Pro-Pac Packaging Limited
ABN: 36112971874

ASX- For immediate release

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Pro-Pac Packaging delivers EBITDA[1] growth, reduces net debt[2] and resumes dividends

Pro-Pac Packaging Limited (ASX: PPG) ("Pro-Pac" or "the company") is pleased to announce a statutory Net Profit after Tax of $6.6m for the year ended 30 June 2020 (FY20), a period where the company delivered earnings growth, sustainable improvements in working capital[3] and a significant reduction in net debt[2].

FY20 Financial Highlights	
✓	Statutory NPAT up by $158.0m at $6.6m
✓	EBITDA[1] up by 15.4% at $32.4m
✓	EBITDA margin[4] up by 1.0% at 6.8%
✓	Net debt[2] reduced by 44.4% at $46.1m with Gearing[5] reduced by 50% to 1.4 x
✓	Successful debt refinance – 3-year senior debt facility
✓	Dividends re-instated at fully franked dividend of 0.4 cents per share
FY20 Significant Highlights	
✓	LTIFR reduced by 14.1% to 6.9
✓	COVID-19 – successfully managed employee safety and continuity of operations with no Government JobKeeper assistance or rent relief received
✓	Strategic partnership developed with global agricultural company Tama Group
✓	In line with our strategy to optimise our operational footprint, Chester Hill transition commenced with future annualised benefits of around $7m per annum from FY22 onwards
✓	In line with our strategy to optimise our cost base and operational efficiencies, ERP consolidation project underway
✓	Organisational structure in place and recruitment of high calibre team largely complete

Commenting on the FY20 results, Pro-Pac's CEO & Managing Director Tim Welsh said:

"I am proud of how the Pro-Pac team has continued to focus on our growth objectives and delivered a set of strong financial results despite the ongoing challenges of the COVID-19 pandemic.

The net debt[2] improvement was a significant achievement for the company and was accomplished through the combination of improvements in earnings and working capital[3]. What has been particularly pleasing is the sustainability of the reduction in the level of working capital[3] within the business, giving us the flexibility to leverage future innovation and growth opportunities.

83-85 Banbury Road
Reservoir, 3073, VIC, Australia
PO BOX 441, Reservoir, VIC, 3073

Tel: (03) 9474 4200
Fax: (03) 9269 5199
Web: www.ppgaust.com.au

The growth in EBITDA[1] and improvement in margins validates the strategic focus of shifting our business mix and growth ambitions towards the higher margin Flexibles business and highlights the improvements in our operational discipline and cost reduction, with further opportunities for operational and cost improvements being pursued.

Operationally, leveraging our existing resources and obtaining the best possible returns on our investments, remains an important priority. The closure of the Chester Hill facility and the consolidation of our production footprint will position our Flexibles division well to remain a leader in the delivery of flexible packaging products and services, for all of the critical markets we serve. The move will also optimise our other Flexibles sites.

The significant improvement in our balance sheet and our focus on driving growth though operational excellence delivers a strong foundation for Pro-Pac to become an industry leader in the manufacturing and distribution of packaging products."

Results overview

A$'000	*Post-AASB 16* FY20	*Adopt AASB 16* FY20	*Pre-AASB 16* FY20	FY19	Change
Group results:					
Revenue	478,200	-	478,200	485,810	(1.6)%
Statutory Profit/(loss) after tax	6,643	(2,058)	8,701	(151,334)	105.7%
Operating results:					
EBITDA[1]	46,400	13,990	32,410	28,083	15.4%
EBITDA margin[4]	9.7%	2.9%	6.8%	5.8%	1.0%
Balance sheet:					
Working capital[3]	82,346	-	82,346	98,368	(16.3)%
Net debt[2]	103,804	57,711	46,093	82,937	(44.4%)
Gearing[5]	2.2x	0.8x	1.4x	2.8x	(1.4)x

FY20 Financial Performance

- Revenue of $478.2m (down 1.6% on pcp[6]): a targeted and successful focus on shifting business mix towards higher margin products in Flexibles and Rigids divisions, offset by lower revenue levels from the Industrial division.
- EBITDA[1] of $32.4m (up 15.4% on pcp[6]): an improved EBITDA margin[4] of 6.8% (FY19: 5.8%) driven by a combination of improved business mix, increased contribution from a strategic focus on Flexibles business, improved resin price outcomes and centralised procurement disciplines.
- Statutory Net Profit after Tax of $6.6m (FY19: $151.3m loss).
- Net debt[2] reduced to $46.1m (down 44.4% on pcp[6] balance of $82.9m): driven by earnings growth, strong focus on sustainable working capital[3] improvements and disciplined capital management.
- Reinstatement of dividends, with a full year fully franked dividend of $0.4 cents declared.
- In March, the Group announced the successful refinancing of its senior debt facility for a further 3 years.

