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14 August 2019

PACT GROUP 2019 FULL YEAR RESULTS

OVERVIEW

A$ MILLION	FY 2019	FY 2018	CHANGE
Revenue	**1,834**	1,674	10%
Packaging and Sustainability	**155**	153	1%
Materials Handling and Pooling	**51**	45	15%
Contract Manufacturing Services	**25**	40	(37%)
EBITDA (before significant items)	**231**	237	(3%)
EBIT (before significant items)	**148**	165	(10%)
NPAT (before significant items)	**77**	95	(18%)
Statutory NPAT	**(290)**	74	-
Total dividends – cents per share	**-**	23.0	(100%)

- Revenue up 10% to $1,834 million (pcp: $1,674 million)
- Statutory net loss after tax of $290 million (pcp: statutory net profit after tax of $74 million)
- Significant items after tax of $367 million expense (pcp: $20 million), including after-tax non-cash asset impairments of $327 million
- EBITDA down 3% to $231 million (pcp: $237 million)
- NPAT down 18% to $77 million (pcp: $95 million)
- Earnings impacted by lags in recovering higher raw material and energy costs in the first half, and lower volumes in some sectors
- Strong focus on efficiency and overhead cost reduction
- Transformation of the Group's packaging network progressed with two facilities closed during the period
- Recent acquisitions performing in line with expectations
- Crate pooling operations expanded following long-term contract win - services supporting fresh produce supply into ALDI commenced in August 2019
- Long-term contract with a major retailer in the USA will expand reuse services in FY20
- Strong operating cashflow and improved leverage in the second half
- Balance sheet capacity improved and near-term refinancing risk reduced with the extension of the $380M syndicated debt facility and the establishment of a new subordinated loan facility
- New CEO commenced and strategy review initiated

Pact Group Holdings Ltd ('Pact' ASX: PGH) today announced a statutory net loss after tax of $290 million for the full year ended 30 June 2019. This included a significant expense after tax of $367 million. Net profit after tax before significant items was $77 million, down 18% compared to $95 million in the prior corresponding period (pcp).

The Board has determined that there will be no final dividend (pcp 11.5 cps).

PACT GROUP

ASX ANNOUNCEMENT

AN IMPROVED PRICING AND COST ENVIRONMENT

Pact Group Managing Director and Chief Executive Officer, Mr Sanjay Dayal, said, "FY19 was a very challenging year, with earnings impacted by higher raw material and energy costs and weaker demand conditions in some sectors.

"Pleasingly pricing improved in the second half, and resin costs reduced. This enabled us to recover some of the adverse pricing lags which had impacted earnings in recent periods.

"We continued to manage our controllables, delivering significant efficiencies in our operations and reducing overheads. We made meaningful steps in the transformation of our packaging network with the closure of two facilities in the second half, the rationalisation of another and the establishment of an import channel to support supply in several product categories.

"Our recent acquisitions performed well and in line with expectations.

"We delivered growth in our crate pooling business and secured a long-term contract with ALDI for produce crate pooling services. This arrangement commenced, on schedule, earlier this month. Our partnership with ALDI is testament to the service quality and capability we have developed in our pooling business. It has been an outstanding achievement.

"Recently we were awarded a long-term contract with a major retailer in the USA for the supply of reuse services. This partnership will significantly expand our garment hanger reuse capability in the largest retail market in the world.

"The growth opportunities in our pooling and reuse businesses, in addition to growth in our recycling operations, illustrates the increasing importance of sustainability to our customers. I am excited by Pact's unique and growing capabilities which reduce the impact of plastics on the environment.

"Importantly, we also managed our balance sheet with discipline. Operating cashflow was strong and capital expenditure was well controlled. Leverage was improved in the second half. We extended debt of $380 million to January 2022, reducing near term refinancing risk, and established a $50 million subordinated term loan facility, increasing our funding flexibility. These measures, alongside disciplined capital management, provide the balance sheet capacity for the Group to progress planned restructuring activities and complete existing growth projects.

