Pro-Pac Packaging Limited

Full-Year Results

2019

28 August 2019

Managing Director & CEO **Tim Welsh** | CFO **Rick Rostolis**

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Non-IFRS Financial Information

This presentation uses Non-IFRS financial information including EBITDA, EBIT, NPAT, operating cashflow, capex, free cashflow, operating cashflow conversion, gearing, interest cover, net interest expense and net debt. This information is Non-IFRS key financial performance measures used by PPG, the investment community and PPG's Australian peers with similar business portfolios. PPG uses these measures for its internal management reporting as it better reflects what PPG considers to be its underlying performance.

All Non-IFRS financial information has not been subject to review by the Company's external auditor. Refer to page 21 for reconciliation of EBITDA and NPAT. Refer to page 24 for definitions of non-IFRS financial information.

FULL-YEAR
PERFORMANCE

FY19 Overview

- **Financial Performance**
  - Sales revenue of $485.8 million, up 30.8 % (pcp: $371.5 million)
  - EBITDA[1] before significant items of $28.1 million, up 72.2 % (pcp: $16.3 million)
  - Statutory loss after tax of $151.3 million (pcp: $5.1 million loss)
    - Includes non-cash goodwill impairment of $149.0 million after tax
- Flexibles packaging impacted by weaker than expected agricultural sales and increased input costs
  - Successfully completed Polypak and Perfection Packaging acquisitions
- Industrial packaging experienced H2 decline in sales and margin
- Solid performance in Rigid packaging driven by modest revenue growth and operational efficiencies
- Significant improvement in H2 net working capital primarily due to Flexibles inventory reduction program
- Net debt reduction to $82.9 million (pcp: $101.3 million)
  - Gearing[2] reduced to 2.8x from 3.8x pcp
  - Operating cash flow conversion of 114.6%
- No full-year dividend determined by the Board of Directors
  - Focus remains on reducing gearing level and cash required to fund integration activities
- Recent Board and senior executive appointments to assist with improvement in business performance
  - New Chair (Jonathan Ling) appointed 8 April 2019 and new CEO (Tim Welsh) appointed 14 May 2019

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[1]Significant items (before income tax) of 163.3 million (FY18: $11.7 million). Significant items include acquisition and integration costs, business interruption costs and non-cash goodwill impairment. Refer to page 9 for a breakdown of significant items.

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

Safety

- Improved safety training and reporting tools across the business
- Independent safety audits conducted in H2
- Additional health, safety and environment resources to be introduced in FY20
- Renewed focus on improved safety culture
- Target is to achieve goal of zero harm

Lost Time Injury Frequency Rates

FY19	FY18
9.2	9.8

Financial Results Summary

$A millions	FY19 Reported	FY19 Before significant items[1]	FY18 Reported	FY18 Before significant Items	% Change From FY18 to FY19 (before significant items)
Revenue	**485.8**	**485.8**	**371.5**	**371.5**	30.8
EBITDA/(Loss)	**(135.2)**	**28.1**	**4.6**	**16.3**	**72.2**
Depreciation and amortisation	(9.3)	(9.3)	(5.9)	(5.9)	(58.0)
EBIT/(Loss)	(144.5)	18.8	(1.3)	10.4	80.2
Net finance expense	(8.1)	(8.1)	(5.0)	(5.0)	(59.4)
Tax (expense)/benefit	1.3	(3.0)	1.2	(2.3)	(29.8)
NPAT/(Loss)	**(151.3)**	**7.7**	**(5.1)**	**3.1**	**148.4**
EBITDA margin	n/a	5.8%	n/a	4.4%	1.4bps

[1]Significant items before income tax of $163.3 million (pcp: $11.7 million) include acquisition and integration costs, business interruption costs and non-cash goodwill impairment.
Refer to page 9 for a breakdown of significant items

- FY19 sales revenue includes recent acquisitions:
  - IPG: Incremental 4 months – $77.6m (November 2017 acquisition)
  - Perfection Packaging: 10 months – $41.7m
  - PolyPak: 12 months – $15.0m
- Improved EBITDA margin (primarily from acquisitions) despite increased H1 input costs including raw materials and energy costs, and adverse FX movements
- Recent Perfection Packaging and Polypak acquisitions have performed to internal expectations
- Statutory loss after tax impacted by non-cash goodwill impairment of $149.0 million. Refer to page 9 for details

Flexibles Packaging

$A millions	FY19	FY18	Change %
Revenue[1]	271.1	150.2	80.5
EBITDA[2]	18.8	5.6	236.6
EBITDA margin	6.9%	3.7%	3.2 bps

