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SPICERS LIMITED 2016 INTERIM RESULTS

Spicers returns to profitability

Spicers Limited (ASX: SRS), formerly PaperlinX Limited, today announced a statutory profit after tax of $6.3 million for the six months to 31 December 2015 compared to a statutory loss of $(90.8) million for the prior corresponding period (pcp).

The result represents a return to profitability for the Company after a period of significant losses stemming from its underperforming European businesses, which led to the Company consolidating its operating footprint. Spicers is now focused exclusively on Australia, New Zealand and Asia (ANZA), with a platform of profitable businesses from which to implement its ongoing diversification strategies.

Key features of the 2016 Interim results:

- Continuing revenue of $202.6 million, fell 3.1 percent from $209.0 million(2) pcp due to ongoing structural decline in the Commercial Print segment, which was partially offset by robust growth in diversified revenue
- Continuing trading expenses decreased by 12.2 percent versus pcp(2) due to cost reductions from continued actions to 'right-size' business operations
- Underlying EBIT(1) for the Group's continuing operations of $3.2 million was a 3 percent improvement on pcp(2)
- The New Zealand (NZ) and Asian businesses delivered EBIT results ahead of pcp. NZ in particular delivered a strong performance demonstrative of a well-diversified business
- The Australian business, whilst remaining profitable with solid gross profit margins, delivered an EBIT result behind pcp(2) due to continued structural decline in the Commercial Print market and competitive pressures caused by the depreciation of the Australian dollar over a sustained period
- Sales and margins from diversified segments continued to grow strongly. Total gross margins increased by 29 percent. The Sign & Display segment grew vigorously, a product of both organic growth and a contribution across the full period from the recently acquired NZ business 'Total Supply'
- Corporate/Unallocated costs (continuing operations) were down 22 percent on pcp(2), reflecting cost reduction benefits from consolidating the Company's operating footprint to ANZA only during 2015

(1) Non-IFRS measure – refer Appendix 2
(2) Restated – refer Appendix 2

- Discontinued operations reported a statutory profit of $4.9 million (pcp statutory loss $(84.3) million(2)) after taking into account the impact of deconsolidation of the German business and management of exit costs relating to the European businesses. The German business, now in insolvency proceedings, is classified as a discontinued operation
- Operating cash outflow from continuing operations for the period was $15.4 million. While net working capital in the first half is typically higher due to seasonal factors, this was further exacerbated by impacts relating to changing supply chain arrangements and the depreciation of the Australian Dollar versus other foreign currencies
- The Group 'net cash' position as at 31 December 2015 of $21.0 million represents an excess of cash on hand over gross debt drawn

Commenting on the result, Spicers Chief Executive Officer, Andy Preece said, "I am very pleased to report a profitable result for the half, notably the first Group profit delivered since 2008. With the Spicers businesses now exclusively focused in the ANZA region, the first six months of trading reveals a profitable platform from which to execute our well-defined diversification strategies. The movement in Working Capital has been a disappointment but the non-recurring factors and drivers causing this are clearly known, with solutions already implemented and an improvement expected in the second half."

Chairman, Robert Kaye SC said "This improved result is reassuring and validates the strategic decisions taken to focus on the profitable ANZA businesses. To deliver sustainable shareholder value, Spicers will continue to concentrate on developing its portfolio in diversified segments in order to overcome the ongoing structural decline in Commercial Print. This first half result represents a fresh beginning for the Spicers Limited business and a solid start to the journey."

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About Spicers Limited (SRS)
Spicers (formerly PaperlinX Limited) is a merchant group with market leading positions in Australia, New Zealand and Asia. Spicers offers the full suite of solutions to the printing and graphic arts industry – incorporating sign and display, commercial print products, industrial packaging, hardware, digital media, label and packaging products.

(1) Non-IFRS measure – refer Appendix 2
(2) Restated – refer Appendix 2

Spicers

RESULTS FOR THE SIX MONTHS TO 31 DECEMBER 2015

Spicers Limited has reported a statutory profit after tax of $6.3 million for the six months to 31 December 2015.

