

ASX RELEASE – IVE GROUP LIMITED (ASX:IGL)

14 September 2022

IVE completes highly accretive acquisition of selected Ovato assets

IVE Group Ltd (IVE) today announces that it has completed the acquisition of substantially all of the printing and finishing assets of Ovato Limited (Ovato) for a net purchase consideration (including transaction costs) of \$16m.

The net purchase consideration was funded from existing facilities.

Integration and associated capital expenditure costs of approximately \$22m are expected to be incurred progressively over an 18-month integration period.

Commenting on the Group's acquisition of the Ovato assets, IVE CEO Matt Aitken said:

"IVE has a strong track record of successfully integrating businesses and optimising operating leverage to deliver synergies.

When fully integrated, the Ovato acquisition is expected to generate meaningful shareholder value, and today results in IVE becoming the only large scale heat set web offset (HSWO) print producer in Australia.

Importantly, the acquisition will ensure that critical HSWO manufacturing capacity remains available to Australia's largest retailers and publishers, many of whom are existing IVE customers.

The key Ovato production assets acquired by IVE are modern, in good condition, complementary to IVE's existing production facilities and will be integrated into IVE's existing footprint."

Expected incremental underlying earnings (post integration) ¹	\$m
Revenue ²	160
EBITDA	28
EBITDA margin	18%
Underlying NPAT ³	15

1. The table above shows the expected incremental annual contribution of the transaction on a full "run-rate" basis once the integration is complete.

2. IVE management assessment based on relevant Ovato revenue less allowance for an assumed level of attrition.

3. Expected underlying NPAT excludes estimated integration costs which will be treated as a significant item in IVE's accounts.

The expected EBITDA margin of 18% on the expected \$160m of revenue post-integration compares to IVE's FY22 margin of 12.7% and primarily reflects expected operating leverage.

The relatively high 53% expected conversion rate of EBITDA to NPAT reflects a combination of leveraging IVE's existing asset base and the price paid for the assets.

While the transaction is expected to be EPS accretive in FY23, IVE is not yet able to provide guidance around the expected timing of emergence of the net synergies as the phasing of the integration plan is subject to refinement and finalisation over the coming months.

Once integration is complete, the expected \$15m increase in annual underlying NPAT would represent a 41% notional increase in underlying NPAT (and EPS) relative to IVE's FY23 guidance of \$36m issued in conjunction with the release of the Group's FY22 result on 25 August 2022.

Transaction strategic rationale

The transaction represents the final significant consolidation of the HSWO sector.

The expected transaction return metrics reflect the benefit of significant operating leverage on the expected \$160m of annual revenue post-integration which would represent a circa 21% uplift on IVE's recently reported FY22 revenue of \$759m.

The acquisition of Ovato assets (rather than the corporate entity) reduces transaction risk and avoids legacy issues.

In addition to expected attractive financial metrics, the acquisition is expected to:

- Further strengthen and deepen IVE Group's already tier 1 customer base;
- Ensure continuity of product and service delivery to existing IVE and Ovato customers;
- Underpin the scale and strength of IVE's national letterbox distribution network; and
- Present an opportunity to cross-sell IVE's broader diversified offer into the acquired customer base.

Transaction overview - operational

IVE is acquiring substantially all of Ovato's key operating assets in Warwick Farm (Sydney), Geebung (Brisbane) and Bibra Lake (Perth):

- IVE intends to operate the Warwick Farm site for the full duration of the integration period, albeit gradually scaled back over the integration period. Following completion of the integration, the site is expected to be closed.
- The Geebung site is expected to be closed by the Administrators in due course with revenue having transferred to IVE immediately upon completion of the transaction.
- Bibra Lake will continue to operate on a business-as-usual basis.

The integration plan involves the phased relocation of key equipment into IVE's HSWO operations in Sunshine (Victoria), Huntingwood (NSW) and Silverwater (NSW), ultimately enabling all revenue to be generated from IVE's existing operational footprint.

Surplus Ovato assets acquired by IVE under the transaction will be sold.

Transaction overview – financial and other terms

The total cost to acquire, and expected cost to integrate, the Ovato assets is summarised below:

Breakdown of transaction cost	\$m
Consideration for key assets, incl. transaction costs	16
Expected integration costs (over 18 months)	15
Expected incremental capital expenditure	5
Contingency allowance	2
Total expected cost	38¹

1. The total cost of \$38m assumes the agreed value of acquired inventory broadly offsets the agreed tax-effected value of transferring employee entitlements.

Including transaction costs, IVE has acquired substantially all of Ovato's key assets for net consideration of \$16m including:

- Fixed assets (printing and finishing equipment);
- Inventory, work-in-progress and finished goods;
- The employee entitlements of all transferring employees will be assumed by IVE, with the tax-effected value of employee entitlements having been applied as a deduction against the purchase consideration; and
- Inventory and employee entitlements will be finalised post-completion and are expected to broadly offset one another.

In addition to the purchase consideration, IVE anticipates integration costs of approximately \$15m and net incremental capital expenditure of \$5m over the expected 18-month integration period:

- IVE intends to treat these integration costs as a significant item for reporting purposes with no impact on underlying earnings;
- Integration costs primarily pertain to the relocation and commissioning of a limited number of key Ovato assets into IVE sites.
- The capital expenditure primarily relates to upgrades to services and to prepare IVE's existing sites ahead of the equipment relocation and revenue transfer.

This announcement has been approved by the IVE Group Board.

Geoff Selig
Executive Chairman

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