

**CROSS RELEASE PXUPA  
ASX RELEASE**

15th February 2017

**SPICERS LIMITED 2017 INTERIM RESULTS**

**Spicers first-half earnings maintained and operating cash flow improved**

Spicers Limited (ASX: SRS) today reported a statutory profit after tax of \$3.6 million for the 6 months to December 2016. The Company's underlying EBIT<sup>(1)</sup> of \$3.3 million was in line with the prior corresponding period (pcp). Net cash inflow from operations was \$0.2 million (compared to an outflow of \$22.3 million for the pcp) during a period where seasonality in working capital balances has historically resulted in a first half operating cash outflow.

**Key features of the 2017 interim results:**

- Continuing sales revenue of \$195.2 million was down 3.7% on pcp.
- Declining Commercial Print revenues were partly offset by solid growth in diversified revenue streams, with strong contributions from the Sign & Display and Pressure Sensitive Labels product categories.
- Group underlying EBIT<sup>(1)</sup> for the 6 months to December 2016 was \$3.3 million versus \$3.2 million for the pcp. Improved performances against pcp from the New Zealand and Asian businesses offset weakness in the Australian result. Refer to the 'Operating Performance by Regional Segment' section for more commentary.
- Profit after tax from continuing operations of \$1.4 million was consistent with pcp, while profit after tax on discontinued operations of \$2.2 million arose from settlement of obligations related to the Group's previous operation in Germany at an amount significantly less than the provision value held by Spicers.
- Statutory profit after tax was \$3.6 million, below the pcp result of \$6.3m due entirely to non-recurring items related to discontinued previous operations in Germany.
- Net cash inflow from operations was \$0.2 million versus an outflow of \$22.3 million for the pcp. This turnaround was due to a consistent management focus on working capital performance, with inventory levels tightly controlled and creditor terms improved with key suppliers.
- The Group 'net cash' position of \$29.5 million at 31 December 2016 was an improvement of \$8.5 million compared to 31 December 2015, driven by reductions in working capital balances during the 2016 calendar year.

(1) Non-IFRS measure – refer Appendix 2

(2) Restated – refer Appendix 2

Commenting on the result, Spicers Chief Executive Officer David Martin said: “While trading conditions in our core Commercial Print markets continue to be challenging, particularly in Australia, we have been able to maintain overall group earnings with good results from the New Zealand and Asian businesses.

“I am pleased that a sharp focus on working capital management, including improvement of credit terms with key suppliers, has enabled us to report a positive operating cash flow result during a period where cashflows are typically weaker due to seasonal factors.

“Our changed approach to portfolio segmentation has delivered a focus on both working capital improvement and future growth opportunities. We are focused on maximising returns in our Commercial Print and Packaging markets, while driving profitable revenue growth in Sign & Display and other diversified categories.”

### **Capital Structure**

On 20 December 2016 Spicers and the Trust Company (RE Services), the Responsible Entity (“the RE”) of the PaperlinX SPS Trust announced a significant step towards simplifying the Company’s complex capital structure with the signing of a Scheme Implementation Agreement (SIA) between Spicers and the RE. Steady progress is being made on addressing the various statutory and regulatory requirements in relation to the proposed transaction. Spicers and the RE expect to issue shareholder / unitholder meeting information packs on the proposed transaction in March, and meetings of the Company’s ordinary shareholders and the SPS unitholders are expected to occur in April.

Commenting on the progress of the proposed transaction to simplify the Company’s capital structure, Spicers Chairman Robert Kaye SC said “We have received generally positive feedback from both ordinary shareholders and SPS unitholders since we announced the signing of the SIA in December 2016. In the Board’s view, the benefits of completing the restructure remain clear and compelling. We will continue to work closely with major stakeholders over the next two months in the lead up to the general meetings in April, as ultimately the successful implementation of this proposed transaction is in the hands of both sets of security holders.”

