Pro-Pac Packaging Limited
ABN: 36112971874

ASX ANNOUNCEMENT

27 February 2020

Pro-Pac Packaging delivers EBITDA[1,3] growth and reduced net debt[3]

Pro-Pac Packaging Limited (ASX: PPG) ("Pro-Pac Packaging" or the "Group") is pleased to announce its results for the half-year ended 31 December 2019 ("1H20"), a period where management delivered earnings growth and reduced net debt[3].

1H20 Financial Highlights

- Revenue of $251.0 million (down 2.4% on pcp[2]) following a focus on shifting business mix towards higher margin products in Flexibles, outweighed by underperformance in Industrial and softer revenues in Rigid
- Statutory profit after tax[3] up to $7.6 million ($144.3 million loss in pcp) due to nil impact of one-off, non-recurring items ($151.0 million in pcp)
- EBITDA margin[3] of 7.2% (up 49 bps on pcp) due to focus on growth segments through recent acquisitions in Flexibles, operational efficiencies, centralised procurement and embedded cost disciplines
- Net debt[3] reduced $6.3 million to $76.6 million (June 2019: $82.9 million) due to earnings growth and disciplined cash management

1H20 Operational Highlights

- Safety performance improved with Lost Time Injury Frequency Rate at 7.5 (June 2019: 8.0[4])
- Organisational structure established for divisional and functional leadership
- Improved business mix through contribution from growing flexible packaging sector

Overview

A$ million	*Post-AASB 16* 1H20	*Adopt AASB 16* 1H20	*Pre-AASB 16* 1H20	1H19	Change
Statutory results:					
Revenue	251.0	-	251.0	257.3	(2.4)%
Profit/(loss) after tax	6.4	(1.2)	7.6	(144.3)	105.3%
Operating results:					
EBITDA[1]	25.0	6.9	18.1	17.3	4.7%
EBITDA margin	10.0%	2.8%	7.2%	6.7%	49 bps
EBIT[1]	14.9	1.3	13.6	13.3	2.5%
EBIT margin	5.9%	0.5%	5.4%	5.2%	26 bps

A$ million	*Post-AASB 16* DEC-19	*Adopt AASB 16* DEC-19	*Pre-AASB 16* DEC-19	JUN-19	Change
Balance sheet:					
Working capital	102.1	-	102.1	98.4	3.8%
Net debt	138.5	61.9	76.6	82.9	(7.6)%
Gearing	3.2x	0.5x	2.7x	2.8x	(0.1)x

[1] EBIT and EBITDA are non-IFRS measures before one-off, non-recurring items
[2] Previous comparative period being the half-year ended 31 December 2018
[3] Before accounting for the impact of AASB 16 *Leases*
[4] Restated following internal review for consistency

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Commenting on the 1H20 results, Pro-Pac Packaging's CEO & Managing Director Tim Welsh said: "*Over the past six months, we have focused on identifying primary packaging solutions that add value to our customers and improve the earnings mix of the Group. 1H20 results demonstrate the Group's ability to extract efficiencies from within our operations to deliver a lower cost to serve model.*

The increase in EBITDA margin[3] in 1H20 validates the focus on shifting our business mix and highlights the improvements in operational discipline and cost reduction. Combined with a significant focus on working capital initiatives, we have been able to materially reduce net debt[3] and strengthen our balance sheet.

Pro-Pac Packaging will continue to focus on driving growth through operational excellence and by leveraging our local manufacturing capacities. These actions will form the foundations for us to build the Group into a leading manufacturer and distributor of packaging products".

Focus on revenue mix drives margin improvement

Revenue of $251.0 million was down 2.4% (or $6.3 million) on pcp primarily due to the Group's deliberate operational strategy to shift business mix toward higher margin products in Flexibles business, outweighed by:

- Reduced volumes, product rationalisation, supply and service delivery issues in Industrial business; and
- Softer revenues for health and wellbeing segment in Rigid business

EBITDA[1,3] of $18.1 million was up 4.7% on pcp, with a 6-month contribution from the 2018 acquisition of Perfection Packaging (4-months in pcp) and an improvement in the Flexibles business, offset by a reduction in the Industrial and Rigid businesses.

EBITDA margin[3] improved to 7.2% (49 bps higher than pcp), due to the Group's focus on growth segments in through recent acquisitions in Flexibles and operational efficiencies, centralised procurement and embedded cost disciplines.

On a divisional basis;

- Flexibles performance was strong driven by:
  - Continued revenue growth in Perfection Packaging and Polypak
  - Incremental $8.4 million in revenue and $1.2 million in EBITDA[1,3] from the 2018 acquisition of Perfection Packaging to include full 6-months (4-months in pcp)
  - Additional EBITDA[1,3] growth of $1.9 million achieved through margin expansion from profit improvement initiatives
- Industrial division performance was adversely impacted by:
  - Weaker manufacturing and industrial volumes
  - Continued SKU reduction of production portfolio
  - Supply and service delivery issues, now being resolved
- Performance in the Rigid division included new business pipeline delivering modest growth in alternative market verticals outweighed by softer revenues in the health and wellness segment, primarily due to regulatory changes in China affecting Nutraceutical imports

Net debt[3] reduction

Management's focus on cost reduction and cash flow management has enabled the Group to reduce net debt[3] by $6.9 million to $76.6 million (June 2019: $82.9 million) and achieve a significantly stronger balance sheet and lower gearing to 2.7x (June 2019: 2.8x).

Active management of receivables and inventories led to a minimal working capital increase of $3.7 million to $102.1 million (June 2019: $98.4 million), despite seasonally high requirements at 31 December.

Management will continue to optimise cash flow performance to achieve further improvements in working capital and net debt[3] reduction in 2H20.

Dividend

No interim dividend was declared by the Board, as the Group continues to focus on further reducing net debt[3] and utilising cash to fund business activities and growth investment.

Outlook

We expect a continuation of our improved business performance to achieve a full year 2020 EBITDA[1,3] above the prior year, subject to macroeconomic conditions and potential Coronavirus supply chain disruptions.

ENDS

This announcement has been approved by the board of Pro-Pac Packaging.

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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.