



1 August 2018

The Manager  
Company Announcements  
ASX Limited  
Level 4, 20 Bridge Street  
Sydney NSW 2000

Dear Sir/Madam

**Pro-Pac Packaging Limited (ASX:PPG)  
Despatch of Notice of Extraordinary General Meeting and Proxy Form**

Pro-Pac Packaging Limited advises that the enclosed documents are being despatched to shareholders today.

Yours faithfully

Mark Saus  
Company Secretary

# PRO-PAC PACKAGING LIMITED

A.C.N 112 971 874

## **NOTICE OF EXTRAORDINARY GENERAL MEETING, EXPLANATORY NOTES AND INDEPENDENT EXPERT'S REPORT**

**Date: 3 September 2018**

**Time: 12:00pm (Melbourne time)**

**Place: Level 36, KPMG, Tower Two, Collins Square, 727 Collins Street,  
Melbourne**

**The Independent Expert has concluded that the Proposal as set out in the Explanatory Notes and in the enclosed Independent Expert's Report is not fair but reasonable to the Shareholders and the advantages of the Proposal outweigh the disadvantages.**

**The Directors who do not have an interest in the outcome of the Resolutions unanimously recommend that Shareholders vote in favour of each Resolution.**

This Notice of Meeting is dated 1 August 2018.

**This document is important and requires your immediate attention. Carefully read this document in its entirety and consult your stockbroker, solicitor, accountant, licensed financial adviser or other professional adviser if you are in any doubt as to what to do.**

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**NOTE:** Capitalised terms used in this document are defined in the Glossary (Section 4).

## Key Dates

Due date for lodgement of proxy forms	12:00pm on Saturday, 1 September 2018
Record Date	7:00pm on Saturday, 1 September 2018
General Meeting	12:00pm on Monday, 3 September 2018

**NOTE:** The above timetable is indicative only. The Company may vary any of the above dates without notice, subject to the Corporations Act, the ASX Listing Rules and other applicable law.

## Important Information

This Notice of Meeting is dated 1 August 2018.

A copy of this Notice of Meeting has been lodged with ASIC and ASX. Neither ASIC nor ASX takes any responsibility for the contents of this Notice of Meeting.

This Notice of Meeting does not take into account the individual investment objectives, financial situation or particular needs of any person. Shareholders should seek professional advice from a licensed financial adviser, accountant, stockbroker, lawyer or other professional adviser before deciding whether or not to approve the resolution set out in this Notice of Meeting.

This Notice of Meeting is governed by the law in force in New South Wales.

## Corporate Directory

### Current Directors

Mr Ahmed Fahour (Executive Chairman)  
 Mr Elliott Kaplan (Non-Executive Director)  
 Mr Rupert Harrington (Non-Executive Director)  
 Mr Darren Brown (Non-Executive Director)  
 Ms Leonie Valentine (Non-Executive Director)  
 Ms Marina Go (Non-Executive Director)

### Company Secretary

Mr Mark Saus

### Registered Office

Suite 2.02, 657 Pacific Highway, St Leonards  
 NSW 2065  
 (PO Box 228, St. Leonards NSW 1590)  
 Tel: (02) 8781 0500  
 Fax: (02) 8781 0599

### Share Registry

Boardroom Pty Limited  
 Level 12, 225 George Street  
 Sydney NSW 2000  
 Tel: 1300 737 760

### Independent Expert

Lonergan Edwards & Associates Limited  
 Level 7, 64 Castlereagh Street  
 Sydney NSW 2000

### Auditors

UHY Haines Norton  
 Level 11, 1 York Street  
 Sydney NSW 2000

### Solicitors

Thomson Geer  
 Level 25, 1 O'Connell Street  
 Sydney NSW 2000

## 1 Chairman's Letter

1 August 2018

Dear Shareholder,

On behalf of the Directors of Pro-Pac Packaging Limited (**Company** or **PPG**) I am pleased to invite you to a General Meeting of Shareholders to be held on Monday, 3 September 2018.

### Key Points:

- The Company is continuing to implement its two tranche and SPP capital raising (**Capital Raising**) to fund the Perfection Packaging and PolyPak acquisitions (**Proposed Transactions**), with the Tranche 1 Placement having completed in July 2018, raising approximately \$22.6 million.
- Tranche 2 Placement to raise a further approximate \$33.2 million, subject to shareholder approval at this meeting, is required in order for the Company to complete the Perfection Packaging acquisition.
- The Perfection Packaging acquisition is conditional on completion of the capital raising by the Company.
- The Directors who do not have an interest in the outcome of the Resolutions unanimously recommend Shareholders vote in favour of the Resolutions and intend to vote shares in the Company they hold, own or control in favour of the Resolutions<sup>1</sup>.
- Major shareholder Advent, which holds approximately 13.8% of the Company as at the date of this Notice of Meeting, has committed to vote in favour of the Resolutions to issue the Bennamon Shares and the Fahour Shares, in the absence of a superior proposal.
- At the completion of the capital raising, Bennamon's voting power will not have increased relative to its position prior to the issue of shares under the Tranche 1 Placement.

As announced on 2 July 2018, and as set out in further detail in section 3.1 of the enclosed Explanatory Notes, the Company (through its nominated subsidiaries) has agreed to acquire:

- a privately owned hard flexible packaging manufacturer based in Victoria, Australia, Perfection Packaging (**Perfection Packaging Acquisition**); and
- the business of a privately owned New Zealand based soft flexible packaging manufacturer and distributor, PolyPak (**PolyPak Acquisition**).

Also as announced on 2 July 2018, the Company is funding the cash component of the consideration payable for these acquisitions through a two tranche placement of Shares and a share purchase plan (**SPP**). The placements and SPP are fully underwritten by Bell Potter Securities Limited.

The Company completed the first tranche placement on 6 July 2018, raising approximately \$22.6 million from sophisticated and professional investors (**Tranche 1 Placement**). The PolyPak Acquisition completed on 6 July 2018. The issue of Shares under the SPP is expected to complete on 6 August 2018.

The second tranche placement will raise approximately \$33.2 million and involves participation by Bennamon Pty Ltd (the largest Shareholder of the Company (**Bennamon**)), Mr Ahmed Fahour (the Executive Chairman of the Company) and/or his Associates (**Fahour**) and Mr Rupert Harrington (a non-

<sup>1</sup> Mr. Fahour and Mr. Harrington have an interest in Resolutions 1, 2 and 3. They will not be making a recommendation in respect of these Resolutions, nor will they be voting any shares held, owned or controlled by them in favour of the Resolutions. Mr. Brown is an executive employed by a related body corporate of Bennamon but is not an Associate of Bennamon. He elects not to make a recommendation in respect of Resolution 1. None of Mr. Kaplan, Ms. Valentine and Ms. Go has an interest in any of the Resolutions.

executive Director of the Company) and/or his Associates (**Harrington**) respectively (**Tranche 2 Placement**). The Tranche 2 Placement is subject to Shareholder approval.

The Company has obtained the written commitment of Advent, which holds 89,686,278 Shares in the Company as at the date of this Notice of Meeting, to vote in favour of the Resolutions to issue the Bennamon Shares and the Fahour Shares at the General Meeting, in the absence of a superior proposal.

The business of the General Meeting is to seek Shareholder approval:

- for each of the proposed issues of Shares to Bennamon, Fahour and Harrington respectively and in aggregate comprising the total Tranche 2 Placement; and
- to ratify the issue of the Tranche 1 Shares for the purposes of refreshing the Company's capacity to issue the Consideration Shares pursuant to ASX Listing Rule 7.1,

on the basis set out in the enclosed Explanatory Notes.

As at the date of this Notice of Meeting:

- Bennamon holds 263,291,673 Shares, representing approximately 40.5%<sup>2</sup> of the voting power attaching to and the number of all Shares on issue, having been diluted from approximately 45.1% pursuant to the issue of Shares under the Tranche 1 Placement;
- Fahour holds 28,390,255 Shares, representing approximately 4.3% of the voting power attaching to and the number of all Shares on issue, having been diluted from approximately 4.9% pursuant to the issue of Shares under the Tranche 1 Placement; and
- Harrington holds 1,673,479 Shares, representing approximately 0.3% of the voting power attaching to and the number of all Shares on issue.

Upon completion of the Tranche 2 Placement:

- Bennamon will be issued 90,861,012 Shares (**Bennamon Shares**) and will hold 354,196,803 Shares<sup>3</sup>, representing approximately 46.6% of the voting power attaching to, and the number of all, Shares that will be on issue immediately following completion of the Tranche 2 Placement. Once the Consideration Shares are issued, Bennamon's voting power will be 45.1%, which is the same as Bennamon's voting power of 45.1% prior to the issue of the Tranche 1 Placement Shares;
- Fahour will be issued 6,139,353 Shares (**Fahour Shares**) and will hold 34,573,726 Shares<sup>4</sup> representing approximately 4.6% of the voting power attaching to, and the number of all, Shares that will be on issue immediately following completion of the Tranche 2 Placement; and
- Harrington will be issued 577,512 Shares (**Harrington Shares**) and will hold 2,295,109 Shares<sup>5</sup>, representing approximately 0.3% of the voting power attaching to, and the number of all, Shares that will be on issue immediately following completion of the Tranche 2 Placement.

As stated in the Company's announcement on 2 July 2018 and by the Resolutions proposed, the Board considers that the Perfection Packaging Acquisition, including its partial funding by the Tranche 2 Placement on the basis provided in the Resolutions, is in the Company's best interests and will be for the benefit of all Shareholders. The Board's reasons are set out more fully in the enclosed Explanatory Notes. In summary, the issue of Shares under the Tranche 2 Placement is necessary for and will enable completion of the Perfection Packaging Acquisition, which will result in the Company delivering a scalable platform for future growth and facilitate its strategy to be a leader in the industrial and flexible packaging markets. The Company's future growth is to largely be driven by the flexible packaging market with the flexible segment growing faster than GDP and the overall packaging sector. The Perfection Packaging Acquisition will also provide the Company with scale in the mid-market hard flexible packaging film market. This complements the Company's current business, which largely focusses on soft flexible packaging film.

<sup>2</sup> For the avoidance of doubt, unless otherwise stated, all shareholding percentages set out in this Notice of Meeting are calculated against the total number of ordinary shares in the Company on issue at that time only, i.e. **not** on a fully diluted basis.

<sup>3</sup> Assumes Bennamon subscribes for \$15,000 worth of Shares under the SPP.

<sup>4</sup> Assumes Fahour subscribes for \$15,000 worth of Shares under the SPP.

<sup>5</sup> Assumes Harrington subscribes for \$15,000 worth of Shares under the SPP.

The Perfection Packaging Acquisition will be earnings accretive and is expected to deliver circa \$8m in synergies in the 24 to 36 months post the Perfection Packaging Acquisition while reducing Net Debt to below 2.0x EBITDA.

The Directors who do not have an interest in the outcome of the Resolutions unanimously recommend shareholders vote in favour of the Resolutions and intend to vote Shares in the Company they hold, own or control in favour of the Resolutions<sup>6</sup>.

Further information regarding the Resolutions to be considered at this meeting is set out in the enclosed Explanatory Notes.

In the context of:

- the issue of each of the Fahour Shares, the Harrington Shares and the Bennamon Shares together constituting the total Tranche 2 Placement;
- the issue of each of the Fahour Shares and the Harrington Shares requiring shareholder approval under Chapter 2E of the Corporations Act and ASX Listing Rule 10.11 as they are both related parties of the Company; and
- the issue of the Bennamon Shares requiring shareholder approval under item 7 of section 611 of the Corporations Act and ASX Listing Rule 10.11,

as required under the relevant Corporations Act provisions and ASIC Regulatory Guide 111, the Independent Expert has been engaged to determine whether the issue of the Bennamon Shares under the Tranche 2 Placement is fair and reasonable to the Shareholders other than Bennamon and its Associates.

The Independent Expert has determined that the Proposed Transactions, including the issue of the Bennamon Shares, is not fair but reasonable, and that the advantages outweigh the disadvantages of the Proposed Transactions, including the issue of the Bennamon Shares to Bennamon, from the perspective of Shareholders.

Further information is contained in the enclosed Independent Expert's Report.

I look forward to your attendance at the General Meeting. If you are unable to attend the meeting in person, please complete, sign and return the enclosed proxy form by 12:00pm (Melbourne time) on Saturday, 1 September 2018.

Yours sincerely

Ahmed Fahour  
Executive Chairman

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<sup>6</sup> Mr. Fahour and Mr. Harrington have an interest in Resolutions 1, 2 and 3. They will not be making a recommendation in respect of these Resolutions, nor will they be voting any shares held, owned or controlled by them in favour of the Resolutions. Mr. Brown is an executive employed by a related body corporate of Bennamon but is not an Associate of Bennamon. He elects not to make a recommendation in respect of Resolution 1. None of Mr. Kaplan, Ms. Valentine and Ms. Go has an interest in any of the Resolutions.

**NOTICE IS HEREBY GIVEN** that an Extraordinary General Meeting of the Shareholders of Pro-Pac Packaging Limited (**Company** or **PPG**) will be held at Level 36, KPMG, Tower Two, Collins Square, 727 Collins Street, Melbourne on Monday, 3 September 2018 at 12:00pm (Melbourne time).

**Business:**

**Resolution 1 – Approval of issue of Bennamon Shares to Bennamon**

To consider and, if thought fit, to pass the following Resolution as an ordinary resolution:

*"Subject to the passing of Resolution 2 and Resolution 3, that, in accordance with item 7 of section 611 of the Corporations Act, ASX Listing Rule 10.11 and for all other purposes, Shareholder approval is given to the issue and allotment of 90,861,012 Shares to Bennamon on the terms set out in the Explanatory Notes accompanying the notice convening this General Meeting."*

*Note: The vote on the Resolution will be taken on a show of hands and a poll.*

**Resolution 2 – Approval of issue of Shares to Mr. Ahmed Fahour and/or his Associates**

To consider and, if thought fit, to pass the following Resolution as an ordinary resolution:

*"Subject to the passing of Resolution 1 and Resolution 3, that, for the purposes of Part 2E.1 of the Corporations Act, and ASX Listing Rule 10.11, Shareholder approval is given to the issue and allotment of 6,139,353 Shares to Mr. Ahmed Fahour, the Executive Chairman of the Company, and/or his Associates on the terms set out in the Explanatory Notes accompanying the notice convening this General Meeting."*

**Resolution 3 – Approval of issue of Shares to Mr. Rupert Harrington and/or his Associates**

To consider and, if thought fit, to pass the following Resolution as an ordinary resolution:

*"Subject to the passing of Resolution 1 and Resolution 2, that, for the purposes of Part 2E.1 of the Corporations Act, and ASX Listing Rule 10.11, Shareholder approval is given to the issue and allotment of 577,512 Shares to Mr. Rupert Harrington, a non-executive Director of the Company, and/or his Associates on the terms set out in the Explanatory Notes accompanying the notice convening this General Meeting."*

**Resolution 4 – Ratify past issue of Shares**

To consider and, if thought fit, to pass the following Resolution as an ordinary resolution:

*"That, in accordance with ASX Listing Rule 7.4 and for all other purposes, Shareholders ratify the past issue of a total of 66,539,771 Shares on the terms set out in the Explanatory Notes accompanying the notice convening this General Meeting."*

Further information in relation to the Resolutions is set out in the Explanatory Notes which accompany and form part of this Notice of Meeting.

By order of the Board

Mark Saus  
Company Secretary  
Date: 1 August 2018

## 2.1 Voting Exclusions

### *Resolution 1*

In accordance with the notice requirements of item 7 of section 611 of the Corporations Act and ASX Listing Rules, the Company will disregard any votes cast in favour of Resolution 1 by:

- (a) Bennamon;
- (b) any Associates of Bennamon; and
- (c) any person who is excluded from casting votes on Resolutions 2 and 3.

However, the Company need not disregard a vote if:

- (a) it is cast by a person as the proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- (b) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form to vote as the proxy decides.

### *Resolution 2*

In accordance with the Corporations Act and ASX Listing Rules, the Company will disregard any votes cast in favour of Resolution 2 by:

- (a) Mr. Ahmed Fahour;
- (b) any Associates of Mr. Ahmed Fahour; and
- (c) any person who is excluded from casting votes on Resolutions 1 and 3.

However, the Company need not disregard a vote if:

- (a) it is cast by a person as the proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- (b) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

### *Resolution 3*

In accordance with the Corporations Act and ASX Listing Rules, the Company will disregard any votes cast in favour of Resolution 3 by:

- (a) Mr. Rupert Harrington;
- (b) any Associates of Mr. Rupert Harrington; and
- (c) any person who is excluded from casting votes on Resolutions 1 and 2.

However, the Company need not disregard a vote if:

- (a) it is cast by a person as the proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- (b) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.



**Resolution 4**

In accordance with the Corporations Act and ASX Listing Rules, the Company will disregard any votes cast in favour of Resolution 4 by:

- (a) a person who participated in the issue of Shares referred to in Resolution 4; and
- (b) any Associates of that person.

However, the Company need not disregard a vote if:

- (c) it is cast by a person as the proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- (d) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

**2.2 Documents**

A proxy form accompanies these documents.

**2.3 Persons entitled to vote**

Under regulation 7.11.37 of the Corporations Regulations, the Directors have determined that the shareholding of each member for the purposes of ascertaining their voting entitlements at the General Meeting will be as it appears in the share register at 7:00pm (Melbourne time) on Saturday, 1 September 2018.

**2.4 How to Vote**

If you are eligible, you may vote by attending the General Meeting in person or by proxy or attorney. A member who is a body corporate may appoint a representative to attend and vote on its behalf.

*Note: The vote on Resolution 1 will be taken on a show of hands and a poll.*

**2.5 Voting in Person**

To vote in person, attend the General Meeting at the time and place set out in this Notice of Meeting.

**2.6 Voting by Proxy**

To vote by proxy, please complete, sign and return the enclosed proxy form in accordance with the following instructions. If you require an additional proxy form, the Company will supply it on request.

**2.7 Proxies**

A Shareholder who is entitled to vote at the General Meeting may appoint:

- one proxy if the member is only entitled to one vote; or
- one or two proxies if the member is entitled to more than one vote.

Where the Shareholder appoints 2 proxies, the appointment may specify the proportion or number of votes that each proxy may exercise. If the appointment does not specify a proportion or number, each proxy may exercise one-half of the votes, in which case any fraction of votes will be disregarded.

A proxy need not be a Shareholder of the Company.

The proxy form must be signed by the Shareholder or the Shareholder's attorney. Proxies given by a corporation must be executed in accordance with the Corporations Act and the constitution of that corporation.

The proxy form and the power of attorney or other authority (if any) under which it is signed or a certified copy, must be received by the Company at least 48 hours before the time for holding of the General Meeting or any adjourned meeting (or such lesser period as the Directors may permit) at the Company's registered office:

Suite 2.02, 657 Pacific Highway, St Leonards NSW 2065

(PO Box 228, St. Leonards NSW 1590)

or the following fax number at the Company's registered office: (02) 8781 0599.

## **2.8 Voting by Attorney**

A Shareholder may appoint an attorney to act on the Shareholder's behalf at the General Meeting. The power of attorney or such other evidence of the attorney's appointment and authority to the satisfaction of the Directors must be received by the Company at least 48 hours before the time for holding of the General Meeting or any adjourned meeting.

## **2.9 Enquiries**

For further information, please contact Mark Saus, Company Secretary, on (02) 8781 0500.

### 3 Explanatory Notes

**These Explanatory Notes have been prepared for the information of Shareholders in connection with the business to be conducted at the Extraordinary General Meeting to be held at Level 36, KPMG, Tower Two, Collins Square, 727 Collins Street, Melbourne on 3 September 2018 at 12:00pm (Melbourne time).**

#### 3.1 Background on the Perfection Packaging Acquisition and Tranche 2 Placement

As announced on 2 July 2018, the Company (through its subsidiary, Integrated Packaging Group Pty Ltd) entered into a Unit and Share Sale Agreement to acquire all of the units in Perfection Packaging Unit Trust and all of the shares in Perfection Packaging Pty Ltd (together **PP Entities**), a privately owned hard flexible packaging manufacturer based in Victoria, Australia, from the current owners (**Vendors**).

The consideration payable for the Perfection Packaging Acquisition is \$49.8 million, 80% of which is payable in cash on completion (subject to customary adjustments for working capital and net debt following completion) (**Cash Consideration**) and the remaining 20% to be satisfied by an issue of Shares to the Vendors (**Consideration Shares**) at a price of \$0.39 per Consideration Share.

The Company is raising the Cash Consideration through two Share placements and the SPP, all of which are underwritten by Bell Potter under the terms of the underwriting agreement (**Underwriting Agreement**). The Underwriting Agreement contains customary conditions, warranties and undertakings and is subject to a right to terminate the Underwriting Agreement upon the occurrence of specified termination events, exercisable by Bell Potter. Bell Potter's obligation to underwrite the Tranche 2 Placement is conditional on, amongst other things, Shareholders approving Resolutions 1, 2 and 3.

The Tranche 1 Placement completed on 6 July 2018, raising approximately \$22.6 million from sophisticated and professional investors at a price of \$0.34 per Share. The SPP is scheduled to complete on 6 August 2018, to raise a further \$4.0 million at a price of \$0.34 per Share.

