Credit Research
Services & Technology

PMP Group

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New Issue Research Report

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Executive summary

- PMP is the largest integrated print and distribution company in Australia and New Zealand, producing catalogues, magazines, newspapers and books. The company has been listed on the ASX since 1991. In March 2017 PMP merged with IPMG and now effectively operates in a duopoly with competitor the IVE Group.
- PMP seeks to issue AUD40m of secured subordinated 8.25% Notes due November 2022 to fully refinance its existing AUD40m 6.43% Notes due September 2019.
- The proposed Notes have better security and covenants than prior PMP issues. We consider the structure more favourable to Noteholders relative to the current bond. Debt levels are controlled and free cash flow is locked in the business. The Notes benefit from a second ranking security position and a first charge over a three months interest reserve account. PMP has maintenance covenants tested quarterly which tighten over the life of the Notes. The Notes also partly amortise over the last two years in order to reduce refinance risks. Please refer to Appendix 1 for more details.
- No further debt will be allowed other than for the AUD16m to acquire a new more efficient 80 page printing press and any other debt that is subordinated to the Note.
- PMP operates in a declining industry with IBIS World forecasting industry revenues to decrease by around 2% per annum through to 2022. In mitigation, the strategic focus for PMP has been the catalogues business which has proven to be a more resilient marketing medium compared to other forms of printed material. Advertising spend has fallen significantly in traditional mediums and transitioned towards digital offerings however catalogue spend has been in very gradual decline falling by only around 2% p.a. over the last 20 years.
- In terms of strategy PMP intends to support growth through its full service marketing capabilities available post the IPMG merger. PMP believes it now has superior capabilities and services to offer an end-to-end solution for its customers. PMP will expand its digital business to focus on a select group of key customers. To support this, PMP has recently partnered with Quantium and other providers to develop data driven solutions.
- We forecast EBITDA to fall to AUD38.5m in FY19, then increase to AUD45.4m in FY20 as synergies and efficiencies begin to be recognised. We forecast net debt to peak at AUD43.6m in FY20 then begin to fall. Lease adjusted net debt leverage is forecast to peak at 3.9x in FY19 (FY18: 3.6x) and fixed charge coverage to fall to 1.8x in FY19 (FY18: 2.0x). Based upon our assumptions PMP is forecast to remain within its covenant limits.

Key Financials (AUDm)

	FY17	FY18	FY19F	FY20F
Revenue	614.2	746.5	704.2	678.9
EBITDA	32.2	40.6	38.5	45.4
NPAT	(126.4)	(43.8)	(21.5)	(12.0)
Net debt	19.2	34.3	42.1	43.6
Lease adj. net debt/EBITDAR	3.7x	3.6x	3.9x	3.7x
Free cash flow	(3.1)	(12.6)	(7.9)	(1.4)

Source: FIIG Securities

F denotes FIIG Securities forecasts

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Company background

PMP Ltd (PMP, Group) is the largest integrated print and distribution company in Australia and New Zealand, producing catalogues, magazines, newspapers and books. The company has been listed on the ASX since 1991. PMP Print's production plants are located strategically in major cities. The company offers letterbox distribution of catalogues and newspapers direct to households through its PMP Distribution business and magazine distribution directly to retail outlets through its Gordon & Gotch business. In March 2017 PMP merged with IPMG and now effectively operates in a duopoly with competitor the IVE Group. With the merger of IPMG, PMP now has a range of marketing services, which include: creative design, brand strategy, business consulting services, marketing automation, photography, videography, point-of-sale, public relations, content and social media.

PMP operates through four divisions: Print, Distribution, Marketing Services and PMP New Zealand. Figure 1 details divisional EBITDA contribution (before unallocated costs), while Figure 2 details print volumes by type.

Figure 1: FY18 divisional EBITDA contribution*

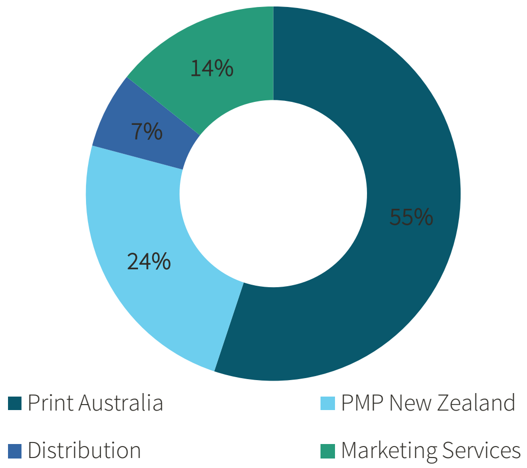
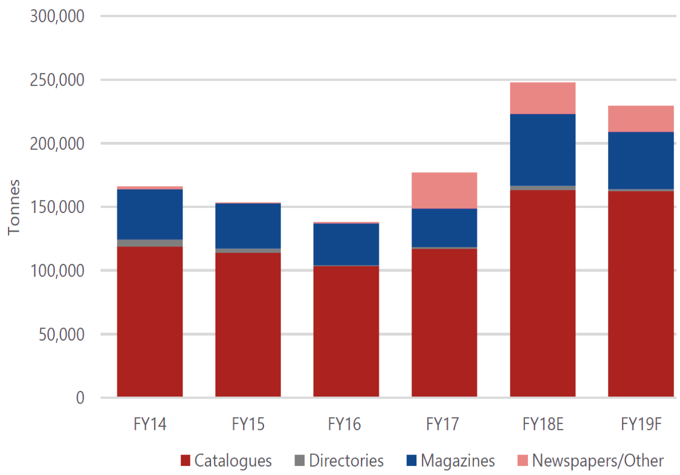


