

25 August 2021

# 2021 Full Year Results

Tim Welsh: CEO & Managing Director  
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All dollar values are in Australian dollars (A\$) unless otherwise stated.

## Non-IFRS Financial Information

This presentation uses Non-IFRS financial information including Adjusted EBITDA, capital expenditure, EBIT, EBIT margin, EBITDA, EBITDA margin, gearing, net debt, NPAT, operating cash flow, operating cash flow conversion, PBT, PBT margin, ROI and working capital. This information is Non-IFRS measures used by the Group, the investment community and Pro-Pac Packaging's Australian peers with similar business portfolios. Pro-Pac Packaging uses these measures for its internal management reporting as it better reflects what we consider to be the underlying performance of the Group.

Certain Non-IFRS financial information has not been subject to review by the Group's external auditor; however, reconciliations have been provided to balances contained in the financial report.

# About Pro-Pac Packaging

Pro-Pac is 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



## Flexibles

- Bespoke flexible packaging solutions specifically tailored for the industrial, food and beverage, health and agriculture sectors
- Stretch & shrink wrap, agricultural silage packaging, fresh produce bags, barrier and lidding films, industrial protective films
- High value-added laminated films and pouches for the FMCG market



## Industrial Specialty Packaging

- Manufactures, sources and distributes high performance packaging and combines with bespoke service
- Focused on innovative solutions for the food & beverage, industrial and health and pharmaceutical industry sectors
- Sourcing partner to global supermarkets



## Rigid

- Partners with small to medium sized customers seeking technical and business support with tailored, bespoke product and supply chain services
- Closure technologies, jerrycans, jars, bottles, measures, pumps and triggers
- Focused on specialty products



# FY21 Highlights



# A Zero Harm Focus

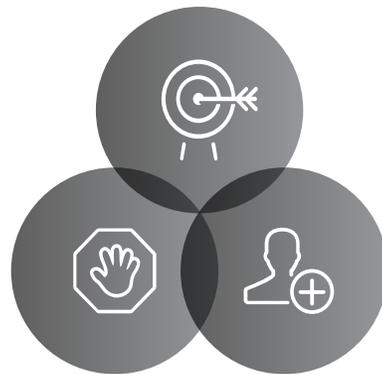
Our leadership is committed to building a disciplined safety culture that sustainably protects our people and enhances operational performance

TRIFR reduced by 35.6% to 9.36

## Targeting Zero Harm

Driving a culture of safety through leadership, systems, education and compliance

**Management Systems**  
Best Practice Health & Safety Management system deployed



**Health, Safety & Environment Team**  
Continued investment in HSE capability

## FY21 COVID-19 Update

- Strict protocols in place to protect the safety, health & wellbeing of our people in Australia and New Zealand, whilst ensuring continuity of operations to support our customers in the supply of essential products and services
- On-site team members are exercising rigorous protocols of our COVID Safe Plans, including social distancing, hygiene, sanitation, segregation of teams working on site and restricted access to visiting third parties

# A Successful Transformation in Challenging Conditions

Major strategic initiatives achieved against the backdrop of COVID-19, highlighting the extraordinary efforts of the team

- Chester Hill site closed on budget in July 2021 (\$13m cash<sup>^</sup>)
- Commissioned 7-layer extruder and laminator in May (\$7m capex<sup>^</sup>)
- Commissioned HD extrusion line in June (\$1m capex<sup>\*</sup>)
- Acquired Supreme Packaging and commenced integration (\$3.1m<sup>~</sup>)
- Established printing and converting Centres of Excellence sites in Melbourne
- Implementation of ERP software in Finance and Accounting
- Divested the Integrated Machinery business
- Commissioned new blow moulding machines in Rigid (\$0.5m capex<sup>\*</sup>)

<sup>^</sup>Project costs over FY20 and FY21   <sup>\*</sup>Project costs in FY21   <sup>~</sup>Total acquisition cost



# Delivering on the Strategy

Significant business transformation achieved with completion of identified priorities

- Delivered a strong operating result in a year of significant disruption due to transformation projects and the COVID-19 pandemic
- Major restructuring projects are now complete and are expected to deliver \$7m in annualised operational benefits
- Investment in new technology and capacity to deliver profitable, organic growth

We have created a more efficient and capable business with a solid foundation for growth while navigating COVID-19 and ensuring continuity of supply for our customers