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#### **About Spicers Limited (SRS)**

*Spicers is a merchant group with market leading positions in Australia, New Zealand and Asia. Spicers offers a full suite of products and services to the printing, signage, visual display and graphics industries – incorporating commercial print, packaging, digital media, sign & display, hardware, pressure sensitive labels and industrial packaging offerings.*

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

## RESULTS FOR THE SIX MONTHS TO 31 DECEMBER 2016

Spicers Limited has reported a statutory profit after tax of \$3.6 million and underlying EBIT<sup>(1)</sup> of \$3.3 million for the six months to 31 December 2016. All amounts are stated in Australian Dollars (\$), unless noted otherwise.

<b>Results Summary</b>		<b>Actual Dec 2016</b>	<b>Actual Dec 2015</b>
Net sales revenue	\$000	195,217	232,671
Net sales revenue - continuing	\$000	195,217	202,634
Earnings before interest and tax - continuing	\$000	2,885	2,857
Underlying earnings before interest and tax <sup>(1)</sup>	\$000	3,260	3,210
Profit before tax - continuing	\$000	2,659	2,418
Profit after income tax - continuing	\$000	1,412	1,440
Profit after income tax - discontinued	\$000	2,192	4,846
Statutory profit after tax	\$000	3,604	6,286
Net working capital <sup>(1)</sup>	\$000	93,943	99,964
Net cash flow from operations	\$000	229	(22,290)
Net debt / net debt & equity	%	(26.2)	(18.0)
Basic earnings per share	cps	0.5	0.9
Dividend per ordinary share	cps	nil	nil
FTEs - continuing		439	454

The following table shows sales revenue and underlying EBIT<sup>(1)</sup> by segment for the six months to 31 December 2016.

<b>Operating Summary</b>		<b>Sales Revenue</b>		<b>Underlying EBIT <sup>(1)</sup></b>	
		<b>Dec 2016</b>	<b>Dec 2015</b>	<b>Dec 2016</b>	<b>Dec 2015 <sup>(2)</sup></b>
<i>Segment:</i>					
Australia	\$000	102,829	109,227	1,810	2,560
New Zealand	\$000	53,126	50,512	4,176	3,702
Asia	\$000	39,434	42,972	969	810
Corporate / eliminations	\$000	(172)	(77)	(3,695)	(3,862)
<b>Total continuing operations</b>	<b>\$000</b>	<b>195,217</b>	<b>202,634</b>	<b>3,260</b>	<b>3,210</b>
Discontinued operations	\$000	-	30,037		
<b>Total</b>	<b>\$000</b>	<b>195,217</b>	<b>232,671</b>		

## OPERATING PERFORMANCE

### Revenue

Continuing sales revenue of \$195.2 million was down 3.7% compared to pcp.

This fall in revenue reflected ongoing structural decline and challenging trading conditions in the Commercial Print market, particularly in Australia. Solid growth in diversified revenue streams, particularly Sign & Display and Pressure Sensitive Labels product categories, partly offset this decline.

(1) Non-IFRS measure – refer Appendix 2

(2) Restated – refer Appendix 2

## Earnings and Statutory Profit

Underlying EBIT<sup>(1)</sup> of \$3.3 million was marginally up 1.6% on pcp. Weakness in the underlying EBIT<sup>(1)</sup> result of the Australian business (down 29.3%) was offset by good results in New Zealand (up 8.1% in local currency terms) and Asia (up 23.2% in local currency terms).

Underlying corporate costs fell by 4.3% compared to pcp<sup>(2)</sup>. These costs are expected to reduce further should the proposed transaction to simplify the Company's capital structure and wind-up the PaperlinX SPS Trust be successful.

Continuing profit before tax of \$2.7 million was 10.0% ahead of pcp, with restructuring costs lower than pcp. Continuing profit after income tax was marginally less than pcp (down 1.9%).

Statutory profit after tax was \$3.6 million compared to \$6.3 million in the pcp. This difference is attributable to the one-off discontinued profit after tax results in the respective periods, both of which predominantly related to the Group's previous operations in Germany.