Figure 2: Print volume (Australia tonnes)



*Source: Company reports. *Before significant items and excluding corporate unallocated costs*

Strategy

PMP has shifted focus from purely optimising costs by any means to driving profitability through a combination of cost efficiencies and leveraging its existing customer base for additional revenue opportunities. PMP expects to support growth by providing a full service capability via strategic account planning with its top 30 customers including using the full suite of marketing services available post the IPMG merger. Post-merger, digital services accounted for 5% of revenue in FY18. PMP believes it now has superior capabilities and services and end to end solutions offering in this area. PMP will expand the SBM digital business to focus on a select group of customers. PMP has identified cross-sell opportunities with its top clients.

PMP intends to deliver improved customer insights and measurement to support its offering by providing more transparency on the benefits of the offering. PMP believes it can increase existing customer spend and win new contracts, especially in the catalogues business. PMP has recently partnered with Quantium and other providers to develop data driven solutions.

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Capital structure and funding requirement

PMP seeks to issue new 8.25% AUD40m of secured subordinated Notes to fully refinance its existing 6.43% Notes due September 2019. Further, the Group intends to acquire a new 80 page printing press debt financed via an Export Credit Agency (ECA) loan of AUD16m.

PMP currently has four on balance sheet facilities plus a contingent guarantee facility provided by ANZ. While we note with the exception of the ANZ Equipment finance facility, these facilities are due to mature in the next six months, we understand that ANZ has provided financing for PMP since around 2000. Receivables finance facilities are normally only extended for 364 days at a time due to the nature of the facility and are customarily rolled over closer to expiry. We also note that each of the equipment finance facilities are provided by commercial banks but guaranteed by Euler Hermes, a German export credit authority.

Figure 3: Pro forma proposed capital structure

30 Jun 2018 pro forma	Provider	Limit (AUDm)	Drawn (AUDm)	Maturity
Overdraft	ANZ	9.6	0.0	1 Mar 19
Working capital facility	ANZ	10.0	10.0	1 Mar 19
Receivables finance facility[1]	ANZ	40.0	24.4	28 Feb 19
Equipment finance facility	ANZ	4.2	4.2	23 Nov 19
Equipment finance facility[2]	Commerzbank	11.0	11.0	30 Sep 21
Proposed equipment finance facility	Commerzbank	16.0	16.0	Unknown
Total senior secured debt		**90.8**	**65.6**	
Proposed 8.25 secured subordinated Notes		40.0	40.0	Nov 22
Total debt		**130.8**	**105.6**	
Cash			54.4	
Total net debt			**51.6**	
Market capital (30 Oct 2018)			102.0	
Total enterprise value			**153.6**	

Source: FIIG Securities, Company reports. 1: Includes AUD1.2m of "Other" facilities. [2] Gross amount excluding cross currency swap. Net amount is AUD8.5m if cross currency swap is included

Overdraft facility: In February 2016, PMP entered into fully secured AUD5m and NZD5m overdraft facilities with ANZ Bank (which replaced previous overdraft facilities). A bank guarantee facility was also provided in conjunction with the overdraft facilities with a first ranking fixed and floating charge over the assets of PMP pledged as security.

Working capital facility: In March 2017, PMP entered into a fully secured AUD30m working capital facility with ANZ Bank and pledged a first ranking fixed and floating charge over its assets as security. The limit has been reduced to AUD10m.

Receivables finance facility: In March 2017, PMP entered into an AUD35m receivables financing facility with ANZ Bank. This was increased to AUD40m in December 2017. Security pledged for this facility involves a charge over certain receivables of PMP Print Pty Ltd, PMP Digital Pty Ltd and PMP Ltd.

Equipment finance facility: As a result of the IPMG acquisition, PMP took on a fully secured amortising (semi-annual) AUD8.5m equipment financing facility secured against an offset rotary press with ANZ Bank. The balance is AUD4.2m.

Equipment finance facility: In February 2013, PMP entered into a EUR17m export financing loan agreement with Commerzbank AG, secured against an offset rotary press. As at 30 June 2018, this loan was fully drawn and after amortisation payments had a balance of EUR7.0m. This facility has a maturity date of 30 September 2021 with semi-annual amortisations. PMP has fully hedged its currency risks related to this facility.

Proposed equipment finance facility: PMP plans to retire five older printing presses and replace these with a new more efficient 80 page press. The new press and finishing equipment will cost AUD20m and be debt financed via ~AUD16m export financing loan agreement with Commerzbank AG, secured against the offset rotary press and associated finishing equipment.

Secured subordinated Notes: PMP intends to issue AUD40m of four year notes to refinance its existing AUD40m 6.43% Notes due September 2019.

PMP Group

Credit strengths

Bond structure and security: The proposed Notes have better security and covenants than prior PMP issues. We consider the structure favourable to Noteholders. Debt levels are controlled and free cash flow is locked in the business.

The Notes benefit from a second ranking security position and a first charge over a three month interest reserve account. PMP has to comply with maintenance covenants tested quarterly including maximum leverage (lease adjusted net debt to EBITDAR) of 4.75x reducing to 3.50x and minimum debt service coverage (EBITDAR/P&I and Leases) of 1.25x increasing to 1.50x.