[1]Excludes intercompany / interdivisional revenue
[2]Before significant items and includes allocation of corporate costs

Flexibles packaging primarily manufactures, sources and distributes flexible packaging materials and related products and services

- FY19 sales revenue includes recent acquisitions:
  - IPG – Incremental 4 months ($77.6m)
  - Perfection Packaging - 10 months revenue $41.7m
  - PolyPak - 12 months revenue $15.0m
- Excluding acquisitions, revenue down $13.4m - primarily relating to weaker than anticipated sales to the agricultural sector of the market
- EBITDA impacted by:
  - Lower than anticipated agricultural sales;
  - Unfavourable foreign exchange movements;
  - Higher input costs (resin, energy costs); and
  - Kewdale, WA fire
- Major areas of focus in FY20 include:
  - Building strong sales pipeline;
  - Improved sales-force effectiveness;
  - Continued identification of integration opportunities and execution; and
  - Working capital optimisation

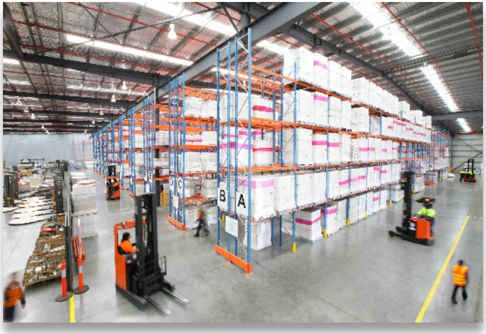
PPG

Industrial Packaging

$A millions	FY19	FY18	Change %
Revenue[1]	152.6	160.2	(4.7)
EBITDA[2]	3.7	6.0	(39.0)
EBITDA margin	2.4%	3.7%	(1.3bps)

[1]Excludes intercompany / interdivisional revenue

[2]Before significant items and includes allocation of corporate costs



Industrial packaging sources and distributes industrial packaging materials and related products and services

- FY19 EBITDA impacted by:
  - H2 decline in sales and margin;
  - Adverse FX movements and timing of price increases; and
  - Relocation of operations as part of integration caused short-term operating issues
- Major areas of focus in FY20 include:
  - Comprehensive portfolio review in order to re-focus business on high-growth segments of the market;
  - Improved sales-force effectiveness;
  - SKU rationalisation; and
  - Supplier consolidation

Rigid Packaging

$A millions	FY19	FY18	Change%
Revenue[1]	62.1	61.1	1.7
EBITDA[2]	6.6	5.2	27.1
EBITDA margin	10.7%	8.6%	2.1bps

[1]Excludes intercompany / interdivisional revenue

[2]Before significant items and includes allocation of corporate costs

Rigid packaging manufactures, sources and distributes plastic containers and closures and related products and services

- Increase in sales volume across key market segments
- Operational improvements have assisted with improving EBITDA margin despite increased input costs
- Major areas of focus in FY20 include:
  - New business in high growth health and beverage segments of the markets; and
  - Continued margin enhancement through:
    - Improved plant efficiencies
    - New sourcing opportunities

FY19 Significant Items

$A millions	EBITDA
EBITDA / (Loss) reported	(135.2)
Significant items	
Goodwill impairment	149.0
Acquisition and integration costs	10.5
Onerous lease and exit costs	0.9
Reversal of contingent consideration	(1.0)
Business interruption costs	3.9
Total significant items	**163.3**
EBITDA before significant items	**28.1**

- Non-cash goodwill impairment charge:
  - Carrying value of cash generating units (CGUs) review as part of the Company's reporting cycle[1]
  - Carrying value of goodwill in both the Industrial and Flexibles CGUs not fully supported by assessed recoverable amount under accounting standard requirements
- Acquisition and integration costs primarily relate to site consolidation initiatives, redundancies and changes to management structure (as part of integration of acquisitions)
- Provision write-back in relation to non-payment of acquisition contingent consideration
- Business interruption costs including Kewdale, WA fire (inventory and plant write-downs) – insurance recovery to be determined

[1]H1 FY19 reported two CGUs being (a) Industrial & Flexibles and (b) Rigid. Under new CEO, Tim Welsh, a reorganisation has been completed with the Group now having three CGUs (a) Flexibles, (b) Industrial and (c) Rigid. Consequently, the annual impairment test as at 30 June 2019 was performed on this basis and no further impairment losses were recognised

Cash Management

Cash Management

$A millions	FY19	FY18
Operating cash flow	32.2	15.3
Total capital expenditure	6.2	13.5
Free cash flow	26.0	1.8
Operating cash flow conversion	114.6%	93.9%

