
PMP LTD FY13 FULL YEAR RESULTS
TRANSFORMATION PLAN DELIVERING BENEFITS

PMP is a leader in the print and distribution industry. The strategy to transform into a leaner, stronger and more competitive company is on track and delivering the anticipated results.

KEY POINTS

- PMP is becoming a leaner, stronger and more competitive Print and Distribution industry leader:
 - EBIT (before significant items) for FY13 increased by 5.1% to \$34.4M compared to \$32.7M in prior year - above top end of market guidance;
 - Net loss (after significant items) of \$69.7M.
 - Net Profit (before significant items) at \$14.8M up 68.7% vs prior year
 - Significant items totalled \$88.5M, the majority of which were non-cash impairments of goodwill due to structural change in the print industry.
- Clear strategy and disciplined execution are delivering benefits:
 - Successful completion of NZ transformation plan
 - Transformation Plan Phase 2: \$74.8M of assets and properties sold, \$37.1M of annualised savings (\$13.6M in FY13), headcount reduced by 412 FTE's, Phase 3 being developed;
 - Strong cash flow control continues. Free cash flow (assisted by asset sales) was \$54.2M vs (\$2.3M) in FY12;
 - Debt reduction: Net Debt down to \$89.1M, down 37.8% and ahead of guidance. Gearing ratio (Net Debt to EBITDA before significant items) was 1.2 times compared to 1.9 times in the prior year;
- A sustainable and profitable PMP is emerging:
 - PMP's key catalogue business showing resilience;
 - Market share gains;
 - Significant cross sell opportunities as restrictive internal silos removed;
 - Company well positioned for industry rationalisation and recovery in consumer demand.

KEY FINANCIALS FY13

\$M	FY13	FY12	Variance %
Revenue (Operating Revenue)	975.8	1,093.9	(10.8)
EBITDA (before significant items)	72.2	76.5	(5.7)
EBIT (before significant items)	34.4	32.7	5.1
Net Profit (before significant items)	14.8	8.8	68.7
Net (Loss)/ Profit (after significant items)	(69.7)	(24.5)	
Free Cash Flow	54.2	(2.3)	
Net Debt	(89.1)	(143.3)	37.8

COMMENTARY

Given very challenging market conditions and the combination of structural, cyclical and competitive challenges facing the company, the Board has set a clear strategy to transform PMP into a leaner, stronger and more competitive industry leader.

The FY13 results confirm that the transformation strategy is well underway and, driven by disciplined execution, the anticipated benefits are being delivered.

PMP Limited has returned an encouraging result for the 2013 financial year. EBIT (before significant items) came in at the top end of the guidance range, up 5.1% to \$34.4M. Free cash flow turned positive to \$54.2M and net debt was reduced substantially to \$89.1M (down from \$143.3M) also ahead of guidance. Net profit (before significant items) at \$14.8M up 68.7% vs prior year.

Strategic direction

PMP CEO, Peter George, said, "Since taking up the position of CEO of PMP in October last year, my major priority has been to steer the company back to acceptable results by focussing on the fundamentals of the business. Our clear strategy has been to transform the company's cost base, strengthen PMP by reducing risk, and improve the company's competitive position.

"The industry we operate in has been affected by cyclical and structural factors with volumes continuing to reduce in FY13 and excess industry capacity resulting in downward pricing pressure".

"Our first priority in this challenging environment was to transform PMP's unsustainable cost base to recognise the new revenue reality. We started to transform PMP by first reducing the New Zealand business' cost base (NZ\$19M of annualised savings). This experience has helped us to deliver on the strategy in Australia.

"We have rationalised our production base by selling older surplus presses offshore and we have replaced them with a new, more efficient press. We now expect lower capital expenditure going forward. Assets of \$ \$74.8M were sold including the Pacific Micromarketing business and four sites were leased back. Phase 2 of the Transformation Plan has been completed at a cost of \$27M. Annualised savings of \$37.1M were generated with \$13.6M benefitting the FY13 results. The majority of the plan was implemented in the second half of FY13."

As a result, we booked \$88.5M of significant items (the majority of which were non-cash) in the FY13 results.

In the first half of the year \$20M of goodwill associated with the Australian print business was impaired and market conditions in print worsened in the second half with increased competition for volumes and lower sell prices. The long term cashflows associated with this cash generating unit ("CGU") were unable to support the carrying value of goodwill when taking into account the higher risks in this business. As such, the Board has decided to book a further non cash impairment of \$36M and there is no more goodwill associated with the PMP Australia CGU.

Cash significant items amounted to \$24.1M, comprising:

- Transformation redundancies and other restructuring \$31.4M (412 full-time employees left the business)
- Closure costs of Chullora site \$12.5M
- Onerous leases at Chullora and Digital sites \$7.4M
- Profit on asset sales of \$27.2M.

