Pro-Pac Packaging Limited
ABN: 36112971874

ASX ANNOUNCEMENT

28 August 2019

Pro-Pac Packaging Limited 2019 Full-Year Results

Overview

$ millions	30 June 2019	30 June 2018	Change %
Revenue	485.8	371.5	30.8
EBITDA (before significant items)	28.1	16.3	72.2
Flexibles	18.8	5.6	236.6
Industrial	3.7	6.0	(39.0)
Rigid	6.6	5.2	27.1
Unallocated corporate costs	(1.0)	(0.5)	(100.0)
EBIT (before significant items)	18.8	10.4	80.2
NPAT (before significant items)	7.7	3.1	148.4
Significant items (after tax)	(159.0)	(8.2)	n/a
Statutory NPAT/(Loss)	(151.3)	(5.1)	n/a
Total dividends - cents per share	0.0	2.0	(2.0)

- Sales revenue $485.8 million, up 30.8% on previous corresponding period (pcp)
  - Revenue and earnings growth primarily from Polypak and Perfection Packaging acquisitions and incremental 4-month impact of the November 2017 acquisition of Integrated Packaging Group Pty Ltd (IPG)
- Management focus on efficiency and operational effectiveness
  - Successfully completed acquisitions of Polypak and Perfection Packaging businesses
  - Identification and execution of integration initiatives combined with tighter cost control
  - Improved working capital in second half of year through inventory reduction program
- Stronger EBITDA margin of 5.8% (pcp: 4.4%) despite adverse impact of higher raw material and energy costs in first half of year, and unfavourable foreign exchange movements
- Significant reduction in net debt to $82.9 million from 101.3 million pcp has strengthened balance sheet gearing to 2.8x[1] (pcp: 3.8x)
- No final dividend determined by the Board of Directors

EBITDA, EBIT, NPAT and Gearing are non-IFRS financial measures and have not been subject to review by the Company's external auditor. Refer to page 21 of the 2019 Full-Year Results Investor Presentation for a reconciliation of statutory profit/loss and page 24 for definitions of non-IFRS financial measures.

Appointment of New Chair and CEO

On 8 April 2019, Mr Jonathan Ling was appointed Chair of the Company. On 14 May 2019, Mr Tim Welsh was appointed Chief Executive Officer (CEO) of the Company. Both Jonathan and Tim join a refreshed Board of Directors and new executive team to assist with the Company's improvement in business performance.

[1] Gearing is calculated as net debt divided by rolling 12-months EBITDA (adjusted for material acquisitions)

Pro-Pac Packaging Limited (ASX: PPG) today announced a statutory net loss after tax of $151.3 million for the full-year ended 30 June 2019. This included significant expense items after tax of $159.0 million (non-cash $154.5 million). Net profit after tax but before significant items was $7.7 million, up 148.4% compared to $3.1 million in the pcp.

Significant items before tax was a net expense of $163.3 million (pcp: $11.7 million). This included goodwill impairment losses ($149.0 million), acquisition and integration costs ($10.5 million) primarily relating to the acquisitions of IPG (2018), Polypak and Perfection Packaging, and business interruption costs ($3.9 million) including the June 2019 Kewdale, WA site fire.

Business Review

Group sales revenue of $485.8 million increased by 30.8% ($114.3 million) compared to pcp, primarily due to:

- An incremental four-months sales revenue of $77.6 million from the 6 November 2017 acquisition of IPG;
- Twelve-month's revenue of $15.0 million from the 1 July 2018 acquisition of the assets of Polypak Plastics Limited (Polypak); and
- Ten-month's revenue of $41.7 million from the 1 September 2018 acquisition of 100% of the units in the Perfection Packaging Unit Trust (Perfection Packaging).

Excluding the contribution from recent acquisitions, sales revenue was down $20.0m when compared to the pcp with Rigid packaging delivering moderate sales volume growth while Industrial packaging suffered from reduced sales and margin (primarily the food segment) in the second half of the year. Flexibles packaging was impacted by weaker than anticipated sales to the agricultural sector of the market.

Group EBITDA before significant items of $28.1 million was 72.2% ahead of the pcp, with a solid contribution from recent acquisitions and Rigid packaging, despite the negative impact on the Flexibles business of higher raw material and energy costs in the first half of the year, and adverse foreign exchange movements.

The EBITDA margin of 5.8% was 1.4 basis points higher than the pcp, due to the recent acquisitions and improved operational effectiveness and cost control across the business.

EBIT before significant items of $18.8 million was 80.2% higher than the pcp, notwithstanding additional depreciation and amortisation from acquisitions.

Recently appointed CEO, Tim Welsh, said, "whilst we saw strong performances in Rigid packaging and the recent acquisitions, revenue was impacted by lower than expected agricultural sales, and a downturn in the food segment of the market during the second half of the year which led to reduced sales in our Industrial packaging business. Earnings were impacted by the lag in recovering significantly higher raw material input costs experienced in the first half of the year through price increases.

Importantly, the Perfection Packaging and Polypak acquisitions have performed to our internal expectations and are an integral part of rolling-out our value-added flexible packaging offering."

The Company continues to undergo significant change following the November 2017 acquisition of IPG. Mr Welsh said, "We continue the transformation journey from being a distributor of general packaging products to a value-add provider of products and services to higher growth segments of the market."

Strategic Review

With a refreshed Board of Directors and new executive team, the Company is addressing the current financial underperformance by conducting a comprehensive strategic review of its business and product portfolio to identify growth segments of the market to focus its investment and resource capability.

Balance Sheet and Gearing

Net debt at the end of the financial year was $82.9 million, a reduction of $18.4 million compared to the pcp. The reduction in net debt was primarily achieved through an inventory reduction program across the Flexibles packaging business and the proceeds of a capital raising. As at 30 June 2019, gearing was 2.8x, a significant improvement from 3.8x in the pcp, driven by a combination of EBITDA growth and lower net debt.

Dividend

No final dividend was determined by the Board as the Company continues to focus on reducing current gearing levels and utilising cash to fund integration activities.

Outlook

Mr Welsh said, "Given our continuing focus on identifying and executing on operational efficiency opportunities including the extraction of acquisition synergies, we expect the Group to increase EBITDA (before significant items) in 2020, subject to macroeconomic conditions. We will provide a trading update at the Company's November AGM."

ENDS

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About Pro-Pac Packaging:
Pro-Pac Packaging is a diversified manufacturing and distribution business providing innovative industrial, flexible and rigid packaging solutions for a broad group of blue-chip clients and small-to-medium enterprises. Pro-Pac Packaging has its corporate office in Melbourne, overseeing an international footprint including Australia, New Zealand and Canada. Pro-Pac Packaging's securities are listed and quoted on the ASX. For further information on Pro-Pac Packaging 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 Packaging'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 Packaging's control. Important 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 Packaging'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.