# FY21 Financial Highlights

Strong financial and operational results during a year of transformation

- Navigated the COVID-19 pandemic challenges, with a strong focus on keeping our people safe
- Executed all planned transformation projects on budget
- Increased margins from portfolio improvement programs and disciplined raw materials management
- Underlying Profit after tax \$13.2m, up 29%
- Maintained a strong balance sheet
- Final fully franked dividend of 0.3 cents per share increasing full year fully franked dividend to 0.55 cents per share, up 37.5%

Profit after tax (underlying)

**\$13.2m up 29%**

(FY20: \$10.2m)

Profit after tax

**\$7.8m up 18%**

(FY20: \$6.6m)

Operating Cashflow Conversion

**107%**

(FY20: 136%)

Gearing

**1.5x**

(FY20: 1.4x)

Fully Franked Final Dividend

**0.3 cents/share**

Fully Franked Full Year Dividend 0.55 cents/share up 37.5%  
(FY20: Fully Franked Full Year Dividend 0.4 cents/share)

# FY21 Results



# Financial Results Summary

Strong financial performance overall, characterised by margin uplift and strong balance sheet

- Revenues declined as a result of portfolio reshaping, divestments, market exits and transitional COVID-19 market conditions
- EBIT margins\* improved due to disciplined management of raw material input costs and the portfolio shift towards higher margin products. EBIT\* was marginally lower than pcp contributed to by the lower revenue
- PBT\* and PBT margin\* increases driven by the improvements in EBIT margins\* and reduced financing costs
- Statutory Profit after Tax, incorporating Significant Items, was \$7.8m, an 18% increase year-on-year
- Net debt\* of \$51m with gearing\* at 1.5x
- No Government JobKeeper assistance or rent relief received
- Insignificant bad debt write-offs at \$0.2m
- Fully franked final dividend of 0.30 cents per share declared, taking the full year dividend to 0.55 cents per share

A \$ million	FY21	FY20	Change
<b>Statutory results:</b>			
Revenue	440.1	478.2	(38.1)
Profit after tax	7.8	6.6	1.2
<b>Underlying results:</b>			
EBIT*	25.3	26.2	(0.9)
EBIT margin*	5.7%	5.5%	0.3%
PBT*	18.8	14.5	4.3
PBT margin*	4.3%	3.0%	1.3%

A \$ million	JUN-21	JUN-20	Change
<b>Balance sheet:</b>			
Working capital*	81.4	82.3	(0.9)
Net debt*	51.0	45.1	5.9
Gearing*	1.5x	1.4x	0.1x

\* Non-IFRS measure as defined in the Appendices

# Revenue

While revenue has declined, the company has become more profitable and has built a platform for growth

- 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 silage wrap (\$2.0m)
  - Year on year transitional COVID-19 impacts relating to temporary cotton export demand, local demand volatility and global shipping delays (\$19.8m)
  - Targeted shift in business mix within Flexibles and Industrial Specialty Packaging to refocus the portfolio on higher value market verticals (\$17.8m)
- Higher margin, new business wins (\$11.0m) and the acquisition of Supreme Packaging (\$5.1m)
- Pro-Pac has continued its focus on margin growth and 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

Source: Management estimates



# Cash Flow

Strong and sustained operating cash flow conversion\*

## Key cash flow metrics

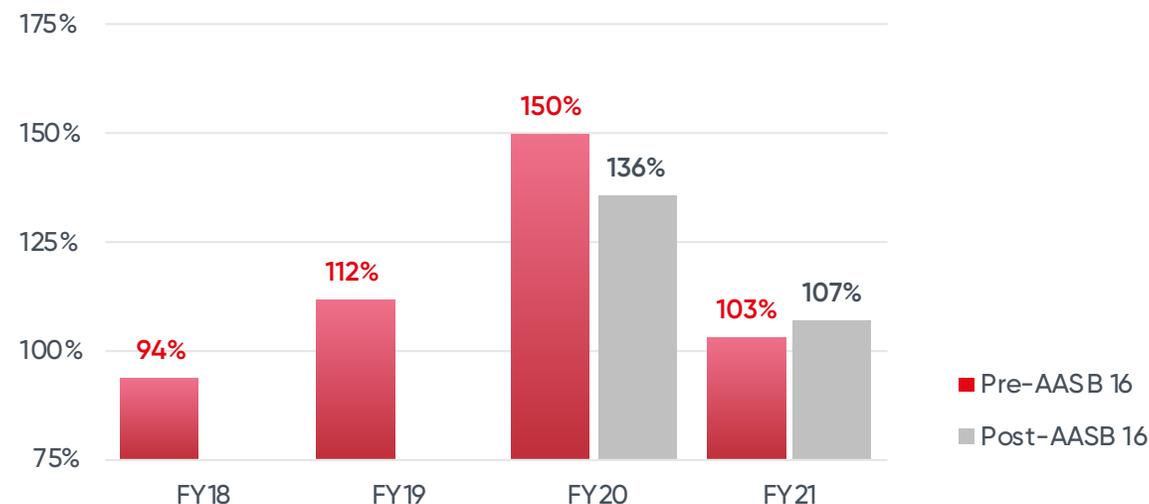
A\$ millions	FY21	FY20	Change
Operating cash flow*	48.5	63.0	(14.5)
Capital expenditure*	(14.5)	(6.2)	(8.3)
Free cash flow*	34.0	56.8	22.8
Operating cash flow conversion*	107%	136%	(29)%

