

Winpak Reports 2019 First Quarter Results

Winnipeg, Manitoba, April 23, 2019 - Winpak Ltd. (WPK) today reports consolidated results in US dollars for the first quarter of 2019, which ended on March 31, 2019.

	Quarter Ended	
	March 31 2019	April 1 2018 *
<i>(thousands of US dollars, except per share amounts)</i>		
Revenue	224,035	221,665
Net income	29,188	26,867
Income tax expense	10,535	9,135
Net finance (income) expense	(1,137)	51
Depreciation and amortization	10,158	9,879
EBITDA (1)	48,744	45,932
Net income attributable to equity holders of the Company	28,429	26,361
Net income attributable to non-controlling interests	759	506
Net income	29,188	26,867
Basic and diluted earnings per share (cents)	44	41

Winpak Ltd. manufactures and distributes high-quality packaging materials and related packaging machines. The Company's products are used primarily for the packaging of perishable foods, beverages and in healthcare applications.

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¹ EBITDA is not a recognized measure under International Financial Reporting Standards (IFRS). Management believes that in addition to net income, this measure provides useful supplemental information to investors including an indication of cash available for distribution prior to debt service, capital expenditures and income taxes. Investors should be cautioned, however, that this measure should not be construed as an alternative to net income, determined in accordance with IFRS, as an indicator of the Company's performance. The Company's method of calculating this measure may differ from other companies and, accordingly, the results may not be comparable.

*The Company has initially applied IFRS 16 "Leases" at December 31, 2018. Under the transition method chosen by the Company, comparative information has not been restated.

Forward-looking statements: Certain statements made in the following report contain forward-looking statements including, but not limited to, statements concerning possible or assumed future results of operations of the Company. Forward-looking statements represent the Company's intentions, plans, expectations and beliefs, and are not guarantees of future performance. Such forward-looking statements represent Winpak's current views based on information as at the date of this report. They involve risks, uncertainties and assumptions and the Company's actual results could differ, which in some cases may be material, from those anticipated in these forward-looking statements. Factors that could cause results to differ from those expected include, but are not limited to: the terms, availability and costs of acquiring raw materials and the ability to pass on price increases to customers; ability to negotiate contracts with new customers or renew existing customer contracts with less favorable terms; timely response to changes in customer product needs and market acceptance of our products; the potential loss of business or increased costs due to customer or vendor consolidation; competitive pressures, including new product development; industry capacity, and changes in competitors' pricing; ability to maintain or increase productivity levels; contain or reduce costs; foreign currency exchange rate fluctuations; changes in governmental regulations, including environmental, health and safety; changes in Canadian and foreign income tax rates, income tax laws and regulations. Unless otherwise required by applicable securities law, Winpak disclaims any intention or obligation to publicly update or revise this information, whether as a result of new information, future events or otherwise. The Company cautions investors not to place undue reliance upon forward-looking statements.

Financial Performance

Net income attributable to equity holders of the Company for the first quarter of 2019 of \$28.4 million or 44 cents in earnings per share (EPS) advanced by 7.8 percent from the \$26.4 million or 41 cents per share recorded in the corresponding quarter of 2018. Gross profit margins were the catalyst, raising EPS by 3.5 cents while net finance income and foreign exchange contributed a further 1.5 cents and 0.5 cents respectively. Conversely, increased operating expenses lowered EPS by 1.5 cents and a larger proportion of net income attributable to non-controlling interests and higher income taxes both reduced EPS by 0.5 cents.

Operating Segments and Product Groups

The Company provides three distinct types of packaging technologies: a) rigid packaging and flexible lidding, b) flexible packaging and c) packaging machinery. Each of the three are deemed to be a separate operating segment.

The rigid packaging and flexible lidding segment includes the rigid containers and lidding product groups. Rigid containers includes portion control and single-serve containers, as well as plastic sheet, custom and retort trays, which are used for applications such as food, pet food, beverage, dairy, industrial, and healthcare. Lidding products are available in die-cut, daisy chain and rollstock formats and are used for applications such as food, dairy, beverage, industrial and healthcare.

The flexible packaging segment includes the modified atmosphere packaging, specialty films and biaxially oriented nylon product groups. Modified atmosphere packaging extends the shelf life of perishable foods, while at the same time maintains or improves the quality of the product. The packaging is used for a wide range of markets and applications, including fresh and processed meats, poultry, cheese, medical device packaging, high performance pouch applications and high-barrier films for converting applications. Specialty films includes a full line of barrier and non-barrier films which are ideal for converting applications such as printing, laminating, and bag making, including shrink bags. Biaxially oriented nylon film is stretched by length and width to add stability for further conversion using printing, metalizing or laminating processes and are ideal for food packaging applications such as cheese, fluid and viscous liquids, and industrial applications such as book covers and balloons.