No other new debt outside of the new printing press facility is able to be entered into over the life of the Notes unless subordinated to the Notes. No dividends or similar items are able to be paid for the first year, and are only permitted after this if certain credit metrics are met. There are also restrictions on acquisitions and the use of excess cash. The Notes also amortise over the last two years in order to reduce refinance risks. Please refer to Appendix 1 for more details.

Sound balance sheet: While net debt is forecast to rise, we continue to view PMP's balance sheet as sound and positioned relatively defensively in response to operating conditions. We believe that there is material value in debtors which represent predominately blue chip clients (FY18: AUD91.9m), inventory (FY18: AUD105.0m) and property plant and equipment (FY18: AUD154.3m). We forecast senior secured debt to peak in FY19 at around AUD54.4m, with the AUD40m Notes holding the next level in the capital structure with a second ranking secured position.

Liquidity position: PMP has historically carried a relatively large amount of cash on balance sheet amounting to AUD54.4m at FY18 (FY17: AUD54.3m). This combined with availability under its revolving facilities (overdraft, working capital facility and receivables finance facility), which totalled AUD26.4m at FY18, gives PMP a sound liquidity position.

However we note that PMP's Gordon & Gotch business carries negative working capital, meaning it receives cash payment from retailers before it is required to pay its suppliers. This benefits working capital and improves the working capital position on the balance sheet. While this is positive, Gordon & Gotch's business is declining, and any significant drop could squeeze the company in terms of liquidity/funding.

Strong market share and competitive position: With the acquisition of IPMG, the Group effectively operates in a duopoly with competitor the IVE Group. PMP is the leader in the catalogue market in Australia and New Zealand. PMP is Australia's largest heat set printer and accounts for approximately 55% of the total market (cold set printing is the process used for newspapers; heat set printing is the process used for catalogues, glossy printing).

PMP has a number of competitive advantages from its strong market position including being the only player with a national footprint who is able to offer the end-to-end services. These result in cost advantages derived from procurement, production and distribution versus PMP's competitors. This service represents the core of the PMP business and drives the majority of earnings.

Reduced print capacity: Both PMP and IVE have taken out significant printing capacity since 2016. Due to the industry's high fixed costs printing firms need to operate at or near full capacity to enhance profits. This should lead to better pricing discipline.

Access to the latest available and most efficient technology and techniques: Firms that use state-of-the-art machinery and equipment are more likely to reduce costs, improve the quality of printed products and offer complementary services. PMP's intended acquisition of the 80 page printing press will allow it to improve printing efficiencies through shorter preparation and run times and a reduced direct labour component.

The majority of PMP's customers/debtors are top tier businesses: PMP has a blue-chip customer base including Woolworths, Aldi, Harvey Norman, Bauer Media, News Corp, Bunnings, Kmart and Target with which there are strong relationships which have been held for a number of years. Credit risk from its top customers is therefore considered low.

Strong history of significant restructuring and cost base reduction: While the Group did not achieve all the benefits expected with the IPMG merger (discussed below) it did demonstrate it is able to continue to strip significant costs out of the business – albeit some of these were offset by the decline in the industry in this case.

Previously, PMP successfully executed a major transformation program that started in 2012 and completed in 2016. Over that time it resized the business and delivered a significant cost base reduction. It achieved a substantial reduction in financial risks with net debt reduced from AUD143m in FY12 to AUD19.2m in FY17.

Ongoing Business Review Program initiatives: PMP has identified additional costs savings and efficiencies. These include further reductions to headcount and more efficient working capital management. Further the Group maintains that the new AUD20m printing

PMP Group

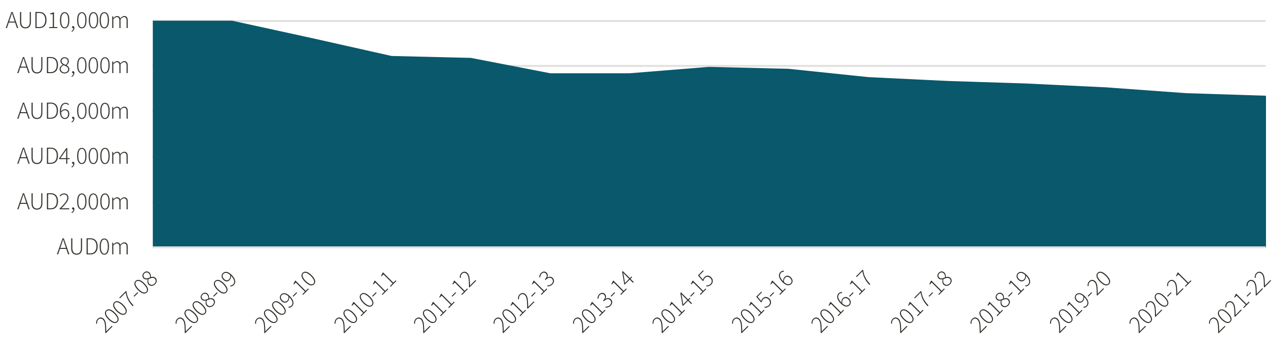
press will achieve a four year payback, providing production efficiencies through wider web width, increased running speed and faster make-readies, and in addition cost efficiencies through reductions in labour, energy, and repairs and maintenance.