\* Non-IFRS measure as defined in the Appendices

### FY21 Review

- Embedded cash management discipline delivered a 107% operating cash flow conversion\* (FY20: 136%)
- Strong operating cash flows to fund greater returns to shareholders through increasing dividends

## Operating cash flow conversion\*



### Key Priorities

- Remain focused on continuous improvements in cash flow management and disciplines
- Disciplined capital investment focused on growth initiatives, supported by well managed delivery and governance oversight

# Balance Sheet

Strong balance sheet with flexibility to fund future growth

## Key balance sheet metrics

A\$millions	JUN-21	JUN-20	Change
Working capital*	81.4	82.3	(0.9)
Net debt*	51.0	45.1	5.9
Gearing*	1.5x	1.4x	0.1x

\* Non-IFRS measure as defined in the Appendices

- Net debt\* increased by \$5.9m, having funded significant investment in projects \$14.5m of capital expenditure
- \$35.3m of unutilised facilities
- Low gearing and headroom on all covenants

## Working capital\* (A\$m)



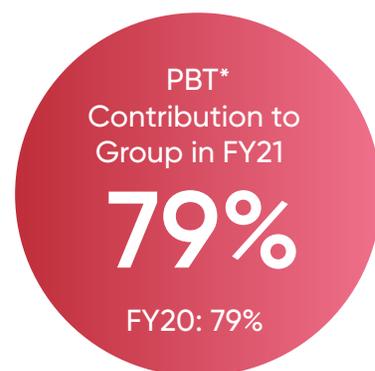
- Working capital\* reduced despite carrying additional inventory to proactively manage the global disruption to supply chains and the implementation of major projects

# Flexibles

Successfully delivered on key transformation projects

A \$ millions	FY21	FY20	Change
Revenue	260.0	285.1	(25.1)
PBT*	18.3	16.7	1.6
PBT margin*	7.0%	5.9%	1.1%

\* Non-IFRS measure as defined in the Appendices



## FY21 Review

### Revenue changes

- Targeted shift of business mix towards higher margin products
- Divestments and market exits
- Temporary lower cotton wrap demand compounded by foreign currency

### Major transformation and investment for growth delivered

- Chester Hill closure completed on budget in July 2021
- Commissioned 7-layer extruder and laminator in May
- Commissioned HD extrusion line in June
- Printing and converting Centres of Excellence established in Melbourne
- Expect operational benefits of circa \$7m in FY22 and beyond

### Successful acquisition of Supreme Packaging

## Key Priorities

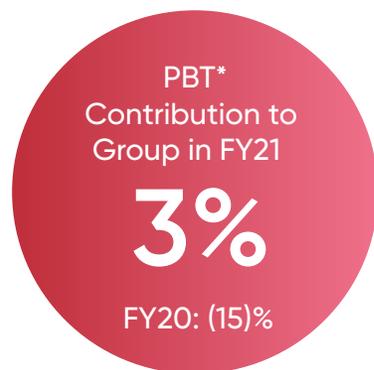
- Drive organic growth supported by an increasingly strong pipeline
- Deliver benefits from transformation projects
- Integration of Supreme Packaging will be completed in September 2021
- In line with our growth strategy continue to review M&A opportunities

# Industrial Specialty Packaging

A return to profitability

A \$ millions	FY21	FY20	Change
Revenue	112.2	123.2	(11.1)
PBT*	0.6	(3.1)	3.8
PBT margin*	0.6%	(2.5)%	3.1%

