Pro-Pac Packaging Limited
ABN: 36112971874

ASX - For immediate release

24 February 2023

Pro-Pac Packaging Reports 1H23 Results

Pro-Pac Packaging Limited (ASX: PPG) ("**Pro-Pac**" or "**the Company**" or "**the Group**") today announces its results for the half year ended 31 December 2022 ("**1H23**").

1H23 Financial Highlights
Revenue from continued operations down by 2% across the group at $183.3 million, as the Group focused on margin improvement, both through the development of sales in higher value add and higher margin products.
PBT[1] from continuing operations down by $5.4 million at a loss of $6.2 million compared to 1H22 due to the impacts of challenging market conditions, primarily impacting the Flexibles business unit.
EBITDA pre-AASB 16[2] from continuing operations down by $5.7 million at a loss of $0.8 million compared to 1H22.
Net debt[3] down $7.4 million at $16.3 million (30 June 2022: $23.7 million).
Significant Highlights
LTI's[4] reduced by 30% during the half year to 7.0 for 1H23 (2H22: 10.0)
The Group successfully refinanced its previously syndicated debt facilities through the establishment of a debtor finance facility. All syndicated debt facilities were fully paid down.
The Group completed a pro-rata accelerated renounceable entitlement offer of new ordinary shares (rights issue), which raised net proceeds of $28.8 million
The Group is well positioned to leverage off significant investment in capacity in recent years, to focus on business development opportunities in the high value-add market segments

Commenting on the 1H23 results, Pro-Pac's CEO & Managing Director John Cerini said:

"We have been resolutely focused on delivering our strategy in the face of the difficult operating conditions.

Revenue for the half was $183.3 million, as we focused on margin improvement, both through the development of sales growth in higher value-add and higher margin products and reducing cost structures.

We have an increasing pipeline of attractive opportunities, and our priority is to use our manufacturing capabilities and expertise to convert this pipeline into profitable revenue.

Our strategic capital investments in additional capacity and technologies were taken to maximise manufacturing efficiency and support the growth pipeline. These capital investments have included a 7-layer extruder, HD extrusion line and an 8 colour printer, all of which we are expecting to facilitate additional revenue.

We also remain focused on lowering costs across the organisation and creating a structure to achieve more profitable growth.

Innovation also plays a key role in our strategic plans. We believe there are real benefits for our customers and our communities through our committed approach to innovation. Near term priorities include the development of Duratrack, our engineered railway sleeper and developing new circular recycling capabilities in our Flexibles businesses.

Pleasingly we are starting to see initial positive signs from all this work in recent times."

1H23 Overview

1H23 Continuing Operations Financial Performance

A$ million	1H23 $'M	1H22 $'M	Change
Statutory results:			
Revenue	183.3	187.1	(3.8)
Statutory profit after tax	(4.9)	(3.4)	(1.5)
Operating results:			
EBITDA pre-AASB 16	(0.8)	4.9	(5.7)
EBIT	(3.7)	2.2	(5.9)
PBT	(6.2)	(0.9)	(5.4)
PBT margin[5]	*(3.4%)*	*(0.5%)*	*(2.9%)*
Significant items	(0.3)	(4.0)	3.7

- Revenue from continuing operations of $183.3 million a 2.0% decrease from 1H22 reflecting the impact of site consolidation and a focused transition towards more profitable market segments.
- EBITDA pre-AASB 16 from continuing operations declined during the half-year to a loss of $0.8 million from profit of $4.9 million in 1H22:
  - Selling prices as a result of significant cost increases are now better aligned to our cost structures (raw material and overhead costs).
  - The benefits from this will materialise during the second half.
- Reduced level of significant items/costs within the first half statutory profit after tax result

Group (Continuing and Discontinued Operations) Financial Performance

A$ million	1H23 $'M	1H22 $'M	Change
Statutory results:			
Revenue	185.5	244.7	(59.2)
Statutory profit after tax	(5.7)	0.1	(5.8)
Operating results:			
EBITDA pre-AASB 16	(0.9)	10.7	(11.6)
EBIT[6]	(3.8)	7.6	(11.4)
PBT	(6.3)	4.2	(10.5)
PBT margin	*(3.4%)*	*1.7%*	*(5.1%)*
Significant items	(1.3)	(4.0)	(2.7)

Balance Sheet

A$ million	Dec-22 $'M	Jun-22 $'M	Change
Working capital[7]	83.4	71.1	12.3
Net debt	(16.3)	(23.7)	7.4
Other net assets	72.6	69.3	3.3
Net assets	139.7	116.7	23.0
Share capital	320.5	291.7	28.8
Other equity	(180.8)	(175.0)	(5.8)

- Working capital increased by $12.3 million during the half-year:
  - o Receivables – decrease of $5.0 million;
  - o Inventories – decrease of $5.0 million with inventory optimisation;
  - o Trade payables – decrease of $23.0 million following the rights issue, with trade creditors now at agreed trading terms.
- The Group successfully refinanced its previously syndicated debt facilities through the establishment of a debtor finance facility. All syndicated debt facilities were fully paid down.
- The Group completed a pro-rata accelerated renounceable entitlement offer of new ordinary shares (rights issue), which raised net proceeds of $28.8 million.
- The above resulted in net debt reducing from $23.7 million to $16.3 million.