## Diversified Results - Continuing Operations

The performance of diversified product categories for the six months to 31 December 2016 is highlighted in the following table and commentary.

Diversified - Continuing		Dec 2016	Dec 2015 <sup>(2)</sup>	% Change
Diversified revenue (gross)	\$000	54,972	49,485	11.1

Diversified revenue was up by 11.1% on pcp. This solid revenue growth was primarily driven by the significant positions the Spicers Australian and New Zealand businesses hold in the Sign & Display and Pressure Sensitive Labels product categories. In particular, the 'Total Supply' Sign & Display business in New Zealand continued to grow revenues and profits strongly year-on-year and exceed acquisition targets.

Strong diversified revenue growth is vital to the Company's overall gross margin performance. Gross margin from diversified categories represents almost a third of the Company's total gross margin. A changed approach to product segmentation recently introduced for our sales teams will assist in facilitating the further growth and progress of these diversified categories.

(1) Non-IFRS measure – refer Appendix 2

(2) Restated – refer Appendix 2

## OPERATING PERFORMANCE BY REGIONAL SEGMENT

### Australia

		Dec 2016	Dec 2015 <sup>(2)</sup>	% Change
Net sales revenue	\$000	102,829	109,227	(5.9)
Profit before interest and tax	\$000	1,705	2,431	(29.9)
Underlying EBIT <sup>(1)</sup>	\$000	1,810	2,560	(29.3)
Underlying EBIT/sales revenue <sup>(1)</sup>	%	1.8	2.3	(50) bpts
Expense/sales revenue	%	21.2	20.4	80 bpts
Net working capital <sup>(1)</sup>	\$000	53,762	63,927	(15.9)
Average working capital/sales revenue <sup>(1)</sup>	%	27.1	26.4	70 bpts

Trading conditions in Australia were challenging, particularly in the Commercial Print market due to ongoing structural decline.

Net sales revenue was down 5.9% on pcp, primarily attributable to declining volumes and competitive pressure on pricing in the Commercial Print category. This was partly offset by strong growth in diversified product categories.

Underlying EBIT<sup>(1)</sup> fell by 29.3% versus pcp<sup>(2)</sup>, largely due to the challenging trading conditions in the Commercial Print market.

Trading expenses for the 6 months to December 2016 were down 2.0% on pcp. Expense levels reduced more sharply towards the end of the 6-month period due to tight control of operating costs, particularly in relation to discretionary expenses.

Net working capital<sup>(1)</sup> levels have been reduced significantly compared to pcp, down \$10.2 million (15.9%). This was mainly due to a sharp management focus on reducing inventory balances, which had reached unsustainably high levels at December 2015. Creditor terms with key suppliers have also been improved.

(1) Non-IFRS measure – refer Appendix 2

(2) Restated – refer Appendix 2

## New Zealand

		Dec 2016	Dec 2015 <sup>(2)</sup>	% Change
Net sales revenue	NZD 000	55,851	55,437	0.7
Profit before interest and tax	NZD 000	4,283	4,053	5.7
Underlying EBIT <sup>(1)</sup>	NZD 000	4,390	4,062	8.1
Underlying EBIT/sales revenue <sup>(1)</sup>	%	7.9	7.3	60 bpts
Expense/sales revenue	%	16.5	16.6	(10) bpts
Net working capital <sup>(1)</sup>	NZD 000	23,629	22,329	5.8
Average working capital/sales revenue <sup>(1)</sup>	%	19.0	19.2	(20) bpts

Spicers New Zealand net sales revenue was marginally up on pcp. Sales revenue from diversified product categories grew strongly, while Commercial Print sales revenue declined due to changes in the sales mix resulting in a lower average selling price.

Underlying EBIT<sup>(1)</sup> increased by 8.1%, largely due to the sustained growth of revenues and profits from the Sign & Display product category.

