



IVE Group Ltd – 2018 Annual General Meeting

Executive Chairman's Report

Since listing on the ASX in December 2015, our strategy, our narrative and our operational imperatives have been clearly communicated and consistent throughout. On all occasions we have met market guidance(s), delivering a strong uplift across revenue, EBITDA and NPATA. Our balance sheet remains strong and we continue to generate significant amounts of free cash to deliver a strong dividend yield.

The last 24 months as outlined below have seen the Group heavily invest in, and successfully execute on, a number of significant initiatives. A large proportion of these initiatives were funded from the proceeds of the \$55.6 million August 2017 capital raise:

- Franklin WEB
 - o Committed to the establishment of a Franklin WEB NSW operation on the back of a material increase in market share since entering the large format web offset space in December 2016 through the acquisitions of Franklin WEB and AIW in Victoria
 - o We have invested \$53 million to establish Franklin WEB NSW, with the site completed in September 2018. This effectively balanced capacity between NSW and Victoria to better service national retailers and publishers. The highly automated production environment across both Franklin WEB sites in NSW & Victoria ensures enhanced speed to market, and that we remain the lowest cost catalogue producer in the country. Following the commissioning of the 2nd 80 page press in September of this year, Franklin WEB NSW was officially opened on November 13th. The facility is exceeding all performance expectations – a global benchmark for highly automated large format web offset operations
 - o Completed the merger of AIW into Franklin WEB Victoria in December 2017. This resulted in the disposal of aged and excess capacity
- \$10.4 million for a new replacement 16 page web offset press for Blue Star WEB in NSW
- SEMA acquisition and integration into Blue Star DIRECT
 - o \$14.5 million to acquire SEMA in September 2017
 - o \$4.4 million for integration across Queensland, NSW and Victoria. Integration successfully completed August 2018
 - o \$5.5 million invested for additional high speed digital inkjet device, commissioned September 2018
 - o Established the Group as a clear leader in data driven multi-channel communications
- In July 2017 the Group's existing Victorian Blue Star DISPLAY operation was relocated and merged with Franklin' WEB's retail display business into a dedicated facility adjacent to the existing Franklin WEB Victoria operation. This coincided with an investment of \$3.1 million to

further expand production capacity in Victoria to the point we now have duplicate operations across both NSW and Victoria to enhance our national retail display offer

The skill and commitment of our highly experienced team to execute on the most significant capital investment program in the Company's history within the timeline and financial metrics is to be commended – a wonderful outcome and an excellent platform to leverage for future earnings growth.

Warwick will present more detail on our financial results shortly, but in summary we are very pleased with the performance of the business over the last year, particularly in the context of the heavy lifting that took place across many parts of the Group as I have just outlined:

- Revenue momentum continued with organic growth of 6.2%
- Gross profit margin (adjusted for work mix change post our move into catalogue production) remains robust and is consistent with previous years
- We delivered a strong uplift in both EBITDA and NPATA
- EPS was down by 2.6% impacted by August 2017 share issue. The reasons for the delay in earnings growth attributable to the majority of the funds raised were clearly communicated at the time of the capital raise
- 85.4% free cash conversion resulted in a payout ratio of 71% of pro forma NPAT
- ROFE at 18.3%

Diversified Value Proposition Driving Revenue Growth

Our strategy of diversification and innovation over the last 20 years has resulted in a marketing communications value proposition that is unparalleled in this country, and one that is compelling for our customers and prospective customers. The power of our vertically integrated multi-channel product and service offering and the success we've had in cross selling is evidenced by the material increase over the last 4 years in customers engaging IVE across multiple parts of the business. We continue to grow revenue on the back of customers seeking to rationalise their supply chain.

Validation of this strategy can be seen in the following metric. In 2016, 42% of all revenue was derived from customers engaged with 3+ divisions of our Group – this rose to 56% in 2018.

Market Size and Opportunity for Growth

As a result of the diversity of our offer, the Group does not have one headline competitor. The structure of our sector has improved significantly over the last decade, with IVE taking a leading role in driving rationalisation and consolidation. This consolidation has resulted in fewer but stronger operators like IVE across many of the sectors in which we operate.

Using FY18 revenue of just under \$700 million, IVE's relative size represents just over 16% of a definable domestic market we estimate to be \$4.3 billion annually. This illustrates the scale of the opportunity to continue growing our market share, just as we have done successfully over many years.

