Pro-Pac Packaging Limited

Half-Year Results

2019

26 February 2019

Acting CEO / CFO **Rick Rostolis**

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HALF-YEAR
PERFORMANCE

Half-Year Overview

- **Financial Performance**
  - Sales revenue of $257.3 million up 63% (pcp: $158.0 million)
    - Includes $99.5 million incremental revenue contribution from acquisitions
  - EBITDA[1] before significant items of $17.3 million up 80% (pcp: $9.6 million)
  - Statutory NPAT (loss) of $144.3 million (pcp: $3.2 million loss)
    - Includes non-cash goodwill impairment of $149.0 million after tax
- Solid performance in Rigid packaging driven by revenue growth and operational improvements
- Industrial & Flexibles packaging significantly impacted by weaker than expected agricultural sales and increased input costs
- Successfully completed Polypak and Perfection Packaging acquisitions - strengthening position in higher growth food-based flexible packaging market
- Planned integration savings delayed due to timing of priorities and balancing of risk
- Operating cash flow adversely impacted by working capital build-up in anticipation of stronger agricultural sales
- With target to reduce gearing to below 3.0x and on-going investment in the business, no interim dividend was determined by the Board of Directors
- Recent Board and executive management appointments to assist with overall business improvement
  - External CEO appointment is well progressed

[1]Before H1 FY19 significant items of $151.7 million (H1 FY18: $9.9 million). Significant items include restructuring and acquisition costs and non-cash goodwill impairment. Refer to page 8 for a breakdown of significant items

Safety

- Continued roll-out of safety training and reporting tools across the business
- Focus remains on achieving goal of zero harm

Lost Time Injury Frequency Rates

H1FY19	H2FY18
7.5	7.5

Financial Results Summary

$A Millions	H1FY19 Statutory	H1FY19 Pre-significant items[1]	H1FY18 Statutory	H1FY18 Pre-significant Items	% Change From H1FY18 to H1FY19 (Pre-significant items)
Sales Revenue	**257.3**	**257.3**	**158.0**	**158.0**	**+63%**
EBITDA/(Loss)	**(134.4)**	**17.3**	**(0.3)**	**9.6**	**+80%**
Depreciation and amortisation	(4.0)	(4.0)	(2.1)	(2.1)	(90%)
EBIT/(Loss)	(138.4)	13.3	(2.4)	7.5	+77%
Net finance expenses	(4.0)	(4.0)	(1.6)	(1.6)	(150%)
Tax (Expense)/Benefit	(1.9)	(2.7)	0.8	(1.9)	(42)%
NPAT / (Loss)	**(144.3)**	**6.6**	**(3.2)**	**4.0**	**+63%**
EBITDA margin	N/A	6.7%	N/A	6.1%	+0.6pts

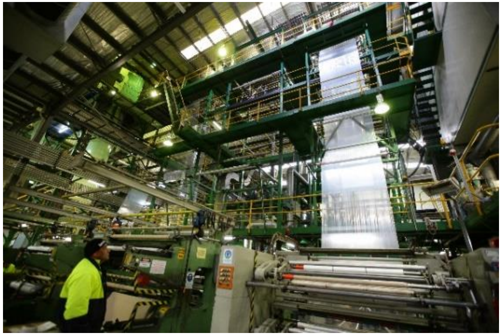
[1]Significant items of $151.7 million include restructuring and acquisition costs and non-cash goodwill impairment. Refer to page 8 for a breakdown of significant items

- H1FY19 sales revenue includes recent acquisitions:
  - Integrated Packaging (IPG) - 6 months revenue $114.5 million (pcp: 2 months $36.9 million)
  - Perfection Packaging - 4 months revenue $16.0 million (pcp: nil)
  - PolyPak - 6 months revenue $5.9 million (pcp: nil)
- Improved operating margins (primarily from acquisitions) impacted by increased input costs including resin, FX and higher energy costs
- Recent Perfection Packaging and Polypak acquisitions performing to expectations
- Statutory loss impacted by non-cash goodwill impairment of $149.0 million. Refer to page 8 for details