Results Summary		Actual Dec 2015	Actual Restated [2] Dec 2014
Net sales revenue	$000	232,671	1,296,659
Net sales revenue - continuing	$000	202,634	209,011
Earnings before interest and tax - continuing	$000	2,857	(4,882)
Underlying earnings before interest and tax [1]	$000	3,210	3,098
Profit/(loss) before tax - continuing	$000	2,352	(5,550)
Profit/(loss) after income tax - continuing	$000	1,374	(6,506)
Profit/(loss) after income tax - discontinued	$000	4,912	(84,298)
Statutory profit/(loss) after tax	$000	6,286	(90,804)
Net w orking capital	$000	99,964	442,845
Net operating cash flow	$000	(22,290)	(54,026)
Net debt / net debt & equity	%	(18.0)	46.5
Basic earnings per share	cps	0.9	(13.7)
Dividend per ordinary share	cps	nil	nil
FTEs - continuing		454	473

OPERATING PERFORMANCE

Revenue

Continuing sales revenue of $202.6 million fell by 3.1 percent versus pcp[2]. This was largely due to ongoing structural decline in the Commercial Print market which was partly offset by strong growth in revenue from diversified segments.

Earnings

The Group reported a positive underlying EBIT[1] of $3.2 million, a 3 percent improvement versus pcp[2].

Structural decline in the core Commercial Print segment and competitive pressures from Australian Dollar depreciation over a sustained period was offset by the combination of a solid performance in the diversified segments and reductions in trading expenses from ongoing actions to ‘right-size’ the operating businesses.

Statutory Profit

The Group reported a statutory profit after tax of $6.3 million for the six months to 31 December 2015, consisting of a profit after tax from continuing operations of $1.4 million and a profit after tax of $4.9 million on discontinued operations.

The profit after tax on discontinued operations arose from taking into account the positive impact of the deconsolidation of the German operations, which entered into insolvency proceedings during the period. It also includes costs from managing the exit of the European businesses.

The statutory loss of $(90.8) million reported for the pcp to 31 December 2014 primarily related to asset impairments on discontinued operations and trading losses in key previous European businesses.

(1) Non-IFRS measure – refer Appendix 2
(2) Restated – refer Appendix 2

Spicers

Diversified Results - Continuing Operations

The performance of continuing diversified business segments over the six months to 31 December 2015 is highlighted in the following table and commentary. These segments consist primarily of Sign & Display and Industrial Packaging.

Diversified - Continuing		Dec 2015	Dec 2014 (2)	% Change
Diversified revenue (gross)	A$000	39,066	29,193	34
Diversified gross margin	A$000	10,146	7,850	29
Diversified gross margin/total gross margin	%	24.2	17.8	640 bpts

Diversified (gross) revenue of $39.1 million, up by 34 percent versus pcp(2), now represents 19 percent of total continuing revenues (up from 14 percent pcp(2)). This strong performance came from a combination of vigorous organic growth and the New Zealand signage business 'Total Supply' (acquired in September 2014). Spicers businesses in Australia and New Zealand both now hold leading positions in the Sign and Display market.

Diversified gross margin grew by 29 percent versus pcp, and now represents 24 percent of the Group's total gross margin (up from 18 percent pcp(2)). This larger contribution relative to total revenue clearly illustrates the superior returns and profitable nature of these diversified segments.

This performance demonstrates the transitional journey for Spicers as the business mitigates the effects of structural decline in the Commercial Print segment with continued expansion into growth markets and more profitable diversified revenue streams.

(1) Non-IFRS measure – refer Appendix 2
(2) Restated – refer Appendix 2

OPERATING PERFORMANCE BY REGIONAL SEGMENT

The following table shows underlying EBIT[1] and sales revenue by segment for the six months to 31 December 2015.