Management and Board of Directors: In our opinion, the board is strong with a diverse educational and vocational background and a good mix of executive, non-executive and independent Directors. The Board consists of the Chairman, five Non-Executive Directors, and the CEO/MD. Matthew Bickford-Smith (Chairman) is the current Director of Eastern Agricultural Australia and was previously the CEO of Ridley Corp. Kevin Slaven (CEO/MD) joined PMP after the merger, having previously been the CEO for IPMG (Hannan family company) since 2013. Kevin took on the CEO/MD role in late 2017 when Peter George resigned. Other Non-Executive Directors are Michael Hannan (previous Executive Chairman of IPMG), Andrew McMaster, Dhun Karai, Wai Tang and Terry Sinclair. Please refer to Appendix 2 for full details.

Credit weaknesses

PMP operates in a declining industry: The print industry has been in a period of slow decline. Australian printing industry revenue continues to decrease as illustrated in Figure 4. IBISWorld forecasts this trend to continue, with revenues decreasing by around 2% per annum through to 2022. In 2017 PMP merged with IPMG and now effectively operates in a duopoly with competitor the IVE Group. Both printers have or have indicated they will reduce their excess capacity. Heatset printing prices in both Australia and New Zealand continue to remain challenging.

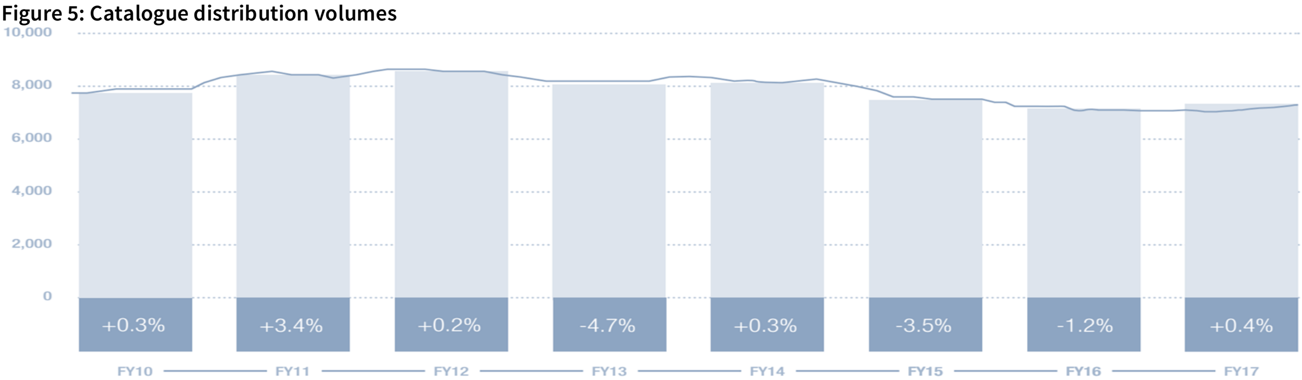
Figure 4: Printing industry revenue



Source: IBISWorld

In mitigation, the strategic focus for PMP has been the catalogue business. Printed catalogues have proven to be a more resilient marketing medium compared to other forms of printed material, such as magazines and directories. Figure 5 illustrates catalogue distribution volumes since FY10, and shows relative stability when compared to the broader industry represented in the figure above. Advertising spend has fallen in traditional mediums and transitioned towards digital offerings however catalogue spend has only been in very gradual decline over the last 20 years. However while catalogues do comprise a majority of Print Australia sales and EBITDA, there is still a large proportion of business from other less stable segments.

Figure 5: Catalogue distribution volumes



Source: Australian Catalogue Association

PMP Group

This is due to the effectiveness of catalogues as a marketing channel. Roy Morgan research (2017) suggests, on average 10.7 million Australians (over 14 years) have read a catalogue in the last week and of those 6.8 million have bought from a catalogue in the last seven days. In addition, the research indicates that catalogues are considered as the first or second most useful media for making a purchasing decision in 54% of categories as measured by Roy Morgan.

Loss of a number of key customers or a dramatic collapse in volume of catalogues printed: The strength of the catalogue business over the life of the bond is a key risk. A dramatic collapse in the volume of catalogues printed or the loss of key customers would place the Group's credit metrics under some pressure. In mitigation, the catalogue business has remained largely resilient in recent years. PMP has a relatively diverse customer base and is participating in industry consolidation and expansion into complementary areas in response to market conditions.

The strength of the retail market has an impact on marketing spend, including catalogues: While retailing is struggling somewhat, PMP's key customers, such as supermarkets, tend to be more resilient and are focussed in the less cyclical part of the market. Further, the catalogue segment is somewhat counter cyclical, with for example marketing spending on this medium increasing following the GFC.

Further competition and pricing tension reducing PMP's market share and margins: While now operating in an effective duopoly, PMP's main competitor the IVE group may act aggressively or even on uncommercial terms in order to win business. The IVE Group is more profitable and has a more diverse business. The IVE Group generates a larger proportion of ongoing revenue from advertising and digital business, and therefore has less reliance on traditional print services for revenue generation.

In mitigation, through industry consolidation much of the excess capacity in the market has been removed. It is understood that the IVE Group is now running at full capacity and PMP is beginning to see price and margin improvement as a result (after an initial impact of aggressive pricing).

