



Pro-Pac Packaging Limited ABN: 36112971874

11 September 2017

Pro-Pac announces \$177.5 million transformational merger with IPG and fully underwritten \$54.8 million equity raising

Key Highlights

- Pro-Pac has entered into a Share Sale Agreement to merge with Integrated Packaging Group for \$177.5 million (the “Merger”)
- Pro-Pac is poised to become the preeminent flexible and industrial packaging manufacturer and distributor in Australia post the Merger
- The Merger will be funded through a combination of \$60.0 million Pro-Pac shares issued to the Vendors, a \$54.8 million fully underwritten equity raising and \$70.0 million from a new debt facility
- Rupert Harrington to be appointed to the Pro-Pac Board as a Non-Executive Director from completion of the Merger
- Pro-Pac shareholders to approve the issue of shares to the Vendors at an Extraordinary General Meeting to be held in late October

Overview

Pro-Pac Limited (ASX: PPG) is pleased to announce it has entered into a Share Sale Agreement (“SSA”) to acquire the entire issued capital of Integrated Packaging Group Pty Ltd (“IPG”) for \$177.5 million (“Purchase Price”) from Funds managed by Advent Partners Pty Ltd (“Advent”) and IPG senior management (together, the “Vendors”).

IPG is Australia’s largest specialist manufacturer and distributor of flexibles, film, wrap and associated products with #1 or #2 positions in key end markets. IPG operates five world class manufacturing facilities across Australia and New Zealand and has a strong and proven track record of manufacturing high quality products for its diversified blue-chip customer base.

The Merger will be funded by:

- \$54.8m fully underwritten 2 for 3 non-renounceable entitlement offer at \$0.34 per share
- \$60.0m vendor placement of 158.4m shares at \$0.379 per share, being the 30-day Volume Weighted Average Price (“VWAP”) of Pro-Pac shares prior to the announcement of the Merger (premium to entitlement offer price)
- \$70.0m additional debt

Pro-Pac has executed a term sheet with ANZ Bank regarding the provision of debt financing for the transaction.

Pro-Pac Chairman, Ahmed Fahour, said: *“The acquisition of IPG represents a significant milestone in the realisation of Pro-Pac’s vision to become the preeminent flexible and industrial packaging manufacturer and distributor in Australia. The opportunity to combine two very complementary businesses will deliver significant long-term value to Pro-Pac shareholders.”*

The effective date for the transfer of the IPG shares to Pro-Pac will be 1 September 2017, notwithstanding that completion of the Merger is expected to occur in early November 2017.

Strategic Rationale for the Merger

The Pro-Pac Board believes that there is strong commercial and strategic rationale for the IPG acquisition.

1. Merger of Pro-Pac and IPG to create a leader in the growing flexible manufacturing and distribution segment

- Pro-Pac Pro-forma FY18F revenue of \$472 million^{1,2}, Pro-forma EBITDA of \$37.7 million^{1,2}, and Pro-forma net profit after tax of \$18.4 million^{1,2}
- Expected to be 18% EPS accretive on a Pro-forma FY18F basis^{1,2}
- High free cash flow generation to fund growth initiatives
- Opportunity to lead consolidation of the sector with strong pipeline of bolt-on acquisition opportunities
- Positioned to capitalise on growing flexibles market backed by favourable and resilient consumer trends (e.g. fresh food and food safety) encompassing primary, secondary and tertiary packaging products

2. Extended capability with greater efficiency

- World class manufacturing and proven product innovation capability
- Immediate access to international markets with further opportunities for export expansion
- Combination of Pro-Pac’s distribution and IPG’s manufacturing delivers a highly efficient and seamless packaging system
- Complementary blue-chip customer base with no material crossover
- Significant cost synergies and cross selling opportunities with \$2.0 million identified in the near term

3. Strengthened Board & Management Team

- Rupert Harrington, Executive Chairman of Advent, to join Pro-Pac Board from completion of the Merger
- John Cerini, current CEO of IPG, to lead Pro-Pac Industrial & Flexibles Division from completion of the Merger

4. Enhanced liquidity and profile

- Capital raising has the potential to bring new high quality institutional investors onto the register

¹ Pro-forma earnings excluding the timing impact of gains relating to capital investments

² Inclusive of \$2.0m in near term pre-tax synergies, tax effected at the NPAT line

Pro-Pac CEO, Grant Harrod said: *“The combination of Pro-Pac and IPG provides many exciting opportunities in the growing Australian flexibles packaging market. Pro-Pac’s expanded capacity to manufacture and distribute high quality products will delight our customer base and provide us with a one-stop-shop offering. Pro-Pac will be a world class manufacturer without geographic constraints as we increase our offerings in key areas such as food service and agriculture film.”*

Conditions of the Merger

The implementation of the Merger is conditional on the following events:

- Pro-Pac shareholder approval for the issue of shares to the Vendors;
- PPG completing a fundraising of \$54.8 million under the Entitlement Offer;
- PPG procuring a W&I Policy on terms acceptable to PPG and the Vendors; and
- the conditions under the debt facility being satisfied by PPG.

The Purchase Price is subject to customary adjustments for working capital and net debt.

Pro-Pac may terminate the SSA if there is a material adverse change prior to completion that results in IPG’s consolidated EBITDA for FY18 being 20% less than its forecast. The Vendors may terminate if there is a material adverse change prior to completion that results in either IPG’s or PPG’s consolidated EBITDA for FY18 being 20% less than its forecast.

The SSA contains usual representations and warranties for a transaction of this nature. If completion of the Merger does not occur by 1 December 2017, Pro-Pac has undertaken to pay the Vendors interest on the Purchase Price of 11% per annum.