Packaging machinery includes a full line of horizontal fill/seal machines for preformed containers and vertical form/fill/seal pouch machines for pumpable liquid and semi-liquid products and certain dry products.

Revenue

Revenue in the first quarter of 2019 was \$224.0 million, \$2.4 million or 1.1 percent greater than the first quarter of 2018. Volumes increased by 0.2 percent. The rigid container and flexible lidding operating segment recorded a 6 percent reduction in volumes. Volumes for the rigid container product group were restrained, influenced by the timing of specialty beverage order fulfillment. Within the lidding product group, the expansion in condiment lidding and rollstock volumes was largely offset by lower specialty beverage lidding. For the flexible packaging operating segment, volumes were strong, progressing by 7 percent. In particular, biaxially oriented nylon volumes accelerated by more than 30 percent due, in part, to weak volumes in the first quarter of 2018. Furthermore, the modified atmosphere packaging product group benefitted from the inroads made at major North American protein processors. The packaging machinery segment also had a solid quarter, exceeding the 2018 first quarter by 6 percent. Selling price and mix changes had a favorable effect on revenues for the quarter of 1.6 percent, while foreign exchange, due to a weaker Canadian dollar, decreased revenues by 0.7 percent in comparison to the first quarter of 2018.

Gross Profit Margins

Gross profit margins in the first quarter of 2019 rose to 30.9 percent of revenue compared to the 29.6 percent of revenue in the first quarter of 2018, an improvement of 1.3 percentage points. The fall in raw material costs in relation to those incurred a year prior was the main factor contributing to the margin improvement. Although 72 percent of the Company's revenues are indexed, there is a lag of approximately 90 to 120-days before the effect of raw material cost changes are realized within selling prices. In addition, positive strides were made with respect to production waste and labor utilization rates. The recent capital expansion program that has been undertaken has resulted in an elevated cost structure. In tandem with sales volumes remaining relatively the same in the first quarter of the current year in relation to the prior year's first quarter, gross profit margins were compressed.

The purchase price index declined by 7.7 percent compared to the fourth quarter of 2018. In the last 12 months, the change in the index was even more significant at 9.8 percent. During the first quarter, polypropylene resin had the most substantial decrease of more than 20 percent while polyethylene and polystyrene resins both experienced decreases of approximately 10 percent.

Expenses and Other

Operating expenses in the current quarter, adjusted for foreign exchange, increased by 4.4 percent, exceeding the growth rate in sales volumes from the first quarter of 2018. Nonrecurring personnel costs with respect to the relocation of a select group of employees was the main contributing factor. Foreign exchange augmented EPS by 0.5 cents and was attributed to converting the Company's net Canadian dollar expenses into US dollars at a lower average exchange rate. Additionally, higher interest rates were applied to cash and cash equivalents, raising net finance income and elevating EPS by 1.5 cents. A modest increase in the average income tax rate and a greater proportion of net income attributable to non-controlling interests each lowered EPS by 0.5 cents.

Summary of Quarterly Results

	Thousands of US dollars, except per share amounts (US cents)							
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
	2019	2018	2018	2018	2018	2017*	2017	2017
Revenue	224,035	222,138	220,647	225,191	221,665	222,323	218,348	217,752
Net income attributable to equity holders of the Company	28,429	26,683	27,835	28,042	26,361	39,633	25,368	25,745
EPS	44	41	43	43	41	61	39	40

The Company has initially applied IFRS 16 "Leases" at December 31, 2018 and IFRS 15 "Revenue From Contracts With Customers" and IFRS 9 "Financial Instruments" at January 1, 2018. Under the transition methods chosen by the Company, comparative information has not been restated.

*Includes the one-time income tax recovery of 17 cents per share due to the revaluation of deferred tax asset and liability balances within the US operations as a result of US tax reform enacted in December 2017.

Capital Resources, Cash Flow and Liquidity

The Company's cash and cash equivalents balance ended the first quarter of 2019 at \$362.6 million, an increase of \$18.3 million from the end of the prior year. Winpak continued to generate solid cash flow from operating activities before changes in working capital of \$48.9 million. Cash was consumed by net working capital additions of \$2.7 million. In addition, cash was utilized for plant and equipment additions of \$17.3 million, income tax payments of \$8.3 million, employee defined benefit plan contributions of \$2.0 million, dividend payments of \$1.4 million and other items totaling \$0.1 million while net finance income provided cash of \$1.2 million.