The IPMG merger did not realise all the expected synergies: In March 2017 PMP merged with IPMG. PMP initially expected to yield AUD40-55m in cost synergies and drive EBITDA improvement to AUD90-100m FY19F. However driven by a combination of increased competition in FY17 (i.e. prior to the IPMG merger) as the industry consolidated and as not all the cost synergies were achieved, the merged business performed weaker than expected as detailed below:

1. During August 2017 PMP guided to FY18 EBITDA of AUD70-75m.
2. In November 2017, FY18 EBITDA guidance was revised down to AUD50-55m due to; a shortfall in synergies due to higher volumes of short run work preventing PMP from delivering on expected labour and manufacturing savings, and a downward revision on pricing assumptions and contract renewals.
3. In February 2018, EBITDA guidance was revised down by a further AUD10m to AUD40-45m due to lower volumes of higher margin magazine and newspaper sales (offset by increased volumes in lower margin catalogues).
4. Actual FY18 EBITDA amounted to AUD40.6m.
5. For FY19 the Group stated "the full year impact of expected additional post-merger savings will be realised however they will be largely offset by lower print volumes mainly in newspapers and magazines".

Rising public concerns over environmental issues: Increased environmental awareness is generally detrimental to the printing industry, as it reduces demand for industry products, particularly items that require paper such as advertising materials and reports. Advertising materials, such as catalogues, leaflets and brochures are typically printed in large volumes. After distribution, many of these materials end up either being recycled or in landfills. Pressure from environmental groups may constrain key sources of industry demand.

Refinance risk: As discussed above, the Notes have significantly better security and covenant controls than prior issues. These include specific items aimed at reducing leverage to make refinance more attractive;

- step down maintenance leverage, and increasing fixed charge coverage convents,
- AUD10m of face value amortisation over the last two years of the Notes, and
- Restrictions on free cash flow above a certain level to force cash to be retained or debt reduced.

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Financial analysis

Figure 6 summarises audited accounts for FY17 and FY18 and FIIG forecasts to the maturity of the Notes.

Figure 6: Financial summary

P&L (AUDm)	FY17	FY18	FY19F	FY20F	FY21F	FY22F
Total revenue	614.2	746.5	704.2	678.9	654.8	632.0
Revenue growth		*21.5%*	*(5.7%)*	*(3.6%)*	*(3.5%)*	*(3.5%)*
Total expenses	581.9	705.9	665.7	633.4	603.3	582.7
EBITDAR	55.2	66.5	65.5	74.4	81.5	79.3
EBITDA	32.2	40.6	38.5	45.4	51.5	49.3
EBITDA margin	*5.2%*	*5.4%*	*5.5%*	*6.7%*	*7.9%*	*7.8%*
Depreciation & amortisation	28.5	31.3	30.0	28.8	28.8	28.0
EBIT	3.7	9.4	8.5	16.6	22.7	21.3
Interest expense	5.1	7.4	9.0	7.6	6.7	5.9
Significant items	142.6	39.4	15.0	15.0	10.0	10.0
NPBT	(144.0)	(37.5)	(15.5)	(6.0)	6.0	5.5
NPAT	(126.4)	(43.8)	(21.5)	(12.0)	(3.0)	1.5
Balance sheet (AUDm)	**FY17**	**FY18**	**FY19F**	**FY20F**	**FY21F**	**FY22F**
Cash	54.3	54.4	52.3	36.4	48.6	63.4
Receivables	117.3	91.9	93.7	92.3	91.7	91.0
Inventory	106.8	105.0	94.4	93.7	91.0	91.6
Property, plant & equipment	175.1	154.3	139.3	126.5	102.7	79.7
Goodwill & intangibles	37.6	37.7	37.7	37.7	37.7	37.7
Deferred tax assets	66.8	62.7	56.7	50.7	41.7	37.7
Other	12.1	12.3	12.3	12.3	12.3	12.3
Total assets	570.0	518.3	486.3	449.6	425.7	413.4
Accounts payable	173.8	157.5	149.8	142.5	135.7	131.1
Provisions and other	67.7	61.7	53.1	50.1	45.1	45.1
Senior secured debt	33.5	48.7	54.4	40.0	34.6	30.5
Secured subordinated notes	40.0	40.0	40.0	40.0	36.3	31.3
Total liabilities	315.0	307.9	297.3	272.6	251.7	238.0
Net assets	255.1	210.4	188.9	177.0	173.9	175.4
Cash flow (AUDm)	**FY17**	**FY18**	**FY19F**	**FY20F**	**FY21F**	**FY22F**
Operating cash flow	(12.5)	(6.1)	7.1	14.6	26.3	28.9
Investing cash flow	9.4	(6.5)	(15.0)	(16.0)	(5.0)	(5.0)
Free cash flow	(3.1)	(12.6)	(7.9)	(1.4)	21.3	23.9
Proceeds from borrowing	11.0	12.9	5.7	(14.5)	(9.1)	(9.1)
Dividends	(7.6)	0.0	0.0	0.0	0.0	0.0
Net cash flow	0.2	0.3	(2.1)	(15.9)	12.2	14.7
Credit metrics	**FY17**	**FY18**	**FY19F**	**FY20F**	**FY21F**	**FY22F**
Total debt	73.5	88.7	94.4	80.0	70.9	61.8
Net debt	19.2	34.3	42.1	43.6	22.2	(1.6)
Lease adjusted net debt	203.2	241.5	258.1	275.6	262.2	238.4
Lease adjusted net debt/EBITDAR	3.7x	3.6x	3.9x	3.7x	3.2x	3.0x
Covenant: LAND/EBITDAR			*4.75x*	*4.50x*	*3.75x*	*3.50x*
Covenant headroom: LAND/EBITDAR			*0.8x*	*0.8x*	*0.5x*	*0.5x*
EBITDAR/interest+lease+note capital	2.0x	2.0x	1.8x	2.0x	2.0x	1.9x
Covenant: EBITDAR/Int+lease+note capital			*1.25x*	*1.40x*	*1.50x*	*1.50x*
Covenant headroom: EBITDAR/Int+lease+note capital			*0.6x*	*0.6x*	*0.5x*	*0.4x*