The Tranche 2 Placement, the subject of this Notice of Meeting, is to raise a total of approximately \$33.2 million from:

- (a) Bennamon Pty Ltd (an existing Shareholder of the Company (**Bennamon**)), subject to the passing of Resolution 1;
- (b) Mr Ahmed Fahour (the Executive Chairman of the Company) and/or his Associates (**Fahour**), subject to the passing of Resolution 2; and
- (c) Mr Rupert Harrington (a non-executive Director of the Company) and/or his Associates (**Harrington**), subject to the passing of Resolution 3.

As stated above, completion of the Perfection Packaging Acquisition is conditional on the Company raising the required funds to pay the Cash Consideration.

Completion of the Perfection Packaging Acquisition will occur on the date which is 2 Business Days after the satisfaction or waiver of all of the conditions precedent to the Perfection Packaging Acquisition, or any other day agreed by the parties. The other conditions precedent to the Perfection Packaging Acquisition are:

- (d) there being no material adverse change in the business of the PP Entities prior to completion of the Perfection Packaging Acquisition;
- (e) a new lease being entered into for one of the premises occupied by the PP Entities and owned by interests associated with the Vendors (the form of which has been agreed);

- (f) change in control consents being obtained from the landlords of the premises leased by the PP Entities; and
- (g) the two principals of the PP Entities entering into employment agreements with the Company (the form of which has been agreed).

The Directors anticipate that the capital raising will be the final condition precedent to be satisfied and, as such, completion of the Perfection Packaging Acquisition will occur on or around 10 September 2018.

As at the date of this Notice of Meeting, the Directors are not aware of any reason why any of the conditions precedent under the Unit and Share Sale Agreement will not be satisfied. The Directors will keep Shareholders and the ASX advised in that regard, including as to the outcome of the vote by Shareholders on the Resolutions proposed.

Please refer to the Investor Presentation on the Company's website at <https://www.ppgaust.com.au/investor-relations> for further information on the Perfection Packaging Acquisition.

### 3.2 Resolution 1 – Issue of Bennamon Shares to Bennamon

#### (a) Background

By Resolution 1, the Company is seeking the approval of Shareholders in accordance with item 7 of section 611 of the Corporations Act and ASX Listing Rule 10.11 for the issue and allotment of the Bennamon Shares to Bennamon in accordance with the terms and conditions set out in this Notice of Meeting.

The issue of the Bennamon Shares and the issue of the Consideration Shares which are required to complete the Perfection Packaging Acquisition will return Bennamon to the voting power of approximately 45.1% in the Company, which is the same as the 45.1% voting power it had prior to the issue of any Shares under the Tranche 1 Placement. Accordingly the issue of the Bennamon Shares will not result in any increase in Bennamon's voting power in the Company. Please refer to sections 3.2(e) and 3.2(i) for further details on the sequential effect of the issue of the Bennamon Shares (as well as the other Tranche 2 Placement Shares, the issue of Shares under the SPP and the issue of the Consideration Shares) on the voting power of Bennamon.

#### (b) Information about Bennamon

Bennamon is an investment company owned by Kin Group Pty Ltd (**Kin**), which is ultimately controlled by Mr Raphael Geminder.

#### (c) Approval under the Corporations Act

##### (i) Section 606 prohibition

Pursuant to section 606(1) of the Corporations Act, a person must not acquire a relevant interest in issued voting shares in a company if the person acquiring the interest does so through a transaction in relation to securities entered into by or on behalf of the person and because of the transaction, that person's or someone else's voting power in the company increases:

- (A) from 20% or below to more than 20%; or
- (B) from a starting point that is above 20% and below 90%.

A person's voting power in a company is determined in accordance with section 610 of the Corporations Act. A person's voting power is calculated by determining the percentage of the total number of votes attached to all voting shares in the company that a person and its associates have a relevant interest in.

A person has a relevant interest in securities if they:

- (A) are the holder of the securities;
- (B) have the power to exercise, or control the exercise of, a right to vote attached to the securities; or
- (C) have power to dispose of, or control the exercise of a power to dispose of, the securities.

It does not matter how remote the relevant interest is or how it arises. If two or more people can jointly exercise one of these powers, each of them is taken to have that power.

(ii) **Exception to the section 606 prohibition**

Item 7 of section 611 of the Corporations Act provides an exception to the prohibition under section 606 of the Corporations Act. This exception provides that a person may acquire a relevant interest in a company's voting shares with shareholder approval.

In order for the exemption of item 7 of section 611 of the Corporations Act to apply, shareholders must be given all information known to the person making the acquisition or their Associates, or known to the company, that was material to the decision on how to vote in the resolution, including:

- (A) the identity of the person proposing to make the acquisition and their Associates;
- (B) the maximum extent of the increase in that person's voting power in the company that would result from the acquisition;
- (C) the voting power that person would have as a result of the acquisition;
- (D) the maximum extent of the increase in the voting power of each of that person's Associates that would result from the acquisition; and
- (E) the voting power that each of that person's Associates would have as a result of the acquisition.

For responses on these matters, see section 3.2(f).

(d) **Approval under the Listing Rules**

Under ASX Listing Rule 10.11, an entity must not issue or agree to issue securities to any of the following persons without the approval of holders of ordinary securities:

- (i) a related party;
- (ii) a person whose relationship with the entity or a related party is, in ASX's opinion, such that shareholder approval should be obtained,

and accordingly approval for the issue of the Bennamon Shares is being sought under ASX Listing Rule 10.11.2.

(e) **Why Shareholder approval is required**

As at the date of this Notice of Meeting Bennamon holds 263,291,673 Shares in the Company, representing 40.5% of the total Shares on issue. Shareholders should note that, prior to the issue of any Shares under the Tranche 1 Placement, Bennamon's voting power in the Company was 45.1%, the same level that its voting power is anticipated to be following the issue of the Bennamon Shares and the Consideration Shares. Accordingly, in substance, there will be no impact on the control of the Company by virtue of the issue of the Bennamon Shares.

It is proposed that the Company issue the Bennamon Shares to Bennamon.

Following the issue of the Bennamon Shares to Bennamon in accordance with the terms set out in these Explanatory Notes, Bennamon will hold 354,196,803 Shares<sup>7</sup> in the Company. As mentioned in section 3.1, simultaneously with the issue of the Bennamon Shares, subject to Resolution 2 and Resolution 3 passing, the Company will issue the other Shares under the Tranche 2 Placement. As such, following the issue of the Bennamon Shares and the other Shares under the Tranche 2 Placement, there will be 760 million Shares on issue in the Company and Bennamon's shareholding will be 46.6% of the total Shares on issue at that time.

Then, subsequent to that as set out in section 3.1, after completion of the Tranche 2 Placement the Company will complete the Perfection Packaging Acquisition and issue the Consideration Shares. Following the issue of the Consideration Shares, there will be 785 million Shares on issue in the Company at which point Bennamon's shareholding will be diluted from 46.6% to 45.1% of the total Shares on issue at that time.

Please refer to section 3.2(i) for further details on the number of Shares, the percentage of Shares and the voting power of Bennamon and the other Shareholders of the Company following completion of the Tranche 2 Placement in its entirety and the issue of the Consideration Shares.

In this process, the issue of the Bennamon Shares to Bennamon will increase Bennamon's voting power in the Company from 40.5%, being a starting point that is above 20%, to a percentage that is in excess of 20% and below 90%. This increase in Bennamon's relevant interest in the Company is prohibited under section 606 of the Corporations Act. However, such issue will be permitted if prior Shareholder approval is granted for the issue of the Bennamon Shares to Bennamon in accordance with the terms of Resolution 1.

(f) **Information for Shareholders under item 7 of section 611 of the Corporations Act**

The following information is provided to Shareholders for the purposes of the requirements under the Corporations Act in respect of obtaining Shareholder approval pursuant to item 7 of section 611 of the Corporations Act:

<b>The identity of the person proposing to make the acquisition and their associates</b>	<p>The person proposing to make the acquisition (that, is the persons who will be issued the Bennamon Shares) is Bennamon.</p> <p>None of Bennamon's other Associates will be issued any Bennamon Shares.</p>
<b>The voting power that the person, and its associates, would have as a result of the acquisition and the maximum extent of the increase in that person's, and its associates', voting power in the company that would result from the acquisition</b>	<p>Prior to the announcement on 2 July 2018 of the acquisitions and the associated capital raisings and the issue of Shares pursuant to the Tranche 1 Placement, Bennamon's voting power in the Company was approximately 45.1%. Following the issue of the Bennamon Shares, the other Tranche 2 Placement Shares and the Consideration Shares as described in these Explanatory Notes, Bennamon's ultimate voting power will remain at approximately 45.1%.</p> <p>Given the temporary dilution to all Shareholders caused by the issue of Shares under the Tranche 1 Placement, as at the date of this Notice of Meeting, Bennamon's voting power in the Company is 40.5%. The issue of the Bennamon Shares to Bennamon (which will occur simultaneously with the issue of the other Shares under the Tranche 2 Placement) will represent an increase of Bennamon's voting power from 40.5% to 46.6%<sup>8</sup>.</p> <p>As explained in section 3.2(e), Bennamon's voting power will then be diluted down from 46.6% to 45.1% following the issue of</p>

<sup>7</sup> Assumes Bennamon subscribes for \$15,000 worth of Shares under the SPP.

<sup>8</sup> Assumes Bennamon subscribes for \$15,000 worth of Shares under the SPP.

the Consideration Shares.

None of Bennamon's Associates will be issued any Bennamon Shares. Bennamon is not associated with any shareholder of the Company. Accordingly the maximum voting power of any of Bennamon's Associates as a result of the acquisition will be 46.6%, to be reduced to 45.1% following the issue of the Consideration Shares.

(g) **Information for Shareholders required by RG 74**

Further information required by ASIC Regulatory Guide 74 (**RG 74**) is set out below:

<p><b>An explanation of the reasons for the proposed acquisition of Shares in the Company</b></p>	<p>As set out in section 3.1, Bennamon has agreed to acquire the Bennamon Shares (being 90,861,012 Shares), the proceeds of which will be used to assist with funding the Cash Consideration payable for the Perfection Packaging Acquisition, restructure and transaction costs of the Proposed Transactions and the Capital Raising and working capital of approximately A\$11.7 million.</p> <p>This is a reflection of Bennamon's continued support of the Company's board, management and growth strategy.</p>
<p><b>When the proposed acquisition is to occur</b></p>	<p>If Resolutions 1, 2 and 3 are passed, the Bennamon Shares will be issued to Bennamon on 10 September 2018 (and in any event will be issued no later than 1 month after the date of the General Meeting).</p>
<p><b>The material terms of the proposed acquisition and details of any other relevant agreement that is conditional on members' approval of the proposed acquisition</b></p>	<p>Bennamon has agreed to subscribe for and be issued with the Bennamon Shares in consideration for \$30.9 million, i.e. \$0.34 per Bennamon Share. The Bennamon Shares will rank equally with all the other Shares on issue.</p> <p>There is no other relevant agreement between the Company and Bennamon or its Associates which relates to, or is conditional on, the issue of the Bennamon Shares.</p>
<p><b>A statement of the acquirer's intentions regarding the future of the target entity if members approve the acquisition, including any intention of the acquirer to significantly change the financial dividend distribution policies of the entity</b></p>	<p>Given:</p> <ul style="list-style-type: none"> <li>• the fact that after the completion of the capital raising Bennamon's ultimate voting power will remain unchanged when compared to its voting power prior to the issue of the shares issued under the Tranche 1 Placement; and</li> <li>• Bennamon's support of the Company's management,</li> </ul> <p>Bennamon does not currently intend to use its voting power (if the Bennamon Shares are issued) to make any changes to the Company's board, management, strategic direction, business or activities.</p> <p>In particular, other than as disclosed in these Explanatory Notes, Bennamon intends to continue as a Shareholder to support the Company's current management team and has no current intention to make any changes, as a non-controlling Shareholder, to change:</p> <ul style="list-style-type: none"> <li>• the employment of the present employees;</li> <li>• the current allocation and deployment of the Company's fixed assets; or</li> </ul>

	<ul style="list-style-type: none"> <li>the Company's current dividend policies.</li> </ul> <p>Bennamon does not presently intend to seek any further representation on the Company's Board.</p> <p>Bennamon does not have any present intention to inject further capital into the Company at this time. However Bennamon reserves the right to provide further capital if the Board determines to raise further equity capital. Bennamon is not aware of any such intention or proposal to raise further equity capital.</p>
<b>The interests that any director has in the acquisition or any relevant agreement disclosed in respect of any other relevant agreement disclosed above</b>	<p>As Resolution 2 and Resolution 3 are expressed to be subject to the passing of Resolution 1, each of Mr. Fahour and Mr. Harrington has an interest in the passing of Resolution 1.</p> <p>It is noted that the Company appointed Mr. Darren Brown, an executive employed by a related body corporate of Bennamon but is not an Associate of Bennamon, to the Board on 2 July 2018. He elects not to make a recommendation in respect of Resolution 1.</p>
<b>Details about any person who is intended to become a director if members approve the acquisition</b>	Nil.

(h) **ASX Listing Rule 7.1**

ASX Listing Rule 7.2, Exception 16 provides that if an issue of securities is approved for the purposes of item 7 of section 611 of the Corporations Act, ASX Listing Rule 7.1 does not apply. Furthermore, ASX Listing Rule 7.2, Exception 14 provides that if an issue of securities is approved for the purposes of ASX Listing Rule 10.11, ASX Listing Rule 7.1 does not apply. Accordingly, the Company is not required to seek approval of the issue of the Bennamon Shares to Bennamon under ASX Listing Rule 7.1.

(i) **Current and proposed interests in the Company**(i) **Current interests**

The table below shows the percentage of the Shares that Bennamon holds, and the voting power of Bennamon as at the date of this Notice of Meeting, being prior to the issue of Shares under the Tranche 2 Placement and the SPP and prior to the issue of the Consideration Shares:

	<b>Number of Shares held<sup>1</sup></b>	<b>Percentage of Shares held<sup>1, 3</sup></b>	<b>Percentage of voting power held<sup>1, 3</sup></b>
Bennamon	263,291,673	40.5%	40.5%
Fahour	28,390,255	4.4%	4.4%
Harrington	1,673,479	0.3%	0.3%
Existing Shareholders <sup>2</sup>	356,849,705	54.9%	54.9%
<b>Total</b>	<b>650,205,112</b>	<b>100%</b>	<b>100%</b>



Notes:

1. Includes ordinary shares of the Company only. The Company also has on issue 1,375,000 performance rights and 1,200,000 options (which together comprise 0.39% of the equity securities of the Company as at the date of this Notice of Meeting on a fully diluted basis).

2. Excludes the Shares held by Bennamon, Fahour and Harrington as at the date of this Notice of Meeting.

3. Percentages have been rounded to one decimal place.

(ii) **Proposed interests on completion of the Tranche 2 Placement**

If the Company issues the Bennamon Shares to Bennamon in accordance with the terms set out in these Explanatory Notes, then, immediately after the issue of the Bennamon Shares (which will occur simultaneously with the issue of the Fahour Shares and Harrington Shares), the percentage of the Shares held by Bennamon, and the voting power of Bennamon, will be as follows:

	<b>Number of Shares held<sup>1, 2</sup></b>	<b>Percentage of Shares held<sup>1, 2</sup></b>	<b>Percentage of voting power held<sup>1, 2</sup></b>
Bennamon <sup>3</sup>	354,196,803	46.6%	46.6%
Fahour <sup>3</sup>	34,573,726	4.6%	4.6%
Harrington <sup>3</sup>	2,295,109	0.3%	0.3%
Existing Shareholders <sup>4</sup>	368,482,057	48.5%	48.5%
<b>Total</b>	<b>759,547,695</b>	<b>100%</b>	<b>100%</b>

Notes:

1. Includes ordinary shares of the Company only. The Company also has on issue 1,375,000 performance rights and 1,200,000 options (which together comprise 0.39% of the equity securities of the Company on issue as at the date of this Notice of Meeting on a fully diluted basis).

2. Assumes the Company does not issue any other Shares (other than the issue of Shares under the SPP and the Tranche 2 Placement).

3. Assumes each of Bennamon, Fahour and Harrington subscribe for \$15,000 worth of Shares under the SPP and their respective Shares under the Tranche 2 Placement, and otherwise do not acquire or sell any Shares between the date of this Notice of Meeting and completion of the Tranche 2 Placement.

4. Excludes the Shares held by Bennamon, Fahour and Harrington immediately after the issue of Shares under the Tranche 2 Placement.

(iii) **Proposed interests on completion of the issue of the Consideration Shares**

If the Company issues the Shares under the Tranche 2 Placement, then, when it subsequently issues the Consideration Shares, the percentage of the Shares held by Bennamon, and the voting power of Bennamon, will be as follows:

	<b>Number of Shares held<sup>1, 2</sup></b>	<b>Percentage of Shares held<sup>1, 2</sup></b>	<b>Percentage of voting power held<sup>1, 2</sup></b>
Bennamon <sup>3</sup>	354,196,803	45.1%	45.1%
Fahour <sup>3</sup>	34,573,726	4.4%	4.4%
Harrington <sup>3</sup>	2,295,109	0.3%	0.3%
Existing Shareholders <sup>4</sup>	368,482,057	46.9%	46.9%
Vendors	25,538,462	3.3%	3.3%

	Number of Shares held <sup>1, 2</sup>	Percentage of Shares held <sup>1, 2</sup>	Percentage of voting power held <sup>1, 2</sup>
<b>Total</b>	<b>785,086,157</b>	<b>100%</b>	<b>100%</b>

Notes:

1. Includes ordinary shares of the Company only. The Company also has on issue 1,375,000 performance rights and 1,200,000 options (which together comprise 0.39% of the equity securities of the Company as at the date of this Notice of Meeting on a fully diluted basis).

2. Assumes the Company does not issue any other Shares (other than the issue of Shares under the SPP and the Tranche 2 Placement and the Consideration Shares).

3. Assumes each of Bennamon, Fahour and Harrington subscribe for \$15,000 worth of Shares under the SPP and their respective Shares under the Tranche 2 Placement, and otherwise do not acquire or sell any Shares between the date of this Notice of Meeting and the issue of the Consideration Shares.

4. Excludes the Shares held by Bennamon, Fahour and Harrington immediately after the issue of the Consideration Shares.

#### (j) Independent Expert's Report

In accordance with the requirements of RG 74, the Directors engaged the Independent Expert to prepare and provide the Independent Expert's Report which contains an analysis of whether the proposed issue of the Bennamon Shares is fair and reasonable to the non-associated Shareholders.

The Independent Expert's report compares the likely advantages and disadvantages for the non-associated Shareholders if the proposal is agreed to, with the advantages and disadvantages to those Shareholders if it is not.

The Independent Expert has concluded that the Proposed Transactions, including the issue of the Bennamon Shares to Bennamon, is **not fair but reasonable** to Shareholders, other than Bennamon and its Associates. The Independent Expert considers that the advantages of the Proposed Transactions (including the issue of the Bennamon Shares to Bennamon) outweigh its disadvantages. For a summary of the Independent Expert's findings, please refer to the Independent Expert's Report.

The Independent Expert has given, and has not before the date of this Notice of Meeting withdrawn, its consent to the inclusion of the Independent Expert's Report in this Notice of Meeting and to the references to the Independent Expert's Report in this Explanatory Memorandum being made in the form and context in which each such reference is included.

#### (k) Advantages and disadvantages

The Board is of the opinion that the benefits of the issue of the Bennamon Shares proposed to be undertaken by the Company include that:

- (i) it will, together with the issue of the other Shares under the Tranche 2 Placement, enable completion of the Perfection Packaging Acquisition. The Board is of the opinion that the benefits of the Perfection Packaging Acquisition include the following:
  - (A) strengthening the Company's strategy to enable it to become one of the leading players in the growing flexibles packaging market;
  - (B) providing an entry for the Company into the larger hard flexibles segment;
  - (C) delivering significant cost synergies to consolidate Australian manufacturing network and provide scope for incremental earnings in future years above the acquired earnings of the PP Entities;
  - (D) being value accretive for Shareholders;
  - (E) opening access to new markets and products complementing the existing business;

- (F) increasing the diversification of revenues, geographies and customers;
- (G) strengthening the Company's leadership and operations teams; and
- (H) providing the Company with additional balance sheet flexibility,

all of which are expected to benefit the Company's Shareholders. Further advantages of the Perfection Packaging Acquisition are set out in the Investor Presentation;

- (ii) Bennamon is supportive of the Company's management and its current operating plan. As mentioned above, Bennamon will not be acquiring a controlling interest in the Company but in any event Bennamon does not currently intend to use its voting power (if the Bennamon Shares are issued) to make any changes to the Company's board, management, strategic direction, business or activities; and
- (iii) the Company has obtained the commitment of Advent, which holds 89,686,278 Shares (13.8%) at the date of this Notice of Meeting, to vote in favour of the issue of the Bennamon Shares to Bennamon at the General Meeting, in the absence of a superior proposal.