- Capital expenditure includes IT integration projects
- Reduction in capital expenditure driven by tighter control of non-core items of plant
- Second-half working capital reduction plan has facilitated improvement in operating cash flow

Balance Sheet Metrics

Balance Sheet Funding

$A millions	FY19	FY18
Net debt	82.9	101.3
Gearing[1]	2.8x	3.8x
Interest cover	4.6x	4.5x

- Key metrics within targeted levels
- Achieved short-term target to reduce gearing to below 3.0x by 30 June 2019
- Working capital seasonality:
  - Q1 FY20 agricultural sector build-up of inventory
  - Focus on improved demand planning to reduce seasonal spikes
- Bank loan facility maturity date - 2 November 2020
- No full-year dividend determined by Directors
  - Focus remains on reducing gearing level and cash requirement to fund integration activities

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

GROWTH & STRATEGY

A Strong Platform for the Future

- Strategic review to facilitate transformation of Company into a resilient and diverse business with the objective of becoming a leader in flexible, industrial and rigid packaging
- Profit improvement plans (integration, scale optimisation, cost down/out) and working capital reduction initiatives in progress to counter headwinds
- New management and refreshed Board 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, industrial and rigid packaging targeting higher growth segments of the market

Strategic Imperatives

Organic Growth

- Conduct strategic review of business portfolio and identify growth segments of the market to focus investment and resources
- Leverage local manufacturing capabilities, particularly in high seasonal markets such as agriculture, retail, food and beverage
- Build reputation as a supplier of choice and continue to enhance product offerings that customers desire

Margin Expansion

- Expand the number of qualified local and overseas suppliers of polymer resin and procured goods
- Finalise footprint consolidation program and focus capital investment strategy towards growth markets
- Invest in sales excellence programs to develop a deeper and more intimate understanding of customer needs

Operational Excellence

- Lean and 5S principles to be rolled out to manufacturing plants to ensure levels of performance are sustained
- Migrate towards integrated business planning methodologies to improve efficiency, increase customer service levels and lower working capital
- Introduce key executives in the areas of Innovation, Procurement, People & Culture and Health & Safety to support the delivery of organisational objectives

Product & Service Innovation

- Well-positioned to support local customers with personalised service, high quality solutions with short lead times
- Invest in technologies that enhance customer experience and position PPG to become an intrinsic partner
- Progress digital transformation strategy including creation of online sales portal for small to medium-sized customers

Sustainability

- Leverage innovation capacity including trial of Duratrack railway sleepers
- Aim to be an industry leading producer of sustainable packaging solutions
- Continue to work with global supply partners to expand portfolio of degradable and compostable products
- Take active steps to develop medium-term digital manufacturing capability

FY19 Acquisitions - Update

PolyPak **(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 NZ flexibles packaging market, including custom plastic bags and specialists sheets for lining cartons
- FY19 revenue contribution $15.0 million – in line with expectations

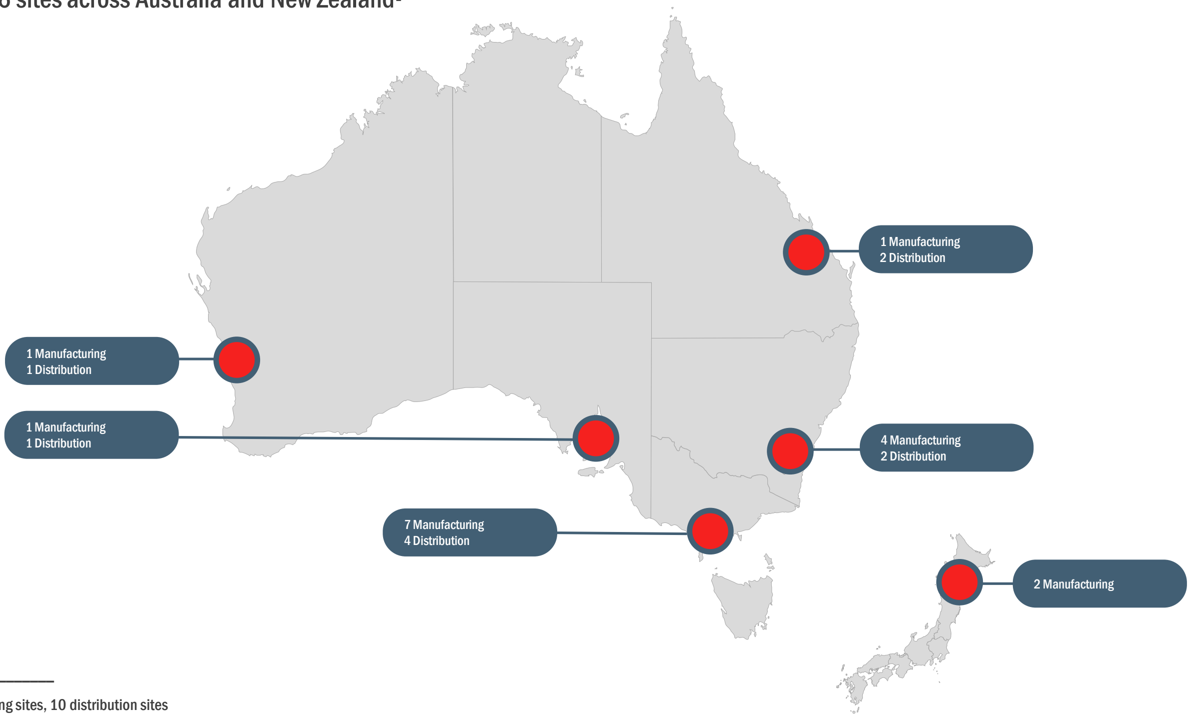
Perfection Packaging **(Acquired September 2018)**