		Sales Revenue		Underlying EBIT [1]	
			Restated [2]		Restated [2]
Operating Summary		**Dec 2015**	**Dec 2014**	**Dec 2015**	**Dec 2014**
Segment:					
Australia	A$000	109,227	117,690	3,636	6,118
New Zealand	A$000	50,512	45,410	4,085	3,421
Asia	A$000	42,972	45,984	729	308
Corporate/Unallocated	A$000	(77)	(73)	(5,240)	(6,749)
Total continuing operations	**A$000**	**202,634**	**209,011**	**3,210**	**3,098**
Discontinued operations	**A$000**	**30,037**	**1,089,158**		
Group eliminations	A$000	-	(1,510)		
Total	**A$000**	**232,671**	**1,296,659**		

As a result of the sale of the Canadian business and the exit from Europe in the prior financial year, effective 1 July 2015, the Company has changed the basis for segment reporting to align it with the remaining continuing operations. The previous segment of ANZA (Australia, New Zealand and Asia) has been split into three continuing businesses.

Corporate costs (including ANZA regional office costs given these are now aligned with the Group head office function) of $5.2 million for the period were reduced by 22 percent versus pcp[2]. This was due to cost rationalisation and headcount reductions relating to the withdrawal from Europe and the consolidation of the Company's operating footprint to ANZA countries only, partly offset by some additional treasury-related finance costs connected with recent volatility in foreign currency markets.

Australia

		Dec 2015	Dec 2014	% Change
Net sales revenue	A$000	109,227	117,690	(7)
Profit before interest and tax	A$000	3,507	4,653	(25)
Underlying EBIT [1]	A$000	3,636	6,118	(41)
Underlying EBIT/sales revenue [1]	%	3.3	5.2	(190) bpts
Expense/sales revenue	%	20.4	21.2	(80) bpts
Average w orking capital/sales revenue	%	26.4	24.2	220 bpts

The Australian business provided a profit in a challenging first half of the financial year. Sales revenue fell by 7.2 percent, with structural decline and competitive pressures in the Commercial Print market partly compensated by robust organic growth in diversified revenues.

Underlying EBIT[1] was $3.6 million versus $6.1 million pcp[2], a result down on prior due to difficult market and trading conditions.

Australian dollar depreciation over a sustained period resulted in significant increases to inventory carrying values. Whilst a price increase in October 2015 delivered some reprieve, structural decline and related competitive pressures in the Commercial Print segment has meant these product cost increases could not be fully passed onto the market.

(1) Non-IFRS measure – refer Appendix 2
(2) Restated – refer Appendix 2

These tough trading conditions in the Commercial Print segment were partly offset by strong growth in diversified margins and ongoing initiatives that successfully reduced trading expenses. Benefits from 'right-sizing' actions taken in Victoria and New South Wales during FY 2015 contributed across the full period.

These actions well demonstrate the key strategic imperatives that the Australian business is focussed upon to deliver sustainable profitability going forward.

New Zealand

		Dec 2015	Dec 2014	% Change
Net sales revenue	NZD 000	55,437	49,752	11
Profit before interest and tax	NZD 000	4,474	3,748	19
Underlying EBIT (1)	NZD 000	4,483	3,748	20
Underlying EBIT/sales revenue (1)	%	8.1	7.5	60 bpts
Expense/sales revenue	%	17.4	17.1	30 bpts
Average w orking capital/sales revenue	%	19.2	18.1	110 bpts

The New Zealand business has delivered a strong performance in the six month period to 31 December 2015. Sales revenue was up by 11.4 percent compared to pcp. While long-term structural decline continues in the Commercial Print segment, resilient performance was delivered in the period. Impressive growth from diversified revenue streams was enhanced by the September 2014 acquisition of signage business 'Total Supply'.

Underlying EBIT(1) was NZD 4.5 million, up 20 percent on pcp. EBIT(1) margin for the period was 8.1 percent, a 'best in class' result showing the strength of this business.

