ASX Announcement

Pact Group Holdings full year 2023 results

Date: 16 August 2023

Result in line with guidance

$A millions	**FY22**	**FY23**	**Change**
Revenue	1,838	1,949	6%
Underlying EBIT	156	145	(7%)
Packaging & Sustainability underlying EBIT	*110*	*102*	*(8%)*
Materials Handling & Pooling underlying EBIT	*50*	*40*	*(19%)*
Contract Manufacturing underlying EBIT	*(4)*	*3*	*184%*
Underlying NPAT	70	45	(36%)
Underlying adjustments after tax	(58)	(51)	-
Reported NPAT (loss)/gain	12	(7)	-
Final dividend – cents per share	5.0	0.0	(100%)

- Revenue growth of 6% on the prior corresponding period (**pcp**) to $1.949 billion resulting from recovery of costs and volume growth, and was achieved despite tightening economic conditions, softer demand from Asia, and weather events across Australia and New Zealand.
- Underlying EBIT of $145 million was within the revised guidance range provided on 15 May 2023 and 7% below the pcp as a result of the flow on effects of challenging environmental conditions and increases in labour and domestic supply chain costs.
- Reported NPAT was a loss of $7 million as a result of a non-cash impairment of $37 million (after tax) property, plant and equipment in the Packaging & Sustainability segment. The impairment is primarily related to the expected replacement of plant and equipment across multiple platforms in Australia.
- Progress towards executing strategy to Lead the Circular Economy has been significant:
    - Pact has announced the sale of 50% of its Crate Pooling and Crate Manufacturing business to Morrison & Co. a global infrastructure investment manager. Completion is expected later this calendar year and it is subject to regulatory and other approvals. Pact will retain 50% ownership of the business via a joint venture. The cash proceeds from the sale net of transaction costs, duties and taxes are in the order of $160 million, with a further earn out of $20 million. Pact will initially pay down debt with the net cash proceeds. This transaction results in an enterprise value of $380 million with FY23 EBITDA on a pre AASB16 basis of $34.9 million. This business forms part of the Materials Handling & Pooling segment.
    - The Group has continued to progress its development of a national network of recycling infrastructure and continues to lead the industry in providing high quality food grade recycled resins. The Circular Plastics Australia (PET) joint venture in Albury is fully operational and the joint venture recycling facilities in Laverton (HDPE) and Altona (PET) are currently in the commissioning phase and will be operational prior to calendar year end.
    - Pact continued to invest in its Australian and New Zealand plastic packaging manufacturing sites to ensure the production of the required volume of high-quality recycled packaging, including opening a new site in Laverton.
    - Announced strategic partnerships with Woolworths Group in February 2023 to supply recycled packaging for the Australian retailer's own brand portfolio, and with Aldi Australia in May 2023 to supply recycled plastic packaging for its fresh food, dairy, beverage, and home care products sectors.

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- Continued to drive crate pooling penetration and conversion from corrugate to reusable plastic crates in the fresh produce sector and delivered further investment in the crate pools in Australia and New Zealand in addition to extending contract terms with its two main customers.

Financial performance

Revenue was $1.949 billion for the year, up 6% on the pcp, reflecting recovery of costs and increasing demand for sustainable packaging in the Packaging & Sustainability segment, and contract wins in the Contract Manufacturing segment. Underlying earnings before interest and tax (**EBIT**) was $145 million, in-line with revised guidance provided on 15 May 2023 and down 7% on the pcp. Underlying net profit after tax (**NPAT**) was a loss of $7 million, reflecting a $37 million after tax impairment of property, plant and equipment within the Packaging & Sustainability segment.

The Company's Gearing[1] was 3.0 times and reflects an accelerated capital expenditure program over the year which funded platform upgrades to enable the production of products with high recycled content at scale. Net debt at $586 million was $25 million higher than the pcp, and operating cash flow was $291 million reflecting a focus on reducing inventory and on generating cash.

Pact Managing Director and Group Chief Executive Officer, Mr Sanjay Dayal, said "it is pleasing to report revenue growth despite challenging economic conditions. The impact of increasing inflation is reflected in softening demand for consumer products which has impacted particularly on volumes in our Packaging & Sustainability segment where we produce high-quality packaging containing recycled content. We have experienced a change in customer buying patterns with a move towards bulk and private label buying which has had a positive impact on our Contract Manufacturing segment.