Industrial & Flexibles Packaging

$A Millions	H1FY19	H1FY18	Change %
Sales Revenue[1,2]	223.7	127.0	+76%
EBITDA[1,2]	16.6	7.2	+131%
EBITDA Margin	7.4%	5.6%	+1.8pts

[1]Excludes intercompany / interdivisional revenue and pre-significant items
[2] H1 FY19 sales revenue and EBITDA includes recent acquisitions: 6 months trading of Integrated Packaging Group (pcp: 2 mths), 4 months trading of Perfection Packaging (pcp: nil), 6 months trading of Polypak (NZ) (pcp: nil)

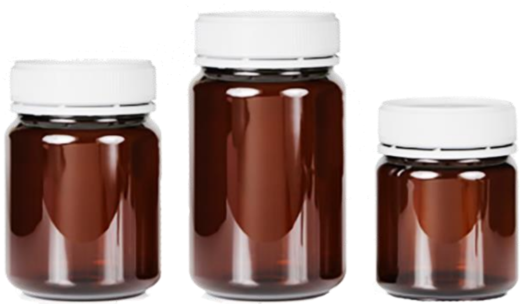


- Industrial & Flexibles packaging manufactures, sources and distributes industrial and flexible packaging materials and related products and services
- First-half EBITDA adversely impacted by:
  - Lower than anticipated agricultural sales;
  - Unfavourable foreign exchange movements; and
  - Higher input costs (resin, energy costs)
- H1FY19 sales revenue includes recent acquisitions:
  - IPG - 6 months revenue $114.5m (pcp: 2 months $36.9m)
  - Perfection Packaging - 4 months revenue $16.0m (pcp: nil)
  - PolyPak - 6 months revenue $5.9m (pcp: nil)
- **Major areas of focus in the second-half include:**
  - Sales-force effectiveness
  - Integration identification and execution
  - Operational efficiency program
  - Working capital optimisation

Rigid Packaging

$A Millions	H1FY19	H1FY18	Change %
Sales Revenue[1]	33.6	30.9	+9%
EBITDA[1]	4.8	4.4	+9%
EBITDA Margin	14.3%	14.2%	+0.1pts

[1]Excludes intercompany / interdivisional revenue and pre-significant items



- Rigid Packaging manufactures, sources and distributes plastic containers and closures and related products and services
- Increased sales led by expansion into health and veterinary markets
- Operational improvements have assisted with maintaining EBITDA margins by offsetting increased input costs
- H1 performance in line with expectations
- **Major areas of focus in the second-half include:**
    - New business focus on high growth health and beverage markets
    - Margin enhancement through:
        - Improved plant efficiencies
        - New sourcing opportunities

H1 FY19 Significant Items

$A Millions	EBITDA / (Loss)
EBITDA statutory	**(134.4)**
Significant items	
Goodwill impairment	149.0
Restructure and redundancy costs	2.2
Acquisition and related costs	0.5
Total significant items	**151.7**
EBITDA prior to significant items	**17.3**

- Non-cash goodwill impairment charge:
  - Carrying values of cash generating units (CGUs) reviewed as part of the Company's six monthly reporting cycle
  - Carrying value of goodwill in Industrial & Flexibles CGU not fully supported by assessed recoverable amount under accounting standard requirements
- Restructure and redundancy costs primarily relate to site consolidation initiative and changes to management structure (as part of integration of acquisitions)
- H1FY18 significant items of $9.9m million (before tax)

Cash Management

Cash Management

$A Millions	H1FY19	H1FY18
Operating cash flow	6.5	22.2
Total capex expenditure	3.5	4.8
Free cash flow	3.0	17.4
Operating cash flow conversion	38%	231%

- Operating cash flow impacted by inventory build-up in anticipation of stronger agricultural sales
- Capex includes IT integration projects
- Second-half working capital reduction plan to facilitate improvement in operating cash flow
- H1FY18 operating cash flow conversion favourably impacted by timing of IPG acquisition with wind-down of working capital