Spicers New Zealand is the most diversified operation in the Group. The depth of the business's product offering outside the Commercial Print segment is mitigating the long-term structural decline in paper sales and delivering a far broader set of complementary markets from which to extract value. Going forward the business intends to continue investing in order to accelerate and evolve the growth of these diversified segments.

(1) Non-IFRS measure – refer Appendix 2
(2) Restated – refer Appendix 2

Asia

		Dec 2015	Dec 2014	% Change
Net sales revenue	SGD 000	43,415	52,067	(17)
Profit/(loss) before interest and tax	SGD 000	660	(6,793)	110
Underlying EBIT [(1)]	SGD 000	736	349	111
Underlying EBIT/sales revenue [(1)]	%	1.7	0.7	100 bpts
Expense/sales revenue	%	9.2	8.7	50 bpts
Average w orking capital/sales revenue	%	26.3	25.3	100 bpts

In the Asian business profitability has improved significantly versus pcp, due to an enhanced focus on the operations in Singapore and Malaysia.

Sales revenue was down 16.6 percent versus pcp. This was largely due to the withdrawal from less profitable export markets during the first half, including a scaling down of operations with weak market share positions in Hong Kong and China.

Underlying EBIT[(1)] for the six month period was SGD 0.7 million, more than double compared to pcp, with EBIT[(1)] margin rising to 1.7 percent, assisted by tight control of trading expenses.

The exit of operations in Hong Kong and China, which were not producing acceptable returns, leaves no liabilities or onerous commitments in these markets whilst retaining a small residual sales presence.

Profit before interest and tax for the period was SGD 0.7 million. The significant loss before interest and tax in the prior period was due to the impairment of goodwill in the Asian businesses in December 2014.

The Asian business has a sound funding position, with cash on hand and minimal use of debt facilities.

Overall, whilst the Asian business is profitable and tracking ahead of key performance markers, local industry dynamics and ongoing structural decline in the core Commercial Print segment continues to place pressure on 'merchanting' business models in this region.

Discontinued

		Dec 2015	Dec 2014 Restated [(2)]
Net sales revenue	A$000	30,037	1,089,158
Profit/(loss) before interest and tax	A$000	4,745	(77,739)
Profit/(loss) after interest and tax	A$000	4,912	(84,298)

After the Company's withdrawal from European businesses in the FY 2015, the remaining business in Germany continued to operate until it entered administration processes in October 2015. Consequently, Germany's trading results for the first three months of FY 2016 are included in this result and represent the majority of 'discontinued' net sales revenue in the six month period.

In late December 2015 the German paper merchant operations (PaperlinX Deutschland GmbH) and its parent entity (Deutsche Papier Holding GmbH) entered

(1) Non-IFRS measure – refer Appendix 2
(2) Restated – refer Appendix 2

full insolvency proceedings, after the business continued to trade unprofitably and could not be sold.

The profit after interest and tax of $4.9 million on discontinued operations arose primarily from taking into account the impact of the deconsolidation of operations in Germany.

Results for the pcp to 31 December 2014 include other business operations in the Europe region that were discontinued or sold during 2015, and the disposal of the Spicers Canada business in March 2015.

FINANCIAL POSITION

Consolidated Balance Sheet

Balance Sheet		As at 31 December 2015	As at 30 June 2015	As at 31 December 2014
Current assets	$000	196,615	245,161	916,915
Non-current assets	$000	39,598	39,958	68,319
Total assets	$000	236,213	285,119	985,234
Current liabilities	$000	97,373	144,901	646,340
Non-current liabilities	$000	681	11,556	157,515
Total liabilities	$000	98,054	156,457	803,855
Shareholders equity	**$000**	**138,159**	**128,662**	**181,379**
Net debt	$000	(21,047)	(43,032)	157,641

Spicers' consolidated balance sheet as at December 2015 now represents only the net assets of the ANZA businesses and Corporate office. The balance sheet of the operations in Germany was deconsolidated as a result of this business entering into administration proceedings. This explains the majority of the significant change in 'Total assets' and 'Total liabilities' from June to December 2015.

