

ASX Announcement

2 July 2018

Strategic acquisitions of 2 flexible packaging businesses and fully underwritten capital raising

Key Highlights

- Acquisitions of Perfection Packaging and Polypak expected to generate \$8m in synergies and EPS accretion of 22% over 24 to 36 months
- Fully underwritten \$59.8m capital raising to fund the acquisitions
- Net debt expected to reduce to below 2.0x EBITDA
- Major shareholder Bennamon to maintain its shareholding in PPG through a further investment of \$30.8m in the placement
- Chairman Ahmed Fahour and non-executive director Rupert Harrington also participating in the placement to maintain their shareholding
- Acquisitions in line with PPG's strategy of being a leading player in the high growth flexible packaging market
- Bell Potter Securities sole lead manager and underwriter of \$59.8m capital raise
- The Board is anticipating FY2019 underlying EBITDA of c.\$46-47 million including acquisitions, subject to no material adverse market conditions

Transaction Summary

- PPG has entered into agreements to acquire:
 - Victorian-based hard flexible manufacturer (**Perfection Packaging**) for A\$49.8 million to be completed in September 2018; and
 - The business of NZ-based soft flexible packaging manufacturer and distributor (**PolyPak**) for NZ\$8.8 million (approximately A\$8.2 million) to be completed in July 2018
- Polypak is scheduled to complete in July 2018 and Perfection Packaging is scheduled to complete in September 2018
- Anticipate \$8.0m p.a. in integration synergies, \$5.0 million in year 2 and \$3.0m in year 3, leading to EPS accretion of 22% inclusive of synergies
- The Acquisitions will be funded by a combination of:
 - A\$9.96 million shares (**Consideration Shares**) issued to the vendors of Perfection Packaging at an issue price of A\$0.39 per share
 - a A\$55.8 million fully underwritten placement of shares in two tranches at an issue price of A\$0.34 per share (**Placement**); and
 - a A\$4.0 million fully underwritten Share Purchase Plan (**SPP**) at an issue price of A\$0.34 per share(Placement and SPP together, **Capital Raising**).
- Major shareholder, Bennamon Pty Ltd (**Bennamon**), Chairman of PPG Ahmed Fahour, and non-executive Director, Rupert Harrington to participate in tranche 2 of the Placement
- PPG shareholders to approve the issue of shares to Bennamon, the Chairman and Mr Harrington at an Extraordinary General Meeting to be held in late August
- The PPG Board believes the Acquisitions, the Placements and the SPP are in the best interests of shareholders

Acquisitions

Perfection Packaging (Project Wrap)

Pro-Pac Packaging Limited (ASX code: PPG) (**PPG, the Company**) is pleased to announce that it has entered into a Unit and Share Sale Agreement to acquire all of the shares in Perfection Packaging Pty Ltd (Australia) and all of the units in the Perfection Packaging Unit Trust (**Trust**) from the principals of the Perfection Packaging business (**Perfection Packaging Vendors**).

Perfection Packaging is a privately owned hard flexible manufacturer based in Dandenong, Victoria.

The total consideration for the Perfection Packaging acquisition is A\$49.8 million, which comprises A\$39.84 million in cash and A\$9.96 million payable in PPG shares, at an issue price of A\$0.39 per share (**Consideration Shares**). The Consideration Shares will be issued under PPG's remaining capacity pursuant to ASX Listing Rule 7.1A. The Consideration Shares will be held in voluntary escrow for a period of two years from completion.

The Perfection Packaging acquisition is conditional on, amongst other things, the completion of the Capital Raising by PPG.

The purchase price is subject to customary adjustments for working capital and net debt.

The Unit and Share Sale Agreement contains a customary MAC termination provision and usual representations and warranties for a transaction of this nature.

PolyPak (Project Stretch)

PPG has also entered into an Asset Sale Agreement to acquire the PolyPak Pty Limited (New Zealand) business. PolyPak is a privately owned specialist soft flexible packaging manufacturer and distributor based in New Zealand.

The total consideration for the PolyPak acquisition is NZ\$8.8 million in cash, with approximately NZ\$7.0 million payable at completion and NZ\$1.76 million held in escrow payable in two equal instalments post completion, in December 2018 and July 2019, subject to the achievement of certain performance targets.

Completion of the PolyPak acquisition is subject to a number of usual commercial conditions for a transaction of this nature.

The purchase price is subject to customary adjustments for working capital and net debt.

PPG may terminate the Asset Sale Agreement if there is a material adverse change affecting the Polypak business and the Asset Sale Agreement contains usual representations and warranties for a transaction of this nature.

Placement

The Acquisitions will be funded in part by a \$55.8 million fully underwritten placement, to be undertaken in two tranches at an issue price of \$0.34 per share.

Tranche 1 will be undertaken by way of an underwritten placement of shares to sophisticated and professional investors at \$0.34 per share to raise approximately \$22.6 million. The Tranche 1 shares will be issued under PPG's existing placement capacity pursuant to ASX Listing Rule 7.1. Tranche 1 will be completed by Friday, 6 July 2018.

Tranche 2 will be undertaken by way of an underwritten placement of shares to Bennamon, the Chairman of PPG, Ahmed Fahour, and a non-executive Director of PPG, Mr Rupert Harrington, at an issue price of \$0.34 per share to raise approximately \$33.2 million, subject to the approval of shareholders of PPG to be obtained at an Extraordinary General Meeting anticipated to be held in late August 2018. The effect of this placement to Bennamon, Mr Fahour and Mr Harrington will allow them to maintain their current level of shareholding in PPG.