Balance Sheet Metrics

Balance Sheet Funding

$A Millions	**H1FY19**	**FY18**
Net debt	98.8	101.3
Gearing	3.4	3.8

- Bank loan facility maturity - 1 November 2020
- Key metrics within targeted levels
- Short term target to reduce gearing to 3.0x by 30 June 2019
- $59.8 million capital raising supported acquisition funding of Polypak and Perfection Packaging

H2 Operational Priorities

Industrial & Flexibles

❖ Expand share into higher growth and resilient flexible food packaging market

❖ Operational efficiency program targeting:

- Improved sales-effectiveness
- Working capital reduction
- Optimisation of procurement and distribution scale

❖ Identification and execution of integration initiatives (procurement/sourcing, site rationalisation, removal of duplication of back-office activities)

❖ On-going review of manufacturing strategy to optimise plant network leveraging lowest-cost-to-make sites – margin improvement via ongoing plant efficiency optimisation

GROWTH &
STRATEGY

Industry Overview

Australian Packaging Market
A$20-22 Billion[1]

- Fibre Packaging
- Flexibles Packaging $A2bn[1]
- Rigid Packaging $A3bn[1]
- Other Packaging

❖ PPG is a segment leader in the manufacture & distribution of soft & hard flexible film for primary (trays, films, bags & laminates), secondary (shrink film) and tertiary (stretch film) packaging solutions

❖ Top 3 players in flexibles packaging account for 65% of industry revenue and target different end-segments

- Amcor – Focus on global FMCG customers
- Sealed Air – Focus on Meat, Dairy and other technical segments
- PPG – Focus on Industrial, FMCG, Food processing (off-farm) & Agriculture (on-farm) markets

❖ Demand for rigid packaging driven by a growing population and a greater focus on health and well-being

❖ Industry growth over the past five years has been primarily driven by increased popularity of bottled water, sports drinks, vitamin and mineral supplements

❖ Future industry growth expected to be driven by increased consumer demand for on-the-go food packaging and increased sustainability awareness in packaging

[1]Source: IBISWorld Industry Reports

Growth Strategy

Performance Optimisation

- Implement new leadership and management structure
- Create a performance focused culture across the group
- Establish a scalable technology platform to support integration, eliminate waste, improve controls and provide for growth
- Continue to integrate acquisitions

Margin Expansion

- Clear and consistent focus on operational effectiveness via reduced wastage, improved productivity and efficiency, and the alignment of capacity with demand
- Reduce complexity and leverage procurement and distribution scale and expertise
- Identify and implement profit improvement opportunities via site rationalisation / consolidation and reduction in duplicated back-office activities

Customer

- Leverage sales excellence disciplines to respond to the changing needs of blue-chip and corporate customers
- Adapt product offering to small / medium enterprise (SME) customers by delivering relevant, efficient and reliable product and service solutions
- Digital sales strategy supported by national product catalogue
- Expand value proposition to existing and new customers with solutions available from other segments of product portfolio