Potential disadvantages of the issue of the Bennamon Shares include that:

- (iv) Shareholders' interests in the Company will be diluted. However, the Directors consider that any dilution of Shareholders' interests will be offset by the continued benefits of the long-term association of Bennamon;
- (v) following the issue of the Bennamon Shares, Bennamon will hold a relevant interest in the Company of 46.6%<sup>9</sup>. This substantial shareholding could be influential in circumstances where a shareholder vote on relevant matters affecting the Company is necessary. Bennamon has confirmed to the Company that it supports the Company's management, currently intends to continue as a Shareholder to support the Company's current management team and does not currently intend to use its voting power (if the Bennamon Shares are issued) to make any changes to the Company's board, management, strategic direction, business or activities;
- (vi) you may not agree with the recommendation by the Directors and the Independent Expert. Notwithstanding the unanimous recommendation of the Directors<sup>10</sup> and the Independent Expert's opinion that the Proposed Transactions (including the issue of the Bennamon Shares to Bennamon) is not fair but reasonable, you may believe the Proposed Transactions and/or the issue of the Bennamon Shares to Bennamon is not fair or reasonable, or otherwise not in your best interest or in the best interests of Shareholders; and
- (vii) the Company may be less attractive as a takeover target. Any bidder for the Company under a takeover proposal would require Bennamon to support their bid in order to be successful. It is noted, this circumstance applies at present given the already substantial shareholding of Bennamon in the Company irrespective of the issue of the Bennamon Shares the subject of the relevant Resolution.

Further advantages and disadvantages as determined by the Independent Expert are set out on pages 3 to 4 and 41 to 44 of the Independent Expert's Report.

<sup>9</sup> Assumes Bennamon subscribes for \$15,000 worth of Shares under the SPP, and assumes the Company does not issue any other Shares (other than the issue of Shares under the SPP and the Tranche 2 Placement).

<sup>10</sup> Mr. Fahour and Mr. Harrington have an interest in Resolutions 1, 2 and 3. They will not be making a recommendation in respect of these Resolutions, nor will they be voting any shares held, owned or controlled by them in favour of the Resolutions. Mr. Brown is an executive employed by a related body corporate of Bennamon but is not an Associate of Bennamon. He elects not to make a recommendation in respect of Resolution 1. None of Mr. Kaplan, Ms. Valentine and Ms. Go has an interest in any of the Resolutions.

**(l) Interests of the Directors**

None of the Directors is a related party or Associate of Bennamon. As Resolution 2 and Resolution 3 are expressed to be subject to the passing of Resolution 1, each of Mr. Fahour and Mr. Harrington has an interest in the passing of Resolution 1.

It is noted that Mr. Darren Brown is an executive employed by a related body corporate of Bennamon but is not an Associate of Bennamon. He elects not to make a recommendation in respect of Resolution 1.

As at the date of this Notice of Meeting, the Directors have the following voting power:

<b>Name of Director</b>	<b>Number of Shares held</b>	<b>Percentage of voting power held</b>	<b>Number of Options</b>	<b>Total percentage of voting power held (if Options are also exercised)<sup>1</sup></b>
Mr Ahmed Fahour	28,390,255	4.4%	0	4.4%
Mr Elliott Kaplan	0	0%	1,200,000	0.2%
Mr Rupert Harrington	1,673,479	0.3%	0	0.3%
Mr Darren Brown	30,770	0.005%	0	0%
Ms Leonie Valentine	0	0%	0	0%
Ms Marina Go	0	0%	0	0%

Notes:

1. Calculated on a fully diluted basis, assuming all of the options on issue (1,200,000 options) are exercised and all performance rights (1,375,000 performance rights) vest.

Other than as a result of the issues of Shares the subject of Resolution 2 and Resolution 3 or any shares acquired under the SPP, no Director's voting power is expected to materially change between the date of this Notice of Meeting and the General Meeting.

**(m) Recommendation of the Directors**

The Directors who do not have an interest in the outcome of Resolution 1 unanimously approve the proposal to put Resolution 1 to Shareholders for their approval.

The Board has carefully considered the advantages and disadvantages and evaluated their relative weight in the circumstances of the Company. The Board unanimously believes that the sum of the advantages outweighs the sum of the disadvantages and that the issue of the Bennamon Shares to Bennamon is in the best interests of existing Shareholders as a whole for the reasons set out in these Explanatory Notes and the Independent Expert's Report.

The Directors who do not have an interest in the outcome of Resolution 1 unanimously recommend that Shareholders vote in favour of Resolution 1 and advise that each of them confirms they will vote all Shares held, owned or controlled by them in favour of Resolution 1<sup>11</sup>.

<sup>11</sup> Mr. Fahour and Mr. Harrington have an interest in Resolutions 1, 2 and 3. They will not be making a recommendation in respect of these Resolutions, nor will they be voting any shares held, owned or controlled by them in favour of the Resolutions. Mr. Brown is an

### 3.3 Resolution 2 and Resolution 3 – Issue of Shares to Mr. Ahmed Fahour and Mr. Rupert Harrington respectively

#### (a) Background

The Company is seeking the approval of Shareholders in accordance with Part 2E.1 of the Corporations Act and ASX Listing Rule 10.11 to the issue of:

- (i) 6,139,353 Shares (**Fahour Shares**) to Mr. Ahmed Fahour, the Executive Chairman of the Company, and/or his Associates (**Fahour**); and
- (ii) 577,512 Shares (**Harrington Shares**) to Mr. Rupert Harrington, a non-executive Director of the Company, and/or his Associates (**Harrington**); and.

Resolution 2 seeks Shareholder approval for the issue of the Fahour Shares for the purposes of the Corporations Act and the ASX Listing Rules.

Resolution 3 seeks Shareholder approval for the issue of the Harrington Shares for the purposes of the Corporations Act and the ASX Listing Rules.

#### (b) Approval under the Corporations Act and ASX Listing Rules

Pursuant to Part 2E.1 of the Corporations Act, a public company must not give a financial benefit to a related party of the public company without obtaining the approval of the public company's members.

A related party is defined in section 228 of the Corporations Act and includes a person who is a director.

Furthermore, pursuant to ASX Listing Rule 10.11, an entity must not issue or agree to issue securities to any of the following persons without the approval of holders of ordinary securities:

- (i) a related party;
- (ii) a person whose relationship with the entity or a related party is, in ASX's opinion, such that shareholder approval should be obtained.

ASX Listing Rule 7.2, Exception 14 provides that if an issue of securities is approved for the purposes of ASX Listing Rule 10.11, ASX Listing Rule 7.1 does not apply. Accordingly, the Company is not required to seek approval of the issue of the Fahour Shares to Fahour or the Harrington Shares to Harrington under ASX Listing Rule 7.1.

#### (c) Why Shareholder approval is required

Each of Mr. Fahour and Mr. Harrington is currently a Director of the Company.

The issue of the Shares to each of Fahour and Harrington respectively constitutes the giving of a financial benefit to a related party of the Company under Part 2E.1 of the Corporations Act and the issue of securities to a related party under ASX Listing Rule 10.11. Such issue of Shares to Mr. Fahour and Mr. Harrington will only be permitted if Shareholder approval is granted in accordance with the terms of Resolution 2 and Resolution 3 respectively.

#### (d) Information for Shareholders under Part 2E.1 of the Corporations Act

The following information is provided to Shareholders for the purposes of obtaining Shareholder approval pursuant to Part 2E.1 of the Corporations Act:

	<b>Resolution 2 – Fahour Shares</b>	<b>Resolution 3 – Harrington Shares</b>
<b>The related parties to whom the financial benefit is proposed to be given</b>	Mr. Ahmed Fahour, who is a Director of the Company.	Mr. Rupert Harrington, who is a Director of the Company.
<b>The nature of the financial benefit</b>	The Company will issue Fahour the Shares, on the terms set out below:	The Company will issue Harrington the Shares, on the terms set out below:
<ul style="list-style-type: none"> <li><b>the number of securities to be granted</b></li> </ul>	The Company proposes to issue the Fahour Shares (6,139,353 Shares) to Fahour.	The Company proposes to issue the Harrington Shares (577,512 Shares) to Harrington.
<ul style="list-style-type: none"> <li><b>the terms of the securities to be granted</b></li> </ul>	The Fahour Shares will be issued to Fahour at a price of \$0.34 per Fahour Share.	The Harrington Shares will be issued to Harrington at a price of \$0.34 per Harrington Share.
<ul style="list-style-type: none"> <li><b>an explanation as to why the securities are to be granted</b></li> </ul>	<p>As mentioned in section 3.1, Fahour has agreed to acquire the Fahour Shares to assist with funding the Perfection Packaging Acquisition.</p> <p>This is a reflection of Fahour's continued support of the Company's management and growth strategy.</p>	<p>As mentioned in section 3.1, Harrington has agreed to acquire the Harrington Shares to assist with funding the Perfection Packaging Acquisition.</p> <p>This is a reflection of Harrington's continued support of the Company's management and growth strategy.</p>
<ul style="list-style-type: none"> <li><b>an explanation as to why the specified number of securities is to be granted and why the specified value of the securities was chosen</b></li> </ul>	<p>The determination of the number of the Fahour Shares was made to enable Fahour to return to the level of shareholding it had (excluding the 10.6 million Shares issued to Fahour under the Company's Executive Long Term Incentive Plan) in the Company prior to the Tranche 1 Placement.</p> <p>The determination of the price of the Fahour Shares was made to align with the price of Shares issued to other investors under the Tranche 1 Placement, the SPP and the Tranche 2 Placement.</p>	<p>The determination of the number of the Harrington Shares was made to enable Harrington to return to the level of shareholding it had in the Company prior to the Tranche 1 Placement.</p> <p>The determination of the price of the Harrington Shares was made to align with the price of Shares issued to other investors under the Tranche 1 Placement, the SPP and the Tranche 2 Placement.</p>
<b>Each Director's recommendation, including reasons, or an explanation as to why no recommendation is</b>	The Directors who do not have an interest in the outcome of Resolution 2 recommend that shareholders pass Resolution 2.	The Directors who do not have an interest in the outcome of Resolution 3 recommend that shareholders pass Resolution 3.

	<b>Resolution 2 – Fahour Shares</b>	<b>Resolution 3 – Harrington Shares</b>
<b>made</b>	<p>Having sought corporate advice to determine the amount that could reasonably be raised from third parties expeditiously, the Company sought to raise the maximum amount it determined it could from non-related parties – through the Tranche 1 Placement, the SPP and the issue of the Bennamon Shares.</p> <p>The Company's related party, Mr Fahour, was ready, willing and able to commit the additional funds required to complete the Perfection Packaging Acquisition, demonstrating his ongoing commitment to the Company.</p>	<p>Having sought corporate advice to determine the amount that could reasonably be raised from third parties expeditiously, the Company sought to raise the maximum amount it determined it could from non-related parties – through the Tranche 1 Placement, the SPP and the issue of the Bennamon Shares.</p> <p>The Company's related party, Mr Harrington, was ready, willing and able to commit the additional funds required to complete the Perfection Packaging Acquisition, demonstrating his ongoing commitment to the Company.</p>
<b>Any interest a Director has in the outcome of the proposed resolution</b>	<p>Mr. Fahour has an interest in the outcome of Resolution 2.</p> <p>Furthermore, as Resolution 3 is expressed to be subject to the passing of Resolution 2, Mr. Harrington has an interest in the passing of Resolution 2.</p>	<p>Mr. Harrington has an interest in the outcome of Resolution 3.</p> <p>Furthermore, as Resolution 2 is expressed to be subject to the passing of Resolution 3, Mr. Fahour has an interest in the passing of Resolution 3.</p>
<b>All other information reasonably required by members</b>	Please refer to the remainder of this section 3.3.	Please refer to the remainder of this section 3.3.

(e) **Information for Shareholders under ASX Listing Rule 10.11 and 10.13**

The following information is provided to Shareholders in respect of obtaining Shareholder approval pursuant to ASX Listing Rules 10.11 and 10.13:

	<b>Resolution 2 – Fahour Shares</b>	<b>Resolution 3 – Harrington Shares</b>
<b>The name of the person</b>	Mr. Ahmed Fahour, who may elect to acquire the Fahour Shares through a nominated Associate.	Mr. Rupert Harrington, who may elect to acquire the Harrington Shares through a nominated Associate.
<b>The maximum number of securities to be issued</b>	The maximum number of securities that may be acquired by Fahour is 6,139,353 Shares.	The maximum number of securities that may be acquired by Harrington is 577,512 Shares.
<b>The date by which the Company will issue the securities,</b>	The Fahour Shares are proposed to be issued on 10 September 2018, and in any	The Harrington Shares are proposed to be issued on 10 September 2018, and in any

	<b>Resolution 2 – Fahour Shares</b>	<b>Resolution 3 – Harrington Shares</b>
<b>which must be no more than 1 month after the date of the General Meeting</b>	event will be issued no later than 1 month after the date of the General Meeting.	event will be issued no later than 1 month after the date of the General Meeting.
<b>If the person is not a director, a statement of the relationship between the person and the director that requires the approval to be obtained</b>	Mr. Fahour may nominate an Associate to acquire the Fahour Shares.	Mr. Harrington may nominate an Associate to acquire the Harrington Shares.
<b>The issue price of the securities and a statement of the terms of the issue</b>	The Fahour Shares will be issued at \$0.34 per Share.	The Harrington Shares will be issued at \$0.34 per Share.
<b>A voting exclusion statement</b>	A voting exclusion statement is set out on page 7 of this Notice of Meeting.	A voting exclusion statement is set out on page 7 of this Notice of Meeting.
<b>The intended use of the funds raised</b>	The funds raised will be used to partially fund the Cash Consideration payable for the Perfection Packaging Acquisition, restructure and transaction costs of the Proposed Transactions and the Capital Raising and working capital of approximately A\$11.7 million.	The funds raised will be used to partially fund the Cash Consideration payable for the Perfection Packaging Acquisition, restructure and transaction costs of the Proposed Transactions and the Capital Raising and working capital of approximately A\$11.7 million.

(f) **Valuation of the financial benefit**

The total value of:

- (i) the Fahour Shares to be issued to Fahour is \$2,087,380.02; and
- (ii) the Harrington Shares to be issued to Harrington is \$196,354.08,

calculated using the issue price per Share of \$0.34.

(g) **Existing interest in the Company's securities**

The table below shows the percentage of the Shares that each of Fahour and Harrington holds, and the voting power of each of Fahour and Harrington as at the date of this Notice of Meeting, being prior to the issue of the Bennamon Shares, the Fahour Shares, the Harrington Shares, the Shares under the SPP and the Consideration Shares:

	<b>Number of Shares held<sup>1</sup></b>	<b>Percentage of Shares held<sup>2</sup></b>	<b>Percentage of voting power held<sup>2</sup></b>
Bennamon	263,291,673	40.5%	40.5%
Fahour	28,390,255	4.4%	4.4%
Harrington	1,673,479	0.3%	0.3%



Existing Shareholders <sup>3</sup>	356,849,705	54.9%	54.9%
<b>Total</b>	<b>650,205,112</b>	<b>100%</b>	<b>100%</b>

## Notes:

1. Includes ordinary shares of the Company only. The Company also has on issue 1,375,000 performance rights and 1,200,000 options (which together comprise 0.39% of the equity securities of the Company as at the date of this Notice of Meeting on a fully diluted basis).

2. Percentages are rounded to one decimal place.

3. Excludes the Shares held by Bennamon, Fahour and Harrington as at the date of this Notice of Meeting.

If the Company issues the Fahour Shares to Fahour and the Harrington Shares to Harrington in accordance with the terms set out in these Explanatory Notes then, again noting that this will occur simultaneously with the other issues of Shares under the Tranche 2 Placement, immediately after the issue of the Fahour Shares, the Harrington Shares and the other issues of Shares under the Tranche 2 Placement, the percentage of the Shares held by each of Fahour and Harrington, and the voting power of each of Fahour and Harrington, will be as set out in the table in section 3.2(i)(ii).

If the Company issues the Shares under the Tranche 2 Placement, then, when it subsequently issues the Consideration Shares, the percentage of the Shares held by each of Fahour and Harrington, and the voting power of each of Fahour and Harrington, will be as set out in the table in section 3.2(i)(iii).

(h) **Dilution effect of the transaction on existing members' interests**

If the Fahour Shares and Harrington Shares are issued, it is expected that such acquisition will have a dilutionary effect on existing Shareholders' interests, as illustrated in the tables in sections 3.2(i)(ii) and 3.2(i)(iii).

(i) **Additional information**

As mentioned above, Mr. Fahour and Mr. Harrington each have an interest in the outcome of Resolution 2 and Resolution 3.

### 3.4 Resolution 4 – Ratify issue of Tranche 1 Shares

ASX Listing Rule 7.1 provides that a company must not issue equity securities, or agree to issue equity securities (which includes shares and options), without the approval of shareholders if the number of equity securities to be issued in any 12 month period (including equity securities issued on the exercise of any convertible securities) exceeds 15% of the issued capital of the company preceding the issue. ASX Listing Rule 7.4 allows for subsequent shareholder approval if the company did not breach ASX Listing Rule 7.1 at the time of issue and the holders of ordinary shares subsequently approve it.

The Company is seeking the approval of the issue of 66,539,771 Shares in the manner provided by ASX Listing Rule 7.4.

Although Shareholder approval was not required for the issue of these Shares, the Company now seeks Shareholder approval for these issues in the manner provided by ASX Listing Rule 7.4 because this will enable the Company to issue, pursuant to ASX Listing Rule 7.1, further equity securities up to the 15% limit from time to time as required by the Company, to capitalise on future opportunities without needing to obtain prior Shareholder approval.

Pursuant to ASX Listing Rule 7.5, the following information is provided in respect of ASX Listing Rule 7.4 approval.

<b>Resolution 4 – Ratify past issues of Shares</b>	
<b>The number of securities issued</b>	66,539,771 Shares.
<b>The price at which the securities</b>	\$0.34 per Share.

<b>were issued</b>	
<b>The terms of the securities</b>	These Shares rank equally with all the other Shares on issue.
<b>The names of the persons to whom the entity issued the securities or the basis on which those persons were determined</b>	The Shares were issued to sophisticated and professional investors, including clients of Bell Potter Securities Limited. None of the allottees is related to the Company. The Company was not required to provide any of the allottees with a disclosure document.
<b>The use (or intended) use of the funds raised</b>	The funds raised have been used partially to fund the consideration payable for the PolyPak Acquisition and will be used to partially fund the Cash Consideration payable for the Perfection Packaging Acquisition, restructure and transaction costs of the Proposed Transactions and the Capital Raising and working capital of approximately A\$11.7 million.
<b>A voting exclusion statement</b>	A voting exclusion statement is set out on page 7 of this Notice of Meeting.

### 3.5 Further information

If you have any questions or need more information about the Resolutions, please contact the Company Secretary, Mark Saus, at the Company on (02) 8781 0500.

## 4 Glossary

In this Notice of Meeting, unless the context or subject matter otherwise requires:

<b>Advent</b>	Advent Partners Pty Ltd, APC I Pty Ltd as trustee for Advent V Trust A and APC II Pty Ltd as trustee for Advent V Trust B.
<b>ASIC</b>	Australian Securities and Investments Commission.
<b>Associate</b>	Has the meaning given to that term in Part 1.2, Division 2 of the Corporations Act.
<b>ASX</b>	ASX Limited (ACN 008 624 691) or the stock exchange which it operates, as the context requires.
<b>ASX Listing Rules</b>	The official Listing Rules of the ASX.
<b>Auditors</b>	The auditors of the Company.
<b>Bennamon</b>	Bennamon Pty Ltd.
<b>Bennamon Shares</b>	90,861,012 Shares to be issued to Bennamon.
<b>Board</b>	The board of Directors.
<b>Business Day</b>	A day on which banks are open for general banking business in Melbourne, Australia, excluding Saturdays, Sundays and public holidays.
<b>Capital Raising</b>	The Tranche 1 Placement, the Tranche 2 Placement and the SPP offer.
<b>Cash Consideration</b>	The cash component of the consideration payable to the Vendors for the Perfection Packaging Acquisition, being 80% of \$49.8 million.
<b>Company or PPG</b>	Pro-Pac Packaging Limited (ABN 36 112 971 874).
<b>Consideration Shares</b>	25,538,462 Shares to be issued to the Vendors that currently own the units in the Perfection Packaging Unit Trust.
<b>Constitution</b>	The constitution of the Company.
<b>Corporations Act</b>	<i>Corporations Act 2001</i> (Cth) as amended from time to time.
<b>Corporations Regulations</b>	<i>Corporations Regulations 2001</i> (Cth) as amended from time to time.
<b>Directors</b>	The directors of the Company.
<b>Explanatory Notes</b>	The explanatory notes accompanying the Notice of Meeting.
<b>Fahour</b>	Mr. Ahmed Fahour and/or his Associates.
<b>Fahour Shares</b>	6,139,353 Shares to be issued to Fahour.
<b>General Meeting</b>	The extraordinary general meeting of the Company to be held at the time and place specified in the Notice of Meeting.
<b>Harrington</b>	Mr. Rupert Harrington and/or his Associates.
<b>Harrington Shares</b>	577,512 Shares to be issued to Harrington.
<b>Independent Expert</b>	Lonergan Edwards & Associates.
<b>Independent Expert's Report</b>	The expert report prepared by the Independent Expert and attached as section 5 of this document.
<b>Investor Presentation</b>	The investor presentation titled 'Capital Raise – Fund Acquisition Growth Strategy' dated July 2018.
<b>Kin</b>	Kin Group Pty Ltd.
<b>Notice of Meeting</b>	This document, comprising the Chairman's letter, notice of meeting and

	explanatory notes.
<b>Perfection Packaging Acquisition</b>	The acquisition by Integrated Packaging Group Pty Ltd of all of the units in Perfection Packaging Unit Trust and all of the shares in Perfection Packaging Pty Ltd, pursuant to the Unit and Share Sale Agreement.
<b>PolyPak Acquisition</b>	The acquisition by the Company's subsidiary of the business of a privately owned New Zealand based soft flexible packaging manufacturer and distributor, PolyPak.
<b>PP Entities</b>	Perfection Packaging Unit Trust and Perfection Packaging Pty Ltd.
<b>Proposal</b>	The Proposed Transactions (including the Capital Raising, which includes the issue of the Bennamon Shares to Bennamon).
<b>Proposed Transactions</b>	The Perfection Packaging Acquisition and the PolyPak Acquisition.
<b>Resolutions</b>	The resolutions to be considered by Shareholders at the General Meeting, as set out in this Notice of Meeting.
<b>RG 74</b>	ASIC Regulatory Guide 74.
<b>RG 76</b>	ASIC Regulatory Guide 76.
<b>Shareholder</b>	Holder of Shares.
<b>Shares</b>	Fully paid ordinary shares in the capital of the Company.
<b>SPP</b>	The Share Purchase Plan offer of the Company, which opened on 9 July 2018, to raise \$4 million.
<b>Tranche 1 Placement</b>	A placement of Shares by the Company with sophisticated and professional investors on 6 July 2018 to raise approximately \$22.6 million.
<b>Tranche 2 Placement</b>	Placement of the Bennamon Shares with Bennamon, Fahour Shares with Fahour and Harrington Shares with Harrington to raise approximately \$33.2 million.
<b>Unit and Share Sale Agreement</b>	The Unit and Share Sale Agreement entered into between Integrated Packaging Group Pty Ltd, the Company and the Vendors.
<b>Vendors</b>	The current owners of the PP Entities.

