Pro-Pac Packaging Limited
ABN: 36112971874

ASX - For immediate release

25 August 2021

Pro-Pac delivers on a successful year of transformation

Pro-Pac Packaging Limited (ASX: PPG) ("Pro-Pac" or "the Group") is pleased to announce its FY21 results for the year ended 30 June 2021.

Delivering on the strategy – significant business transformation completed in challenging conditions	
✓	Transformation activities expected to deliver annualised benefits of c. $7m in FY22: - Chester Hill exit completed - Investment in new technology including a 7-layer extruder & laminator - Establishment of Centres of Excellence for Flexibles printing and conversion
✓	Returned Industrial Specialty Packaging business to profitability
✓	Supreme Packaging acquisition completed on 31 January 2021; integration on track
✓	New Enterprise Resource Planning software implemented in Finance & Accounting
FY21 Highlights – strong results during a year of transformation	
✓	18% increase in Profit after Tax at $7.8m (2020: $6.6m)
✓	30% increase in PBT[1] at $18.8m, PBT margin[2] of 4.3% +124bps year-on-year
✓	$51.0m Net debt[3], Gearing[4] at 1.5x (2020: 1.4x)
✓	Operating cash flow conversion at 107% (2020: 136%)
✓	Fully franked final dividend of 0.3 cents per share, taking full year fully franked dividend to 0.55 cents per share (2020: 0.4 cents per share)
✓	36% decrease in TRIFR[5] to 9.36; relentless focus on safety continues
✓	Continuity of operations with employee safety maintained through COVID-19

Commenting on the FY21 results, Pro-Pac's CEO & Managing Director Tim Welsh said:

"FY21 has been a year of transformation for Pro-Pac, during which we have delivered on several key strategic initiatives including site consolidation, the creation of Flexibles printing and conversion Centres of Excellence, and the launch of Project Symphony, our technology led enterprise-wide transformation program that will deliver our new Enterprise Resource Planning software. Our employees have worked incredibly hard to achieve this transformation and ensure continuity of supply to our customers while also contending with the challenges of COVID-19 and I would like to thank each one of them for their significant efforts.

Packaging is a critical industry that touches the lives of millions of Australians every day. As an Australian & New Zealand business that is focused on using its investment and manufacturing expertise to capitalise on key industry trends including innovation and sustainability, we are confident about the opportunities for Pro-Pac to keep expanding its packaging and recycling capabilities and grow revenue."

83-85 Banbury Road
Reservoir, 3073, VIC, Australia
PO BOX 441, Reservoir, VIC, 3073

Tel: (03) 9474 4200
Fax: (03) 9269 5199
Web: www.ppgaust.com.au

FY21 Overview

Pro-Pac delivered strong financial and operational results during a year of transformation. Whilst COVID-19 circumstances were challenging, Pro-Pac maintained a strong focus on keeping its people safe.

During the year, Pro-Pac executed on its planned transformation projects and an acquisition:

- Closure of Chester Hill site on time and on budget;
- Commissioning of a new 7-layer extruder and laminator;
- Commissioning of a high-definition extrusion line;
- Creation of Flexibles printing and conversion Centres of Excellence;
- Commissioning of new blow moulding machines and expanded manufacturing lines in Rigid;
- Returning the Industrial Specialty Packaging business to profitability;
- Acquisition of Supreme Packaging; and
- Implementation of new Enterprise Resource Planning (ERP) software in Finance & Accounting.

The closure of the Chester Hill manufacturing facility in New South Wales was achieved at a total cash cost of $13m over FY20 and FY21. Pro-Pac consolidated and configured its sites to establish Centres of Excellence in Flexibles printing and conversion across two sites in the Dandenong business precinct in Victoria. This enabled the integration of Supreme Packaging and the re-location of the printing assets from the Chester Hill site, as well as the commissioning of the new 7-layer extruder and laminator, marking a step change in Pro-Pac's manufacturing capabilities and ability to service new and existing customers with bespoke products. These changes are expected to deliver annualised benefits of $7m from FY22 onwards.

The successful implementation of the ERP software for Finance & Accounting went live in March. This is the first stage of Project Symphony, a technology led enterprise-wide transformation program that will deliver new ERP software and enable the drive to further reduce the Group's cost base and deliver operational efficiencies.