\* Non-IFRS measure as defined in the Appendices



## FY21 Review

- The Industrial business returned to profitability with an improvement in PBT\* of \$3.8m
- Consistent with our strategy, Management refocused the product range to higher margin market sectors
- Global shipping constraints delayed the recognition of sales in Q4

## Key Priorities

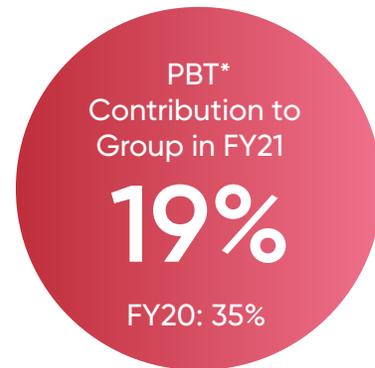
- Drive organic growth in higher margin market verticals
- Focus on growth in value-add categories through innovative new products, exclusive supply partnerships and customer solutions
- Expand our range to offer a greater choice of sustainable packaging for our customers

# Rigid

Sustainable solutions for  
small to medium enterprise

A \$ millions	FY21	FY20	Change
Revenue	68.0	69.8	(1.8)
PBT*	4.2	7.4	(3.2)
PBT margin*	6.2%	10.6%	(4.4%)

\* Non-IFRS measure as defined in the Appendices



## FY21 Review

- Rigid normalised revenues and margins after a strong COVID-19 demand in FY20 and 1H21
- In 2H20 and 1H21, the COVID-19 pandemic provided sales and margin opportunities, particularly for bottles, triggers and pumps for hand sanitiser and other cleaning and hygiene products
- Commissioned new blow moulding machines and expanded manufacturing of high volume lines to optimise margin

## Key Priorities

- Expand manufacturing capacity in the NSW market to improve margins and grow share
- Leverage the company's manufacturing capability to expand sustainable product offerings and support customers' goal of reaching National Packaging Targets



# Strategic Priorities



# Our Purpose and Priorities

Our purpose is to create better lives for our people, our customers, our communities and the planet



Packaging is a critical industry that touches the lives of millions of Australians and New Zealanders every day

## Key Priorities

We have transformed the underlying business over the last two years to build a foundation for growth with purpose

- 1 Drive profitable revenue growth
- 2 Improve operational efficiencies
- 3 Culture of Innovation
- 4 Sustainability

# #1 Driving revenue growth

Profitable growth is a priority



## Focus on driving top line growth in FY22

- Increasing qualified pipeline of higher margin value add products
- Focus business development in market verticals and categories that play to Pro-Pac's core strengths
- Extract full value from the new assets acquired and commissioned in FY21

## Specific initiatives

- Convert our strong sales pipeline including leveraging Pro-Pac's onshore manufacturing capabilities
- Respond to escalating global shipping challenges by investing in key product lines and deepen supplier relationships
- Invest in additional capacity and technologies to optimise manufacturing efficiency and support growth pipeline in high value FMCG segments
- Pursue earnings accretive acquisitions in existing and adjacent market segments

# #2 Operational Efficiencies

Continue operational transformation to enable efficient growth



## Enterprise Resource Planning

- Successful implementation of ERP Finance & Accounting went live in March 2021
- The next priority is Supply Chain & Manufacturing (SCM) starting with the Flexibles business unit

## Centres of Excellence

- Printing and converting Centres of Excellence established in 2H21
- This enabled the integration of Supreme Packaging and the printing assets from the Chester Hill site to be relocated into 2 sites in the Dandenong Industrial precinct in Victoria
- These Centres of Excellence will facilitate:
  - Capacity for efficient future organic growth
  - Future acquisition synergies at a low integration cost
  - Optimise the investment in automation and lowest cost production

# #3 Innovation

Pro-Pac believes in an unconstrained approach to innovation that involves our people, our customers and our community

- Head of Innovation appointed to drive a culture of innovation across the business
- Pro-Pac is a leader in transforming redundant plastics into innovative high performing and sustainable products such as Duratrack, which has recently achieved type approval
- We are committed to expanding our investment in technical resources and best in class equipment and technology to accelerate the production of innovative and sustainable products
- Other near-term priorities in innovation
  - Expand the deployment of Duratrack railway sleepers now that type approval has been achieved
  - Developing new recycling capabilities to lead the circular economy in flexible and rigid plastic packaging recycling