**5 Independent Expert's Report**

# LONERGAN EDWARDS & ASSOCIATES LIMITED

ABN 53 095 445 560  
AFS Licence No 246532  
Level 7, 64 Castlereagh Street  
Sydney NSW 2000 Australia  
GPO Box 1640, Sydney NSW 2001

Telephone: [61 2] 8235 7500  
www.lonerganedwards.com.au

The Directors  
Pro-Pac Packaging Limited  
Suite 2.02, 657 Pacific Highway  
St Leonards NSW 2065

31 July 2018

## **Subject: Acquisition of Perfection Packaging Pty Ltd and Polypak Pty Limited**

Dear Directors

### **Proposed Transactions**

- 1 On 2 July 2018, Pro-Pac Packaging Limited (Pro-Pac or the Company) announced that it had entered into agreements to acquire:
  - (a) all of the shares in Perfection Packaging Pty Ltd and all of the units in the Perfection Packaging Unit Trust (together Perfection Packaging) for total consideration of A\$49.8 million, comprised as follows:
    - (i) A\$39.84 million in cash
    - (ii) A\$9.96 million in Pro-Pac shares at an issue price of A\$0.39 per share
  - (b) the New Zealand business of Polypak Pty Limited (Polypak) for total consideration of NZ\$8.8 million in cash, payable as follows:
    - (i) NZ\$7.0 million on completion; and
    - (ii) NZ\$1.76 million held in escrow and payable in two equal instalments post completion, in December 2018 and July 2019, subject to the achievement of certain performance targets

(collectively, the Proposed Transactions).
- 2 Pro-Pac will partially fund the Proposed Transactions by way of:
  - (a) a A\$55.8 million fully underwritten placement of shares at an issue price of A\$0.34 per share, to be undertaken in two tranches:
    - (i) **Tranche 1** – underwritten placement of shares to sophisticated and professional investors to raise approximately A\$22.6 million<sup>1</sup>
    - (ii) **Tranche 2** – underwritten placement of shares to Bennamon Pty Limited (Bennamon) (which currently holds approximately 45.1% of Pro-Pac), Mr Ahmed Fahour (Chairman of Pro-Pac) and Mr Rupert Harrington (non-executive Director of Pro-Pac) to raise approximately A\$33.2 million

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<sup>1</sup> This tranche was completed on 6 July 2018.

- (b) a fully underwritten share purchase plan at an issue price of A\$0.34 per share to raise up to A\$4.0 million (SPP)<sup>2</sup>  
(together the Capital Raising).

- 3 Both Perfection Packaging and Polypak are being acquired on a cash and debt free basis and the respective purchase prices are subject to customary adjustments for working capital and net debt. Tranche 2 of the Capital Raising is subject to the approval of Pro-Pac shareholders.

### **Pro-Pac**

- 4 Pro-Pac is an Australian diversified manufacturing and distribution company that provides innovative, industrial and flexible and rigid packaging solutions for a broad group of blue chip clients. The Company is headquartered in Sydney and operates nationally with a focus on the industrial, food and beverage, healthcare and pharmaceutical industries.

### **Perfection Packaging**

- 5 Perfection Packaging is a privately owned hard flexible packaging manufacturer based in Dandenong, Victoria. The business currently employs around 100 staff, with forecast annual production of 80 million metres of printed laminate hard flexible primary packaging. Perfection Packaging offers a range of hard flexible packaging solutions and targets fast moving consumer goods (FMCG) mid-market customers.

### **Polypak**

- 6 Polypak is a privately owned specialist soft flexibles packaging manufacturer and distributor of high quality polythene bags, film and tubes, which are supplied to primary food processors (meat, poultry and fish) and a range of general packaging customers. The business is based in specialised premises in Glenfield, Auckland, and currently employs 28 staff.

### **Scope**

- 7 Section 606 of the *Corporations Act 2001 (Cth)* (Corporations Act) generally prohibits the acquisition of a relevant interest in issued voting securities of an entity if the acquisition results in a person's voting power in a company increasing from below 20% to more than 20%, or from a starting point between 20% and 90%, unless a permissible exception applies<sup>3</sup>. A permissible exception to this general prohibition is set out in s611(7), whereby such an acquisition is allowed where the acquisition is approved by a resolution of securityholders of the entity at a general meeting and no votes are cast in respect of securities held by the acquirer, the vendor (where applicable) or any of their respective associates.
- 8 Bennamon currently holds more than 20% of Pro-Pac shares. Accordingly, there is a regulatory requirement for Pro-Pac to provide to Pro-Pac shareholders all material information relevant to a vote in respect of the related resolution. The Pro-Pac Board has elected to commission an independent expert's report (IER) to discharge these disclosure obligations regarding shareholder approval of that component of the Tranche 2 Capital Raising that relates to Bennamon.

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<sup>2</sup> The SPP opened on 6 July 2018 and closed on 30 July 2018.

<sup>3</sup> Subject to the 3% every six months "creep provisions".

- 9 The Directors of Pro-Pac have therefore requested that LonerGAN Edwards & Associates Limited (LEA) prepare an IER which sets out our opinion on whether the Proposed Transactions (including the Capital Raising<sup>4</sup>) are fair and reasonable to Pro-Pac shareholders.
- 10 LEA is independent of Pro-Pac, Perfection Packaging and Polypak and has no involvement with or interest in the outcome of the Proposed Transactions other than the preparation of this report.

### Summary of opinion

- 11 LEA has concluded that the Proposed Transactions are not fair, but are reasonable to Pro-Pac shareholders<sup>5</sup>. We have arrived at this conclusion for the reasons set out below.

### Assessment of fairness

- 12 Australian Securities & Investments Commission (ASIC) Regulatory Guide 111 – *Content of expert reports* (RG 111) requires that the fairness of the Proposed Transactions be assessed by comparing the controlling interest value of Pro-Pac shares prior to implementation of the Proposed Transactions with the portfolio interest value of Pro-Pac shares following implementation (being the deemed “consideration” delivered to Pro-Pac shareholders). In order for the Proposed Transactions to be “fair” under RG 111, the portfolio interest value of Pro-Pac shares following implementation of the Proposed Transactions must be equal to, or greater than, the controlling interest value of Pro-Pac shares before implementation.
- 13 This comparison is set out below:

Comparative value of Pro-Pac shares			
	Low A\$ per share	High A\$ per share	Mid-point A\$ per share
Portfolio interest value of Pro-Pac shares following implementation of the Proposed Transactions	0.29	0.32	0.305
Controlling interest value of Pro-Pac shares prior to implementation of the Proposed Transactions	0.35	0.39	0.37
Extent to which portfolio interest value post implementation exceeds (or is less than) the controlling interest value of Pro-Pac shares before implementation	(0.06)	(0.07)	(0.065)

- 14 Based on the above we have concluded that the Proposed Transactions are not fair to Pro-Pac shareholders when assessed under RG 111.

### Reasonableness

- 15 Under RG 111, the Proposed Transactions are “reasonable” if, despite not being fair but after considering other significant factors, the expert is of the opinion that the advantages of the Proposed Transactions outweigh the disadvantages from the perspective of Pro-Pac shareholders.

<sup>4</sup> The Capital Raising is an integral part of the Proposed Transactions.

<sup>5</sup> Unless specified to the contrary, references to Pro-Pac shareholders include Pro-Pac shareholders other than Bennamon.



16 Consequently, we summarise below the advantages and disadvantages of the Proposed Transactions from the perspective of Pro-Pac shareholders:

**Advantages**

- (a) the Proposed Transactions are value accretive for Pro-Pac shareholders based on our comparison of the portfolio (minority) interest value of Pro-Pac shares before and after the Proposed Transactions
- (b) the Capital Raising is being undertaken at a price (A\$0.34 per share) which represents a premium to our corresponding assessed value of a portfolio interest in Pro-Pac prior to the Proposed Transactions
- (c) the share issue to the vendors of Perfection Packaging is being priced at A\$0.39 per share, which reflects the full underlying value of Pro-Pac shares prior to implementation of the Proposed Transactions
- (d) Pro-Pac management have identified significant potential operating synergies in connection with the acquisition of Perfection Packaging, which prima facie provide scope for incremental earnings in future years significantly above the acquired earnings of Perfection Packaging
- (e) Pro-Pac will increase in scale and operational diversity as a result of the two proposed business acquisitions and its related growth prospects will prima facie be enhanced. In our view, this would be expected to lead to a higher share value in the medium to long term
- (f) the level of share trading generally in Pro-Pac shares prior to the announcement of the Proposed Transactions has been very low. As a result of the increase in equity and shareholder base pursuant to the Capital Raising, we consider that there are reasonable grounds to expect that the level of trading in Pro-Pac shares post implementation of the Proposed Transactions will increase

**Disadvantages**

- (g) if the Proposed Transactions are approved the interests of Pro-Pac shareholders prior to the Proposed Transactions may be diluted, subject to the extent to which they participate in the associated Capital Raising.

17 As indicated above there are a number of advantages and disadvantages associated with the Proposed Transactions. However, in our view, the advantages of the Proposed Transactions significantly outweigh the disadvantages.

**General**

- 18 In preparing this report we have considered the interests of Pro-Pac shareholders as a whole. Accordingly, this report only contains general financial advice and does not consider the personal objectives, financial situations or requirements of individual shareholders.
- 19 The ultimate decision whether to approve the Proposed Transactions should be based on each Pro-Pac shareholder's assessment of their own circumstances. If Pro-Pac shareholders are in doubt about the action they should take in relation to the Proposed Transactions or matters dealt with in this report, Pro-Pac shareholders should seek independent professional advice.

20 For our full opinion on the Proposed Transactions, and the reasoning behind our opinion, we recommend that Pro-Pac shareholders read the remainder of our report.

Yours faithfully



Martin Holt  
Authorised Representative



Martin Hall  
Authorised Representative

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## **Appendices**

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## I The Proposed Transactions

### Key terms

- 21 On 2 July 2018, Pro-Pac announced that it had entered into agreements to acquire:
- (a) all of the shares in Perfection Packaging Pty Ltd and all of the units in the Perfection Packaging Unit Trust (together Perfection Packaging) for total consideration of A\$49.8 million, comprised as follows:
    - (i) A\$39.84 million in cash
    - (ii) A\$9.96 million in Pro-Pac shares at an issue price of A\$0.39 per share
  - (b) the New Zealand business of Polypak Pty Limited (Polypak) for total consideration of NZ\$8.8 million in cash, payable as follows:
    - (i) NZ\$7.0 million on completion; and
    - (ii) NZ\$1.76 million held in escrow and payable in two equal instalments post completion, in December 2018 and July 2019, subject to the achievement of certain performance targets
- (collectively, the Proposed Transactions).
- 22 Pro-Pac will partially fund the Proposed Transactions by way of:
- (a) a A\$55.8 million fully underwritten placement of shares at an issue price of A\$0.34 per share, to be undertaken in two tranches:
    - (i) **Tranche 1** – underwritten placement of shares to sophisticated and professional investors to raise approximately A\$22.6 million<sup>6</sup>
    - (ii) **Tranche 2** – underwritten placement of shares to Bennamon (which currently holds approximately 45.1% of Pro-Pac), Mr Ahmed Fahour (Chairman of Pro-Pac) and Mr Rupert Harrington (non-executive Director of Pro-Pac) to raise approximately A\$33.2 million
  - (b) a fully underwritten share purchase plan at an issue price of A\$0.34 per share to raise up to A\$4.0 million (SPP)<sup>7</sup>
- (together the Capital Raising).
- 23 Both Perfection Packaging and Polypak are being acquired on a cash and debt free basis and the respective purchase prices are subject to customary adjustments for working capital and net debt. Tranche 2 of the Capital Raising is subject to the approval of Pro-Pac shareholders.

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<sup>6</sup> This tranche was completed on 6 July 2018.

<sup>7</sup> The SPP opened on 6 July 2018 and closed on 30 July 2018.

- 24 A summary of the sources and uses of funds raised in connection with the Proposed Transactions is set out below:

<b>Proposed Transactions – sources and uses of funds raised</b>			
<b>Sources</b>	<b>A\$m</b>	<b>Uses</b>	<b>A\$m</b>
Share placements	55.8	Cash consideration for acquisitions	48.1
SPP	4.0	Restructuring, transaction costs and working capital	11.7
<b>Total<sup>(1)</sup></b>	<b>59.8</b>	<b>Total</b>	<b>59.8</b>

**Note:**

- 1 Excludes issue of shares to a value of A\$10.0 million as part consideration to Perfection Packaging vendors.

### Escrow restrictions

- 25 The shares to be issued to the vendors of Perfection Packaging are to be held in voluntary escrow for two years from completion.
- 26 Part of the cash consideration (NZ\$1.76 million) payable to the vendors of Polypak is to be held in escrow and is payable in two equal instalments post completion, in December 2018 and July 2019, subject to the achievement of certain performance targets.

### Conditions

- 27 The Proposed Transactions are subject to (inter alia):
- (a) Pro-Pac receiving shareholder approval for the Tranche 2 component of the proposed Capital Raising
  - (b) Pro-Pac completing an equity raising of A\$59.8 million under the proposed Capital Raising
  - (c) no material adverse change as regards the business operations of Perfection Packaging prior to settlement (which is expected to occur in early September 2018).
- 28 More detail on the above conditions is set out in the Notice of Meeting.

## II Scope of our report

### Purpose

- 29 Section 606 of the Corporations Act generally prohibits the acquisition of a relevant interest in issued voting securities of an entity if the acquisition results in a person's voting power in a company increasing from below 20% to more than 20%, or from a starting point between 20% and 90%, unless a permissible exception applies<sup>8</sup>. A permissible exception to this general prohibition is set out in s611(7), whereby such an acquisition is allowed where the acquisition is approved by a resolution of securityholders of the entity at a general meeting and no votes are cast in respect of securities held by the acquirer, the vendor (where applicable) or any of their respective associates.
- 30 Section 611(7) of the Corporations Act and ASIC Regulatory Guide 74 – *Acquisitions approved by members* prescribe certain requirements for the information to be provided to shareholders in relation to such resolutions. These information requirements can be met by the provision of an IER.
- 31 Bennamon currently holds more than 20% of Pro-Pac shares. In the circumstances, the Pro-Pac Board has elected to commission an IER to discharge its information disclosure obligations regarding shareholder approval of that component of the Tranche 2 Capital Raising that relates to Bennamon.
- 32 The Directors of Pro-Pac have therefore requested that LEA prepare an IER which sets out our opinion on whether the Proposed Transactions (including the Capital Raising<sup>9</sup>) are fair and reasonable to Pro-Pac shareholders.
- 33 This report has been prepared to assist the Directors of Pro-Pac in making their recommendation to Pro-Pac shareholders, and to assist these shareholders in assessing the merits of the Proposed Transactions.
- 34 Our report should not be used for any other purpose or by any other party. The ultimate decision whether to approve the Proposed Transactions should be based on each shareholder's assessment of their own circumstances, including their risk profile, liquidity preference, tax position and expectations as to value and future market conditions. If in doubt about the Proposed Transactions or matters dealt with in this report, Pro-Pac shareholders should seek independent professional advice.

### Basis of assessment

- 35 In preparing our report, we have had regard to the Australian Securities Exchange (ASX) Listing Rules and Regulatory Guides issued by ASIC, particularly RG 111. RG 111 sets out (inter alia) the view of ASIC on the content of expert reports prepared for the purpose of seeking approval under s611(7) of the Corporations Act.

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<sup>8</sup> Subject to the 3% every six months "creep provisions".

<sup>9</sup> The Capital Raising is an integral part of the Proposed Transactions.

- 36 Under RG 111 the Proposed Transactions are deemed a “change of control” transaction because Bennamon will potentially increase its (greater than 20%) voting interest in Pro-Pac. RG 111 states that as such, the (combined effect of the) Proposed Transactions must be analysed as if the Capital Raising component thereof represented by the placement to Bennamon were equivalent to a takeover bid under Chapter 6 of the Corporations Act. Accordingly, the expert is required to assess the transactions in terms of the convention established for takeovers pursuant to s640 of the Corporations Act.
- 37 As the Proposed Transactions do not involve any takeover offer being made to Pro-Pac shareholders, RG 111 requires that the fairness of the Proposed Transactions be assessed by comparing the controlling interest value of Pro-Pac shares prior to implementation of the Proposed Transactions with the portfolio value of Pro-Pac shares following implementation (being the deemed “consideration” delivered to Pro-Pac shareholders). In order for the Proposed Transactions to be “fair” under RG 111, the portfolio value of Pro-Pac shares following implementation of the Proposed Transactions must be equal to, or greater than, the controlling interest value of Pro-Pac shares before implementation.
- 38 The Proposed Transactions will be “reasonable” if they are “fair”. In addition, the Proposed Transactions will be “reasonable” if, despite not being fair but after considering other significant factors, the expert is of the opinion that the advantages of the Proposed Transactions outweigh the disadvantages from the perspective of Pro-Pac shareholders.
- 39 Our report has therefore considered a range of both qualitative and quantitative factors including:
- (a) the controlling interest value of 100% of Pro-Pac shares prior to implementing the Proposed Transactions
  - (b) the portfolio value of Pro-Pac shares following implementation of the Proposed Transactions (which also incorporates the value of Perfection Packaging, Polypak and related synergies)
  - (c) the difference between (a) and (b) in order to assess whether the Proposed Transactions are fair to Pro-Pac shareholders pursuant to RG 111
  - (d) the extent to which Bennamon is being issued shares at a premium to the value in (a)
  - (e) the impact of the Proposed Transactions on the ownership and control of Pro-Pac
  - (f) the relevant position of Pro-Pac shareholders before and after implementation of the Proposed Transactions assessed on a consistent basis (i.e. by comparing the portfolio value before implementation with the portfolio value afterwards); and
  - (g) other qualitative and strategic issues associated with the Proposed Transactions and the extent to which, on balance, they may advantage or disadvantage existing Pro-Pac shareholders if the Proposed Transactions proceed or are rejected.

### **Limitations and reliance on information**

- 40 Our opinions are based on the economic, share market, financial and other conditions and expectations prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time.



- 41 Our report is also based upon financial and other information provided by or on behalf of Pro-Pac. We understand the accounting and other financial information that was provided to us has been prepared in accordance with the Australian equivalents to International Financial Reporting Standards. We have considered and relied upon this information and believe that the information provided is reliable, complete and not misleading and we have no reason to believe that material facts have been withheld.
- 42 The information provided was evaluated through analysis, enquiry and review to the extent considered appropriate for the purpose of forming an opinion on the Proposed Transactions from the perspective of Pro-Pac shareholders. However, we do not warrant that our enquiries have identified or verified all of the matters which an audit, extensive examination or “due diligence” investigation might disclose. Whilst LEA has made what it considers to be appropriate enquiries for the purpose of forming its opinion, “due diligence” of the type undertaken by companies and their advisers in relation to (for example) prospectuses or profit forecasts is beyond the scope of an IER<sup>10</sup>.
- 43 Accordingly, this report and the opinions expressed therein should be considered more in the nature of an overall review of the anticipated commercial and financial implications of the Proposed Transactions, rather than a comprehensive audit or investigation of detailed matters. Further, this report and the opinions therein, must be considered as a whole. Selecting specific sections or opinions without context or considering all factors together, could create a misleading or incorrect view or opinion. This report is a result of a complex valuation process that does not lend itself to a partial analysis or summary.
- 44 An important part of the information base used in forming an opinion of the kind expressed in this report is comprised of the opinions and judgement of management of the relevant companies. This type of information has also been evaluated through analysis, enquiry and review to the extent practical. However, it must be recognised that such information is not always capable of external verification or validation.
- 45 We in no way guarantee the achievability of budgets or forecasts of future profits. Budgets and forecasts are inherently uncertain. They are predictions by management of future events which cannot be assured and are necessarily based on assumptions of future events, many of which are beyond the control of management. Actual results may vary significantly from forecasts and budgets with consequential valuation impacts.
- 46 In forming our opinion, we have also assumed that:
- (a) the information set out in the Notice of Meeting is complete, accurate and fairly presented in all material respects
  - (b) if the Proposed Transactions become legally effective, they will be implemented in accordance with the terms set out in this report.