Looking Forward

Business Outlook

The first quarter provided strong earnings performance which should enable Winpak to build on this positive momentum. The year started with sales volumes remaining relatively unchanged with varying results within the Company's product groups. The rigid packaging and flexible lidding segment experienced soft customer demand which is expected to rebound over the course of the year. The flexible packaging segment achieved strong volume gains with a solid customer order pipeline in place. As the Canadian dollar is at a lower level versus its US counterpart from a year ago, this will have a negative effect on revenues, but have a positive effect on current year's earnings as Canadian dollars costs exceed revenues in that currency. The Company continues to reduce production waste and hence lower manufacturing costs and will strive for achieving productivity gains within the manufacturing operations. Raw material costs for three of the Company's main resins experienced significant declines during the quarter which provided an uplift to gross profit margins. The increase in supplier resin inventory levels and new capacity coming on stream for polyethylene has reduced the cost for these resins. Since 72 percent of Winpak's revenues are currently indexed to the price of raw materials, albeit with a 90 to 120-day time lag, selling prices will be trending downwards in the upcoming quarters. Looking ahead, current expectations are for resin prices to remain relatively flat for the rest of 2019. Oil prices are rising, however the impact should be tempered by new refinery capacity coming online.

Capital expenditures of approximately \$70 - \$80 million are expected for 2019. During the second quarter, new extrusion capacity will be on stream at the rigid container facility in Sauk Village, Illinois and the new Mexican facility will be fully operational, providing new capabilities in printing technology for flexible packaging products. The building expansion and new biaxially oriented polyamide (BOPA) line in Winnipeg, Manitoba is progressing with an expected commercial start-up in the second half of 2020. The Company will continue to invest in organic growth opportunities including new technologies and broadening its product portfolio, including recycle-ready offerings, while remaining diligent and evaluating acquisition candidates that align strategically with the Company's core competencies in sophisticated packaging for food, beverage and health care applications, all being focused on providing long-term shareholder value.

Winpak Ltd.
Interim Condensed Consolidated Financial Statements
First Quarter Ended: March 31, 2019

These interim condensed consolidated financial statements have not been audited or reviewed by the Company's independent external auditors, KPMG LLP. For a complete set of notes to the condensed consolidated financial statements, refer to www.sedar.com or the Company's website, www.winpak.com.

Winpak Ltd.
Condensed Consolidated Balance Sheets
(thousands of US dollars) (unaudited)

	March 31 2019	December 30 2018*
Assets		
Current assets:		
Cash and cash equivalents	362,639	344,322
Trade and other receivables	133,661	131,851
Income taxes receivable	694	1,294
Inventories	128,699	132,318
Prepaid expenses	3,974	2,761
Derivative financial instruments	5	-
	<u>629,672</u>	<u>612,546</u>
Non-current assets:		
Property, plant and equipment	461,509	453,867
Intangible assets	14,215	14,311
Employee benefit plan assets	9,087	7,507
Deferred tax assets	702	707
	<u>485,513</u>	<u>476,392</u>
Total assets	<u>1,115,185</u>	<u>1,088,938</u>
Equity and Liabilities		
Current liabilities:		
Trade payables and other liabilities	62,900	63,687
Contract liabilities	1,073	3,031
Income taxes payable	4,839	3,753
Derivative financial instruments	911	2,697
	<u>69,723</u>	<u>73,168</u>
Non-current liabilities:		
Employee benefit plan liabilities	11,402	11,108
Deferred income	14,598	14,786
Provisions and other long-term liabilities	696	660
Deferred tax liabilities	41,675	41,313
	<u>68,371</u>	<u>67,867</u>
Total liabilities	<u>138,094</u>	<u>141,035</u>
Equity:		
Share capital	29,195	29,195
Reserves	(804)	(2,264)
Retained earnings	920,248	893,279
Total equity attributable to equity holders of the Company	<u>948,639</u>	<u>920,210</u>
Non-controlling interests	<u>28,452</u>	<u>27,693</u>
Total equity	<u>977,091</u>	<u>947,903</u>
Total equity and liabilities	<u>1,115,185</u>	<u>1,088,938</u>

*The Company has initially applied IFRS 16 "Leases" at December 31, 2018. Under the transition method chosen by the Company, comparative information has not been restated.

