majority of the Property Plant & Equipment non-cash impairments of \$36.4M. Post merger, 11 heatset presses have been decommissioned.
- A non cash goodwill impairment of NZ\$20.3M (A\$19.4M) for PMP New Zealand. At December 2016, the company advised the impairment testing for the PMP New Zealand Print CGU indicated that, despite a surplus of recoverable amount vs carrying value, a deficit was possible if trading declined by 5%. Since then, lower print sell prices and volumes have adversely impacted the future prospects. CGU testing at June 2017 indicates a deficit, as such, the company has written off the goodwill held in this CGU.
- A non cash goodwill impairment of \$5.0M at Griffin Press. CGU testing at December 2016 for Griffin indicated a surplus. However, since then the expected future performance of the business has worsened (for outer years) and CGU testing at June 2017 indicates a deficit of recoverable amount vs carrying value. As such, the company has written off a total of \$11.3M of both goodwill and PP&E associated with this CGU.

New revenue recognition standard

The new revenue recognition standard AASB15 comes into effect for the year ended 30 June 2019. After an initial review of the new standard, PMP has elected to early adopt from 1 July 2017 and the major impact will come from Gordon & Gotch sales. This will take into account only the distribution fee rather than the cover price of the magazines, which more closely reflects the performance obligations vs control aspects of the contracts.

The change does not impact EBITDA as the reduction in sales revenues is mirrored by a commensurate reduction in finished cost of goods sold. The new sales methodology has also been used when discussing the FY17 results for investor presentations, to provide a clearer view of the company's performance in both the NZ business and the Distribution & Marketing Services division.

While the Gordon & Gotch statutory sales for fiscal 2017 were \$557.2M on the existing basis, the new AASB15 equivalent would have been \$69.1M a reduction of \$488.2M in sales revenue which is shown in the second section of the sales chart on page 3. As such, group sales for FY17 on the new AASB15 basis is \$563.3M. There is also a \$488.2M reduction in finished cost of goods sold, so there is no impact at the EBITDA level.

The FY17 statutory accounts will be the last time Gordon & Gotch sales are shown on a gross basis with future statutory accounts prepared on a net basis. A final review of the impact of the new standard on other businesses will be undertaken in the coming months. No material impacts are envisaged.

Gordon & Gotch Australia	FY17	FY16	%	\$
Sales Revenue - Statutory	470.5	345.8	36.1%	124.7
Underlying Sales Revenue	56.4	44.5	26.6%	11.9
EBITDA (before significant items)	2.7	2.9	(7.2%)	(0.2)

Gordon & Gotch New Zealand	FY17	FY16	%	\$
Sales Revenue - Statutory	86.8	26.4	228.4%	60.4
Underlying Sales Revenue	12.6	5.2	142.7%	7.4
EBITDA (before significant items)	1.1	0.4	146.1%	0.6