# #4 Sustainability

Pro-Pac is committed to taking a leading role in the circular economy

Pro-Pac's sustainability charter aligns with the UN Sustainable Development Goals

## Better Planet

- Reducing the environmental impact of our products - reduce, reuse, recycle through innovation and partnerships
- Pro-Pac leverages its recycling capabilities to support customers in meeting their National Packaging Targets

## Better Business

- We prioritise employee health, safety and wellbeing at all times
- Diversity and equal opportunities are paramount

## Better Communities

- Effective management of all resources and investment in technology and research to advance sustainability
- Investment in partnerships and initiatives that advance the circular economy
- Participation in industry groups and the establishment of plastic stewardship schemes



A photograph of a large industrial factory floor. The scene is dominated by a complex network of white metal structures, including a prominent multi-level staircase with railings on the right side. In the background, there are various pieces of industrial machinery, including what appears to be a robotic arm or conveyor system. The lighting is bright and even, highlighting the metallic surfaces and the organized layout of the facility. The overall atmosphere is one of a modern, well-maintained industrial environment.

# Outlook

Tim Welsh, CEO & Managing Director



# Outlook

We will continue to prioritise the safety, health and wellbeing of our people and the supply of essential products and services to our customers.

We remain focused on the elements we can directly control and remain confident in our 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
- Invest in expanding our recycling capabilities
- Advance sustainable solutions for customers to achieve National Packaging Targets

We look forward to updating you further at our AGM in November 2021



# Appendices



# Sustainability in Action

Manufacturing sustainable products in Australia using Australian waste plastics

**64**  
TONNES

=

**1**  
KILOMETRE

DISCARDED AUSTRALIAN  
POLYSTYRENE & PLASTIC  
WASTE

INSTALLED  
DURATRACK SLEEPERS



Envire manufactures a range of tough, long life sustainable products with a lifespan 3-4 times longer than timber and recyclable at the end of its life.



We manufacture Envirofill, a loose void fill made from starch. This void fill is 100% biodegradable and water-soluble.



Duratrack is a sustainable railway sleeper with a 50-year life. Then, at the end of its life, it can be recycled back into another sleeper. In an Australian first, the Duratrack railway sleeper has been granted type approval for mainline use.

# Adopting AASB 16 Leases

AASB 16 Leases became effective for Pro-Pac Packaging on 1 July 2019, requiring operating lease arrangements to be recognised on balance sheet



Impact on the profit or loss for FY21 is shown in the table below

A\$ millions	FY21			FY20		
	Post-AASB 16	Adopt AASB 16	Pre-AASB 16	Post-AASB 16	Adopt AASB 16	Pre-AASB 16
Revenue from contracts with customers	440.1	-	440.1	478.2	-	478.2
Operating expenditure	(394.7)	12.4	(407.1)	(431.8)	14.0	445.8
<b>EBITDA*</b>	<b>45.5</b>	<b>12.4</b>	<b>33.1</b>	<b>46.4</b>	<b>14.0</b>	<b>32.4</b>
Depreciation and amortisation expense	(20.2)	(11.6)	(8.5)	(20.2)	(11.0)	(9.2)
<b>EBIT*</b>	<b>25.3</b>	<b>0.8</b>	<b>24.5</b>	<b>26.2</b>	<b>3.0</b>	<b>23.2</b>
Finance costs, net	(6.5)	(3.8)	(2.7)	(11.7)	(5.9)	(5.8)
<b>PBT*</b>	<b>18.8</b>	<b>(3.1)</b>	<b>21.9</b>	<b>14.5</b>	<b>(2.9)</b>	<b>17.4</b>
Significant items	(7.6)	-	(7.6)	(5.0)	-	(5.0)
<b>Profit before income tax</b>	<b>11.2</b>	<b>(3.1)</b>	<b>14.2</b>	<b>9.4</b>	<b>(2.9)</b>	<b>12.4</b>

