

ASX - For immediate release

25 February 2021

Pro-Pac Packaging continues to deliver earnings growth

Pro-Pac Packaging Limited (ASX: PPG) ("Pro-Pac" or "the company") is pleased to announce a statutory Profit after Tax (PAT) of \$6.2m for the half-year ended 31 December 2020 (1H21). The financial information below is presented after accounting for AASB 16 Leases (unless otherwise stated).

1H21 Financial Highlights	
✓	PBT ¹ up by 33.4% at \$11.7m and PBT margin ² up by 150bps at 5.0% compared to 1H20
✓	Net debt ³ at \$54.2m, Gearing ⁴ at 1.6x (June 2020: 1.4x) and comfortable compliance with all covenants
✓	Fully franked interim dividend of 0.25 cents per share
Significant Highlights	
✓	TRIFR ⁵ reduced by 29% to 10.3
✓	COVID-19 – successfully managed employee safety and continuity of operations with no Government JobKeeper assistance or rent relief received
✓	In line with our strategy to optimise our operational footprint, Chester Hill transition on track to deliver annualised cost benefits of circa \$7m per annum in FY22
✓	In line with our strategy to optimise our cost base and operational efficiencies, ERP consolidation project on track with Phase 1 go-live scheduled for 1 March 2021
✓	In line with our strategy to grow earnings through accretive acquisitions in existing and adjacent market segments, the acquisition of Supreme Packaging was completed on 31 January 2021

Commenting on the 1H21 results, Pro-Pac's CEO & Managing Director Tim Welsh said:

"I am delighted with the progress we have made in delivering on our strategy during the first half of the year. Each of the business divisions performed well and delivered margin uplift and earnings growth. We have also made critical investments to ensure the successful delivery of strategic projects and to build capability, systems and frameworks to support our governance and future growth objectives. The delivery of the ERP and the closure of the Chester Hill facility will also create efficiencies that will reduce organisational costs progressively through FY22 and in the following years."

On 31 January 2021, we completed the acquisition of Supreme Packaging. Supreme is a flexible packaging business that services markets in core verticals of food, beverage and produce. This is a logical acquisition in line with our growth objectives for the flexibles business, and we expect it to be accretive in FY22."

1H21 Overview

As previously reported, FY21 is a year of consolidation, building on the progress achieved in FY20.

All businesses have traded well with earnings improving on the prior year, evidenced by PBT margin² uplift across all segments.

The company continues to execute on several key transformation projects. During 1H21 Pro-Pac has:

- Continued to transition production from the Chester Hill facility and deploy new and existing equipment to our other sites to consolidate the Group's operational footprint and deliver a circa \$7m annualised cost benefit in FY22; and
- Successfully progressed the ERP project to enable business rationalisation and efficiency.

Both of these initiatives remain on track and on budget.

Together with our investment in people, governance and systems to build frameworks for future growth, these initiatives have resulted in increased corporate costs compared to the prior year. However, projects underway will reduce Pro-Pac's organisational costs progressively through FY22 and beyond, delivering a step change in our manufacturing capabilities and ability to address new customers and markets.

Cash generation is on target and the balance sheet remains strong.

Financial Performance

Operating result

Key metrics	1H21 \$'000	1H20 \$'000	Change
Group results:			
Revenue	234,369	251,012	(6.6)%
Statutory profit before tax	8,841	8,761	0.9%
Statutory profit after tax	6,186	6,371	(2.9)%
Operating results:			
Underlying PBT ¹	11,686	8,761	33.4%
Underlying PBT margin ²	5.0%	3.5%	150 bps

- Revenue of \$234.4m (down 6.6% on pcpc): a targeted and successful focus on portfolio balancing to shift business mix towards higher margin products in the Flexibles and Industrial divisions, partially offset by new business, and combined with rise and fall reductions relating to resin cost inputs, and the divestment and exit of businesses.
- Underlying PBT¹ of \$11.7m (up 33.4% on pcpc): an improved underlying PBT margin² of 5.0% (1H20: 3.5%) predominantly driven by improved business mix, the completion of several operational initiatives to streamline costs, increased investment in corporate capability and a decrease in finance costs from the reduction in net debt³ compared to pcpc (1H20: \$76.6m).
- Significant items⁶ of \$2.8m (1H20: nil) – planned costs relating predominantly to the Chester Hill project, additional operating costs associated with the Kewdale fire and restructuring costs.
- Statutory Profit before Tax of \$8.8m (up 0.9% on pcpc).