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<sup>10</sup> Pro-Pac management commissioned separate independent due diligence advice from a major international accounting firm in connection with the Proposed Transactions.

### III Profile of Pro-Pac

#### Overview

47 Pro-Pac is an integrated manufacturer and distributor of industrial, rigid and flexible packaging products, with a diversified distribution and manufacturing network throughout Australia, New Zealand and Canada. The Company is also a segment leader in the manufacturing and distribution of soft and flexible film packaging solutions. Pro-Pac's key end markets include the industrial, logistics and FMCG markets as well as the fresh food and retail sectors.

#### History

48 Pro-Pac was established in 1987 with an initial focus on the manufacturing of flowable void-fill packaging products. It was listed on the ASX on 27 April 2005 and since that date has grown significantly, both organically and through acquisitions of complementary businesses. Over the period to 2016, Pro-Pac acquired a number of companies in the industrial, retail, protective and flexible packaging subsectors.

49 In November 2017, Pro-Pac completed the acquisition of Integrated Packaging Group Pty Limited (Integrated Packaging) for total consideration of A\$177.5 million, comprised of cash (A\$117.5 million) and Pro-Pac shares (A\$60.0 million). As a part of the transaction, Pro-Pac announced that it would undertake a fully underwritten 2 for 3 non-renounceable entitlement offer at A\$0.34 per Pro-Pac share to raise A\$54.8 million before transaction costs.

50 At the time of the transaction, Integrated Packaging was one of the largest specialist manufacturers and distributors of stretch film wrap and associated equipment in Australia. The Company operated nationally across Australia with a focus on the industrial, FMCG, logistics, agricultural and horticultural segments and had distribution networks spanning Australia, New Zealand and Canada.

51 Following the acquisition, Pro-Pac commenced consolidating head office, manufacturing and distribution functions. The Company also implemented the recommendations of a review into the reduction of redundant stock lines, followed by the restructuring of its warehousing operations.

#### Current operations

52 Pro-Pac operates from a Sydney head office and employs approximately 850 staff. It is one of the largest Australian manufacturers of industrial, agricultural and horticultural flexible film packaging and has its own offshore sourcing, procurement and consolidating facilities. Pro-Pac delivers a number of products and services under the following business segments:

- (a) **Rigid Packaging** – manufacturing, sourcing and distribution of rigid packaging products such as containers, closures, jars, caps, bottles, sprays and pumps, pails and industrial drums. Industries serviced by the segment include the dairy, pharmaceutical, personal care, food service, industrial, chemical and automotive sectors
- (b) **Industrial & Flexible Packaging:**
  - (i) **Industrial Packaging** – manufacturing, sourcing and distribution of industrial packaging products including biodegradable void-fill products and general packaging such as cardboard cartons, strapping tape, stretch wrap, shrink wrap,

bubble wrap, strapping and flexible products. The segment covers all aspects of logistics from packaging, sealing and wrapping of goods through to storing and shipping

- (ii) **Flexible Packaging** – manufacturing, sales and distribution of flexible packaging products including stretch film, plain films, bags and pouches, plastic shrink film, plastic sheeting, agricultural and horticultural products, printed films and bags, silage film, food film and engineered film.

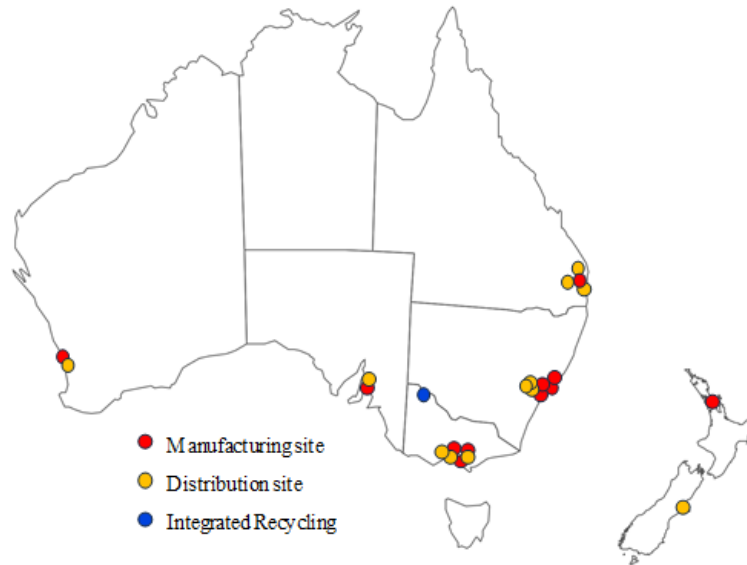
53 Products sold by the Company are either manufactured at one of its manufacturing centres or sourced from local and overseas suppliers. Products are either sold directly by the Company or through a network of distributors. Pro-Pac also sells and services a range of packaging tools, machines and systems. An overview of Pro-Pac’s products and related services is provided below:

### Pro-Pac – product overview

Cartons	Flexible Films	Food Processing	Fresh Produce	Machinery and Service	Plastic Bottles, Lids and Closures	Other	Industrial Protective Packaging	Agricultural
<ul style="list-style-type: none"> <li>Regular, Half Slotted and full flap Container</li> <li>Die Cut Cartons</li> <li>Pallet Pads</li> <li>Single Face Rolls</li> <li>Meat, Poultry and Seafood Packaging</li> <li>Processed food packaging</li> <li>Machine erected bases</li> <li>Wine and Beverage boxes</li> <li>Shelf Ready Packaging</li> <li>Stock Cartons</li> <li>Printed Cartons</li> <li>Industrial Boxed</li> <li>POSDisplays</li> <li>Fruit &amp; Produce Bins</li> <li>Flexography Lithographic Printing</li> </ul>	<ul style="list-style-type: none"> <li>Pouches</li> <li>Printed Rewind</li> <li>Plastic Tubing</li> <li>Plastic Shrink Film</li> <li>Plastic Bags</li> <li>Plastic Sheeting</li> <li>Other Extruded Plastic Products (HDPE, LDPE and BOPP)</li> <li>Polymer Additives</li> </ul>	<ul style="list-style-type: none"> <li>Knives</li> <li>Sharpening Equipment</li> <li>Personal Protection</li> <li>Safety Supplies and Equipment</li> <li>Hygiene and Sanitation</li> <li>Absorbent Pads for Trays and Bags</li> <li>Food Industry Packaging</li> <li>Protection Supplies and Tubs</li> <li>Skewers</li> <li>Mincer and Cutting Parts</li> <li>Meat Trade Tools and Machinery</li> <li>Food Grade Ink</li> <li>Thermometers, Data Loggers and Calibration Service</li> </ul>	<ul style="list-style-type: none"> <li>Flexible Films</li> <li>Containers and Punnets</li> <li>Stretch Wrap</li> <li>Strapping</li> <li>Tape</li> <li>Tags and labels</li> <li>Machinery</li> <li>Angleboard</li> <li>Cartons</li> <li>Safety and PPE</li> <li>Washroom and Cleaning</li> <li>Fruit and Produce Bins</li> </ul>	<ul style="list-style-type: none"> <li>Strapping units</li> <li>Meat Poultry and Seafood packaging</li> <li>Standard Pallet Wrapping Machines</li> </ul>	<ul style="list-style-type: none"> <li>Bottles</li> <li>Caps</li> <li>Cubes</li> <li>Drums</li> <li>Jars</li> <li>Jerry Cans</li> <li>Pails</li> <li>Sprays, Pumps and Triggers</li> <li>Vials</li> </ul>	<ul style="list-style-type: none"> <li>Safety and PPE</li> <li>Facial Tissue</li> <li>Hand Towel</li> <li>Toilet Tissue</li> <li>Heavy Duty Wipes</li> <li>Lotions and Cleaners</li> <li>Dispensers</li> <li>Garbage Bags and Liners</li> <li>Rags</li> </ul>	<ul style="list-style-type: none"> <li>Hand Stretch Film</li> <li>Machine Stretch Wrap</li> <li>Shrink Films</li> <li>Packaging Tape</li> <li>Masking Tape</li> <li>Sloth and PVC Tape</li> <li>Poly Strapping</li> <li>Steel Strapping</li> <li>PET Strapping</li> <li>Tools and Accessories</li> <li>Bundle Shrink</li> <li>Bundle Tape</li> <li>Pallet Netting</li> <li>Stretch Film</li> <li>PVC Food Films</li> <li>Top Sheets</li> <li>Stretch Hoods</li> <li>Plain Films</li> </ul>	<ul style="list-style-type: none"> <li>Accessories</li> <li>Bale Netting</li> <li>Bale Twines</li> <li>Fodder Additives</li> <li>Grain Bags</li> <li>Grape Covers</li> <li>Horticultural Twine</li> <li>Mulch Film</li> <li>Pit Covers</li> <li>Silage Films</li> </ul>

54 Pro-Pac operates 23 manufacturing and distribution sites across Australia, New Zealand and Canada, with additional support operations located in Malaysia and China. A summary of the group’s operating locations in Australia and New Zealand is as follows:

Pro-Pac – Australian and New Zealand operations



Note:

1 The Company also has a regional sales office and warehouse site located in Canada, a shared services centre in Malaysia and a sourcing office in China which have not been included in the diagram above.

55 Pro-Pac serves over 10,000 customers comprising both blue-chip and small to medium sized entities. Pro-Pac's customers are diversified across a range of market segments including the primary produce, food and beverage, agricultural, industrial, commercial, logistics and FMCG sectors.

## Financial performance

56 The financial performance of Pro-Pac for the three years ended 30 June 2017 (FY17) and the six months ended 31 December 2017 (1HY18), is set out below:

Pro-Pac – statement of financial performance<sup>(1)</sup>

	FY15 Audited A\$m	FY16 Audited A\$m	FY17 Audited A\$m	1HY18 Reviewed A\$m
Industrial & Flexible Packaging revenue	183.0	175.2	169.4	126.9
Rigid Packaging revenue	60.5	65.6	59.8	31.1
<b>Total revenue</b>	<b>243.5</b>	<b>240.8</b>	<b>229.2</b>	<b>158.0</b>
Industrial & Flexible Packaging EBITDA <sup>(2)</sup>	10.1	10.4	9.2	7.2
Rigid Packaging EBITDA	7.5	8.8	7.0	4.4
Unallocated costs	(2.4)	(3.9)	(4.0)	(2.0)
<b>EBITDA before non-recurring items</b>	<b>15.2</b>	<b>15.3</b>	<b>12.2</b>	<b>9.6</b>
Depreciation and amortisation <sup>(3)</sup>	(3.6)	(3.3)	(3.2)	(2.1)
<b>EBIT<sup>(4)</sup> before non-recurring items</b>	<b>11.6</b>	<b>12.0</b>	<b>9.0</b>	<b>7.5</b>
Net finance expense	(1.7)	(1.4)	(1.2)	(1.5)
Non-recurring items <sup>(5)</sup>	(1.5)	(0.5)	(0.9)	(9.9)
<b>Profit / (loss) before tax</b>	<b>8.4</b>	<b>10.1</b>	<b>6.9</b>	<b>(3.9)</b>
Income tax benefit / (expense)	(2.6)	(3.2)	(1.9)	0.7
<b>Net profit / (loss) after tax</b>	<b>5.8</b>	<b>6.9</b>	<b>5.0</b>	<b>(3.2)</b>
<i>EBITDA margin (before non-recurring items)</i>	<i>6.2%</i>	<i>6.4%</i>	<i>5.3%</i>	<i>6.1%</i>
<i>EBIT margin (before non-recurring items)</i>	<i>4.8%</i>	<i>5.0%</i>	<i>3.9%</i>	<i>4.7%</i>

**Note:**

- 1 Rounding differences exist.
- 2 Earnings before interest, tax, depreciation and amortisation (EBITDA).
- 3 Includes amortisation of pre-paid royalties in connection with products that are manufactured and distributed under a licence agreement with the United Kingdom-based company Green Light Packaging Limited (FY15 and FY16).
- 4 Earnings before interest and tax (EBIT).
- 5 Comprises acquisition, rationalisation and relocation expenses.

57 As noted above, in November 2017 Pro-Pac completed the acquisition of Integrated Packaging, the business operations of which were significantly greater in size than the then existing business operations of Pro-Pac. The results of Pro-Pac for FY18 will therefore only include a contribution in respect of Integrated Packaging for eight months and the years prior to FY18 will have no corresponding contribution. In the circumstances, therefore, we do not consider the historical financial performance of Pro-Pac to be representative of future performance for valuation purposes.

**Financial position**

58 The financial position of Pro-Pac as at 31 December 2017 is set out below:

<b>Pro-Pac – statement of financial position<sup>(1)</sup></b>	
	<b>31 Dec 17</b>
	<b>A\$m</b>
Debtors and prepayments	98.9
Inventories	86.9
Creditors, accruals and provisions	(107.6)
Net working capital	78.1
Plant and equipment	31.4
Goodwill	195.7
Deferred tax assets	8.5
Provisions (non-current)	(7.6)
Total funds employed	306.1
Cash and cash equivalents	9.9
Interest bearing liabilities	(95.0)
Derivative financial instruments (net)	0.0
Net cash / (borrowings)	(85.1)
Net assets attributable to Pro-Pac shareholders	221.0

**Note:**

- 1 Rounding differences exist.

**Net asset position / goodwill**

59 The net asset position as at 31 December 2017 represents some 33.4 cents per share, the largest component of which is goodwill (around 29.5 cents per share). The carrying value of goodwill reflects the premiums paid above the fair value of the net tangible assets held by businesses acquired by Pro-Pac at the date of acquisition. This goodwill is tested annually for impairment.

## Net debt

60 A summary of Pro-Pac's net debt position is set out below:

Pro-Pac – net debt	
	31 Dec 17
	A\$m
Cash and cash equivalents	(9.9)
Short-term borrowings	14.2
Long-term borrowing	80.8
Derivative financial instruments (net)	(0.0)
Net debt	85.1

61 Pro-Pac's net debt position at 31 December 2017 primarily related to drawn down banking facilities post-merger with Integrated Packaging.

## Share capital and performance

62 As at 2 July 2018, Pro-Pac had 583.7 million fully paid ordinary shares on issue. In addition, the Company has:

- (a) 1.2 million options on issue exercisable at A\$0.38 each (of which 0.4 million options were vested at the date of this report)
- (b) 1.4 million performance rights that were issued under the Pro-Pac's long-term incentive plans. The performance rights vest subject to the achievement of specified performance hurdles. However, in the event of a takeover or other control event the Pro-Pac Board can waive the performance hurdles.

## Substantial shareholders

63 As at 2 July 2018 (i.e. prior to the Proposed Transactions), the significant shareholders in Pro-Pac were as follows:

Pro-Pac – substantial shareholders <sup>(1)</sup>		
	Shares held	
	Millions	% interest
Bennamon Pty Limited	263.3	45.1
Advent Partners Pty Ltd (Advent)	89.7	15.4
	353.0	60.5

**Note:**

1 Rounding differences may exist.

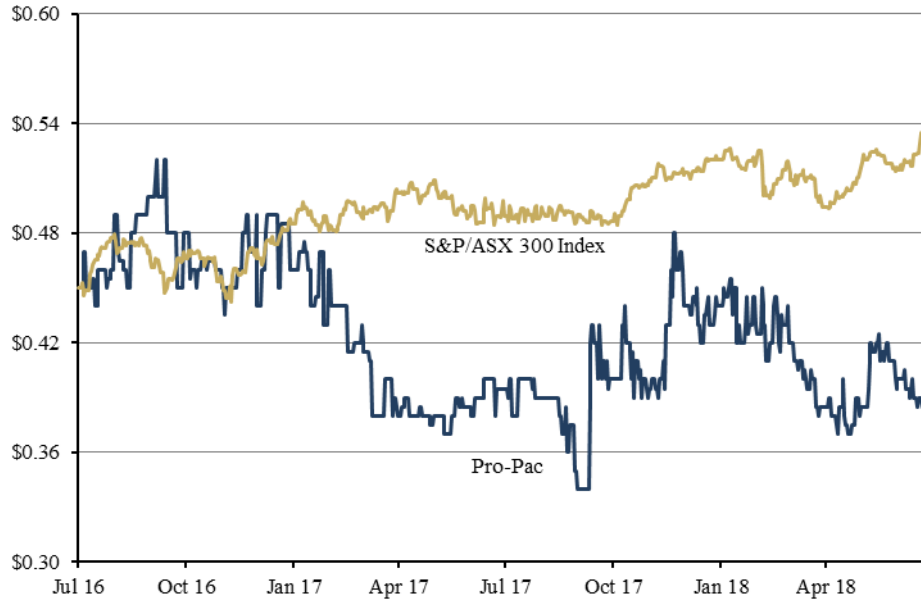
## Share price performance

64 The following chart illustrates the movement in the share price of Pro-Pac from 1 July 2016 to 28 June 2018<sup>11</sup>:

<sup>11</sup> Being the last day of trading prior to the announcement of the trading halt in relation to the Proposed Transactions.

**Pro-Pac – share price history<sup>(1)</sup>**

**1 July 2016 to 28 June 2018**



**Note:**

1 Based on closing prices. The S&P/ASX300 Index has been rebased to Pro-Pac's last traded price on 1 July 2016 of A\$0.45.

Source: Bloomberg.

65 As noted above, Pro-Pac shares have underperformed the S&P/ASX300 Index since 1 July 2016.

**Liquidity in Pro-Pac shares**

66 The liquidity in Pro-Pac shares based on trading on the ASX over the 12 month period to 27 June 2017<sup>11</sup> is set out below<sup>12</sup>:

Pro-Pac – liquidity in shares						
Period	Start date	End date	No. of shares traded 000	WANOS <sup>(1)</sup> outstanding 000	Implied level of liquidity Period <sup>(2)</sup> %	Annual <sup>(3)</sup> %
1 month	28 May 18	27 Jun 18	2,682	583,665	0.5	5.5
3 months	28 Mar 18	27 Jun 18	8,582	578,258	1.5	5.9
6 months	28 Dec 17	27 Jun 18	43,886	576,771	7.6	15.2
1 year	28 Jun 17	27 Jun 18	93,479	452,188	20.7	20.7

**Note:**

1 Weighted average number of securities outstanding (WANOS) during relevant period.

2 Number of shares traded during the period divided by WANOS.

3 Implied annualised figure based upon implied level of liquidity for the period.

67 As indicated in the table above, the level of liquidity in Pro-Pac shares has been relatively low, due in part to the presence of one major shareholder (Bennamon) over the year to 27 June 2018 and another major shareholder Advent since November 2017.

<sup>12</sup> Excluding 59.6 million shares sold by Advent on 4 May 2018.

## IV Profile of Perfection Packaging and Polypak

68 Pursuant to the Proposed Transactions, Pro-Pac will acquire Perfection Packaging and Polypak. Accordingly, we set out below a brief overview of the respective business operations, including a summary of recent financial performance. Further background information on both companies / businesses is set out in the Notice of Meeting, of which this report forms a part.

### Perfection Packaging

69 Perfection Packaging is a privately owned hard flexible packaging manufacturer based in Dandenong, Victoria. The business was founded in the 1970s and acquired by the current owners in the early 2000s.

70 In the period subsequent to acquisition, the owners have steadily grown the business and invested in associated manufacturing capacity. The business currently employs around 100 staff, with forecast annual production of 80 million metres of printed laminate hard flexible primary packaging.

71 Perfection Packaging offers a range of hard flexible packaging solutions, including high definition prints (up to 10 colours), various lamination offerings providing enhanced barrier properties, development and production of high speed structures for efficient production on packing lines, registered over-print varnish, and pouches and bags. The majority of Perfection Packaging sales comprise rewind (82%) and bags (13%).

72 Further investment in manufacturing capacity and related infrastructure has been made in 2018, which has provided an increase in production capacity of around 52%, and an upgraded potential annual production capacity of 134 million metres.

73 Perfection Packaging targets FMCG mid-market customers, including shelf-stable healthy snacking, personal care and pet food. A key to customer acquisition / retention has been the ability of the business to provide highly innovative short-run manufacturing solutions / services.

74 The recent historical financial performance of Perfection Packaging is summarised below:

Perfection Packaging – financial performance <sup>(1)</sup>			
	FY16 Actual A\$000	FY17 Actual A\$000	FY18 Forecast A\$000
Sales revenue	30,481	35,357	40,325
EBITDA	4,540	5,434	6,234
Depreciation	(1,126)	(1,089)	(1,101)
EBIT	3,414	4,345	5,132
<b>Operating metrics</b>			
<i>Revenue growth</i>	<i>12.3%</i>	<i>15.6%</i>	<i>14.1%</i>
<i>EBITDA margin</i>	<i>14.9%</i>	<i>15.4%</i>	<i>15.5%</i>
<i>EBIT margin</i>	<i>11.2%</i>	<i>12.3%</i>	<i>12.7%</i>



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**Note:**

1 Rounding differences exist.

**Source:** Pro-Pac.

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- 75 As indicated, in recent years, the business has demonstrated solid, sustained growth in revenues, with a related steady improvement in operating margins (reflecting, in part, the inherent spare production capacity in the business).
- 76 Absent the proposed transaction with Pro-Pac, historical revenue growth and operating margins were expected to be maintained, indicating FY19 revenue of around A\$45.5 million and corresponding EBITDA of approximately A\$7.1 million.
- 77 The Perfection Packaging business operates from leased premises, which are owned by the vendor shareholders. Historically, the net investment in working capital has represented approximately 20% of annual revenue.