\* Non-IFRS measure as defined in the Appendices

# Reconciliations

## Reconciliation to EBIT\* & EBITDA\*

A\$ millions	FY21			FY20		
	Post-AASB 16	Adopt AASB 16	Pre-AASB 16	Post-AASB 16	Adopt AASB 16	Pre-AASB 16
Profit before tax	11.2	(3.1)	14.2	9.4	(2.9)	12.4
Add: significant items	7.6	-	7.6	5.0	-	5.0
Add: finance costs	6.7	3.8	2.9	11.8	5.9	5.9
Less: interest income	(0.2)	-	(0.2)	(0.1)	-	(0.1)
EBIT*	25.3	0.8	24.5	26.2	3.0	23.2
Add: depreciation and amortisation	20.2	11.6	8.5	20.2	11.0	9.2
EBITDA*	45.5	12.4	33.1	46.4	14.0	32.4

## Reconciliation to NPAT\*

A\$ millions	FY21			FY20		
	Post-AASB 16	Adopt AASB 16	Pre-AASB 16	Post-AASB 16	Adopt AASB 16	Pre-AASB 16
Profit after tax	7.8	(2.1)	10.0	6.6	(2.1)	8.7
Add: significant items	7.6	-	7.6	5.0	-	5.0
Less: income tax on significant items	(2.3)	-	(2.3)	(1.5)	-	(1.5)
NPAT*	13.2	(2.1)	15.3	10.2	(2.1)	12.2

\* Non-IFRS measure as defined in the Appendices



# Reconciliations

## Reconciliation to Operating Cash Flow\*

A\$ millions	FY21			FY20		
	Post-AASB 16	Adopt AASB 16	Pre-AASB 16	Post-AASB 16	Adopt AASB 16	Pre-AASB 16
<b>Net cash flows from operating activities</b>	<b>27.4</b>	<b>10.5</b>	<b>16.9</b>	<b>53.4</b>	<b>8.5</b>	<b>44.9</b>
Add: income tax paid	1.8	-	1.8	(2.4)	-	(2.4)
Add: significant items paid, net	13.1	-	13.1	1.6	-	1.6
Add: interest paid	6.4	3.8	2.6	10.5	5.9	4.6
Less: interest received	(0.2)	-	(0.2)	(0.1)	-	(0.1)
<b>Operating cash flow*</b>	<b>48.5</b>	<b>14.3</b>	<b>34.2</b>	<b>63.0</b>	<b>14.4</b>	<b>48.6</b>
<b>EBITDA</b>	<b>45.5</b>	<b>12.4</b>	<b>33.1</b>	<b>46.4</b>	<b>14.0</b>	<b>32.4</b>
<b>Operating cash flow conversion</b>	<b>107%</b>	<b>4%</b>	<b>103%</b>	<b>136%</b>	<b>(14%)</b>	<b>150%</b>

\* Non-IFRS measure as defined in the Appendices



# Reconciliations

## Reconciliation to Gearing\*

A\$ millions	FY21	FY20
LTM EBITDA* (post AASB 16)	45.5	46.4
Add: unconsolidated LTM EBITDA from acquisitions	-	-
Less: Adjustment for AASB 16 Leases	(12.4)	(14.0)
LTM Adjusted EBITDA (pre -AASB 16)*	33.1	32.4
Borrowings	58.9	66.5
Less: cash and cash equivalents	(7.9)	(21.4)
Net debt*	51.0	45.1
Gearing*	1.5x	1.4x