Source: FIIG Securities, Company reports
F denotes FIIG forecasts

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In FY18 sales increased to AUD744.6m (FY17: AUD610.8m) with the full year inclusion of IPMG sales. However on a like for like annualised basis, sales fell AUD108m. This was mainly due to the loss of Coles and Pacific Magazines totalling around AUD61m, and AUD25m from a reduction in newspaper and magazine sales.

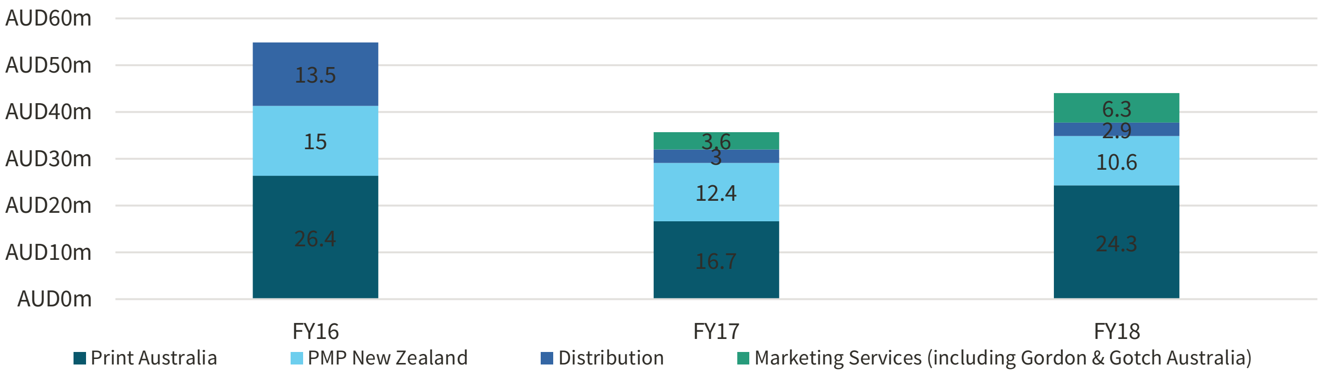
FY18 EBITDA (before significant items) increased to AUD40.6m (FY17: AUD32.2m). This was due to the merger, and synergy savings offset by lower publishing volumes, lower sell prices and certain uncontrollable input costs such as electricity.

Figure 7 details divisional EBITDA contributions (before significant items). Print Australia EBITDA at AUD24.3m was up AUD7.4m as higher volumes from IPMG heatset print and post-merger savings offset lost contracts, lower sell prices, lower volumes from existing customers, higher input costs e.g. power & paper.

Marketing Services including Gordon & Gotch EBITDA (increased AUD2.7m to AUD6.3m due to higher Marketing Services, lower costs at PMP Digital and higher EBITDA at Gordon & Gotch (up AUD0.5m). Distribution Australia EBITDA was stable at AUD2.9m.

PMP New Zealand EBITDA was down AUD1.8m as higher contributions from Gordon & Gotch (AUD0.9m) were offset by lower Print contributions (down AUD2.0m) due to lower sell prices.

Figure 7: Divisional EBITDA contribution (before significant items and excluding corporate unallocated costs)



Marketing services was separately reported from Distribution from FY17

Source: FIIG Securities, Company reports

Significant items booked during FY18 totalled AUD39.4m (FY17: AUD142.7m), mainly comprising redundancy related costs (AUD27.0m) and press relocations (AUD5.5m). Non-cash significant items represented AUD3.8m.

Free cash flow was negative AUD12.6m (FY17 negative AUD3.1m) as higher EBITDA (before significant items) and lower significant items were offset by working capital movements, higher capital expenditure and interest paid. Working capital movement was negative AUD4.9m.

Outlook and forecast

In terms of our forecasts we have made the following assumptions in relation to earnings:

- Print Australia and New Zealand: In FY19 we assume a AUD30m fall in revenue which mainly reflects lower volumes of newspapers and magazines. Beyond FY19 we assume a 5% p.a. fall in revenue.
- We assume a 1% p.a. increase in Marketing Services revenue, while Distribution remains flat.
- EBITDA margins are forecast to remain stable, however we forecast the new press investment (AUD20m) is paid back over four years, while FY19 estimated restructuring charges (AUD15m) are earned back in cost savings over five years.

We forecast EBITDA to fall to AUD38.5m in FY19, then increase to AUD45.4m in FY20 as synergies and efficiencies begin to be recognised. We forecast net debt to peak at AUD43.6m in FY20 then begin to fall. Lease adjusted net debt leverage is forecast to peak at 3.9x in FY19 (FY18: 3.6x) and fixed charge coverage to fall to 1.8x in FY19 (FY18: 2.0x). Based upon the assumptions and forecasts PMP remains within its covenant limits with headroom detailed in the above table.