Whilst the level of transformation was significant, Pro-Pac's financial performance has continued to be strong. The Flexibles and Industrial Specialty Packaging businesses have both achieved PBT[1] growth and PBT margin[2] uplift year-on-year and these businesses have continued to trade well with earnings improving on FY20. As anticipated, the Rigid business delivered lower earnings in FY21 as it returned to a more "COVID-normal" operating environment.

Pro-Pac's cash generation and balance sheet remain strong with capacity to fund additional growth. With confidence in Pro-Pac's future, the Board has declared a fully franked final dividend of 0.3 cents per share increasing the full year fully franked dividend by 37.5% to 0.55 cents per share (FY20: 0.4 cents per share).

Financial Performance

Key metrics	FY21 $'000	FY20 $'000	Change
Group results:			
Revenue	440.1	478.2	(38.1)
Statutory profit after tax	7.8	6.6	1.2
Operating results:			
Underlying EBIT[6]	25.3	26.2	(0.9)
Underlying EBIT margin[7]	5.7%	5.5%	0.2%
Underlying PBT[1]	18.8	14.5	4.3
Underlying PBT margin[2]	4.3%	3.0%	1.3%

- FY21 revenue was $440.1m compared to $478.2m in the prior year. Revenue declined due to:
  - Flexibles' exit from the Australian forage market, the Canadian market and the divestment of the Integrated Machinery business ($14.5m);

- The move from a retailer to a wholesaler for sileage ($2.0m);
- Year on year transitional COVID-19 impacts relating to cotton exports, local demand volatility and global shipping delays ($19.8m);
- A targeted shift in business mix within Flexibles and Industrial Specialty Packaging as they continued to execute the group's strategy to refocus the portfolio on higher value market verticals ($17.8m).

- This decline in revenue was partially offset by some encouraging wins in new business, in line with the Group's strategic shift to higher margin, bespoke products ($11.0m) and the acquisition of Supreme Packaging ($5.1m).
- While revenue has declined year-on-year, Pro-Pac has continued its focus on margin growth and has built a solid foundation for profitable growth. Notwithstanding COVID-19 uncertainty, revenue growth is expected in FY22, with confidence underpinned by some early FY22 wins.
- Underlying EBIT margins[7] improved due to disciplined management of raw material input costs, and the portfolio shift towards higher margin products. EBIT was $0.9m lower than prior year, contributed to by the lower revenue.
- Underlying PBT[1] for the year was $18.8m (up 30% on the prior year). There was also an improvement in the underlying PBT margin,[2] which increased from 3.0% in FY20 to 4.3% in FY21. This increase was driven by the improvements in EBIT margins and the reduced financing costs relating to debt and leases.
- Significant Items[8] of $7.6m largely comprised the Chester Hill closure program ($5.4m) and acquisition and integration costs ($3.7m) offset by insurance income (net of losses expensed) ($1.8m).
- Statutory Profit after Tax, incorporating these Significant Items, was $7.8m, an 18% increase year-on-year.

Balance Sheet

Key metrics	Jun-21 $'000	Jun-20 $'000	Change
Working capital[9]	81.4	82.3	(0.9)
Net debt[3]	51.0	45.1	5.9
Gearing[4]	1.5x	1.4x	0.1x

- Net debt[3] at 30 June 2021 was $51.0m, representing gearing[4] of 1.5x.
- Net debt[3] was carefully managed given the significant investment in projects and capital expenditure ($14.5m) during the year.
- Working capital[7] reduced by $0.9m during the year, despite the Group carrying additional inventory to proactively manage the supply chain disruptions caused by COVID-19 and further disruptions from the implementation of major projects.
- The balance sheet remains strong with stable gearing[4] and total facilities of $95.0m maturing in FY23 ($85.0m amortising senior debt and $10.0m overdraft) providing the capacity to fund growth.

Cash Flow

- A continuing focus on cash management disciplines delivered strong operating cash flow conversion[10] of 107%.
- Disciplined capital investment was focused on growth initiatives, supported by well-managed delivery and governance oversight.

Project Symphony

Project Symphony is a technology led, enterprise-wide transformation program that will deliver the Group's new ERP software and enable the Group's drive to reduce its cost base and deliver operational efficiencies.

Following the successful implementation of the new ERP software across Finance & Accounting in March 2021, the roll-out of Supply Chain & Manufacturing will be the focus in 2022, with Flexibles scheduled to go-live first in 2H22.

Investments in the Group's Supply Chain & Manufacturing capabilities, together with the implementation of the ERP, will enable cost reductions across the Group as legacy systems and associated processes are retired and common resources are aligned.