As a result of the profit in the period, shareholders' equity increased by $9.5 million from June to December 2015.

(1) Non-IFRS measure – refer Appendix 2
(2) Restated – refer Appendix 2

Cash Flow and Working Capital

Cash flow	Continu-ing $000	Discont-inued $000	Dec 2015 $000	Dec 2014 $000
Operating cash flow excluding working capital and restructuring	**789**	**(4,920)**	**(4,131)**	**(18,648)**
Restructuring	(1,262)	(319)	(1,581)	(20,940)
Working capital movement	(14,911)	(1,667)	(16,578)	(14,438)
Operating cash flow	**(15,383)**	**(6,907)**	**(22,290)**	**(54,026)**
Capital expenditure	(1,000)	(504)	(1,504)	(6,515)
Net proceeds from sale of assets & businesses	31	2,669	2,700	3,650
Borrowing costs paid	(120)	(97)	(217)	(988)
Net cash flow before financing	**(16,472)**	**(4,839)**	**(21,311)**	**(57,879)**

Negative operating cash flow of $(22.3) million for the six month period included $(15.4) million relating to continuing operations.

A working capital movement of $(14.9) million, relating to inventory and creditor balances, was the primary driver of this negative 'continuing' operating cash flow for the period. While operating cash flows in the first half of the Company's financial year are typically weaker due to seasonal factors affecting working capital balances, this movement has been exacerbated by temporary transitional changes in certain supply chain arrangements, including some impacts relating to European suppliers and the Company's withdrawal from that region in 2015. The carrying values of working capital balances have also increased due to the depreciation of the Australian Dollar versus other foreign currencies.

The key drivers causing this adverse movement in working capital have been isolated with strategies implemented in order to deliver improvement in the second half of the financial year.

'Discontinued' negative operating cash flows of $(6.9) million relate to the German operations and other residual cash flows associated with the Company's withdrawal from Europe.

Net proceeds from the sale of assets and businesses of $2.7 million relate primarily to proceeds that the German operations received from the disposal of a site prior to the business entering administration proceedings, receipt of the final 'escrow' instalment from the previous sale of the Spicers US business and the disposal of a legacy investment in a Japanese 'paper trading' business, offset by some cash outflows also related to the Company's withdrawal from Europe.

(1) Non-IFRS measure – refer Appendix 2
(2) Restated – refer Appendix 2

Debt and Interest

Debt		Dec 2015	Jun 2015	% Change v Actual
Gross debt	A$000	15,727	16,441	(4)
Cash and cash equivalents	A$000	32,819	55,518	(41)
Short term deposits	A$000	3,955	3,955	-
Net Debt	**A$000**	**(21,047)**	**(43,032)**	**51**

Interest expense		Dec 2015	Dec 2014 (2)	% Change v Actual
Continuing:				
Cash net interest on bank debt	A$000	505	653	(23)
Non-cash interest	A$000	-	15	(100)
Discontinued:				
Cash net interest on bank debt	A$000	66	4,561	(99)
Non-cash interest	A$000	25	287	(91)
Net interest expense	**A$000**	**596**	**5,516**	**(89)**

The Group 'net cash' position at 31 December 2015 was $21.0 million, representing an excess of cash on hand over gross debt drawn. Changes in this positive net cash position during the first half are largely due to the operating cash flow movements noted in the 'cash flow and working capital' commentary above (see p.9).

It is important to note that 30 June represents one of the highest points in the Company's seasonal annual cash cycle while 31 December is a low point.

Funding update

The Group's primary Australian and New Zealand financing facilities are backed by the pledging of debtors. The Asian operations have cash on hand and minimal interest bearing debt.

These funding facilities have a combined maximum capacity level of $63 million. Actual gross debt levels currently drawn ($15.7 million at 31 December 2015) are significantly below this maximum capacity level. The maturity dates of these funding facilities fall in FY 2018 and their weighted average life was 2.0 years as at 31 December 2015.

