

## ASX - For immediate release

27 June 2022

### Pro-Pac Packaging Limited Market Update (ASX: PPG)

#### **Sale of Rigid Packaging Business:**

Pro-Pac Packaging Limited ("Pro-Pac or Company") is pleased to announce that effective midnight on Friday 24 June 2022 it completed the sale of its Rigid packaging business ("Rigid Business") to a subsidiary of TricorBraun Inc.

The proposed sale was in line with our strategy and advised to the market on 11 April 2022. It was advised at that time that the sale consideration would be \$56m however, by mutual agreement, Pro-Pac will retain the business Trade Debtors and Trade Creditors which will result in a similar cash outcome but lower purchase price.

We wish the management and staff of the Rigid Business every success with their new owner and thank them for their valuable contribution to Pro-Pac.

#### **Trading Update:**

On 13 May 2022 the Company provided a Trading Update which indicated that, for FY2022 a PBT of circa \$5.0m would be achieved (this represented an EBIT of \$12.1m). This will not be the case largely due to persistent operational and performance issues in the Flexibles business such as:

- resin cost increases which have continued to increase at a greater rate than recovery through sell price increases;
- productivity at the relatively newly created 'hard flexibles' plants in Melbourne, Victoria has been poor largely due to the need to rapidly upskill in a technically complicated environment whilst there are structural limitations on attracting and retaining labour in an environment still impacted by COVID-19.

In addition to the above, there has been a downward adjustment of \$4.5m relating to a restatement of inventory and debtors balances in line with policy.

Pleasingly the Rigid Business performed to expectation up to the date of the sale as did the Industrial business.

As a consequence of these factors, Pro-Pac expects its F22 underlying PBT result to be a loss of \$2.9m (EBIT profit \$4.4 m)

#### **Working Capital:**

The company had previously advised that it had experienced supply issues with international shipping. To ensure customer demand could be maintained, the business has higher than normal working capital in the Flexibles and Industrial businesses that will exist at 30 June 2022. A consequence of higher working capital is higher debt.

#### **Near term focus:**

The operating cost structure of the Company will need to be right sized given the sale of the Rigid Business. This will, by necessity, require restructuring activity focussed predominantly in reducing corporate costs and right-sizing other parts of the business.

There has been a number of recent leadership changes in the Flexibles business including the operations which are now directly managed by CEO, Tim Welsh. This has brought a heightened intensity and focus on the operating cadence of the business which we believe will translate into improved performance.

In addition, the business will have an acute focus on debt and responsible management of working capital which may result in a downscaling of some of the Industrials business product portfolio where the current supply chain risk, which demand larger inventory holdings, and product profitability, do not appropriately align.

The Board is confident in plans to re-focus the business and return it to profitability.

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

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**About Pro-Pac:**

Pro-Pac Packaging Limited (ASX: PPG) is an innovative Flexibles and Industrial Specialty 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](http://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.*