"Our Gearing remained elevated at the end of the year reflecting the acceleration of our capital program, with $125 million invested in capital during the period net of federal government funding from the Modern Manufacturing Initiative program.

"The capital program was accelerated to enable our packaging platform to manufacture product containing a high percentage of recycled content at scale in response to the commitment we have made to Woolworths Group, Aldi Australia and our other key customers. Our focus here over the coming year will be on upgrading our Dairy & Beverage platform to meet growing demand for milk bottles made from local recycled resin.

"Our operating cash flow of $291 million was a highlight and reflects our disciplined approach to reducing working capital."

Segment performance

The Packaging & Sustainability segment reported revenue growth of 6% to $1.282 billion and a reduction in underlying EBIT of 8% to $102 million.

"It is pleasing to report revenue growth in the Packaging & Sustainability segment given the challenging economic conditions with demand for consumer products softening later in the year. The reduction in underlying EBIT in this segment reflects increases in costs including domestic freight and labour," Mr Dayal said.

"Packaging Australia recorded particularly strong growth in Health & Personal Care in both the core business and in the recently acquired Synergy Packaging operations and reflects a trend towards health and beauty retail."

"Packaging New Zealand's Fresh Food and Dairy & Beverage businesses performed well despite weather events impacting supply of product, which was somewhat offset by a slow-down in Steel Drum volumes."

"Our Asian closures business performance was in-line with the prior year reflecting a significant slowdown in demand for carbonated drink closures out of China offset by growing demand in Australia, India, Nepal and parts of South-East Asia."

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[1] Gearing is calculated as interest bearing liabilities (excluding lease liabilities recognised under AASB16 Leases) less cash and cash equivalents, divided by rolling 12 months underlying EBITDA (excluding the impact of lease accounting under AASB16).

The Materials Handling & Pooling segment reported revenue down 2% to $347 million and a decline in underlying EBIT of 19% to $40 million.

“Despite growth in volumes in our crate pooling and SULO bins businesses in Australia, in line with the result reported at the half year, the Retail Accessories division of our Materials Handling & Pooling business was significantly impacted by a downturn in the US, European and Australian garment retail sectors,” Mr Dayal said.

“We have removed costs out of the Retail Accessories business and have invested over the year in the crate pool and in machinery to manufacture SULO bins on the back of strong contract wins to produce bins for a fourth bin rollout program. The outlook for this segment is positive.”

The Contract Manufacturing segment reported growth in revenue of 17% to $357 million and underlying EBIT of $3 million.

“This is a very pleasing result which reflects primarily volume growth ahead of the launch of the Horsley Park high speed liquid facility later this calendar year. We have also repriced and won contracts providing further positive momentum for Contract Manufacturing,” Mr Dayal said.

Strategic update

The Company continues to progress its strategy to Lead the Circular Economy. The four components required for a successful Circular Economy are raw material availability, recycling infrastructure, finished goods manufacturing, and demand for packaging containing recycled content. The Company reported progress in each of these areas.

“Our focus over the year remained on upgrading our packaging platforms to allow us to produce high-quality packaging containing recycled content at the scale required by our customers, including Woolworths Group and Aldi Australia. To ensure we have access to the recycled resin required to manufacture that packaging, we continued to invest in the new joint venture recycled resin manufacturing facilities in Altona (PET) and Laverton (HDPE), which will add further capacity to that produced by the Circular Plastics Australia (PET) joint venture which is fully operational in Albury,” Mr Dayal said.

“We also invested in our crate pool to meet demand from existing customers, in our mobile garbage bin manufacturing capacity to fulfil contracts we have won with local councils for additional bin rollouts, and in a new facility in Horsley Park, NSW, containing a high-speed liquid filling line increasing our capacity to produce liquid laundry, health and personal care products.”

“I am delighted to advise that we have reached agreement with Morrison & Co to partner with them in our Crate Pooling and Crate Manufacturing business. This is a great outcome for our customers as we accelerate their Circular Economy solutions.”

Dividend

The Pact Group Holdings board resolved to not pay a final dividend.

Outlook

Pact will provide an update on FY24 trading conditions at its Annual General Meeting.

Pact will hold an investor briefing at 11am AEDT today. This briefing will be webcast and accessible via the following link: **https://edge.media-server.com/mmc/p/9jm7696e**.

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