Non cash significant items of \$64.4M comprised:

- \$56.0M Heatset goodwill.
- \$8.4M write-down on presses sold and impairments/non cash swap gains

The closure of the Chullora site will give rise to an onerous lease provision of \$5.6M. The Digital business is vacating leased premises in Alexandria and Southbank and moving into other existing PMP sites, and this will require an additional onerous lease provision of \$1.8M. When these properties are sublet the company will benefit from incremental rental cash inflows.

“We recognise that further work is needed to reinforce our competitive position and Phase 3 of the Transformation Plan is being formulated ,” Mr George said.

Our second priority was to strengthen the Company by reducing financial risk.

“Carrying a heavy debt load in an uncertain and challenging business environment created unacceptable risk. We prioritised generating positive free cash flow which increased to \$54.2M in FY13 compared to (\$2.3M) the prior year. This cash flow, which includes the proceeds from asset sales, financed the transformation and reduced net debt to \$89.1M, down 37.8% (ahead of guidance). Gearing ratio (Net Debt to EBITDA before significant items) fell to 1.2x, down from 1.9x in the prior year. Nevertheless we have further work to do to extend the term of our debt, and further reduce gearing levels.”

The third priority is to build a more competitive PMP.

“First we streamlined our fragmented, siloed structure. We were burdened by significant duplication of functions which was holding back the company. It limited our ability to leverage our inherent capability to provide complete solutions tailored to individual customer needs and contributed to a higher than necessary fixed cost base.”

“The move to a simpler and more unified functional structure should enable us to cross-sell more products across our customer base and leverage the competitive strength of our footprint and integrated model. PMP is the only nationwide, fully integrated digital, print and distribution company in the market. We can provide bundled and nationwide solutions tailored to meet customer needs, and deliver them in a timely way at a competitive price. We are encouraged by our recent market share gains and the customer endorsements that validate our value proposition.”

A sustainable and more profitable PMP

“While our transformation strategy is delivering a leaner, stronger and more competitive company, the next challenge is to build a sustainable and more profitable PMP.”

“Catalogues make up the majority of PMP’s revenues and profits and are a relevant and resilient part of retailers’ marketing campaigns. Around 8.2bn catalogues were delivered to letter boxes last year, up from around 7.6bn in FY08. We see ongoing structural growth in catalogue frequency and overall volumes. The early migration to online advertising is evolving into the use of integrated offerings, where online and traditional media are combined for greater effect. This evolution is gaining traction, underpinning demand for PMP products and services.”

“We expect the core print industry will undergo rationalisation before achieving equilibrium. As the industry leader, we intend to have PMP well positioned to benefit from this process.”

“We believe that the hard work completed so far has created the platform from which the company can begin to grow its business. Although there is still much to be done, the decline has been arrested and we are starting to see the early benefits emerge,” Mr George said.

“I want to express my gratitude to all PMP employees who have continued support the company during this period of significant change. Their commitment to a new way of working is making a major contribution to a transformed PMP.”

PMP Australia

\$M	FY13	FY12	Variance %
Revenue (Operating Revenue)	493.6	564.0	(12.5)
EBIT(before significant items)	30.6	39.9	(23.2)

The company has been successful in winning a number of major multi-year, national catalogue printing and distribution contracts with some of Australia's largest retailers. This business has performed well financially during the year despite the slowdown in the retail sector which impacted volumes and pricing.

However, as anticipated the directories printing business has continued its volume decline, resulting in the closure of the dedicated site at Chullora in Sydney at the end of the year and the transfer of the remaining directory volumes to Moorebank.

Book printing (Griffin Press) also had a difficult year with volume decline and excess capacity in the market placing pressure on margins.

PMP New Zealand

\$M	FY13	FY12	Variance %
Revenue (Operating Revenue)	158.8	171.4	(7.3)
EBIT(before significant items)	9.7	1.6	-

The New Zealand business has performed well and delivered its first full year of benefits from the Transformation Plan completed in FY12. The anticipated cost savings have been achieved, along with significant productivity improvements across the workforce.

The new functional structure and integrated sales team are delivering on expectations. The company's market share is continuing to grow, particularly in retail catalogues and suburban newspapers. Despite a reduction in revenue, a major improvement in EBIT (before significant items) was achieved, with operational efficiencies and tight cost control being the major influences. The business also benefited from the closure of a smaller competitor.

Gordon and Gotch

\$M	FY13	FY12	Variance %
Revenue (Operating Revenue)	323.4	358.5	(9.8)
EBIT(before significant items)	1.1	1.0	12.1

The Gordon and Gotch magazine distribution business experienced a volume decline during the year with falling magazine circulation in Australia and New Zealand. The business continued to focus on cost reduction and restructuring initiatives to reduce overheads. In New Zealand savings were achieved from new freight arrangements and productivity improvements.

OUTLOOK

The company expects the business environment in FY14 to remain challenging with industry trends and competitive activity continuing. Phase 2 Transformation Plan savings will flow through in the current year and details of Phase 3, which is currently being formulated, will be announced. Successful implementation of Phase 3 will support the achievement of the FY14 results. Guidance on the current year will be provided at the AGM in November.