The Placement will be fully underwritten by Bell Potter Securities Limited. Bell Potter Securities Limited has also been appointed as Lead Manager to the Placement.

SPP

A SPP will immediately follow the Tranche 1 Placement, under which existing PPG shareholders will be given the opportunity to acquire additional shares in PPG at an issue price of \$0.34 per share. The SPP will be capped at \$4.0 million (and will be subject to PPG's discretion to scale back applications if necessary). The SPP will be fully underwritten by Bell Potter Securities Limited.

Existing shareholders with registered addresses in Australia and New Zealand as at 7:00pm (Sydney time) on 29 June 2018 (**Record Date**) will be entitled to subscribe for up to \$15,000 in new PPG shares through the SPP, subject to the terms and conditions of the SPP which will be set out in the SPP Offer Booklet. Shares issued under the SPP will rank equally with existing shares of PPG.

Further information in relation to the SPP, including terms and conditions of the SPP, will be outlined in the SPP Offer Booklet, which will be despatched to eligible shareholders on or about 6 July 2018.

Funds raised under the Placement and SPP will be applied towards payment of the consideration for the Acquisitions, restructure and transactions costs of the Placement and the Acquisitions and working capital of approximately A\$11.7 million.

PPG Chairman, Ahmed Fahour, provided the following comment:

"The acquisitions of Perfection Packaging (Aust) and PolyPak (NZ) represent a further significant milestone in PPG's vision to become the flexible and industrial packaging manufacturer and distribution leader in Australia and New Zealand. I take this opportunity to thank existing shareholders for their continued support and to welcome a number of new institutional and retail shareholders to the PPG register as we begin this journey."

Outlook

The PPG Board provides the following trading update:

PPG expects to generate (subject to finalisation of the audit):

- FY18 Underlying EBITDA expected to be c.\$16.0 million
- FY18 Pro Forma sustainable EBITDA of c.\$34-\$35 million.

FY19 outlook

- Integration synergies in relation to the Integrated Packaging merger are ahead of schedule and now on track to deliver \$6.0 million of annualised run rate savings.
- Additional synergies of \$8.0m p.a announced with the rationalisation of a manufacturing site, funded by one off redundancy and relocation costs of \$10 million.
- Strategic review of Rigid division is ongoing
- Including acquisitions the company is now anticipating a FY19 underlying EBITDA of c.\$46-\$47 million- subject to no material adverse market conditions.

As previously announced, weaker agricultural conditions in key grain and grass markets impacted first half volumes, with second half margins impacted by rising resin prices and timing delays in the realisation of labour savings following the installation of new equipment. This will result in Pro Forma sustainable EBITDA of c.\$34-\$35 million and underlying FY18 EBITDA is forecasted at c.\$16.0 million.

Integration synergies following the IPG merger continue to track substantially ahead of schedule, increasing to an annualised run rate of \$6.0 million. In addition, the company has announced further

consolidation savings of \$8.0 million p.a to come from the rationalisation of its manufacturing network possible with the acquisitions. It is expected \$5.0 million of these annual savings will flow through in FY20 with the balance in the following year. A total of \$10.0 million of one off restructuring and redundancy costs are anticipated over an 18 month period.

Further to realising the \$8.0 million site consolidation synergies, these acquisitions are earnings per share (EPS) accretive up to 22%.

The Board confirmed the strategic review of the Rigid division is ongoing, as it reviews a number of strategic options to accelerate shareholder value in this business.

PPG CEO, Grant Harrod, provided the following comment:

“The FY18 year has been a period of substantial transformation as the company establishes itself as a leader in the industrial and flexible packaging sector. The company is now very well advanced in the integration of the IPG acquisition it completed recently and will further benefit from both synergy savings and new growth opportunities with the Perfection Packaging and PolyPak acquisitions. Both acquisitions further strengthen our growth strategy, in particular expanding our reach into the higher growth food based primary packaging market.”

Indicative Timetable

Record Date for Share Purchase Plan (SPP)	7:00pm (Sydney time), Friday, 29 June 2018
Announcement of Acquisitions and Placement	Monday, 2 July 2018
Settlement of Tranche 1 shares	Thursday, 5 July 2018
Allotment of Tranche 1 shares	Friday, 6 July 2018
Completion of Polypak	Friday, 6 July 2018
SPP Offer Period	Monday, 9 July 2018 – Monday, 30 July 2018
Commencement of trading of Tranche 1 shares	Tuesday, 10 July 2018
Despatch of Notice of Meeting	Monday, 30 July 2018
Allotment of SPP Shares	Monday, 6 August 2018
Extraordinary General Meeting to approve issue of Tranche 2 shares	Thursday, 30 August 2018
Settlement of Tranche 2 shares	Wednesday, 5 September 2018
Allotment of Tranche 2 shares	Thursday, 6 September 2018
Completion of Perfection Packaging	Thursday, 6 September 2018
Issue of Consideration Shares (Perfection Packaging)	Thursday, 6 September 2018
Commencement of trading of Tranche 2 shares and Consideration Shares	Monday, 10 September 2018

The timetable is indicative only and the Company reserves the right to amend the dates at its discretion and without notice, subject to the ASX Listing Rules and the *Corporations Act 2001* (Cth) (**Corporations Act**).

Enquiries

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About PPG

Pro-Pac Packaging Limited (PPG) is a diversified manufacturing and distribution company, providing innovative, industrial & flexible and rigid packaging solutions for a broad group of blue chip clients.

PPG is headquartered in Sydney with a national footprint including operations in all mainland states.

PPG's securities are listed and quoted on the ASX. For further information on PPG visit

www.ppgaust.com.au.