Cash Management

A$ million	1H23 $'M	1H22 $'M	Change
Net cash flows from operating activities	(15.5)	(15.0)	(0.5)
Net cash flows from investing activities	(1.9)	(9.9)	8.0
Net cash flows from financing activities	19.3	17.4	1.9
Net increase/(decrease) in cash	1.8	(7.6)	9.4

- Cash flows from operating activities were an outflow of $15.5 million which was predominantly due to the significant reduction in trade creditors of $23.0 million.
- Cash flows from investing activities was an outflow of $1.9 million, a reduction of $8.0 million from pcp:
  - o Net capital expenditure reduced to $3.9 million (1H22: $9.5 million), due to the higher growth capital expenditure already invested into the business in recent years, lowering the need for significant investment in the short term.
- Cash flows from financing activities during the period of $19.3 million, reflecting:
  - o $28.8m of net proceeds received from the successful rights issue.
  - o A reduction in net debt to $16.3 million from $23.7 million.

Divisional Results

Flexibles

A$ million	1H23 $'M	1H22 $'M	Change
Revenue	143.4	144.9	(1.0%)
EBITDA pre-AASB 16	0.0	6.0	(100%)
EBIT	(2.9)	4.2	>(100%)
PBT	(3.8)	2.6	>(100%)
PBT margin	(2.7%)	1.8%	(4.4%)

- Revenue decreased by 1.0% to $143.4 million (2021: $144.9 million) reflecting the impact of site consolidation and a focused transition towards more profitable market segments.
- Service delivery has improved in the half year, which is expected to allow for business development opportunities in the second half of the financial year to leverage off the Group's investment in capacity in recent years.
- Selling prices are now more aligned with increased costs experienced, with this recovery to materialise in the second half.

Industrial Specialty Packaging

A$ million	1H23 $'M	1H22 $'M	Change
Revenue	39.9	42.2	(5.5)%
EBITDA pre-AASB 16	0.6	(0.6)	>100%
EBIT	0.6	(0.9)	>100%
PBT	0.3	(1.6)	>100%
PBT margin	0.8%	(3.7%)	5.5%

- Revenue decreased by 5.5% to $39.9 million (2021: $42.2 million) as a result of product rationalisation to better align with targeted market segments and the impact of supply chain challenges.
- The increased pricing in response to higher supply chain input costs and a reduction in cost structures throughout the business has returned the Industrial Distribution business to profitability during the half-year.

Outlook

The trading environment remains volatile, however we continue with the process of restoring customer confidence through better service delivery and improving the sell cost imbalance in the Flexibles segment. It is pleasing to note that the profitability of the Industrial business continues to improve through increased margins.

As indicated at the AGM we had begun a process to reduce costs and can report we have now completed a significant reduction in corporate costs and other labour savings with the full annualised benefits of Circa $10 million to benefit FY24. We have also reduced inventories and external warehousing costs which will also add to cost savings in FY24.

Recent investments in new equipment and site rationalisations completed will allow the business to grow volumes without the need for further significant capital spend and our focus on recycling will ensure the business takes an important leadership role in the Plastics Industry around soft plastic recycling and the circular economy.

The Company is focused on business development opportunities in the second half of the financial year to leverage off the significant capital investment undertaken in recent years and as margins improve as a result of our lowered cost structures, we are on track to return a positive pre-AASB 16 EBITDA for the 2023 financial year.

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

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, including resin price, labour pressures and exchange rate fluctuations. These 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.

[1] PBT refers to profit/(loss) before income taxes and significant items
[2] EBITDA pre-AASB 16 refers profit/(loss) before significant items, depreciation and amortisation, finance costs, interest income, income taxes and before accounting for AASB 16 *Leases*
[3] Net debt is calculated as interest-bearing liabilities, less cash and cash equivalents before accounting for AASB 16 *Leases*
[4] Lost time injuries
[5] PBT margin is calculated as PBT divided by revenue
[6] EBIT refers to profit/(loss) before significant items, finance costs, interest income and income taxes
[7] Working capital refers to trade and other receivables, inventories, deposits and prepayments, less trade and other payables