Dividends and distributions

There was no dividend paid on the Spicers Ordinary Shares for the six months ended 31 December 2015. No distributions relating to the PaperlinX Step-Up Preference securities were paid in the six months ended 31 December 2015.

(1) Non-IFRS measure – refer Appendix 2
(2) Restated – refer Appendix 2

Conclusion

The first half of the financial year 2016 saw Spicers Limited deliver its first Group statutory profit since 2008, with an improved underlying EBIT(1) of $3.2 million compared to the prior corresponding period(2).

All Spicers business units delivered a profit for the period with a notable performance from the New Zealand business which represents the Company's most well diversified business.

Diversified revenues and profits continue to grow strongly, both organically and as a result of the recent New Zealand acquisition, 'Total Supply'. Gross margins from these diversified segments now represent 24.2 percent of total gross margin. The Company's strategic focus is to combine strong organic growth with growth opportunities through appropriate acquisitions as they arise.

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(1) Non-IFRS measure – refer Appendix 2
(2) Restated – refer Appendix 2

Appendix 1

The following table shows statutory earnings in Australian dollars.

For the half-year ended 31 December	Dec 2015	Dec 2014 Restated (2)
	$000	$000
Group revenue	**232,671**	**1,296,659**
Earnings:		
Australia	3,636	6,118
New Zealand	4,085	3,421
Asia	729	308
Unallocated	(3,806)	(6,416)
Total continuing operations	4,644	3,431
Discontinued operations	(3,573)	(14,115)
Profit/(loss) before net finance costs, tax and significant items	**1,071**	**(10,684)**
Net other finance costs	(1,531)	(2,127)
Significant items (pre-tax)	8,062	(69,810)
Profit/(loss) before interest and tax	**7,602**	**(82,621)**
Net interest	(596)	(5,516)
Profit/(loss) before tax	7,006	(88,137)
Tax relating to pre-significant items	(722)	(2,725)
Tax relating to significant items	2	58
Tax expense	(720)	(2,667)
Statutory profit/(loss) for the period	**6,286**	**(90,804)**

The following table is a reconciliation of underlying EBIT(1).

For the half-year ended 31 December	Dec 2015	Dec 2014 Restated (2)
	$000	$000
Statutory profit/(loss) for the period, after tax	**6,286**	**(90,804)**
Adjust for following (gains)/losses included in statutory profit:		
Discontinued operations	(4,912)	84,298
Impairment of non-current assets	-	6,774
Restructuring costs	351	1,206
Underlying profit for the period (1)	**1,725**	**1,474**
Continuing net interest	505	668
Continuing tax relating to pre-significant items	980	956
Underlying EBIT (1)	**3,210**	**3,098**

(1) Non-IFRS measure – refer Appendix 2
(2) Restated – refer Appendix 2

Appendix 2

Non-IFRS information

Spicers financial results are reported under International Financial Reporting Standards (IFRS). The tables and analysis provided in this document also include certain non-IFRS measures, including underlying statutory profit/(loss) after tax, underlying Earnings Before Interest and Tax (EBIT). These measures are presented to enable understanding of the underlying performance of the Company without non-trading items. Non-IFRS measures have not been subject to audit or review.

The non-IFRS measures used throughout this document are defined as:

- Underlying statutory profit/(loss) after tax: statutory profit/(loss) after tax before impairment of non-current assets, restructuring costs, and results from discontinued operations.
- Underlying Earnings Before Interest and Tax (EBIT): underlying statutory profit/(loss) before interest and tax for the continuing operations.

Restated comparative data

The prior corresponding period (pcp) data has been re-presented to reflect the sale/loss of control of the operations in Canada, United Kingdom, Ireland, Netherlands, Belgium, Austria, Poland, Spain, Scandinavia, Czech Republic and Germany as discontinued operations from the start of the period.