## **Polypak**

- 78 Polypak was founded in 1978, with the current shareholders acquiring the business in 1983. Polypak is a specialist soft flexibles packaging manufacturer and distributor of high quality polythene bags, film and tubes. These products are supplied to primary food processors (meat, poultry and fish) and a range of general packaging customers, and the business holds a strong niche position in the market sectors in which it operates.
- 79 Manufacturing is based in specialised premises in Glenfield, Auckland, which enables flexibility and speed to the market. There is some warehousing capacity at the site, but the majority is outsourced to specialist logistics providers. The business currently employs 28 staff.
- 80 A key element of Polypak's value proposition and competitive advantage is use of the latest extrusion and conversion technology to custom manufacture to individual customer specifications and requirements. Polypak invests in technology and continual improvements thereto through a dedicated in-house research and development team to respond to customers' changing requirements to enable a quick turnaround into the market. The intellectual property created through these product developments remains with the business, which Polypak management consider provides a strategic advantage over competitors.
- 81 Demand for flexible packaging, particularly for food, is forecast to continue to grow into the foreseeable future and remains one of the most profitable packaging segments in the industry in New Zealand.
- 82 The recent historical financial performance of Polypak is summarised below:

**Polypak – financial performance<sup>(1)(2)</sup>**

	<b>FY16 Actual NZ\$000</b>	<b>FY17 Actual NZ\$000</b>	<b>FY18 Forecast NZ\$000</b>
Sales revenue	11,647	13,099	13,300
EBITDA	995	1,886	1,900
Depreciation	(275)	(246)	na
EBIT	720	1,640	
<b>Operating metrics</b>			
<i>Revenue growth</i>	(11.0)%	12.5%	1.9%
<i>EBITDA margin</i>	8.5%	14.4%	14.3%
<i>EBIT margin</i>	6.2%	12.5%	na

**Note:**

1 Rounding differences may exist.

2 Reflects 31 March year end.

na – not available.

**Source:** BDO due diligence report January 2018; Pro-Pac.

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- 83 As noted, the business under-performed in FY16. Polypak management have attributed this to factors including the loss of a major client, difficult market conditions and certain inefficiencies in the business cost structure.
- 84 The subsequent improved performance in FY17 and FY18 is considered to be better representative of ongoing business performance. Critical to the sustainability of revenues and related earnings is retention of the key customer base.
- 85 We understand that annual budgets / forecasts in respect of the business have not historically been prepared by Polypak management. Pro-Pac has indicated that the proposed acquisition has been entered into on the basis of forecast EBITDA for FY19 of NZ\$2.0 million, which reflects a modest increase in earnings over the expected FY18 performance.<sup>13</sup>
- 86 The Polypak business operates from leased premises which are owned by third parties. Historically, the net investment in working capital has represented around 40% of annual revenue.

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<sup>13</sup> As noted above, a component of the consideration for the acquisition of Polypak is to be deferred pending the achievement of certain performance targets.

## V Valuation methodology

### Valuation approaches

- 87 RG 111 outlines the appropriate methodologies that a valuer should consider when valuing assets or securities for the purposes of, amongst other things, share buy-backs, selective capital reductions, schemes of arrangement, takeovers and prospectuses. These include:
- (a) the discounted cash flow (DCF) methodology
  - (b) the application of earnings multiples appropriate to the businesses or industries in which the company or its profit centres are engaged, to the estimated future maintainable earnings or cash flows of the company, added to the estimated realisable value of any surplus assets
  - (c) the amount that would be available for distribution to shareholders in an orderly realisation of assets
  - (d) the quoted price of listed securities, when there is a liquid and active market and allowing for the fact that the quoted market price may not reflect their value on a 100% controlling interest basis
  - (e) any recent genuine offers received by the target for any business units or assets as a basis for valuation of those business units or assets.
- 88 Under the DCF methodology the value of the business is equal to the net present value (NPV) of the estimated future cash flows including a terminal value. In order to arrive at the NPV the future cash flows are discounted using a discount rate which reflects the risks associated with the cash flow stream.
- 89 Methodologies using capitalisation multiples of earnings or cash flows are commonly applied when valuing businesses where a future “maintainable” earnings stream can be established with a degree of confidence. Generally, this applies in circumstances where the business is relatively mature, has a proven track record and expectations of future profitability and has relatively steady growth prospects. Such a methodology is generally not applicable where a business is in start-up phase, has a finite life, or is likely to experience a significant change in growth prospects and risks in the future.
- 90 Capitalisation multiples can be applied to either estimates of future maintainable operating cash flow, EBITDA, earnings before interest, tax, and amortisation of acquired intangibles (EBITA), EBIT or net profit after tax. The appropriate multiple to be applied to such earnings is usually derived from stock market trading in shares in comparable companies which provide some guidance as to value and from precedent transactions within the industry. The multiples derived from these sources need to be reviewed in the context of the differing profiles and growth prospects between the company being valued and those considered comparable. When valuing controlling interests in a business an adjustment is also required to incorporate a premium for control. The earnings from any non-trading or surplus assets are excluded from the estimate of the maintainable earnings and the value of such assets is separately added to the value of the business in order to derive the total value of the company.
- 91 An asset based methodology is applicable in circumstances where neither a capitalisation of earnings nor a DCF methodology is appropriate. It can also be applied where a business is no longer a going concern or where an orderly realisation of assets and distribution of the

proceeds is proposed. Using this methodology, the value of the net assets of the company are adjusted for the time, cost and taxation consequences of realising the company's assets.

## Methodologies selected

### Value of Pro-Pac before Proposed Transactions

- 92 The market value of Pro-Pac before taking into account the impact of the Proposed Transactions has been assessed by aggregating the market value of the business operations, together with the realisable value of any surplus assets and deducting net borrowings.
- 93 The valuation of the business operations has been made on the basis of market value as a going concern. The primary valuation method used to value Pro-Pac's business operations is the capitalisation of future maintainable EBITDA. Under this methodology the value of the business is represented by its core underlying maintainable EBITDA capitalised at a rate (or EBITDA multiple) reflecting the risks inherent in those earnings.
- 94 We have adopted this method when valuing the business operations of Pro-Pac for several reasons:
- (a) Pro-Pac has both a demonstrated history of profitability and an expectation of ongoing profitability
  - (b) Pro-Pac operates in a mature industry and has well established market positions in the sectors in the industry in which it operates
  - (c) we do not have long-term cash flow projections which we regard as sufficiently robust to enable a DCF valuation to be undertaken
  - (d) the EBITDA multiples for listed companies exposed to similar industry sectors as the business operations of Pro-Pac can be derived from publicly available information
  - (e) transaction evidence in the respective industry sectors is generally expressed in terms of EBITDA (and EBITA) multiples.
- 95 The resulting values have been cross-checked by reference to the capitalisation of EBITA and net profit after tax (or price earnings (PE)) methods.
- 96 We have also compared our assessed value of the equity in Pro-Pac (on a per share basis) with the following (which represent portfolio interests in Pro-Pac):
- (a) the listed market prices of Pro-Pac shares on the ASX prior to the announcement of the Proposed Transactions
  - (b) the price per share at which a significant portfolio interest in Pro-Pac was recently sold.

### Value of Perfection Packaging and Polypak

- 97 Given the respective sale processes with respect to both Perfection Packaging and Polypak that gave rise to the Proposed Transactions, the value of Perfection Packaging and Polypak on a standalone basis has been determined based on the respective proposed transaction prices. In order to confirm that the transaction prices are reasonably representative of the market value of both Perfection Packaging and Polypak, we have also considered whether the earnings multiples implied by the transaction prices are reasonable and appropriate.

### Value of Pro-Pac after Proposed Transactions

- 98 The value of Pro-Pac after the Proposed Transactions has been derived by aggregating the value of:
- (a) the Pro-Pac business (before debt) before the Proposed Transactions
  - (b) the Perfection Packaging and Polypak businesses (before debt)
  - (c) the value of expected cost synergies arising from the combination of the businesses of Pro-Pac, Perfection Packaging and Polypak; less
  - (d) the pro-forma net debt of Pro-Pac following completion of the acquisition of Perfection Packaging and Polypak and related Capital Raising<sup>14</sup>.
- 99 The value of expected synergy benefits (net of expected implementation costs) has been derived using the DCF method in order to allow for the quantum and timing of realisation.
- 100 Consistent with the requirements of RG 111, the value of Pro-Pac after implementation of the Proposed Transactions has been assessed on a portfolio (minority) interest basis. Empirical evidence undertaken by LEA on takeover premiums and minority interest discounts indicates that standard discounts for minority interests generally range from 20% to 25% of the full underlying (controlling interest) value of the Company.
- 101 As a cross-check we have also considered the overall EBITDA multiple implied by our valuation range.

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<sup>14</sup> We have also had regard to the costs incurred by Pro-Pac in respect of the Proposed Transactions.

## VI Valuation of Pro-Pac before the Proposed Transactions

102 As stated in Section V, we have adopted the capitalisation of EBITDA method as our primary valuation method. Under this method the EBITDA (before non-recurring items) is capitalised at an appropriate EBITDA multiple. The value of the shares in Pro-Pac is then derived by deducting net interest bearing debt.

### Assessment of normalised EBITDA

103 In order to assess the appropriate level of EBITDA for valuation purposes we have had regard to the historical and forecast results of the business divisions, and have discussed each business division's financial performance, operating environment and prospects with Pro-Pac management.

104 As noted above, in November 2017 Pro-Pac completed the acquisition of Integrated Packaging, the business operations of which were significantly greater in size than the then existing business operations of Pro-Pac. The results of Pro-Pac for FY18 will therefore only include a contribution in respect of Integrated Packaging for eight months and the years prior to FY18 will have no corresponding contribution. In the circumstances therefore, we do not consider the historical financial performance of Pro-Pac to be representative of future performance for valuation purposes.

### Earnings guidance

105 In considering EBITDA for valuation purposes we have therefore had regard to the various guidance provided by Pro-Pac management, which incorporates the historical operations of Pro-Pac, the operations of Integrated Packaging, together with the synergies arising from a combination of the businesses.

106 In this regard we note:

- (a) in announcing the acquisition of Integrated Packaging in September 2017, Pro-Pac management anticipated combined earnings (including an initial A\$2.0 million attributable to synergies) of A\$37.7 million
- (b) in April 2018, in relation to the proposed sale by Advent of 59.6 million Pro-Pac shares (which represented around 10.4% of the then existing equity in Pro-Pac), Pro-Pac management advised that "*underlying annualised pro-forma CY18 EBITDA remains on track for \$38 million*". Actual earnings in FY18 were being negatively impacted by challenging market conditions in the agricultural sector, as well as timing delays in respect of the installation of new equipment
- (c) in announcing the Proposed Transactions on 2 July 2018, Pro-Pac management advised forecast FY18 pro-forma normalised EBITDA of A\$34.0 million to A\$35.0 million and forecast FY19 EBITDA of A\$38.5 million to A\$39.5 million. We understand that forecast FY19 EBITDA includes the annualised benefit of the synergies arising from the acquisition of Integrated Packaging, which will have been fully realised.

107 We also note that in our IER dated 11 September 2017 in relation to the acquisition of Integrated Packaging, we estimated (for the purposes of the report) normalised EBITDA of around A\$40 million. This reflected the earnings contribution of both the historical Pro-Pac

business divisions and Integrated Packaging, together with an estimate of the full-year annual cost synergies expected to arise from a combination of the businesses.

### **EBITDA adopted for valuation purposes**

108 Having regard to the above we have adopted EBITDA for valuation purposes of A\$38.0 million.

### **EBITDA multiple**

109 The selection of the appropriate EBITDA multiple to apply is a matter of judgement but normally involves consideration of a number of factors including, but not limited to:

- |   |   |
|---|---|
| <ul style="list-style-type: none"> <li>• The stability and quality of earnings</li> <li>• The quality of the management and the likely continuity of management</li> <li>• The nature and size of the business</li> <li>• The spread and financial standing of customers</li> <li>• The financial structure of the company and gearing level</li> <li>• The multiples attributed by share market investors to listed companies involved in similar activities or exposed to the same broad industry sectors</li> <li>• The multiples that have been paid in recent acquisitions of businesses involved in similar activities or exposed to the same broad industry sectors</li> </ul> | <ul style="list-style-type: none"> <li>• The future prospects of the business including the growth potential of the industry in which it is engaged, strength of competitors, barriers to entry, etc.</li> <li>• The cyclical nature of the industry</li> <li>• Expected changes in interest rates</li> <li>• The asset backing of the underlying business of the company and the quality of the assets</li> <li>• The extent to which a premium for control is appropriate</li> <li>• Whether the assessment is consistent with historical and prospective earnings</li> </ul> |
|---|---|

110 We discuss below specific factors taken into consideration when assessing the appropriate EBITDA multiple range for Pro-Pac.

### **Listed company multiples**

111 The EBITDA multiples for packaging companies listed in Australia or in developed international markets are set out in Appendix C and are summarised below. Given the relative size of Pro-Pac, we have excluded packaging companies listed in developed international markets which have a market capitalisation exceeding A\$1.5 billion:

**Listed company trading multiples<sup>(1)</sup>**

	<b>Enterprise value<sup>(2)</sup></b>	<b>EBITDA multiples</b>	
	<b>A\$m</b>	<b>FY18F<sup>(3)</sup></b>	<b>FY19F<sup>(3)</sup></b>
		<b>x</b>	<b>x</b>
<b>Australian listed companies</b>			
Amcor	22,736	11.2	10.4
Orora	4,972	11.0	10.3
Pact Group Holdings	2,257	9.0	8.0
<b>International listed companies<sup>(4)</sup></b>			
Intertape Polymer Group	2,084	8.3	7.6
Myers Industries	1,311	10.3	9.5
Groupe Guillin	1,076	6.2	5.9
Reno de Medici	681	7.1	7.0
Resilux	460	6.9	6.3
PSB Industries	419	6.5	6.0
UFP Technologies	382	na	na

**Note:**

- 1 Enterprise value (EV) and earnings multiples calculated as at 4 July 2018.
- 2 EV includes net debt (interest bearing liabilities less non-restricted cash), preference shares, convertible notes, net derivative liabilities, net pension liabilities, market capitalisation adjusted for material option dilution and excludes surplus assets.
- 3 The forecast FY18 and FY19 multiples for the Australian companies are based on forecast results for the years ending 30 June 2018 and 2019. The forecast FY18 and FY19 multiples for the international companies are based on forecast results for the years ending 31 December 2018 and 2019.
- 4 Packaging companies excluded based on unavailability of forecasts include Tredegar Corp, IPL Plastics Inc., Brodrene Hartmann A/S, Richards Packaging Income Fund, UFP Technologies Inc, Gascogne, Deufol SE, Karatzis SA, Flexopack SA.

na – not available. nm – not meaningful.

**Source:** Bloomberg, latest full year statutory accounts, latest interim accounts, company announcements and LEA analysis.

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- 112 As the level of EBITDA adopted for valuation purposes has primary regard to FY19, we have had more regard to the EBITDA multiples based on the average broker forecasts for each company for FY19.
  - 113 The above multiples are based on the listed market price of each company's shares (and therefore exclude a premium for control). Empirical evidence undertaken by LEA indicates that the average premium paid above the listed market price in successful takeovers in Australia ranges between 30% and 35% (assuming the pre-bid market price does not reflect any speculation of the takeover). This broadly translates to a premium of 20% to 25% at the EBITDA multiple or EV level, although this varies depending on the level of debt funding employed in each company.
  - 114 In addition, we note that:
    - (a) none of the above listed companies are directly comparable to Pro-Pac. However, their EBITDA multiples provide guidance as to the values and multiples generally ascribed by share market investors to companies operating in the packaging sector
    - (b) the above Australian listed packaging companies are substantially larger and have more diverse operations than Pro-Pac. Accordingly, we believe that the appropriate EBITDA



multiple for Pro-Pac would be lower than the implied EBITDA multiples for these companies

- (c) the forecast FY19 EBITDA multiples for the international companies (excluding outliers) range from 5.9 to 7.6 (prior to adding a control premium).

### **Implied Pro-Pac multiples**

115 In considering an appropriate EBITDA multiple for Pro-Pac we have also had regard to:

- (a) the sale by Advent of a significant portfolio interest in Pro-Pac in April 2018
- (b) share market trading in Pro-Pac shares in the three month period prior to the trading halt which preceded the announcement of the Proposed Transactions.

116 As noted above, the sale by Advent related to 59.6 million shares<sup>15</sup> and was priced at A\$0.38 per share. The shares represented an interest in Pro-Pac of around 10.4% and were acquired under a bookbuild process by new and existing investors, comprising a combination of retail investors, institutions and Bennamon<sup>16</sup>.

117 Based on the earnings adopted for valuation purposes, the number of shares on issue at the time and the (then) latest reported net debt position of Pro-Pac, we have calculated that the transaction implied an EBITDA multiple of 8.0 times.

118 As set out in Section III, the volume weighted average price of Pro-Pac shares in the one and three month periods prior to the trading halt that preceded the announcement of the Proposed Transactions was A\$0.40 per share in both periods. We have calculated that this share market trading implied an EBITDA multiple of 8.4 times.

119 However, as noted above, excluding the significant transactions in Pro-Pac shares that have involved Bennamon, trading liquidity (on an annualised basis) has been very low. Accordingly, we do not consider that reliance should be placed on trading in Pro-Pac shares in considering an appropriate EBITDA multiple to apply.

### **Transaction evidence**

120 There have been a number of Australian transactions in the packaging sector in recent years. A summary of the EBITDA multiples implied by recent transactions (which reflect the acquisitions of controlling interests except where noted) with an EV of between A\$50 million and A\$1 billion is shown below<sup>17</sup>:

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<sup>15</sup> The sale represented part of the shareholding in Pro-Pac held by Advent which was acquired as part consideration as one of the vendors of Integrated Packaging.

<sup>16</sup> At the time of the sale by Advent, Bennamon held a 38.8% interest in Pro-Pac and offered to acquire a minimum of 23.1 million shares (equivalent to 38.8% of the shares being sold), together with any other shares not taken up in the bookbuild process.

<sup>17</sup> This also includes international acquisitions made by Australian ASX listed companies.

Transaction multiples				
Date <sup>(1)</sup>	Target	Acquirer	EV <sup>(2)</sup> A\$m	EBITDA Multiple
Nov 17	Closure Systems / Graham Packaging	Pact Group	142	7.5 H
Sep 17	Integrated Packaging	Pro-Pac	178	8.4 F
Aug 17	Hannapak	WestRock	75	7.0 H
Feb 17	Garvey Group / The Graphic Tech		71	5.8 H
Dec 16	Register Print Group	Orora	59	5.8 H
Sep 16	Australian Pharmaceutical Manufacturers	Pact Group	90	6.5 H
Sept 16	Sonoco Products Company Rigid Plastics businesses	Amcor	371	8.0 H
Apr 16	Alusa	Amcor	561	8.5 H
Feb 16	IntegraColor	Orora	107	6.9 H
Jan 16	Colorpak	Graphic Packaging International	96	8.0 F <sup>(3)</sup>
Jun 15	Jalco Group	Pact Group	80	6.5 H
Nov 13	Detmold Flexibles	Amcor	50	6.6 H
Jun 12	Wayne Richardson Sales	Amcor	n/a	6.5 H
Mar 12	National Can Industries <sup>(4)</sup>	Esk Holdings	78	5.8 F
Mar 12	Aperio Group	Amcor	238	6.0 H
Aug 11	Pro-Pac Packaging <sup>(5)</sup>	Bennamon	79	6.6 F

**Note:**

- 1 Date of announcement.
- 2 EV on a 100% basis.
- 3 Multiples based on future maintainable earnings assessed by the independent expert to the transaction.
- 4 Transaction was for the remaining 48.9% interest that the acquirer did not already own.
- 5 Transaction was for a 30.2% interest in the company.

H = Based on Historical EBITDA. F = Based on Forecast EBITDA.

**Source:** LEA analysis, ASX announcements, broker reports and company annual reports.

121 In relation to the transaction evidence it should be noted that:

- (a) the transactions relate to the acquisition of 100% of the businesses (or of a controlling interest) and therefore implicitly incorporate a premium for control
- (b) the companies acquired differ materially in terms of their size and nature of operations. Accordingly, in our view, the median or average multiples implied by these transactions are not necessarily representative of the multiples which should be applied to Pro-Pac's businesses
- (c) the transaction multiples are calculated based on the most recent actual earnings (historical multiples) or expected future earnings for the current year at the date of the transaction (forecast multiples). The multiples are therefore not necessarily reflective of the multiple which would be derived from an assessment of each target company's "maintainable" earnings.

***Integrated Packaging transaction multiple***

- 122 As noted above, as a result of the acquisition of Integrated Packaging, the scale of business operations of Pro-Pac increased significantly compared to the pre-transaction position. In the circumstances therefore we consider the implied transaction multiple to be of particular relevance as regards an assessment of the enterprise value of Pro-Pac prior to the Proposed Transactions.
- 123 As set out in our IER dated 11 September 2017, our analysis of this transaction concluded that it reflected an FY17 EBITDA of 9.8 times and a forecast FY18 EBITDA of 8.4 times. We considered these multiples appropriate having regard (inter alia) to the market leadership position held by Integrated Packaging in the flexible packaging end markets that it served, its recent strong financial performance and positive outlook, together with the investment in plant and equipment that had been undertaken.