Earnings Growth

We remain confident that our earnings growth will continue based on the following key drivers:

- Steady organic revenue growth
 - o Very well positioned as a market leader in all sectors we operate in

- Continue to grow market share as a result of our compelling offer to mid/large corporates
- I am delighted to announce that our IVEO division has recently secured the Telstra managed solutions contract. The expected value of the contract over the term is approximately \$30-40 million and incorporates the full spectrum of Telstra's marketing communications category
- Our track record of revenue retention is extremely high as a result of consistent levels of performance and maintaining an offer that is aligned to customer needs
- Strong organic growth of 6% in FY18, longer term average of 3% as previously communicated is achievable
- Margin
 - Our gross margin has remained very stable over the last 5 years
 - Notwithstanding recent increase in paper prices, we expect our gross margin to remain stable and consistent with recent years
 - We would expect that we are at a 'high tide' mark with respect to energy prices
- Operational platform
 - As communicated clearly over the last 18 months, the capital expenditure program we have just completed across our Franklin WEB, Blue Star WEB and Blue Star DISPLAY businesses has further enhanced our already low cost operational footprint to ensure margin protection/enhancement
 - As a result of expediting our capital expenditure program, capital expenditure over the coming years will be lower at \$9 million per annum
 - ROFE expected to be maintained at 18-20%

Acquisitions

As I communicated at the 2017 AGM, the Company has eased back over the last 12 months on our acquisition program as the business focused on unlocking the value of recent investments as I outlined earlier, without the distraction of additional integrations

We continue to have a meaningful pipeline of potential acquisition opportunities, all of which at this point can be supported by our current capital structure without the need to issue new shares

Trading Update

A pleasing start to FY19, with trading (revenue and margin) over the first 4 months in line with our expectations.

Continued good momentum across the Group positions us well for year on year earnings growth.

With the recent completion of our significant acquisition, integration and associated major capital investment program, the Company is ideally positioned to fully realise the resulting operational efficiencies this year

Restructure costs (significant items) for FY19 are expected to be minimal as previously communicated

Our People

Having a talented and committed team of employees is critical to the success of any business, and I am proud to say our people remain core to the underlying strength and integrity of the business. We continue to have a wonderful performance based culture with a very diversified and inclusive environment.

I would like to express my appreciation to our senior leadership team Warwick Hay (IGL Managing Director), Matt Aitken (IGL Chief Operating Officer), Darren Dunkley (IGL Chief Financial Officer), Glen Draper (CEO-IVEO), Cliff Brigstocke (CEO-Blue Star), and James Bennett (CEO- Kalido) for their continued commitment to lead and to drive the success of our Group.

On behalf of our board and leadership team I convey my thanks to our stable, committed and talented staff of 1700+ across the Asia Pacific Region whose continued efforts ensure the ongoing strong performance of our business - they are a fantastic team.

Board

We continue to have a very cohesive, experienced and diverse skills based board. In addition to our Managing Director Warwick Hay and Executive Director Paul Selig, we currently have 4 Independent Non-Executive Directors - James Todd, Gavin Bell, Sandra Hook and Andrew Harrison.

I would like to acknowledge and thank James, Gavin, Sandra and Andrew for their ongoing contribution to the governance, strategic direction and strength of the Group since listing on the ASX in December 2015.

As a result of increased board commitments, Andrew Harrison is stepping off the board at the conclusion of the AGM today. My sincere thanks on behalf of the board to Andrew for his contribution as a key member of the board, and as a chair of the Audit Risk and Compliance Committee, as we successfully managed our transition from private to public company life over the last few years.

I'd also like to take this opportunity to welcome Carole Campbell to the board (effective November 21) and as our incoming chair of our Audit Risk & Compliance Committee. Carole's extensive experience across strategic, financial and operational disciplines is most welcome.

Conclusion

The last 2 years for IVE has been characterised by major achievements across key elements of the business. We have now concluded the most significant investment program the sector has seen for many years, and as I said earlier, a huge vote of confidence in the robustness of the sector itself and in our capacity as a business to execute major initiatives effectively. Throughout this entire period we continued as always to support and deliver for our customers, something we are incredibly proud of.

As outlined earlier, all key drivers of earnings growth are on track, and this combined with a pleasing start to FY19 provide us with confidence of a year on year earnings uplift.

Thank you.....

Geoff Selig
Executive Chairman

November 20, 2018