PMP Group

Appendix 1: Secured subordinated note structure

The Information Memorandum contains the terms and conditions, including the full covenant package for the offering and investors are strongly encouraged to review it. The following table is a summary only covering the main structural features of the bond issue.

Figure 8: Key features

Issuer:	PMP Finance Pty Ltd
Guarantors:	The guarantors/issuer must as all times represent at least 90% of consolidated EBITDA and total assets
Issue amount:	AUD40m
Coupon:	8.25% fixed rate paid quarterly
Security:	Registered second ranking security over substantially all the assets and undertakings of the Issuer and each Guarantor
	A first ranking charge over a bank account with an amount equal to the quarterly Note interest payments due on the next interest payment date
Use of proceeds:	Redeem in full the existing PMP unsecured 6.43% Notes due 17 September 2019
Amortisation:	AUD1.25m per quarter from [22] November 2020 to reduce the balance to AUD30m by maturity
Maturity date:	[22] November 2022
Issuer call option	Each quarterly interest payment from [22] November 2020 at 102% Each quarterly interest payment from [22] November 2021 at 101% Any date from [22] August 2022 at 100%
Event of default	Non-payment of interest and principal Cross default and other standard events of default
Change of control:	Investor has option to put the bonds back to the issuer @ 101%
Permitted debt:	No additional debt is permitted other than new $16m ECA equipment loan or debt fully subordinated to the rights and claims of the Note Trustee and Noteholders under the Notes
Permitted acquisitions:	Asset acquisitions (including any business acquisitions) only permitted on the following basis: (a) Cash funded acquisitions of up to AUD3m per annum and up to AUD10m in aggregate; (b) Asset disposal funded acquisitions (i.e. proceeds from sale of an asset used to fund an acquisition within 180 days) up to AUD20m in aggregate; and (c) Acquisitions funded by PMP equity issuance
Dividends:	Only permitted from FY20 up to a maximum of 50% of NPAT with the following restrictions: (1) In FY20 only if LTM EBITDA > AUD47m and lease adjusted net debt to LTM EBITDAR < 3.20x and limited to maximum AUD2.6m (2) From FY21 onward only if LTM EBITDA > AUD60m and (b) lease adjusted net debt to LTM EBITDAR < 2.75x
Excess cash	From [22] November 2020 cash balances exceeding AUD50m for three consecutive months must be used to: (a) firstly, permanently repay the senior secured ANZ debt facility, and (b) secondly, either (i) build a restricted cash balance to be used to repay the Notes, or (ii) permanently repay and reduce other debt

Source: FIIG Securities, Information Memorandum

Financial covenants calculated and tested quarterly in respect to the Group on each Calculation Date from the 31 December 2018 based on the previous 12 month period:

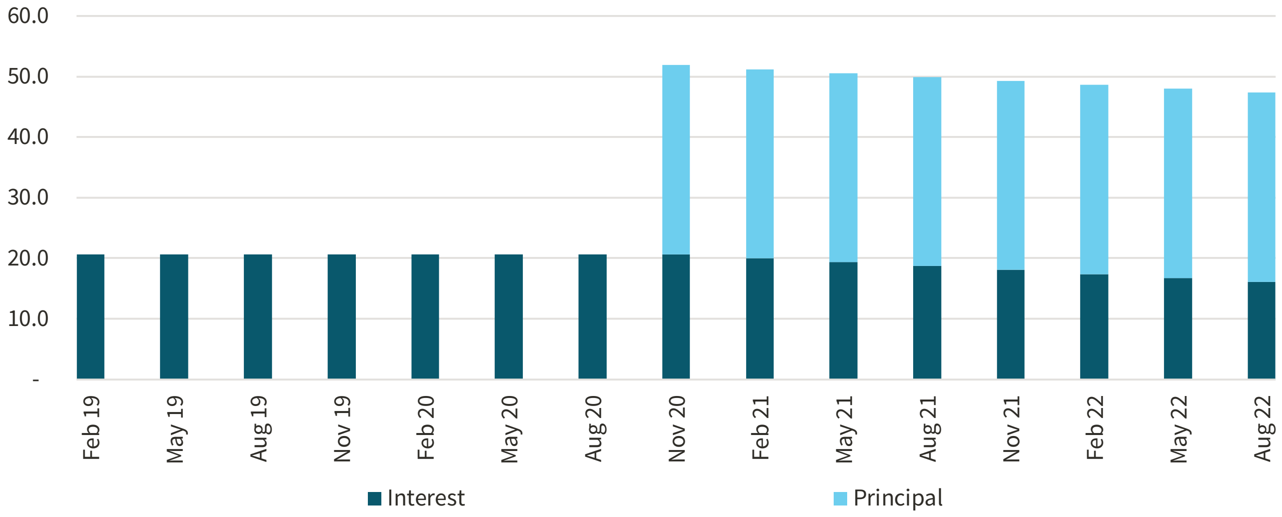
Each quarter to:	Mar 2020	Sep 2020	Mar 2021	Sep 2021	Sep 2022
Lease adjusted net debt/EBITDAR	4.75x	4.50x	4.00x	3.75x	3.50x
EBITDAR/Interest, Lease, Note amortisation	1.25x	1.40x	1.40x	1.50x	1.50x

Source: FIIG Securities, Information Memorandum

PMP Group

Amortisation: The Notes will amortise by AUD1.25m per quarter from [22] November 2020 to reduce the total outstanding balance to AUD30m by maturity. The figure below gives an example of a AUD1,000 investment over the life of the Notes, excluding the final principle and interest payment (equating to AUD765.47 in this example).