Trading expenses in New Zealand continued to be tightly controlled and were in line with pcp. The November 2016 earthquake in New Zealand has led to increased freight costs into Wellington. This cost impact to the business may continue for up to 12 months, and the business is working with relevant customers to mitigate these incremental increases in freight costs.

Working capital levels also continued to be closely managed, with the average working capital/sales ratio<sup>(1)</sup> in line with pcp. Net working capital<sup>(1)</sup> at 31 December 2016 was NZD 1.3 million higher than pcp due to timing differences.

(1) Non-IFRS measure – refer Appendix 2

(2) Restated – refer Appendix 2

## Asia

		Dec 2016	Dec 2015 <sup>(2)</sup>	% Change
Net sales revenue	SGD 000	41,027	43,415	(5.5)
Profit before interest and tax	SGD 000	968	742	30.5
Underlying EBIT <sup>(1)</sup>	SGD 000	1,008	818	23.2
Underlying EBIT/sales revenue <sup>(1)</sup>	%	2.5	1.9	60 bpts
Expense/sales revenue	%	9.1	9.4	(30) bpts
Net working capital <sup>(1)</sup>	SGD 000	20,786	21,415	(2.9)
Average working capital/sales revenue <sup>(1)</sup>	%	26.7	26.3	40 bpts

Asia's net sales revenue value was 5.5% down on pcp. While total sales volumes were similar to pcp, changes in the sales mix led to a lower average selling price.

Underlying EBIT<sup>(1)</sup> was significantly up on pcp<sup>(2)</sup>, increasing by 23.2% to SGD 1.0 million for the 6 months to December 2016. Effective management of profit margin levels across all sales channels contributed to this result.

Reductions in trading expenses also contributed to the improvement in underlying EBIT<sup>(1)</sup>, with the expenses/sales ratio 30 basis points lower than pcp. This was largely due to lower warehouse lease rental costs for some key sites in Malaysia.

Net working capital<sup>(1)</sup> levels and the average working capital/sales ratio<sup>(1)</sup> were consistent with the pcp.

## Discontinued

		Dec 2016	Dec 2015
Net sales revenue	\$000	-	30,037
Profit before interest and tax	\$000	2,192	4,745
Profit after interest and tax	\$000	2,192	4,846

A profit from discontinued operations in the 6 months to December 2016 arose predominantly from the settlement of obligations related to the Group's previous operation in Germany during the period (as announced on 16 November 2016 in the ASX Release 'Germany Obligations Settled'). The final settlement amount was significantly less than the provision value held to cover these obligations, which resulted in a non-cash profit being recorded on settlement.

Net sales revenue and profit results from discontinued operations for the pcp also primarily related to the previous operation in Germany, which entered insolvency proceedings in October 2015.

(1) Non-IFRS measure – refer Appendix 2

(2) Restated – refer Appendix 2

## FINANCIAL POSITION

### Consolidated Balance Sheet

		As at 31 December 2016	As at 30 June 2016	As at 31 December 2015
<b>Balance Sheet</b>				
Current assets	\$000	186,276	186,598	196,615
Non-current assets	\$000	38,972	39,359	39,598
<b>Total assets</b>	<b>\$000</b>	<b>225,248</b>	<b>225,957</b>	<b>236,213</b>
Current liabilities	\$000	82,027	85,508	97,373
Non-current liabilities	\$000	912	704	681
<b>Total liabilities</b>	<b>\$000</b>	<b>82,939</b>	<b>86,212</b>	<b>98,054</b>
<b>Shareholders' equity</b>	<b>\$000</b>	<b>142,309</b>	<b>139,745</b>	<b>138,159</b>
Net cash	\$000	29,504	30,688	21,047
Funds employed (net assets - net cash)	\$000	112,805	109,057	117,112

Spicers net assets / shareholders' equity has increased by \$2.6 million from June 2016 to December 2016. Total liabilities fell, largely due to the settlement of obligations related to the Company's previous German operation.

Funds employed at December 2016 were \$4.3 million less than in December 2015, due to a higher 'net cash' position than the prior year driven by reductions in working capital balances.