**Conclusion on appropriate EBITDA multiples**

- 124 In summary:
- (a) given the extent to which the operations of Pro-Pac prior to the Proposed Transactions comprise the business operations of Integrated Packaging (the acquisition of which was completed effective November 2017), we consider the forecast EBITDA multiple of 8.4 times implied from this transaction to be a key reference point for valuation purposes<sup>18</sup>
  - (b) we also consider the implied EBITDA multiple of 8.0 times based on the sale by Advent of a significant portfolio interest in Pro-Pac in April 2018 to be of relevance for valuation purposes.
- 125 Given the above, for the purposes of our report we have adopted an EBITDA multiple range of 8.0 to 8.5.

**Enterprise value**

126 On this basis the value of Pro-Pac’s business (before debt) is as follows:

Enterprise value	Valuation	
	Low A\$m	High A\$m
EBITDA	38.0	38.0
EBITDA multiple	8.0	8.5
Enterprise value	304.0	323.0

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<sup>18</sup> Integrated Packaging was acquired by Pro-Pac pursuant to a competitive bidding process that included both domestic and overseas interested parties.

## Surplus assets

127 We understand that Pro-Pac has no material surplus assets.

## Net debt

128 As at 30 June 2018, Pro-Pac had net debt of approximately A\$97.0 million, the increase since December 2017 being primarily attributable to an increased investment in capital expenditure, rationalisation costs and movement in working capital.

## Fully diluted shares on issue

129 As at 2 July 2018, Pro-Pac had 583.7 million fully paid ordinary shares on issue. In addition, the Company has 1.4 million performance rights that were issued under the Company's long-term incentive plans.

130 The performance rights vest subject to the achievement of specified performance hurdles. However, in the event of a takeover or other control event the Pro-Pac Board can waive the performance hurdles. Accordingly, when valuing 100% of the shares in Pro-Pac, in our opinion, it is appropriate to assume that additional shares in respect of the outstanding performance rights will be issued.

131 For valuation purposes we have therefore assumed 585.0 million fully diluted shares on issue<sup>19</sup>.

## Value of Pro-Pac

132 On this basis, the value of 100% of Pro-Pac on a controlling interest basis is as follows:

Value of Pro-Pac		
	<b>Low</b>	<b>High</b>
	<b>A\$m</b>	<b>A\$m</b>
Enterprise value	304.0	323.0
Less net debt	(97.0)	(97.0)
Equity value	207.0	226.0
Fully diluted shares on issue	585.0	585.0
Equity value per share (A\$)	0.35	0.39

<sup>19</sup> We have not adjusted for 1.2 million options on issue (which represent 0.2% of the issued capital of Pro-Pac) as these options are exercisable at A\$0.38 each and accordingly have no significant impact on value per share.

### Implied EBITA and PE multiples

133 The EBITA and PE multiples implied by our assessed value range are shown below:

Implied EBITA and PE multiples		
	Low A\$m	High A\$m
<b>EBITA multiple</b>		
Enterprise value	304.0	323.0
EBITDA adopted for valuation purposes	38.0	38.0
Less depreciation and amortisation <sup>(1)</sup>	(4.1)	(4.1)
EBITA adopted for valuation purposes	33.9	33.9
Implied EBITA multiple (x)	9.0	9.5
<b>PE multiple</b>		
Equity value	207.0	226.0
EBITA	33.9	33.9
Less finance costs <sup>(2)</sup>	(5.6)	(5.6)
Profit before tax and amortisation of acquired intangibles	28.3	28.3
Less tax	(8.5)	(8.5)
Net profit after tax before amortisation of acquired intangibles	19.8	19.8
Implied PE ratio (x)	10.5	11.4

**Note:**

1 Consistent with FY18 depreciation and amortisation.

2 Based on adopted net debt of A\$97.0 million and average cost of borrowing of 5.8% per annum.

134 Having regard to the EBITA and PE multiples for the listed companies<sup>20</sup> in Appendix C, we consider the above implied multiples for Pro-Pac are reasonable. As noted above, we consider the listed company multiples for FY19 to be the most relevant given that the earnings adopted for valuation purposes primarily reflect earnings expectations for FY19.

<sup>20</sup> EBITA and PE multiples for the transaction evidence set out in this Section are generally not available.

## VII Valuation of Perfection Packaging and Polypak

### Background

135 Pro-Pac has entered into agreements to acquire:

- (a) all of the shares in Perfection Packaging Pty Ltd and all of the units in the Perfection Packaging Unit Trust (together Perfection Packaging) for total consideration of A\$49.8 million; and
- (b) the New Zealand business of Polypak Pty Limited (Polypak) for total consideration of NZ\$8.8 million

(collectively, the Proposed Transactions).

136 Prior to agreeing to the terms of the respective agreements:

- (a) the vendors of both Perfection Packaging and Polypak appointed external advisers to undertake a competitive sale process for the respective entities / businesses. We understand that both sales processes attracted interest from a number of parties that resulted in a number of indicative, non-binding and conditional bids being tabled. Based on these indicative bids, subsequent access to a data room was provided and due diligence undertaken<sup>21</sup>. Following the receipt of final binding bids, the respective Perfection Packaging and Polypak vendors and Pro-Pac agreed to the respective transactions outlined above
- (b) in relation to both Perfection Packaging and Polypak, Pro-Pac appointed both a leading international accounting firm together with an experienced packaging industry (former) executive to undertake detailed financial and commercial due diligence on both Perfection Packaging and Polypak.

137 Given the respective comprehensive sales processes that were undertaken, we consider the respective proposed transaction prices to be (prima-facie) the best indication of the market value of both Perfection Packaging and Polypak (on a 100% controlling interest basis). However, in order to confirm that the respective transaction prices are reasonably representative of the respective market value of both Perfection Packaging and Polypak, we have also considered whether the earnings multiples implied by the respective acquisition prices are reasonable and appropriate.

### Perfection Packaging

#### Earnings and implied multiples

138 The historical earnings performance of Perfection Packaging is summarised in Section IV of our report. As noted, the business has demonstrated solid, sustained growth in revenues, with a related steady improvement in operating margins. In the absence of the proposed transaction with Pro-Pac, historical revenue growth and operating margins were expected to be maintained, indicating FY19 EBITDA of approximately A\$7.1 million.

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<sup>21</sup> Pro-Pac management is unaware of the number of parties that participated in this part of the respective sales processes.

- 139 The implied EBITDA and EBIT multiples for Perfection Packaging based on the proposed acquisition price of A\$49.8 million and the level of earnings in FY18 (latest forecast) and FY19 (projected) are shown below:

Perfection Packaging – implied transaction multiples		
	A\$m	Multiple x
Proposed acquisition price	49.8	
FY18 EBITDA	6.2	8.0
FY18 EBIT	5.1	9.8
FY19 EBITDA	7.1	7.0
FY19 EBIT <sup>(1)</sup>	6.0	8.3

**Note:**

- 1 For implied multiple purposes we have adopted FY18 depreciation of A\$1.1 million.

- 140 Given the proposed timing for completion of the transaction we consider more regard should be had to the FY19 forecast multiples.

**Transaction evidence**

- 141 A summary of the EBITDA multiples<sup>22</sup> implied by recent transactions involving Australian packaging businesses with enterprise values between A\$50 million and A\$1 billion are shown in Section VI.
- 142 These transactions imply EBITDA multiples of between 5.8 and 8.5 (excluding outliers), and averaged 6.9. As these transactions reflect the acquisitions of controlling interests these EBITDA multiples implicitly include a control premium.
- 143 The proposed acquisition of Perfection Packaging by Pro-Pac therefore implies an EBITDA multiple which is at the high end of these observed multiples. In our view, this is appropriate and reflects (inter-alia):
- (a) Perfection Packaging’s market position in the flexible packaging end markets that it serves
  - (b) Perfection Packaging’s strong recent financial performance (including above average industry growth) and positive outlook
  - (c) the low level of capital expenditure required to sustain Perfection Packaging’s business operations, together with the inherent spare production capacity to support ongoing growth following the recent investment in manufacturing capacity and related infrastructure.
- 144 Furthermore, as noted above, the price being paid by Pro-Pac for Perfection Packaging reflects the outcome of a competitive sales process.

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<sup>22</sup> EBIT multiples for these transactions were not generally available.

## Conclusion

145 Given the above, we consider that the EBITDA and EBIT multiples implied by the proposed transaction price of A\$49.8 million for Perfection Packaging are reasonable and appropriate. However, in order to allow for a range around this value, for the purposes of our report we have adopted a value for Perfection Packaging (on a controlling interest basis) of A\$45 million to A\$55 million.

## Polypak

### Earnings and implied multiples

- 146 The historical earnings performance of Polypak is summarised in Section IV of our report. As noted, the business had a disappointing financial performance in FY16.
- 147 Whilst Polypak management consider the subsequent improved performance in FY17 and FY18 to be better representative of ongoing business performance<sup>23</sup>, we note that critical to the sustainability of business performance is retention of the key customer base.
- 148 Pro-Pac management have indicated that the proposed acquisition of Polypak has been entered into on the basis of forecast FY19 EBITDA of NZ\$2.0 million, which reflects a modest increase in earnings over the expected FY18 performance.
- 149 Whilst the transaction has been structured such that a component (around 20%) of the consideration payable is to be deferred pending achievement of certain performance targets, for the purpose of our report (and based on related discussion with Pro-Pac management) we have assumed full consideration payable of NZ\$8.8 million.
- 150 The implied EBITDA and EBIT multiples for Polypak based on the proposed acquisition price of NZ\$8.8 million and the level of earnings (FY19 EBITDA NZ\$2.0 million) adopted for transaction purposes are shown below:

Polypak – implied transaction multiples		
	NZ\$m	Multiple x
Proposed acquisition price	8.8	
FY19 EBITDA	2.0	4.4
FY19 EBIT <sup>(1)</sup>	1.7	5.2

**Note:**

1 For implied multiple purposes we have adopted historical depreciation of NZ\$250,000 per annum.

## Transaction evidence

151 As noted above, a summary of the EBITDA multiples implied by recent transactions involving Australian packaging businesses with enterprise values of between A\$50 million and A\$1 billion are shown in Section VI. These transactions imply EBITDA multiples of between 5.8 and 8.5 (excluding outliers), and averaged 6.9. As these transactions reflect the

<sup>23</sup> The improved performance reflects, in part, appropriate action taken by Polypak management to remove inefficiencies from the cost structure which prevailed in FY16.



acquisitions of controlling interests these EBITDA multiples implicitly include a control premium.

152 The proposed acquisition of Polypak by Pro-Pac therefore implies an EBITDA multiple which is below the lower end of the range of observed multiples. In our view, this is appropriate and reflects (inter-alia):

- (a) Polypak is a much smaller business than the packaging businesses listed in Section VI. Other things being equal, smaller businesses generally transact on lower implied multiples than larger businesses
- (b) based on recent historical and expected future financial performance, the growth prospects of the Polypak business are (prima facie) limited
- (c) there are inherent risks as to the sustainability of recent financial performance (FY17 and FY18), given the concentration of customer base in the business.

153 Furthermore, as noted above, the price being paid by Pro-Pac for Polypak reflects the outcome of a competitive sales process.

### **Conclusion**

154 Given the above, we consider that the EBITDA and EBIT multiples implied by the proposed transaction price of NZ\$8.8 million for Polypak are reasonable and appropriate. However, in order to allow for a range around this value, for the purposes of our report we have adopted a value for Polypak (on a controlling interest basis) of A\$7.5 million to A\$8.5 million<sup>24</sup>.

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<sup>24</sup> These adopted values reflect an exchange rate of A\$1.00 = NZ\$1.09.

## VIII Synergies

### Overview

- 155 We have discussed with Pro-Pac management the potential synergies projected to arise from an acquisition of both Perfection Packaging and Polypak.
- 156 At this stage, the significant synergies that have been identified relate to Perfection Packaging, in particular the opportunity that presents (subsequent to completion of the acquisition and related integration of business activities) to effect a consolidation of the operating sites within the then enlarged Pro-Pac group.
- 157 As previously noted, significant surplus production capacity currently exists at the Perfection Packaging manufacturing facilities in Victoria. Based on this spare capacity, Pro-Pac is of the view that there is an opportunity (in the short to medium term) to rationalise the combined manufacturing facilities.
- 158 Such a rationalisation is expected to reduce annual operating costs by A\$5.0 million within 24 months of acquisition (FY20), and by a further A\$3.0 million (to an annualised rate of cost savings of A\$8.0 million) within 36 months of acquisition (FY21). Associated redundancy and rationalisation costs of around A\$10.0 million are expected to be incurred over an 18 month period.
- 159 Pro-Pac management consider there may be other synergies available arising from the acquisition of Perfection Packaging due to other potential cost savings and/or additional revenue opportunities. In addition, we understand there are also potential additional revenue opportunities associated with the acquisition of Polypak. None of these additional opportunities have been evaluated for the purpose of this report.

### Valuation

- 160 We have valued the synergy benefits arising from the manufacturing site consolidation opportunity using the DCF methodology.
- 161 Consistent with advice provided by Pro-Pac management, our DCF valuation assumes that the identified synergy benefits (net of tax) will be partly realised in FY20 and will be fully realised in FY21. We have assumed the associated implementation costs will be incurred over a corresponding timeframe.
- 162 We have discounted the synergy benefits (net of implementation costs and tax) to reflect their present value using a cost of equity (discount rate) of 15% per annum<sup>25</sup>. Our terminal value at the end of FY21 reflects an implied EBITDA multiple of 6.0 to 6.5 times the ongoing annual synergy benefit adopted for valuation purposes. The lower implied multiple relative to that applied to our valuation of Pro-Pac reflects the lower growth in future cost savings relative to the growth that is anticipated in the underlying businesses.
- 163 Based on the above, for the purposes of this report, we have valued the synergy benefits (net of implementation costs and tax) on a 100% controlling interest basis at between A\$33.0 million and A\$35.0 million.

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<sup>25</sup> In our opinion, a potential purchaser would consider the risks associated with the realisation of the synergy benefits (such as implementation risk and over estimation) to be higher than the risks associated with the general operations of Pro-Pac.

## IX Valuation of Pro-Pac shares after Proposed Transactions

### Methodology

- 164 As set out in Section V, the value of Pro-Pac shares after the Proposed Transactions has been derived by aggregating the value of:
- (a) the Pro-Pac business (before debt) before the Proposed Transactions
  - (b) the Perfection Packaging and Polypak businesses (before debt)
  - (c) the value of expected cost synergies arising from the acquisition of Perfection Packaging and Polypak; less
  - (d) the pro-forma net debt of Pro-Pac following the acquisition of Perfection Packaging and Polypak and the associated Capital Raising<sup>26</sup>.
- 165 In considering net debt for valuation purposes post the Proposed Transactions, we have also had regard to that component of the Capital Raising that relates to the funding of future restructuring costs. We have been advised that circa A\$5.0 million of the Capital Raising could reasonably be attributed to this component. As we have made full allowance for the estimated restructuring costs of A\$10.0 million in our assessment of the value of net synergies (in Section VIII of our report), for valuation purposes we have therefore adopted net debt of A\$92.0 million.
- 166 Consistent with the requirements of RG 111, the value of Pro-Pac shares after implementation of the Proposed Transactions has been assessed on a portfolio (minority) interest basis. Empirical evidence undertaken by LEA on takeover premiums and minority interest discounts indicates that standard discounts for minority interests generally range from 20% to 25% of the full underlying (controlling interest) value of the Company. For the purposes of our report we have therefore applied a minority interest discount of 22.5%.

### Minority interest value

- 167 Based on the above and the analysis in the preceding sections, we have therefore assessed the minority interest value of Pro-Pac shares following implementation of the Proposed Transactions as follows:

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<sup>26</sup> The acquisitions of Perfection Packaging (to the extent that the consideration comprises cash) and Polypak are being equity funded. Accordingly, the post-transaction pro-forma net debt of Pro-Pac is largely unchanged from the pre-transaction pro-forma position.

<b>Pro-Pac – minority interest value per share after Proposed Transactions<sup>(1)</sup></b>			
	<b>Paragraph</b>	<b>Low A\$m</b>	<b>High A\$m</b>
Enterprise value of Pro-Pac before Proposed Transactions	126	304.0	323.0
Enterprise value of Perfection Packaging and Polypak	145 / 154	52.5	63.5
Value of (net) synergies	163	33.0	35.0
Less pro-forma debt	165	(92.0)	(92.0)
Controlling interest value of Pro-Pac shares		297.5	329.5
Minority interest discount (22.5%)	166	(66.9)	(74.1)
Minority interest value of Pro-Pac shares		230.6	255.4
Number of shares on issue <sup>(2)</sup>	167	786.5	786.5
Minority interest value per share (A\$)		0.29	0.32

**Note:**

- 1 Rounding differences exist
- 2 Shares on issue post the Proposed Transactions comprise:

	<b>(m)</b>
Pro-Pac shares on issue (fully diluted)	585.0
Tranche 1 of Capital Raising	66.5
Tranche 2 of Capital Raising and SPP	109.4
Shares issued to Perfection Packaging vendors	25.5
Total	<u>786.5</u>

### Cross-check based on implied EBITDA multiple

168 As a cross-check we have also considered the overall EBITDA multiple implied by our valuation range.

### Enterprise value

169 Based on the above, the enterprise value of Pro-Pac (following implementation of the Proposed Transactions and the related Capital Raising) on a minority interest basis is as follows:

<b>Pro-Pac – estimated enterprise value following implementation of the Proposed Transactions</b>		
	<b>Low A\$m</b>	<b>High A\$m</b>
Minority interest value of Pro-Pac shares	230.6	255.4
Add pro-forma net debt	92.0	92.0
Enterprise value (following implementation of the Proposed Transactions)	<u>322.6</u>	<u>347.4</u>

### Implied EBITDA multiple

170 For the purpose of calculating the EBITDA multiple implied by the above enterprise value we have adopted normalised EBITDA of around A\$51.9 million. This reflects:

- (a) normalised EBITDA of A\$38.0 million for Pro-Pac on a standalone basis (refer Section VI); plus
- (b) Perfection Packaging management's forecast FY19 EBITDA for Perfection Packaging of around A\$7.1 million (as set out in Section VII); plus

- (c) projected FY19 EBITDA for Polypak of around A\$1.8 million<sup>27</sup> (as set out in Section VII); plus
- (d) A\$5.0 million being the estimate of the full year annual cost synergies arising from the acquisition of Perfection Packaging expected to have been generated by FY20<sup>28</sup> (as discussed in Section VIII).

171 On this basis, the EBITDA multiple on a minority interest basis is as follows:

Pro-Pac – implied EBITDA multiple post implementation of Proposed Transactions		
	Low	High
	A\$m	A\$m
Enterprise value (post implementation of the Proposed Transactions)	322.6	347.4
Normalised EBITDA (including expected synergies to FY20)	51.9	51.9
Implied EBITDA multiple on a minority interest basis (x)	6.2	6.7

### Conclusion on implied EBITDA multiples

172 Based on the listed company EBITDA multiples in Appendix C, in our opinion, the above multiple range for Pro-Pac (post implementation of the Proposed Transactions) is reasonable having regard to the inherent risks associated with implementation of the acquisition and the realisation of the related synergy benefits. We therefore consider our assessed minority interest range of values for Pro-Pac shares (post implementation of the Proposed Transactions) to be reasonable and appropriate.

<sup>27</sup> Equivalent to NZ\$2.0 million, based on an exchange rate of A\$1.00 = NZ\$1.09.

<sup>28</sup> For calculation of implied EBITDA multiple purposes, we have not adopted the expected full annual benefit of A\$8.0 million attributable to cost synergies arising from the acquisition of Perfection Packaging, as this full benefit is not projected to arise until FY21.

## X Evaluation of the Proposed Transactions

### Assessment of fairness

173 RG 111 requires that the fairness of the Proposed Transactions be assessed by comparing the controlling interest value of Pro-Pac shares prior to implementation of the Proposed Transactions with the portfolio interest value of Pro-Pac shares following implementation (being the deemed “consideration” delivered to Pro-Pac shareholders). In order for the Proposed Transactions to be “fair” under RG 111, the portfolio interest value of Pro-Pac shares following implementation of the Proposed Transactions must be equal to, or greater than the controlling interest value of Pro-Pac shares before implementation.

174 This comparison is set out below:

Comparative value of Pro-Pac shares			
	Low A\$ per share	High A\$ per share	Mid-point A\$ per share
Portfolio interest value of Pro-Pac shares following implementation of the Proposed Transactions	0.29	0.32	0.305
Controlling interest value of Pro-Pac shares prior to implementation of the Proposed Transactions	0.35	0.39	0.37
Extent to which portfolio interest value post implementation exceeds (or is less than) the controlling interest value of Pro-Pac shares before implementation	(0.06)	(0.07)	(0.065)

175 Based on the above we have concluded that the Proposed Transactions are not fair to Pro-Pac shareholders when assessed under RG 111.

### Assessment of reasonableness

176 Under RG 111, the Proposed Transactions are “reasonable” if, despite not being fair but after considering other significant factors, the expert is of the opinion that the advantages of the Proposed Transactions outweigh the disadvantages from the perspective of Pro-Pac shareholders.

177 Consequently, we set out below the advantages and disadvantages of the Proposed Transactions from the perspective of Pro-Pac shareholders.

### Proposed issue price of shares

178 As noted above, pursuant to the Proposed Transactions, shares are being issued under the (components of the) Capital Raising and to the vendors of Perfection Packaging (as part consideration).