Balance Sheet

Key metrics	Dec-20 \$'000	Jun20 \$'000	Change
Working capital ⁷	91,603	82,346	11.2%
Net debt ³	54,164	46,093	17.5%
Net debt ³ (post-AASB 16)	110,719	103,804	6.7%
Gearing ⁴	1.6x	1.4x	0.2x
Gearing ⁴ (post-AASB 16)	2.4x	2.2x	0.2x

- Net debt³ was \$54.2m representing gearing⁴ of 1.6x. A capital expenditure investment of \$8.3m was made in 1H21 and the final FY20 dividend of \$3.2m was paid.
- A \$9.3m working capital⁷ increase was, in part, due to stock build relating to the Chester Hill transition and protection against global shipping delays to ensure supply risk to customers is mitigated.
- The balance sheet remains strong with stable gearing⁴ and total facilities of \$100.0m maturing in FY23 (\$90.0m amortising senior debt and \$10.0m overdraft) with the capacity to fund growth.

Embedded cash management disciplines delivered a 65.1% operating cash flow conversion⁸ influenced by the increased working capital⁷ required to proactively manage the COVID-19 disruption to supply chain and the implementation of major projects. The seasonal cash cycle is driven by the Agriculture sector in Australia and New Zealand which positively skews operating cash flow conversion⁸ to the second half.

Divisional results

Flexibles

The Flexible business has outperformed prior year earnings, despite a \$17.1m drop in revenue:

- Revenue down 11.2% at \$135.7m (1H20: \$152.8m); and
- PBT¹ up 9.9% at \$9.7m (1H20: \$8.8m)

During the half year, Flexibles continued to exit less profitable business and invest in its capabilities for innovative, higher margin growth. Revenue was reduced by this rebalancing, however the exit from less profitable business and non-core business is now complete, with revenue rebased for future growth.

New business of \$9.7m annualised was won in 1H21, which contributed \$2.3m to 1H21 revenue and will convert progressively through 2H21 and early FY22. Contracted rise and fall provisions relating to resin input costs resulted in a revenue drop of \$0.9m but had no material impact on earnings. Revenue reduced through the divestment of the forage business (\$5.1m), exit of the Canadian operations (\$2.7m), and a decline in global textiles demand, combined with a stronger AUD, reduced cotton export sales (\$2.5m).

The repositioning towards bespoke products, combined with the delivery of profit improvement initiatives in 1H21, is reflected in continued margin growth with a PBT margin² of 7.1% (1H20: 5.8%).

A key priority for Flexibles in 2H21 and FY22 will be organic top line growth which is supported by:

- an increasingly strong pipeline, with opportunities driven by customer and consumer demand for innovative and bespoke packaging; and
- the sales restructure, completed in 1H20, which focused on key account management and new business development, driving an increased level of sales effectiveness.

Industrial

A key priority for FY21 is to return our Industrial division to profitable growth. The new Executive General Manager – Industrial, joined Pro-Pac in August 2020 and the business achieved a profitable 1H21. The Industrial team performed strongly in servicing their customer base despite the demand and global shipping challenges presented by the COVID-19 pandemic. They have also developed strategic supply relationships in support of these efforts.

The Industrial business has delivered strong earnings compared to the prior corresponding period with:

- Revenue down 7.1% at \$62.6m (1H20: \$67.3m); and
- PBT¹ up 61.1% at \$1.1m (1H20: \$0.7m)

Revenues exceeded internal expectations with Industrial volumes strengthening progressively throughout 1H21. Consistent with our group strategy, Management refocused the product range to market sectors where we know we can win and grow; and divested the Cosmic Packaging business (\$0.9m), resulting in lower revenue for the half year.

However, PBT margins² improved to 1.8% (1H20: 1.0%) as a result of this refocusing, and from the completion of several operational initiatives to streamline costs and to support future growth.