## Cash Flow and Working Capital

	Continu- ing	Discont- inued	Dec 2016	Dec 2015
Cash flow	\$000	\$000	\$000	\$000
<b>Operating receipts and payments (excluding working capital movement and restructuring)</b>	<b>4,044</b>	<b>(172)</b>	<b>3,872</b>	<b>(1,232)</b>
Working capital movement	(1,515)	(15)	(1,530)	(16,578)
Restructuring	(317)	-	(317)	(1,581)
Net interest paid	(302)	(22)	(324)	(539)
Income taxes paid	(1,472)	-	(1,472)	(2,360)
<b>Net cash flow from operations</b>	<b>438</b>	<b>(209)</b>	<b>229</b>	<b>(22,290)</b>
Capital expenditure	(301)	-	(301)	(1,504)
Net proceeds/(payments) from sale of assets & businesses	-	(570)	(570)	2,700
<b>Net cash flow before financing</b>	<b>137</b>	<b>(779)</b>	<b>(642)</b>	<b>(21,094)</b>

Net cash inflow from operations was \$0.2 million in the 6 months to December 2016. This represented a significant turnaround on an outflow of \$22.3 million for the pcp, during a period where operating cash flows are typically weaker due to seasonal factors affecting working capital balances.

This positive outcome was primarily due to a sharp management focus on working capital performance, particularly consistent control of inventory levels and improvements in creditor terms with key suppliers, which restricted the cash outflow from movements in working capital to \$1.5 million (compared to an outflow of \$16.6 million in the pcp).

Net cash outflow before financing from discontinued operations was \$0.8 million for the period.

## Cash, Debt and Interest

Cash / (Debt)		Dec 2016	Jun 2016	Dec 2015
Gross debt	\$000	(3,124)	(4,893)	(15,727)
Cash and cash equivalents	\$000	28,673	31,626	32,819
Short term deposits	\$000	3,955	3,955	3,955
<b>Net Cash</b>	<b>\$000</b>	<b>29,504</b>	<b>30,688</b>	<b>21,047</b>

Interest expense		Dec 2016	Dec 2015	% Change v Actual
Net interest - continuing	\$000	226	439	(48.5)
Net interest - discontinued	\$000	-	157	(100.0)
<b>Net interest expense</b>	<b>\$000</b>	<b>226</b>	<b>596</b>	<b>(62)</b>

The Company's 'net cash' position at December 2016 was \$29.5 million. This represents a significant improvement of \$8.5 million compared to the 'net cash' position at December 2015, driven by reductions in working capital balances compared to prior year. Gross debt drawn at December 2016 of \$3.1 million was thus significantly less than December 2015 (down \$12.6 million), and was also lower than gross debt at June 2016.

Traditionally 30 June represents one of the highest points in the Company's annual cash cycle while 31 December is a low point, thus the relatively small decline in the Company's net cash position over the 6 months to December 2016 represents a positive outcome.

Continuing interest expense for the 6-month period to December 2016 was 48.5% lower than the pcp, reflecting significantly lower average daily gross debt drawn positions.

## Funding Update

The Group's primary financing facilities are in Australia and New Zealand. The Asian operations have cash on hand and make limited use of available debt funding facilities.

During the 6-month period to December 2016, Spicers NZ secured a new overdraft and revolving bills financing facility with Bank of New Zealand ('BNZ') to replace its previous receivables backed financing facility. The new BNZ facility is for an initial three-year period to October 2019, with improved terms.

Actual gross debt levels drawn on the Group's primary funding facilities at 31 December 2016 were relatively low and significantly below maximum capacity levels of the facilities, given the positive operating cash flow result in the 6 months to December 2016 versus typical seasonal trends.

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

The weighted average life of these primary funding facilities was 1.5 years as at December 2016, with respective maturity dates falling during FY 2018 for Australia and FY 2020 for New Zealand.