Mergers & Acquisitions

- Identify and engage strategic M&A opportunities

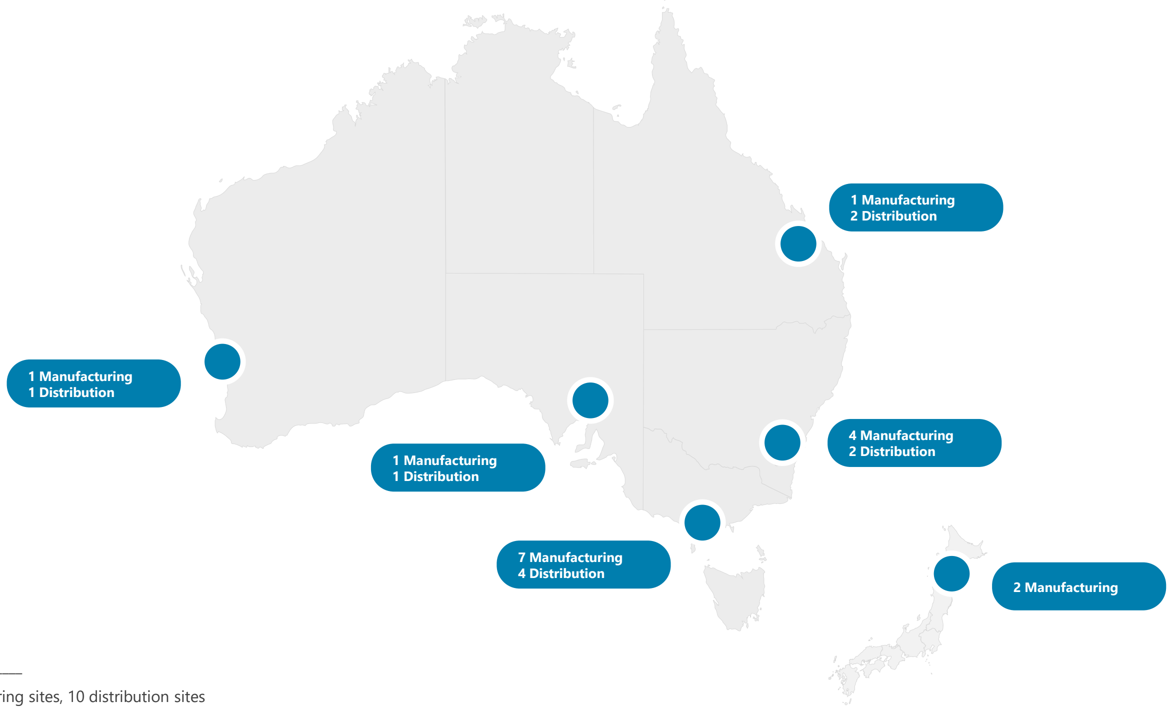
Sustainability

- Become a leader in sustainable packaging choices, including degradable, bio-degradable & recycled choices
- Committed to continuously improving environmental performance across sites

Company Footprint

Australia & New Zealand Sites

PPG has 26 sites across Australia and New Zealand[1]



[1]16 manufacturing sites, 10 distribution sites

H1FY19 Acquisitions - Update

PolyPak Plastics **(Acquired July 2018)**

- New Zealand specialist soft flexibles packaging manufacturer & distributor of high-quality polyethylene bags, film and tubes
- PolyPak holds a niche position in specific categories of the soft flexible packaging market, including custom plastic bags and specialists sheets for lining cartons
- H1FY19 revenue contribution $5.9 million – in line with expectations

Perfection Packaging **(Acquired September 2018)**

- Perfection Packaging offers a dynamic range of hard flexible packaging solutions
- Target market includes FMCG mid-market customers including food (including pet food) and personal care
- H1FY19 revenue contribution $16.0 million – in line with expectations

A Strong Platform for the Future

- Strategy to transform company into a more resilient and diverse business with an objective of becoming a leader in flexible, rigid and distribution packaging
- Profit improvement plan (integration, scale optimisation, cost down/out) and working capital reduction initiatives in progress to counter headwinds
- New management with vast experience across ASX and packaging/industrial environments
- Strong underlying demand for product offering across Australia and New Zealand
- Emerging as a manufacturer and distributor of specialised and diversified packaging (and packaging related products) with a focus on flexible and rigid packaging targeting higher growth food segment of the market
- Continued focus on sustainability through investment in recyclable and bio-degradable products

H2 TRADING UPDATE
& OUTLOOK

H2 Trading Update & Outlook

- H1FY19 EBITDA (before significant items) in line with internal expectations following 26 November 2018 trading update
- Anticipate sales growth in food and beverage markets offset by weaker contribution from agricultural sector
- New management (including appointment of new external CEO) to drive strategic, cultural and structural change to improve operating results in the medium term
  - New CEO to conduct portfolio review of business
- Continued focus on profit improvement initiatives (including integration) and working capital reduction
- Given weak macro-economic conditions, the Company advises that FY19 EBITDA (before significant items) is likely to be at the lower-end of the guidance range of $30-33 million