\* Non-IFRS measure as defined in the Appendices

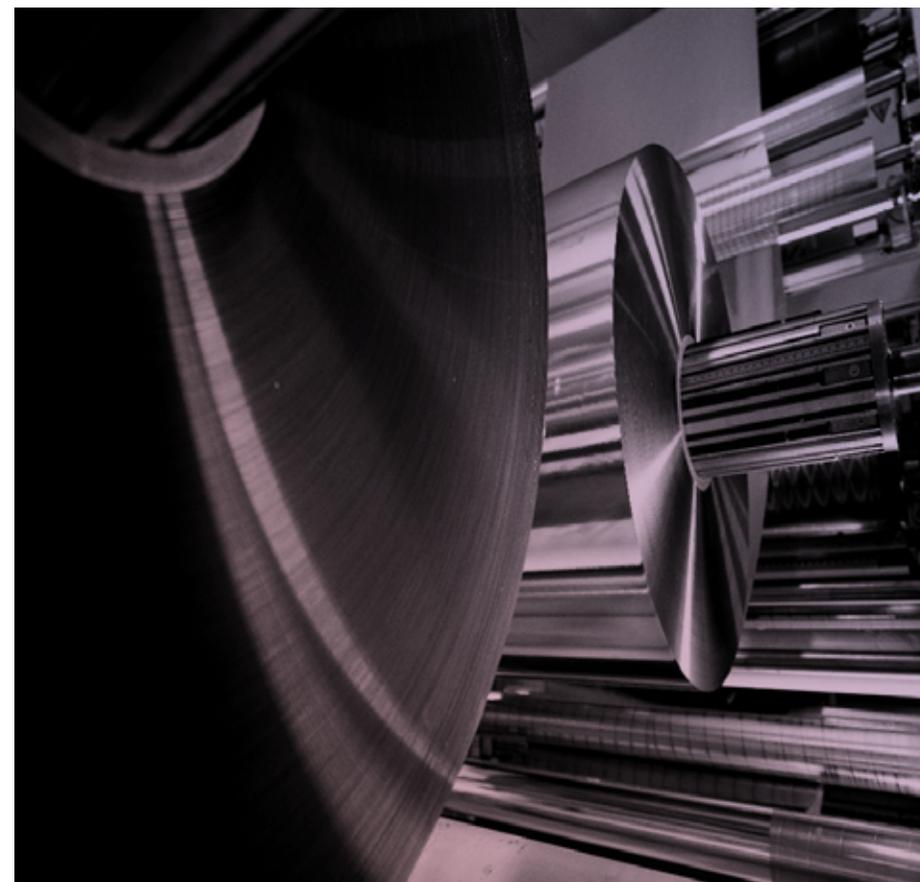


# Reconciliations

## Reconciliation to Significant Items\*

A\$ millions	FY21			FY20		
	Post-AASB 16	Adopt AASB 16	Pre-AASB 16	Post-AASB 16	Adopt AASB 16	Pre-AASB 16
Site consolidation and exit costs	-	-	-	2.1	-	2.1
Acquisition and integration costs	3.7	-	3.7	2.3	-	2.3
Chester Hill closure program	5.4	-	5.4	9.2	-	9.2
Reversal of provisions and other liabilities	-	-	-	(2.8)	-	(2.8)
Loss/(profit) on disposal of business	0.1	-	0.1	(4.7)	-	(4.7)
Insurance income, less losses expensed	(1.8)	-	(1.8)	(2.0)	-	(2.0)
Litigation costs	0.2	-	0.2	0.9	-	0.9
<b>Significant items before income tax</b>	<b>7.6</b>	<b>-</b>	<b>7.6</b>	<b>5.0</b>	<b>-</b>	<b>5.0</b>
Income tax benefit	(2.3)	-	(2.3)	(1.5)	-	(1.5)
<b>Significant items after income tax</b>	<b>5.3</b>	<b>-</b>	<b>5.3</b>	<b>3.5</b>	<b>-</b>	<b>3.5</b>
Payments in relation to significant items	13.1	-	13.1	7.4	-	7.4
Receipts from insurer	-	-	-	(5.9)	-	(5.9)
<b>Significant items paid, net</b>	<b>13.1</b>	<b>-</b>	<b>13.1</b>	<b>1.6</b>	<b>-</b>	<b>1.6</b>

\* Non-IFRS measure as defined in the Appendices



# Definitions of Non-IFRS Financial Measures

Unless otherwise stated in this presentation, all metrics are disclosed post-AASB 16

**Adjusted EBITDA** means EBITDA before AASB 16 Leases for the last 12-months, adjusted for material acquisitions or disposals

**Capital expenditure** represents payments for property, plant and equipment, and intangible assets, less disposal proceeds

**EBIT** refers to PBT before finance costs and interest income

**EBIT margin** is calculated as EBIT divided by revenue

**EBITDA** means profit/(loss) before significant items, depreciation and amortisation, finance costs, interest income and income taxes

**FY20** means the year ended 30 June 2020

**FY21** means the year ended 30 June 2021

**Gearing** is calculated as net debt divided by LTM Adjusted EBITDA

**LTM** means the last 12-month period

**Net debt** is calculated as borrowings, less cash and cash equivalents

**NPAT** refers to profit/(loss) before significant items after income taxes

**Operating cash flow** is defined as net cash flows from operating activities, plus payment for significant times, income taxes paid and net interest paid

**Operating cash flow conversion** is defined as operating cash flow divided by LTM EBITDA

**PBT** refers to profit/(loss) before significant items and income taxes

**PBT margin** is calculated as PBT divided by revenue

**ROI** refers to return on investment

**Working capital** refers to trade and other receivables, inventories, deposits and prepayments, less trade and other payables

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