### **Dividends and Distributions**

There was no dividend paid on the Spicer's Ordinary Shares for the six months to 31 December 2016.

No distributions relating to the PaperlinX Step-Up Preference securities were paid in the six months to 31 December 2016.

### **Conclusion**

The first half of financial year 2017 saw Group Underlying EBIT<sup>(1)</sup> marginally ahead of pcp, at \$3.3 million. Improved performances from New Zealand and Asia offset weakness in the Australian result. Corporate costs fell as benefits from the reduced complexity of the Company following the 2015 restructuring of the group's operational footprint continue to be realised.

Diversified revenue streams grew solidly. Ongoing strong growth in these more profitable categories is vital to Spicer's future performance and profitability.

Consistent management focus on working capital levels throughout the 2016 calendar year has seen the Group's 'net cash' position at 31 December 2016 improve significantly compared to 31 December 2015. One of the Group's primary funding facilities, in New Zealand, was also refinanced on improved terms during the period.

Going forward the Company's strategy remains focussed upon maximising returns and 'free' cash flows in 'core' Commercial Print and Packaging markets, while seeking to vigorously grow diversified revenue streams.

**-ends-**

(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	Dec 2016 \$000	Dec 2015 \$000
<b>Group revenue</b>	<b>195,217</b>	<b>232,671</b>
<b>Earnings: <sup>(2)</sup></b>		
Australia	1,810	2,560
New Zealand	4,176	3,702
Asia	969	810
Unallocated	(3,536)	(3,806)
Total continuing operations	3,419	3,266
Discontinued operations	(139)	(3,573)
<b>Profit/(loss) before net finance costs, tax and significant items</b>	<b>3,280</b>	<b>(307)</b>
Net other finance costs	(439)	(153)
Significant items (pre-tax)	2,236	8,062
<b>Profit before interest and tax</b>	<b>5,077</b>	<b>7,602</b>
Net interest	(226)	(596)
Profit before tax	4,851	7,006
Tax relating to pre-significant items	(1,279)	(722)
Tax relating to significant items	32	2
Tax expense	(1,247)	(720)
<b>Statutory profit for the period</b>	<b>3,604</b>	<b>6,286</b>

The following table is a reconciliation of underlying EBIT<sup>(1)</sup>.

For the half-year ended	Dec 2016 \$000	Dec 2015 \$000
<b>Statutory profit for the period, after tax</b>	<b>3,604</b>	<b>6,286</b>
Adjust for following (gains)/losses included in statutory profit:		
Profit after tax - discontinued	(2,192)	(4,846)
Tax expense - continuing	1,247	978
Net interest - continuing	226	439
<b>Earnings before interest and tax - continuing</b>	<b>2,885</b>	<b>2,857</b>
Adjust for continuing significant items:		
Loss on disposal of controlled entities	58	-
Restructuring costs	317	353
<b>Underlying EBIT <sup>(1)</sup></b>	<b>3,260</b>	<b>3,210</b>

(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 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 Earnings Before Interest and Tax (EBIT): statutory profit/(loss) before interest, tax, impairment of non-current assets, restructuring, and results from discontinued operations.
- Net Working Capital: comprises of the sum of trading operations receivables and inventories less payables as at the relevant date.
- Average Working Capital: comprises an average value calculated from monthly Net Working Capital balances in the relevant reporting period.
- Average Working Capital/Sales Revenue: comprises Average Working Capital divided by an annualised sales revenue value extrapolated from sales revenue for the relevant reporting period.

### Restated comparative data

Relevant prior corresponding period (pcp) data has been re-presented to reflect:

- The reclassification of foreign exchange gains and losses in relation to inventory purchases from “net finance costs” to “cost of goods sold” to more accurately reflect the nature of these gains and losses; and
- Reclassification of data in the “Diversified Results” section to use the product categorisation presented in the CEO’s address to the Spicer's 2016 Annual General Meeting, under which diversified product categories consist of Sign & Display, Hardware and Pressure Sensitive Labels.