"We are focused on the future," Mr Dayal said. "Whilst we have made progress in improving our business fundamentals, a lot of work remains to be done. We need to drive further improvements in safety, efficiency, quality and delivery. This will enable us to grow our core business and improve our capital returns.

"Our future direction will be guided by the outcomes of the strategy review I have commenced. This review will clarify the activities and operations which are core to Pact's continued success and will guide future resource allocation and capital investment. My clear priority is to maximise long-term shareholder value."

BUSINESS REVIEW

Group revenue of $1.8 billion for the year increased 10% compared to the pcp, driven primarily by the Asian acquisition undertaken in the second half of FY18 and the acquisition of TIC Retail Accessories completed 31 October 2018.

Underlying revenue was generally in line with the pcp. The impact of higher pricing, reflecting the partial pass through of higher input costs, was offset by lower overall net volumes. Packaging volumes were down on the pcp, impacted by weak agricultural demand due to drought conditions in Australia and generally subdued demand in the dairy, food and beverage sectors in Australia and New Zealand. Materials Handling volumes were adversely impacted by fewer available infrastructure projects. Bin volumes were improved in the second half.

ASX ANNOUNCEMENT

Contract manufacturing volumes were down versus the pcp with weaker demand in the home care category due largely to customer offshoring. Health and wellness was flat versus the pcp following a weak second half impacted by customer destocking.

Group EBITDA of $231 million was $7 million (3%) lower than the pcp, with improved earnings in the Packaging and Sustainability segment and the Materials Handling and Pooling segment offset by lower earnings in Contract Manufacturing Services. Earnings benefitted from the Asian and TIC acquisitions and the delivery of efficiency. These improvements were offset by lags in recovering higher raw material prices in the first half along with significant increases in Australian energy cost versus the pcp and lower overall net volumes.

EBIT of $148 million for the year was $16 million (10%) lower than the pcp.

SIGNIFICANT ITEMS

The Group recognised pre-tax significant items of $423 million in the period. This included non-cash asset impairments of $369 million, relating to the impairment of fixed assets in the Australian packaging business and impairment of goodwill in Australia, along with $13 million relating to the write-down of inventory.

In addition, the Group has recognised restructuring costs of $38 million, largely relating to the Group's network redesign and rationalisation program, and acquisition related costs of $4 million.

GROWTH AND EFFICIENCY

- Growth in asset pooling – The Group has been awarded a long-term contract to supply returnable produce crate pooling services to ALDI growers in Australia. Services commenced on schedule on 1 August 2019.
- Growth in re-use services – The Group has been awarded a long-term contract to supply garment hanger re-use services to a large retailer in the USA. Services are expected to commence in H2 FY20. The new contract will contribute annual revenue of around $30 million. Cash investment of approximately $10 million will be required to support the new arrangements.
- Network redesign - During the period the Group progressed the redesign of its packaging network. Two facilities were closed in the second half of the financial year, another was rationalised and an import supply model for certain product categories was established. Plant closures announced in the prior year have been completed, with benefits in-line with expectations.
- Acquisitions – the Asia acquisition (completed H2 FY18) and the acquisition of TIC Retail Accessories (completed October 2018) have performed in line with expectation. The integration of TIC is progressing to schedule.
- Strategy review – the Group CEO has initiated a strategy review to clarify the activities and operations which are core to Pact's long-term success.

OUTLOOK

The Group expects EBITDA (before significant items)[1] in FY20 to modestly improve, subject to global economic conditions.

1. On a comparable basis, excluding impacts which will arise in FY20 from the adoption of AASB16 by the Group.

ENDS

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Pact will host an investor briefing at 10.00am (AEST) today. Teleconference registration can be made via the link https://s1.c-conf.com/diamondpass/pactgroup-10000979-invite.html. The briefing can also be accessed at https://webcasting.boardroom.media/broadcast/5d19925912d7e6343766ca17. A recording of the briefing will be available on the Pact website as soon as practicable after the briefing.

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