Dividend

The Board has declared a fully franked final dividend of 0.3 cents per share, resulting in an increased full year dividend of 0.55 cents per share. The dividend is payable on 7 October 2021, with an ex-dividend date of 15 September 2021 and a record date of 16 September 2021. The DRP will not be available for this dividend.

FY22 Strategic Priorities & Outlook

Strategic priorities

Pro-Pac has four key strategic priorities for the year ahead:

- Driving profitable revenue growth: driving FY22 top line growth from the Group's increasing qualified pipeline of higher margin value-add products. The Group has refocused its business development activities on market verticals and categories that play to Pro-Pac's core strengths, and is set to extract full value from new assets acquired and commissioned in FY21.
- Improving operational efficiencies: to enable efficient growth, Pro-Pac will focus on delivering the benefits of its Chester Hill closure and Centres of Excellence model and on delivering the implementation of its ERP for Supply Chain & Manufacturing. This group-wide implementation will enable cost reduction across the Group.
- Culture of innovation: Innovation in recycling is integral to how Pro-Pac operates. During FY22, the Group will continue to expand its investment in technical resources and best in class equipment and technology to accelerate the production of innovative and sustainable products. It will also expand the deployment of Duratrack railway sleepers, made entirely from Australian plastic waste, into the Australian market now that type approval has been achieved.
- Sustainability: Pro-Pac is committed to taking a leading role in the circular economy, embedding sustainable practices across the organisation and increasing its sustainability footprint in the short to medium term. The Group's sustainability charter aligns with the UN Sustainable Development Goals.

Outlook

Pro-Pac will continue to prioritise the safety, health & wellbeing of its people and the supply of essential products and services to its customers.

The Group remains focused on the elements it can directly control and Pro-Pac is confident in its ability to deliver on growth and strategic priorities against uncertain macroeconomic conditions.

Trading momentum has continued at the start of FY22.

The priorities for FY22 year are:

- An unrelenting focus on profitable revenue growth with confidence from early wins;
- The efficient delivery of $7m annualised benefits from the transformation and investments completed in FY21;
- The implementation of ERP supply chain management in Flexibles;
- Investment in expanding the Group's recycling capabilities; and
- Advancing sustainable solutions for customers to achieve their National Packaging Targets.

Pro-Pac looks forward to updating its investors further at our Annual General Meeting in November 2021.

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

For further information, please contact:

Investors:

Tim Welsh
Chief Executive Officer & Managing Director
Email: investors@ppgaust.com.au
Tel: + 61 3 9474 4222

Iona MacPherson
Chief Financial Officer
Email: investors@ppgaust.com.au
Tel: +61 3 9474 4222

Media:

Hayley Morris
MorrisBrown Communications
Email: hayley@morris-brown.com.au
Tel: +61 407 789 018

Olivia Brown
MorrisBrown Communications
Email: olivia@morris-brown.com.au
Tel: +61 409 524 960

About Pro-Pac:

Pro-Pac Packaging Limited (ASX: PPG) is an innovative Flexibles, Industrial Specialty Packaging and Rigid packaging company with a diversified distribution and manufacturing network throughout Australia and New Zealand. Headquartered in Melbourne, Pro-Pac delivers bespoke packaging solutions for a broad group of blue-chip and SME clients in the industrial, food and beverage, health, agriculture and manufacturing sectors. For further information, please visit www.ppgaust.com.au

Forward-Looking Statements:

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

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[1] PBT refers to profit/(loss) before income taxes and significant items
[2] PBT margin refers to PBT divided by revenue
[3] Net debt is calculated as borrowings, less cash and cash equivalents
[4] Gearing is calculated as net debt divided by Adjusted EBITDA. Adjusted EBITDA means EBITDA before AASB16 Leases for the last 12-month period, adjusted for material additions or disposals.
[5] Total recordable injury frequency rate
[6] EBIT refers to PBT before finance costs and interest income
[7] EBIT margin refers to EBIT divided by revenue
[8] Significant items are identified as favourable or unfavourable transactions which are outside of normal operating activities and are excluded from the segment results presented to the chief operating decision-maker for the purpose of resource allocation and assessment of segment performance
[9] Working capital refers to trade and other receivables, inventories, deposits and prepayments, less trade and other payables
[10] Operating cash flow conversion is calculated operating cash flows divided by EBITDA for the last 12-month period. Operating cash flows are the sum of net cash flows from operating activities, plus income tax paid, plus interest paid (net of interest income), plus significant items paid