APPENDIX

Reconciliation of Statutory Profit & Loss

$A Millions	H1FY19	H1FY18
Statutory profit / (loss) before income tax	**(142.4)**	**(4.0)**
Add: Net finance expenses	4.0	1.6
EBIT (after significant items)	**(138.3)**	**(2.4)**
Add: Significant items	151.7	9.9
EBIT (before significant items)	**13.3**	**7.5**
Add: Depreciation and amortisation	4.0	2.1
EBITDA (before significant items)	**17.3**	**9.6**

Statutory NPAT/(Loss)	**(144.3)**	**(3.2)**
Add: Significant items	151.7	9.9
Tax effect of significant items	(0.8)	(2.7)
NPAT (before significant items)	**6.6**	**4.0**

Reconciliation of Statutory Cash Flows

$A Millions	H1FY19	H1FY18
Reported net cash flows (used in) / from operating activities	**(1.6)**	**14.5**
Add: income tax paid	1.7	1.0
Add: Significant items (cash impact)	2.4	5.2
Add: Net finance expenses	4.0	1.5
Operating cash flow	**6.5**	**22.2**

Segment Information

Operating Segment Results ($A Millions)

before significant items

Industrial & Flexibles	H1FY19	Change %
Revenue	223.7	+76%
EBITDA	16.6	+131%

Rigid	H1FY19	Change %
Revenue	33.6	+9%
EBITDA	4.8	+9%

HO/Corporate	H1FY19	Change %
EBITDA	(4.1)	+109%

Group	H1FY19	Change %
EBITDA	17.3	+80%

- First-half EBITDA adversely impacted by:
  - Lower than anticipated agricultural sales;
  - Unfavourable foreign exchange movements; and
  - Higher input costs (resin, energy costs)

- Increased sales led by expansion into health and veterinary markets
- Operational improvements have assisted with maintaining EBITDA margins by offsetting increased input costs

- Additional senior management roles relating to Integrating Packaging acquisition
- Non-recurring consulting and personnel costs
- Increased compliance and other costs

Gearing Reconciliation

$A Millions	H1FY19	FY18
EBITDA H1FY18		9.5
EBITDA H2FY18	6.6	6.6
EBITDA H1FY19	17.3	
EBITDA before significant items	**23.9**	**16.1**
Add: H1FY18 pre acquisition EBITDA[1]		8.7
Add: H2FY18 pre acquisition EBITDA[2]	4.2	-
Add: H1FY19 pre acquisition EBITDA[2]	1.3	
EBITDA Pro-forma	**29.4**	**24.8**
Net debt	98.8	94.0[3]
Gearing	**3.4**	**3.8**

[1] Pre acquisition EBITDA for Integrated Packaging

[2] Pre acquisition EBITDA for Perfection Packaging and PolyPak Plastics

[3] Excludes restatement of unsecured trade finance of $7.2 million

Definitions of Non-IFRS Financial Measures

Capex represents capital expenditure payments for property, plant and equipment

EBITDA refers to EBITDA before significant items. EBITDA is defined as earnings before net finance costs, tax, depreciation and amortisation - refer to page 5 for a reconciliation and page 8 for a breakdown of significant items

EBITDA margin is calculated as EBITDA as a percentage of sales revenue

EBIT refers to EBIT before significant items. EBIT is defined as earnings before interest and tax

Gearing is calculated as net debt divided by rolling 12 months EBITDA (adjusted for material acquisitions)

Net debt is calculated as interest bearing liabilities less cash and cash equivalents

Net interest expense is equivalent to net finance expenses and is net of finance income

NPAT is defined as net profit after tax

Operating cashflow is defined as EBITDA less the change in working capital, less changes in other assets and liabilities

Operating cash flow conversion is defined as operating cash flow divided by EBITDA

Significant items are items that are non-recurring, individually material or do not relate to the on-going operations of the existing business - refer to page 8 for a breakdown of significant items