- Perfection Packaging offers a dynamic range of hard flexibles packaging solutions
- Target market includes FMCG mid-market customers including food (including pet food) and personal care
- FY19 revenue contribution $41.7 million – in line with expectations

Company Footprint

Australia & New Zealand Sites

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



[1] 16 manufacturing sites, 10 distribution sites

OUTLOOK

FY20 Operational Priorities

The Group is focused on the following "in-business" activities:

- ❖ Driving a strong safety culture throughout the organisation
- ❖ Expanding market share into higher growth and resilient segments of the packaging market through value-add products and solutions
- ❖ Operational efficiency program targeting:
    - Improved sales-force effectiveness
    - Working capital reduction
    - Optimisation of procurement and distribution scale
- ❖ Continued identification and execution of integration initiatives to extract synergies
- ❖ On-going review of manufacturing strategy to optimise plant network leveraging lowest-cost-to-make sites
- ❖ Strengthening balance sheet position

Outlook

- FY19 EBITDA (before significant items) in line with internal expectations following 18 June 2019 trading update
- New senior executives (including recent appointment of CEO) to drive strategic, cultural and structural change to improve operating results in the medium-term
- Continued focus on profit improvement initiatives (including integration) and working capital reduction
- The Group expects to achieve an increase in EBITDA (before significant items) in 2020, subject to macroeconomic conditions
    - Trading update to be provided at the Company's November AGM

APPENDIX

Reconciliation of Statutory Profit & Loss

$A millions	FY19	FY18
Statutory profit / (loss) before income tax	**(152.6)**	**(6.3)**
Add: Net finance costs	8.1	5.0
EBIT (after significant items)	(144.5)	**(1.3)**
Add: Significant items	163.3	11.7
EBIT (before significant items)	18.8	**10.4**
Add: Depreciation and amortisation	9.3	5.9
EBITDA (before significant items)	**28.1**	**16.3**

Statutory NPAT/(Loss)	**(151.3)**	**(5.1)**
Add: Significant items	163.3	11.7
Tax effect of significant items	(4.3)	(3.5)
NPAT (before significant items)	**7.7**	**3.1**

Reconciliation of Statutory Cash Flows

$A millions	FY19	FY18
Reported net cash flows from operating activities	**15.8**	**2.2**
Add: income tax paid	4.4	0.5
Add: Significant items (cash impact)	4.5	5.5
Add: Net finance costs paid	7.5	7.1
Operating cash flow	32.2	15.3

Gearing Reconciliation

$A millions	FY19	FY18
EBITDA (before significant items)	**28.1**	**16.3**
Add: pre-acquisition EBITDA	1.3[2]	8.7[1]
Pro-forma EBITDA (before significant items)	29.4	25.0
Net debt	82.9	94.0[3]
Gearing[4]	2.8x	3.8x

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[1] Pre-acquisition EBITDA for IPG (4mths)

[2] Pre-acquisition EBITDA for Perfection Packaging (2 months)

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

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

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 21 for a reconciliation to statutory profit/(loss) before income tax and page 9 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)

Interest cover is calculated as rolling 12 months EBITDA divided by rolling 12 months net interest expense

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

Net interest expense is equivalent to net finance costs and is net of interest revenue

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 9 for a breakdown of significant items