179 Shares being issued under the Capital Raising (which, with the exception of Bennamon, represent portfolio interests in Pro-Pac) are being priced at A\$0.34 per share. As set out below in paragraph 183, we have assessed the value of a portfolio interest in Pro-Pac prior to the Proposed Transactions in the range of A\$0.27 to A\$0.30 per share. The price at which shares are being issued pursuant to the Capital Raising therefore represents a premium to our corresponding assessed value of Pro-Pac.

180 As stated above, if the Proposed Transactions are approved and implemented, the vendors of Perfection Packaging will be issued with 25.5 million new shares in Pro-Pac at a price of A\$0.39 per Pro-Pac share. We note that this issue price is at the high end of our controlling interest valuation range for Pro-Pac shares prior to implementation of the Proposed Transactions of A\$0.35 to A\$0.39 per share. Thus, in our opinion, shares are being issued to the vendors of Perfection Packaging at a price which reflects the full underlying value of Pro-Pac shares prior to implementation of the Proposed Transactions.

**Position of Pro-Pac shareholders**

181 In considering whether the Proposed Transactions are reasonable, we have also considered whether Pro-Pac shareholders are likely to be better off from a value perspective if they approve the Proposed Transactions, by comparing the value of Pro-Pac shares pre and post the Proposed Transactions on a consistent portfolio basis.

182 Accordingly, we have reduced our controlling interest value prior to the Proposed Transactions by 22.5% (being the mid-point of the range of minority interest discounts generally applied) in order to estimate the corresponding portfolio interest value of Pro-Pac shares.

183 On this basis, we note that the Proposed Transactions are value accretive for Pro-Pac shareholders:

Comparative value of Pro-Pac shares		
	Low A\$ per share	High A\$ per share
Portfolio interest value of Pro-Pac shares before the Proposed Transactions <sup>(1)</sup>	0.27	0.30
Portfolio interest value of Pro-Pac shares after the Proposed Transactions	0.29	0.32
Increase in portfolio interest value of Pro-Pac shares due to the Proposed Transactions	0.02	0.02
<i>% increase</i>	7.4%	6.7%

**Note:**

1 Being A\$0.35 to A\$0.39 per share less a minority interest discount of 22.5%.

**Impact on control**

184 If the Proposed Transactions are approved there will be an impact on the voting power and ownership of Pro-Pac. The impact of the Proposed Transactions on shareholders' voting and ownership interests in Pro-Pac is shown below:

Impact of Proposed Transactions on shareholdings (million shares)						
Shareholder	Existing position <sup>(1)</sup>	Capital Raising			Consideration Shares	Post transaction
		Tranche 1	Tranche 2	SPP		
Bennamon	263.3	-	90.9	-	-	354.2
Advent	89.7	-	-	-	-	89.7
Other PPG shareholders	230.7	66.5	6.7	11.8	25.5	341.2 <sup>(2)</sup>
<b>Total</b>	<b>583.7</b>	<b>66.5</b>	<b>97.6</b>	<b>11.8</b>	<b>25.5</b>	<b>785.1</b>

**% interest held by:**

Bennamon	45.1	45.1
Advent	15.4	11.4
Other PPG shareholders	39.5	43.5

**Note:**

- 1 As at 2 July 2018. Excludes options and performance rights.
- 2 Includes Perfection Packaging vendors' 25.5 million Consideration Shares.

185 As set out above, Bennamon currently holds a significant (and prima facie effective controlling) interest in Pro-Pac. We understand however that in practice Bennamon has not sought to exercise this effective control.

186 Notwithstanding, post the Proposed Transactions Bennamon will remain the largest shareholder, with a continuing interest of approximately 45.1%. This is consistent with the stated desire of Bennamon pursuant to the Proposed Transactions and associated Capital Raising, to participate in the Capital Raising to the extent required to maintain its percentage interest in the Company<sup>29</sup>.

**Potential dilution of existing shareholder interests**

187 If the Proposed Transactions are approved the interests of Pro-Pac shareholders prior to the Proposed Transactions may be diluted, subject to the extent to which they participate in the associated Capital Raising. However, as noted above, in our opinion, the underlying value of Pro-Pac shares will increase post the Proposed Transactions when compared on a consistent portfolio basis.

**Likelihood of receiving a future takeover offer**

188 As noted above, both prior and subsequent to the Proposed Transactions, Bennamon holds a significant (and prima facie effective controlling) interest of 45.1% in Pro-Pac and theoretically is in a position (should it chose to do so) to make a takeover offer for the shares in Pro-Pac that it does not own. We understand however that in this regard Bennamon has indicated that it is supportive of the current Pro-Pac management and the related business strategy. Prima facie therefore, if the Proposed Transactions are approved, the prospects of a future takeover offer are arguably unchanged.

<sup>29</sup> We have undertaken our assessment post completion of the Proposed Transactions, including the share issue to the vendors of Perfection Packaging. Not all the components of the Proposed Transactions take place simultaneously. Accordingly, as described in the Notice of Meeting, the percentage interest of Bennamon in Pro-Pac may change (increase) during the Proposed Transactions process.



## Conclusion

189 Based on the above we summarise below the advantages and disadvantages of the Proposed Transactions from the perspective of Pro-Pac shareholders:

### Advantages

- (a) the Proposed Transactions are value accretive for Pro-Pac shareholders based on our comparison of the minority interest value of Pro-Pac shares before and after the Proposed Transactions
- (b) the Capital Raising is being undertaken at a price (A\$0.34 per share) which represents a premium to our corresponding assessed value of a portfolio interest in Pro-Pac prior to the Proposed Transactions
- (c) the share issue to the vendors of Perfection Packaging is being priced at A\$0.39 per share, which reflects the full underlying value of Pro-Pac shares prior to implementation of the Proposed Transactions
- (d) Pro-Pac management have identified significant potential operating synergies in connection with the acquisition of Perfection Packaging, which prima facie provide scope for incremental earnings in future years significantly above the acquired earnings of Perfection Packaging
- (e) Pro-Pac will increase in scale and operational diversity as a result of the two proposed business acquisitions and its related growth prospects will prima facie be enhanced. In our view, this would be expected to lead to a higher share value in the medium to long term
- (f) the level of share trading generally in Pro-Pac shares prior to the announcement of the Proposed Transactions has been very low. As a result of the increase in equity and shareholder base pursuant to the Capital Raising, we consider that there are reasonable grounds to expect that the level of trading in Pro-Pac shares post implementation of the Proposed Transactions will increase

### Disadvantages

- (g) if the Proposed Transactions are approved the interests of Pro-Pac shareholders prior to the Proposed Transactions may be diluted, subject to the extent to which they participate in the associated Capital Raising.

190 As indicated above there are a number of advantages and disadvantages associated with the Proposed Transactions. However, in our view, the advantages of the Proposed Transactions significantly outweigh the disadvantages.

191 For the reasons set out above, in our opinion, the Proposed Transactions are therefore not fair but are reasonable to Pro-Pac shareholders.

## Appendix A

### Financial Services Guide

#### Lonergan Edwards & Associates Limited

- 1 Lonergan Edwards & Associates Limited (ABN 53 095 445 560) (LEA) is a specialist valuation firm which provides valuation advice, valuation reports and independent expert's reports (IER) in relation to takeovers and mergers, commercial litigation, tax and stamp duty matters, assessments of economic loss, commercial and regulatory disputes.
- 2 LEA holds Australian Financial Services Licence No. 246532.

#### Financial Services Guide

- 3 The *Corporations Act 2001 (Cth)* (Corporations Act) authorises LEA to provide this Financial Services Guide (FSG) in connection with its preparation of an IER to accompany the Notice of Meeting to be sent to Pro-Pac shareholders in connection with the Proposed Transactions.
- 4 This FSG is designed to assist retail clients in their use of any general financial product advice contained in the IER. This FSG contains information about LEA generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the IER, and if complaints against us ever arise how they will be dealt with.

#### Financial services we are licensed to provide

- 5 Our Australian Financial Services Licence allows us to provide a broad range of services to retail and wholesale clients, including providing financial product advice in relation to various financial products such as securities, derivatives, interests in managed investment schemes, superannuation products, debentures, stocks and bonds.

#### General financial product advice

- 6 The IER contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs.
- 7 You should consider your own objectives, financial situation and needs when assessing the suitability of the IER to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.

#### Fees, commissions and other benefits we may receive

- 8 LEA charges fees to produce reports, including this IER. These fees are negotiated and agreed with the entity who engages LEA to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the entity who engages us. In the preparation of this IER, LEA is entitled to receive a fee estimated at A\$65,000 plus GST.
- 9 Neither LEA nor its directors and officers receives any commissions or other benefits, except for the fees for services referred to above.

## Appendix A

- 10 All of our employees receive a salary. Our employees are eligible for bonuses based on overall performance and the firm's profitability, and do not receive any commissions or other benefits arising directly from services provided to our clients. The remuneration paid to our directors reflects their individual contribution to the company and covers all aspects of performance. Our directors do not receive any commissions or other benefits arising directly from services provided to our clients.
- 11 We do not pay commissions or provide other benefits to other parties for referring prospective clients to us.

### Complaints

- 12 If you have a complaint, please raise it with us first, using the contact details listed below. We will endeavour to satisfactorily resolve your complaint in a timely manner.
- 13 If we are not able to resolve your complaint to your satisfaction within 45 days of your written notification, you are entitled to have your matter referred to the Financial Ombudsman Services Limited (FOS), an external complaints resolution service. You will not be charged for using the FOS service.

### Contact details

- 14 LEA can be contacted by sending a letter to the following address:

Level 7  
64 Castlereagh Street  
Sydney NSW 2000  
(or GPO Box 1640, Sydney NSW 2001)

## Appendix B

### Qualifications, declarations and consents

#### Qualifications

- 1 LEA is a licensed investment adviser under the Corporations Act. LEA's authorised representatives have extensive experience in the field of corporate finance, particularly in relation to the valuation of shares and businesses and have prepared hundreds of IERs.
- 2 This report was prepared by Mr Martin Holt and Mr Martin Hall, who are each authorised representatives of LEA. Mr Holt and Mr Hall have over 32 years' experience respectively in the provision of valuation advice (and related advisory services).

#### Declarations

- 3 This report has been prepared at the request of the Directors of Pro-Pac to accompany the Notice of Meeting to be sent to Pro-Pac shareholders. It is not intended that this report should serve any purpose other than as an expression of our opinion as to whether or not the Proposed Transactions are fair and reasonable to Pro-Pac shareholders.

#### Interests

- 4 At the date of this report, neither LEA, Mr Holt nor Mr Hall have any interest in the outcome of the Proposed Transactions. With the exception of the fee shown in Appendix A, LEA will not receive any other benefits, either directly or indirectly, for or in connection with the preparation of this report.
- 5 We have considered the matters described in ASIC RG 112 – *Independence of experts*, and consider that there are no circumstances that, in our view, would constitute a conflict of interest or would impair our ability to provide objective independent assistance in this engagement.

#### Indemnification

- 6 As a condition of LEA's agreement to prepare this report, Pro-Pac agrees to indemnify LEA in relation to any claim arising from or in connection with its reliance on information or documentation provided by or on behalf of Pro-Pac which is false or misleading or omits material particulars or arising from any failure to supply relevant documents or information.

#### Consents

- 7 LEA consents to the inclusion of this report in the form and context in which it is included in Pro-Pac's Notice of Meeting.

## Appendix C

### Listed company multiples

- 1 A summary of the implied EBITDA, EBITA and PE multiples for listed companies operating in the packaging sector is set out below, with a brief description of each company's business activities following thereafter:

Listed company trading multiples <sup>(1)</sup>							
	EV <sup>(2)</sup> A\$m	EBITDA multiples		EBITA multiples		PE multiples	
		FY18F <sup>(3)</sup> x	FY19F <sup>(3)</sup> x	FY18F <sup>(3)</sup> x	FY19F <sup>(3)</sup> x	FY18F <sup>(3)</sup> x	FY19F <sup>(3)</sup> x
<b>Australian companies</b>							
Ancor	22,736	11.2	10.4	14.5	13.3	22.4	20.5
Orora	4,972	11.0	10.3	15.2	14.2	20.9	19.3
Pact Group Holdings	2,257	9.0	8.0	12.4	10.8	16.0	14.1
<b>International companies<sup>(4)(5)</sup></b>							
Intertape Polymer Group	2,084	8.3	7.6	12.2	11.4	16.2	14.1
Myers Industries	1,311	10.3	9.5	15.9	14.3	23.1	20.0
Groupe Guillin	1,076	6.2	5.9	8.5	8.0	11.3	10.6
Reno de Medici	681	7.1	7.0	11.3	10.9	15.4	14.7
Resilux	460	6.9	6.3	10.8	9.5	13.0	12.9
PSB Industries	419	6.5	6.0	11.8	10.7	nm	10.1
UFP Technologies	382	na	na	na	na	17.4	12.8

**Note:**

- EV and earnings multiples calculated as at 4 July 2018.
  - EV includes net debt (interest bearing liabilities less non-restricted cash), preference shares, convertible notes, net derivative liabilities, net pension liabilities, market capitalisation adjusted for material option dilution and buybacks and excludes surplus assets.
  - The forecast FY18 and FY19 multiples for the Australian companies are based on forecast results for the years ending 30 June 2018 and 2019. The forecast FY18 and FY19 multiples for the international companies are based on forecast results for the years ending 31 December 2018 and 31 December 2019.
  - Excludes companies with a market capitalisation of more than A\$1.5 billion.
  - Packaging companies excluded based on availability of forecasts include Tredegar Corp, IPL Plastics Inc., Brodrene Hartmann A/S, Richards Packaging Income Fund, UFP Technologies Inc, Gascogne, Deufol SE, Karatzis SA, Flexopack SA.
- na – not available. nm – not meaningful.

**Source:** Bloomberg, latest full year statutory accounts, latest interim accounts, company announcements and LEA analysis.

## Appendix C

### Australian companies

#### Amcor Limited

- 2 Amcor is an Australian headquartered global packaging company with operations across Australasia, North America, Latin America, Europe and Asia. The company is focused on two key segments. The Rigid Plastics segment manufactures rigid plastic containers for a variety of food and beverage products. Its Flexibles segment manufactures flexible and film packaging products that are supplied to the food and beverage, medical, pharmaceutical and tobacco industries. In addition, Amcor holds a 47.6% interest in AMVIG Holdings Limited, a tobacco packaging manufacturer listed on the Hong Kong Stock Exchange.

#### Orora Limited

- 3 Orora is engaged in the provision of packaging solutions and related services. It manufactures fibre and beverage packaging products such as glass bottles, beverage cans, corrugated boxes and recycled paper and provides a range of services including printing and signage, product sourcing, logistics and retail display solutions. Orora's operations are located in Australia, New Zealand and North America. It is headquartered in Melbourne, Australia and employs approximately 6,700 people.

#### Pact Group Holdings Limited

- 4 Pact Group Holdings is a provider of specialty packaging solutions for the consumer and industrial sectors in Australasia. It manufactures and supplies rigid plastic and metal packaging products including bottles, containers, jars, tubes, closures, steel drums, tinplate pails and other metal containers. In addition, it provides contract manufacturing, recycling and sustainability services. Pact Group Holdings is headquartered in Melbourne, Victoria and has operations in Australia, New Zealand, China, Indonesia, the Philippines, Singapore and Thailand.

### International companies

#### Intertape Polymer Group Inc.

- 5 Intertape Polymer Group is a North American based packaging business that develops, manufactures and sells a variety of paper and film based pressure sensitive and water activated tapes, polyethylene, specialised polyolefin films as well as complementary packaging systems for industrial and retail use. Additionally the company is a producer of woven coated fabrics and produces various products for the aerospace, automotive and industrial sectors. The company has operations across North America and has a presence in Europe and India.

#### Myers Industries Inc.

- 6 Myers Industries is a North American based international plastics and rubber manufacturer for the industrial, agricultural, automotive, commercial and consumer markets. It employs over 2,000 staff and has an international presence. The company operates two segments, being Materials Handling (specialising in polymer-based returnable packaging) and Distribution (specialising in the wholesaling of tyres).

## Appendix C

### **Groupe Guillin SA**

- 7 Groupe Guillin is a French based manufacturer and marketer of thermo-formed plastic packaging for pastry, prepared foods, meats and vegetables. It operates across four divisions being Material, Catering, Fruit & Vegetable and United Kingdom and holds a number of trademarks including Patipack, Multipack and Ravipack. The company has facilities across Western Europe as well as an additional facility in North America. The company primarily sells to French and Western Europe supermarket chains.

### **Reno de Medici SpA**

- 8 Reno De Medici is an Italy-based manufacturer and distributor of cardboard products. The company operates through its two segments of White Lined Chipboard and Folding Box Board, and primarily offers carton boards for packaging and binding applications through a network of agents. Its operations consist of six cartonboard production facilities spread across Italy, Germany, France and Spain. These produce recycled and virgin fibreboard which is sold in some 70 countries.

### **Resilux NV**

- 9 Resilux is a Belgium-based manufacturer and distributor of packaging products worldwide. Resilux specialises in the production and sale of PET (polyethylene terephthalate) preforms used by bottling companies. PET is provided for a wide variety of end markets including food (sauces and oils), drinks (soft drinks, alcoholic beverages, juices and dairy) and non-food (cosmetics and household products). The company operates subsidiaries in Belgium, The Netherlands, Russia, Switzerland and Spain.

### **PSB Industries SA**

- 10 PSB Industries is a France-based manufacturer of packaging products and specialty chemicals that operates under four key brands, being Baikowski, CGL Pack, Texen and Plastibell. Its packaging operations are focused on the manufacturing of products that are supplied to the cosmetics, perfume, healthcare, food and non-food distribution sectors. In addition, the company specialises in the production of ultra-pure alumina powders and formulations. The company has 24 production sites and eight sales offices that are spread across Europe, Asia and the Americas.

### **UFP Technologies Inc.**

- 11 UFP Technologies is a producer of innovative customer-engineered components, products and speciality packing, with a focus on foams, plastics, composites and natural fibre materials. The company offers medical device components, disposable wound care components, automotive interior trims, athletic padding, abrasive nail files and other beauty aids, air filtration, high-temperature insulation, military uniform and gear components, and cushion packaging products. It primarily services the medical, automotive, consumer, electronics, industrial, aerospace and defence industries in the United States of America.

## Appendix D

### Glossary

Term	Meaning
1HY18	The six months ended 31 December 2017
A\$	Australian dollar
Advent	Advent Partners Pty Ltd
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange
Bennamon	Bennamon Pty Limited
Capital Raising Corporations Act	As described in paragraph 2 <i>Corporations Act 2001 (Cth)</i>
DCF	Discounted cash flow
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
EV	Enterprise value
FOS	Financial Ombudsman Services Limited
FSG	Financial Services Guide
FY	Financial year
IER	Independent expert's report
Integrated Packaging	Integrated Packaging Group Pty Limited
LEA	LonerGAN Edwards & Associates Limited
NPV	Net present value
NZ\$	New Zealand dollar
PE	Price earnings
Perfection Packaging	Perfection Packaging Pty Ltd and the Perfection Packaging Unit Trust
Polypak	Polypak Pty Limited
Pro-Pac or the Company	Pro-Pac Packaging Limited
Proposed Transactions	Proposed transactions as described in paragraph 1
RG 111	ASIC Regulatory Guideline 111 – <i>Content of expert reports</i>
SPP	Share purchase plan
WANOS	Weighted average number of shares outstanding



## Proxy Form

I, .....  
 (FULL NAME, BLOCK LETTERS)  
 of .....  
 being a member of Pro-Pac Packaging Limited (ACN 112 971 874).

**SECTION A**

HEREBY APPOINT .....  
 of .....  
 or, failing him/her, the Chairman of the General Meeting, as my/our proxy to vote for me/us and on my/our behalf at the General Meeting of the Company to be held on 3 September 2018 at 12:00pm (Melbourne time), or at any adjournment thereof. The proxy so appointed shall represent all my/our voting rights except those (if any) specified in B below.

**SECTION B (DO NOT COMPLETE THIS SECTION UNLESS YOU WISH TO APPOINT TWO PROXIES)**

AND I FURTHER APPOINT .....  
 of .....  
 as my proxy to vote for me/us and on my/our behalf at the said meeting or at any adjournment thereof. The proxy, appointed by this Section B, shall represent my/our voting rights in respect of ..... Shares.

I/we instruct my/our proxy to vote as indicated below in respect of the Resolutions:

	A			B		
	For	Against	Abstain	For	Against	Abstain
<b>Resolution 1</b> – Issue of Shares to Bennamon						
<b>Resolution 2</b> – Issue of Shares to Executive Chairman, Mr. Ahmed Fahour						
<b>Resolution 3</b> – Issue of Shares to non-executive Director, Mr. Rupert Harrington						
<b>Resolution 4</b> – Ratification of prior issue of Shares						

Where I/we have appointed the Chairman of the General Meeting as my/our proxy (or the Chairman becomes my/our proxy by default), I/we expressly authorise the Chairman to exercise my/our proxy on all Resolutions (except where I/we have indicated a different voting intention above).

The Chairman of the General Meeting intends to vote undirected proxies in favour of the Resolutions.

Signed this.....day of .....2018.

.....  
 Signature of Shareholder(s)

.....  
 Signature of Witness

***This proxy form and the power of attorney or other authority (if any) under which it is signed or a certified copy, must be received by the Company at least 48 hours before the time for holding of the meeting or any adjourned meeting (or such lesser period as the Directors may permit) at the Company's registered office: Suite 2.02, 657 Pacific Highway, St Leonards NSW 2065 (PO Box 228, St. Leonards NSW 1590) or the following fax number at the Company's registered office: (02) 8781 0599.***