Figure 23: Example principal and interest payments for a AUD1,000 investment (AUD)



Source: FIIG Securities, indicative

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Appendix 2: Board of Directors

Kevin Slaven, Chief Executive Officer and Managing Director: Kevin Slaven leads PMP as the CEO after joining the company in March 2017, following the merger with IPMG. He was Group CEO for the Hannan family owned company, closely working with the Executive Chairman, Board of Directors and shareholders in facilitating the joining of the two companies. A Graduate member of the Australian Institute of Company Directors and Institute of Chartered Accounts, Kevin was appointed CEO of IPMG in July 2013 after originally joining the business in 2000 as CFO and Company Secretary. Prior to that he worked in the chartered accounting profession and then subsequently in key commercial roles, including as Commercial Manager of CSR Timber and CFO of leading IT wholesale distributor Tech Pacific. He is a the Chair of the leading industry body Australasian Catalogue Association (recently rebranded as The Real Media Collective).

Matthew Bickford-Smith, Chairman: Appointed Chairman on 20 July 2009. Mr Bickford-Smith was CEO of Ridley Corporation Limited until December 2007. He was previously with the Man Group and was MD of the Australian operations. Before moving to Australia Mr Bickford-Smith was based in Hong Kong with responsibility for managing risk relating to the Man Group's sugar business within the region. Before moving to the Man Group he spent five years with Phibro, the commodity trading arm of Salomon Brothers. Mr Bickford-Smith is a Director of Eastern Agricultural Australia, and until 1 June 2013 a Director of The Julian Burton Burns Trust. He was appointed a Non-Executive Director of PMP in 2009.

Michael Hannan, Non-Executive: Mr Hannan was previously Executive Chairman of IPMG. He was instrumental in taking the company into printing in the early 1970's and continuing the development of its regional newspaper and consumer magazine empire. Under Mr Hannan's chairmanship, IPMG became the largest group of privately owned marketing services businesses in the southern hemisphere, before merging with PMP on March 1, 2017 to form the largest integrated marketing services company in Australia. Mr Hannan today serves as Non-Executive Director at PMP. He also has responsibility for significant Hannan family interests including industrial, commercial and rural and property portfolios together with other key investments.

Andrew McMaster, Non-Executive: Mr McMaster experience includes 27 years as a Partner of KPMG and of being the inaugural Chief Financial Officer of Service NSW for five years. During his professional accounting career, experience was gained with a wide range of clients in the public and private sectors including extensive experience in the printing, publishing, distribution and retailing industries, and in all aspects of governance and risk services. Mr McMaster was a Director of Sydney Swans Limited for 22 years until February 2017. He was also a Director and Treasurer of The Bradman Foundation and the Bradman Museum Trust from 1996 to 2006.

Dhun Karai, Non-Executive, BCom, MBA: Ms Karai's experience spans over 20 years in senior executive roles in financial services and audit and risk management, initiating major transformational projects in Australia, New Zealand and the UK. Ms Karai is currently a partner of Grant Thornton Australia. She has also held the position of Chief Manager Personal Markets with the Commonwealth Bank and in her recent role was for over ten years the Head of Group Financial Services at Woolworths Limited. Ms Karai's other directorships have included being a Non-Executive Director of eftpos Payments Australia Limited and Indian financial services company, GI Technology Private Limited. Her committee memberships have included the Australian Payments Council, the National Financial Literacy Program and the International Merchants Advisory Group (USA). Ms Karai is an active supporter of corporate diversity and woman in leadership programs and is closely involved with the Fintech hub, Stone & Chalk, in Sydney. Ms Karai is a member of the Audit and Risk Management Committee.

Wai Tang, Non-Executive, BAppSC, MBA, GAICD: Ms Tang has extensive retail industry experience and knowledge gained through senior executive and board roles. Her former senior executive roles included Operations Director for Just Group and Chief Executive Officer of the Just Group sleepwear business, Peter Alexander. Prior to joining the Just Group, Ms Tang was General Manager of Business Development for Pacific Brands. She is also co-founder of the Happy Lab retail confectionery concept. Ms Tang is a non-executive director of Vicinity Centres Ltd and JB Hi Fi Limited. She is a member of the Visit Victoria Board and is the Deputy Chair of the Melbourne Festival. Ms Tang's former directorships include Speciality Fashion Group and the Melbourne Fashion Festival. She holds a Masters of Business Administration and a Bachelor of Science.

Terry Sinclair, Non-Executive, MBA, GradDipMgmt, MAICD: Mr Sinclair has significant experience across Industrial, Resources and Consumer Services sectors including 20 years in senior management roles in BHP (Minerals, Steel and Transport/Logistics) and 10 years with Australia Post (Logistics and Corporate Development). Mr Sinclair is a non-executive director of Cleanaway Limited and NetGet Holdings Limited. He is a member of various advisory boards for private equity ventures in e-commerce and technology/infrastructure. Formerly, the Managing Director of Service Stream Limited, Chairman of AUX Investments (jointly owned by Qantas and Australia Post), Director of Sai Cheng Logistics (China), and Director of Asia Pacific Alliance (HK). He holds a Masters of Business Administration, a Graduate Diploma in Management and tertiary qualifications in Mining, including Surveying.

PMP Group

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