PPG has obtained the commitment of its major shareholders – Bennamon Pty Limited, which holds 123,792,007 shares (51.2%) and Brandon Penn who holds 24,958,817 shares (10.32%) at the date of this announcement – to vote in favour of the issue of the consideration shares to the Vendors at the upcoming Extraordinary General Meeting, in the absence of a superior proposal.

Capital Raising

Pro-Pac also announces a fully underwritten equity raising of \$54.8 million via a 2 for 3 non-renounceable rights issue at an issue price of \$0.34 per new share (“Entitlement Offer”).

The Entitlement Offer price represents:

- a 10.2% discount to the 30-day VWAP of Pro-Pac shares prior to the announcement of the Merger; and
- a 10.2% discount to the price of shares issued to the Vendors.

Proceeds from the Entitlement Offer will be used to partially fund the cash component of the Purchase Price and transaction costs of approximately \$7.3 million.

Approximately 161.2 million new Pro-Pac shares are expected to be issued under the Entitlement Offer. The new ordinary shares will rank equally with existing ordinary shares and will not be eligible for the FY17 final dividend.

The Entitlement Offer is fully underwritten by Bell Potter Securities Limited.

Pro-Pac major shareholder Bennamon Pty Ltd has committed to taking up its pro-rata entitlement of \$28.1 million.

The Entitlement Offer is not conditional on completion of the Merger. In the event that the Merger does not complete for any reason, Pro-Pac will consider options in relation to the use of funds raised. In the event that the Merger does not complete for any reason, the underwriter is entitled to terminate its obligation to underwrite the Entitlement Offer.

Effect of the Merger and Entitlement Offer on the Capital Structure of Pro-Pac

The Vendors will hold 28.2% of Pro-Pac upon completion of the Merger and Entitlement Offer. The Vendors will also enter into a voluntary escrow arrangement for their entire shareholding. The escrow arrangements are, subject to certain conditions, that the Vendors will be able to sell 50% of their holdings after the release of the Company's FY18 results, and the remaining 50% after the release of the FY19 results.³ Under the SSA, Advent is entitled to nominate a director to the Board of Pro-Pac for as long as it maintains a minimum 10% shareholding in Pro-Pac.

The effect of the Merger and Entitlement Offer on the fully diluted capital structure of Pro-Pac is shown in the following table:

	Prior to Merger + Entitlement Offer		Post completion of Merger + Entitlement Offer	
	#million	%	#million	%
Bennamon Pty Ltd	123.8	51.2%	206.3	36.8%
Advent and IPG management	-	-	158.4	28.2%
Other Pro-Pac shareholders	118.0	48.8%	196.6	35.0%
Total	241.8	100.0%	561.4	100.0%

Board and Management

Pro-Pac also announces the appointment of highly experienced executives to its Board and senior management team. Mr Rupert Harrington will be appointed to the Board as a Non-Executive Director from completion of the Merger. Rupert is currently the Executive Chairman of Advent and has extensive corporate experience, having been a director of over 20 of Advent investees' companies operating in manufacturing, services, health, technology and more.

Mr John Cerini, the CEO of IPG since 2003, will be appointed to lead Pro-Pac's Industrial & Flexible Division from completion of the Merger. Prior to joining IPG, John was a senior executive and Divisional General Manager in the Amcor packaging business for ten years and CEO of Detmold Packaging for five years.

³ The Vendors may deal with up to 100% of their escrowed shares at any time after the FY18 results if the 90 day VWAP of the shares after the announcement of the FY18 results exceeds the issue price of the shares by 40% or more.

Indicative Timetable and Next Steps

An indicative timetable of key dates in relation to the Merger and Entitlement Offer is set out below.

Event	Date/Time (AEST)
Announcement of Merger and underwritten entitlement offer, and trading resumes	Before 10.00am, Monday, 11 September 2017
Lodgment of Notice of Meeting	Tuesday, 26 September 2017
Announcement of Entitlement Offer	Tuesday, 10 October 2017
Ex-entitlement date	Thursday, 12 October 2017
Record Date	Friday, 13 October 2017 (at 7:00pm ADST)
Entitlement Offer opens	Wednesday, 18 October 2017
Extraordinary General Meeting of shareholders to approve the consideration shares	Friday, 27 October 2017
Entitlement Offer closes	Monday, 30 October 2017
Deferred settlement trading	Tuesday, 31 October 2017
Shortfall notice issued to underwriters	Thursday, 2 November 2017
Settlement of Entitlement Offer shares	Friday, 3 November 2017
Issue of consideration shares	Monday, 6 November 2017
Completion of Merger	Monday, 6 November 2017
Commencement of trading of Entitlement Offer shares	Tuesday, 7 November 2017

The timetable is indicative only and Pro-Pac reserves the right to amend the dates at its discretion and without notice, subject to the ASX Listing Rules and Corporations Act.

Enquiries

For further information please contact;

Grant Harrod

CEO - Pro-Pac Packaging Limited

Tel (02) 8781 0500

Mark Saus

CFO - Pro-Pac Packaging Limited

Tel (02) 8781 0500

About Pro-Pac

Pro-Pac Packaging Limited is a diversified manufacturing and distribution company, providing innovative, flexible and rigid packaging solutions for a broad group of blue chip clients. Pro-Pac is headquartered in Sydney with a national footprint including operations in all mainland states. Pro-Pac's securities are listed and quoted on the ASX. For further information on Pro-Pac visit www.ppgaust.com.au.

About IPG

IPG is Australia's largest specialist manufacturer and distributor of flexibles, film, wrap and associated products with #1 or #2 positions in key end markets. IPG operates five world class manufacturing facilities across Australia and New Zealand and has a strong and proven track record of manufacturing high quality products for its diversified blue-chip customer base. For further information on IPG visit www.integratedpackaging.com.au.