Winpak Ltd.**Condensed Consolidated Statements of Income***(thousands of US dollars, except per share amounts) (unaudited)*

	Quarter Ended	
	March 31 2019	April 1 2018*
Revenue	224,035	221,665
Cost of sales	(154,905)	(156,023)
Gross profit	69,130	65,642
Sales, marketing and distribution expenses	(17,689)	(17,645)
General and administrative expenses	(8,634)	(7,973)
Research and technical expenses	(4,077)	(4,072)
Pre-production expenses	-	(115)
Other (expenses) income	(144)	216
Income from operations	38,586	36,053
Finance income	2,106	829
Finance expense	(969)	(880)
Income before income taxes	39,723	36,002
Income tax expense	(10,535)	(9,135)
Net income for the period	29,188	26,867
Attributable to:		
Equity holders of the Company	28,429	26,361
Non-controlling interests	759	506
	29,188	26,867
Basic and diluted earnings per share - cents	44	41

Condensed Consolidated Statements of Comprehensive Income*(thousands of US dollars) (unaudited)*

	Quarter Ended	
	March 31 2019	April 1 2018*
Net income for the period	29,188	26,867
<u>Items that will not be reclassified to the statements of income:</u>		
Cash flow hedge gains recognized	459	101
Cash flow hedge losses (gains) transferred to property, plant and equipment	95	(235)
Income tax effect	-	-
	554	(134)
<u>Items that are or may be reclassified subsequently to the statements of income:</u>		
Cash flow hedge gains (losses) recognized	691	(507)
Cash flow hedge losses (gains) transferred to the statements of income	546	(536)
Income tax effect	(331)	279
	906	(764)
Other comprehensive income (loss) for the period - net of income tax	1,460	(898)
Comprehensive income for the period	30,648	25,969
Attributable to:		
Equity holders of the Company	29,889	25,463
Non-controlling interests	759	506
	30,648	25,969

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Winpak Ltd.
Condensed Consolidated Statements of Changes in Equity
(thousands of US dollars) (unaudited)

	Attributable to equity holders of the Company					
	Share capital	Reserves	Retained earnings	Total	Non-controlling interests	Total equity
Balance at January 1, 2018*	29,195	596	788,636	818,427	25,037	843,464
Comprehensive (loss) income for the period						
Cash flow hedge losses, net of tax	-	(270)	-	(270)	-	(270)
Cash flow hedge gains transferred to the statements of income, net of tax	-	(393)	-	(393)	-	(393)
Cash flow hedge gains transferred to property, plant and equipment	-	(235)	-	(235)	-	(235)
Other comprehensive loss	-	(898)	-	(898)	-	(898)
Net income for the period	-	-	26,361	26,361	506	26,867
Comprehensive (loss) income for the period	-	(898)	26,361	25,463	506	25,969
Dividends	-	-	(1,513)	(1,513)	-	(1,513)
Balance at April 1, 2018*	29,195	(302)	813,484	842,377	25,543	867,920
Balance at December 31, 2018	29,195	(2,264)	893,279	920,210	27,693	947,903
Comprehensive income for the period						
Cash flow hedge gains, net of tax	-	965	-	965	-	965
Cash flow hedge losses transferred to the statements of income, net of tax	-	400	-	400	-	400
Cash flow hedge losses transferred to property, plant and equipment	-	95	-	95	-	95
Other comprehensive income	-	1,460	-	1,460	-	1,460
Net income for the period	-	-	28,429	28,429	759	29,188
Comprehensive income for the period	-	1,460	28,429	29,889	759	30,648
Dividends	-	-	(1,460)	(1,460)	-	(1,460)
Balance at March 31, 2019	29,195	(804)	920,248	948,639	28,452	977,091

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Winpak Ltd.
Condensed Consolidated Statements of Cash Flows
(thousands of US dollars) (unaudited)

	Quarter Ended	
	March 31 2019	April 1 2018*
Cash provided by (used in):		
Operating activities:		
Net income for the period	29,188	26,867
Items not involving cash:		
Depreciation	10,418	10,123
Amortization - deferred income	(372)	(388)
Amortization - intangible assets	112	144
Employee defined benefit plan expenses	856	932
Net finance (income) expense	(1,137)	51
Income tax expense	10,535	9,135
Other	(739)	(414)
Cash flow from operating activities before the following	48,861	46,450
Change in working capital:		
Trade and other receivables	(1,810)	(9,438)
Inventories	3,619	(1,339)
Prepaid expenses	(1,213)	(1,527)
Trade payables and other liabilities	(1,324)	539
Contract liabilities	(1,958)	1,315
Employee defined benefit plan contributions	(1,984)	(1,709)
Income tax paid	(8,251)	(8,354)
Interest received	2,132	810
Interest paid	(889)	(775)
Net cash from operating activities	37,183	25,972
Investing activities:		
Acquisition of property, plant and equipment - net	(17,315)	(12,460)
Acquisition of intangible assets	(18)	(31)
	(17,333)	(12,491)
Financing activities:		
Payment of lease liabilities	(104)	-
Dividends paid	(1,429)	(1,550)
	(1,533)	(1,550)
Change in cash and cash equivalents	18,317	11,931
Cash and cash equivalents, beginning of period	344,322	291,959
Cash and cash equivalents, end of period	362,639	303,890

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