Rigid

The Rigid business has performed strongly compared to the prior corresponding period with:

- Revenue up 17.1% at \$36.1m (1H20: \$30.8m); and
- PBT¹ up 19.0% at \$3.0m (1H20: \$2.5m)

The COVID-19 pandemic continued to provide sales volume and margin opportunities, particularly for triggers and pumps for hand sanitiser and other cleaning and hygiene products.

Improvements in the lawn and garden space were driven by more favourable weather conditions than the prior year and growth also reflected a partial recovery in the food service sector. New business conversion in specialty closures in the FMCG space also contributed to revenue and earnings growth.

Subsequent events - Acquisition of Supreme Packaging

- Consistent with Pro-Pac's strategy of growth through earnings accretive acquisitions in existing and adjacent market segments, on 31 January 2021 the company acquired the business and assets of Supreme Packaging Pty Ltd (Supreme), a flexible packaging business in Clayton, Victoria that employs 50 staff.
- This acquisition comprises flexographic printing, slitting and bag making assets and services markets in core PPG verticals of food, beverage and produce. Supreme's capability includes pre-press and design, 8 colour printing, slitting, bag making and micro perforation. Supreme is certified to ISO 9001.
- The purchase price was \$3.2m and based on historical performance, management expects Supreme to deliver revenues of circa \$10m-12m in FY22.

Dividend

Having reinstated a final dividend for FY20, Pro-Pac is pleased to advise that shareholders will continue to be rewarded through the payment of an interim dividend. The Board has declared a fully franked interim dividend of 0.25 cents per share.

The interim dividend is payable on 8 April 2021, with an ex-dividend date of 17 March 2021 and a record date of 18 March 2021. The DRP will not be available for this dividend.

Outlook

Subject to macroeconomic and COVID-19 conditions remaining stable, and no major disruptions to Pro-Pac's supply chain, we continue to expect a full year PBT¹ (before significant items) above the prior year.

This announcement has been authorised for release by the Board of Directors.

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About Pro-Pac Packaging:

Pro-Pac Packaging is a diversified manufacturing and distribution business providing innovative flexible, rigid and industrial packaging solutions for a broad group of blue-chip clients and small-to-medium enterprises. Pro-Pac Packaging has its corporate office in Melbourne, overseeing an international footprint including Australia and New Zealand. Pro-Pac Packaging's securities are listed and quoted on the ASX. For further information on Pro-Pac Packaging, visit www.ppgaust.com.au.

Forward-Looking Statements:

Some of the statements in this document constitute "forward-looking statements". These forward-looking statements reflect Pro-Pac Packaging's current intentions, plans, expectations, assumptions and beliefs about future events and are subject to risks, uncertainties and other factors, many of which are outside Pro-Pac Packaging's control. Important factors that could cause actual results to differ materially from the expectations expressed or implied in the forward-looking statements include known and unknown risks. Because actual results could differ materially from Pro-Pac Packaging's current intentions, plans, expectations, assumptions and beliefs about the future, you are urged to view all forward-looking statements contained in this document with caution.

¹ PBT refers to profit/(loss) before income taxes and significant items

² PBT margin refers to PBT divided by revenue

³ Net debt is calculated as interest-bearing liabilities, less cash and cash equivalents before accounting for AASB 16 Leases (unless otherwise stated)

⁴ Gearing is calculated as net debt divided by EBITDA before accounting for AASB 16 Leases (unless otherwise stated) adjusted for any unconsolidated EBITDA attributable to operations acquired for the last 12-month period

⁵ Total recordable injury frequency rate

⁶ Significant items are identified as favourable or unfavourable transactions which are outside of normal operating activities and are excluded from the segment results presented to the chief operating decision-maker for the purpose of resource allocation and assessment of segment performance

⁷ Working capital refers to trade and other receivables, inventories, deposits and prepayments, less trade and other payables

⁸ Operating cash flow conversion is calculated after accounting for AASB 16 Leases and is the sum of net cash flows from operating activities, plus income tax paid, plus interest paid (net of interest income), plus significant items paid, divided by EBITDA