FY20 Highlights

- In May, in line with its strategy to optimise its operational footprint and increase manufacturing capability, the company announced its decision to close the manufacturing facility at Chester Hill, NSW. Production will be relocated to existing facilities across Australia and the transition will be completed in FY21. The project will involve capital investment of circa $7m and one-off costs of circa $12.6m. Non-cash asset write offs will be circa $4.0m. Annualised benefits of $7.0m are expected to be realised from FY22.
- Safety performance improved considerably with Lost Time Injury Frequency Rate (LTIFR) at 6.9 (down 17.9% from FY19): supported by the FY20 investment in a dedicated and experienced Health Safety and Environment team and a new management system.

- A strategic partnership was established with global Agricultural packaging company Tama Group in June, with Pro-Pac divesting its Australian agricultural forage distribution business in conjunction with signing a 10 year agreement for Tama to exclusively distribute Pro-Pac's range of SilaWRAP film to the agricultural sector. There are no net EBITDA[1] changes in FY21, and there are guaranteed and increasing minimum annual volumes and improvements in working capital[3] for Pro-Pac as a result of this transaction.
- In June, in line with its strategy to ensure efficiency in operations, Pro-Pac commenced its ERP replacement project. This will consolidate multiple disparate existing systems onto a single, integrated ERP platform for the Pro-Pac group. It will create a standard business framework to support effective and efficient operational and financial management and will provide a platform for sustainable growth.
- Rigorous protocols and risk management initiatives were implemented at all sites in Australia, New Zealand and Malaysia to reduce the potential risk of transmission of COVID-19, manage continuity of operations, and support our customers in the supply of essential products and services.
- The restructure of Pro-Pac's refreshed Senior Management team is now largely complete.

Divisional results

- Flexibles performance was strong driven by:
  - Revenue in the Flexibles packaging business increasing by $14.0m compared to pcp[6], due to a combination of new and existing customer growth, an improved Agricultural season in Australia following better weather conditions and an incremental two-months revenue of $8.4m from the September 2018 acquisition of Perfection Packaging.
  - A highlight was the EBITDA margin[4] expansion during the year to 8.4% (2019: 6.9%) through effective execution of profit improvement initiatives, improved resin price outcomes, and a continuing focus on customer engagement and value-added products.
- Industrial performance was adversely impacted by:
  - Revenue in the Industrial packaging business decreasing by $29.4m compared to pcp[6], primarily due to a reduction in customer demand (in particular, from sales within the food segment) in the New South Wales and Victorian businesses;
  - A small non-core business was divested in 1H20, which resulted in a decrease in revenues of $7.9m and EBITDA[1] of $0.2m compared to pcp[6]; and
  - Supply chain and sourcing disruptions through COVID-19 which are now improving.
- Rigid division performance improved during the year driven by:
  - Revenue in the Rigid packaging business increasing by $7.7m compared to pcp[6], primarily due to higher sales volume in food, beverage, personal care and household segments; and
  - Earnings were positively impacted by operational improvements.

Net debt[2] reduction and refinancing

Management's focus on profitable growth, EBITDA margin[4] improvement and working capital[3] has enabled a reduction in net debt[2] of $36.8m to $46.1m (June 2019: $82.9m). Pro-Pac now has a significantly stronger balance sheet with gearing[5] of 1.4x (June 2019: 2.8x).

The reduction in net debt[2] was achieved through sustainable reductions in working capital[3] ($16.0m) and other cash flows from operations ($29.2m), partially offset by net capital expenditure ($5.8m).

Pro-Pac successfully refinanced its senior debt facility for a further 3 years and now has $92.5m senior debt maturing in March 2023 and a $10m overdraft facility. These new arrangements result in a lower cost of debt and, coupled with the reduction in net debt[2], provide Pro-Pac with the funding capacity and flexibility to support its transformation projects and to enable investment in innovation and growth.

Management will continue to focus on working capital[3] management to ensure all opportunities to leverage further improvements are identified and realised.

Dividend

Pro-Pac is delighted that shareholders will be rewarded through the reinstatement of dividends. The Board has declared a fully franked final dividend of 0.4 cents per share.

The final dividend is payable on 7 October 2020, with an ex-dividend date of 15 September 2020 and a record date of 16 September 2020. The DRP will not be available for this dividend.

Outlook

As we enter FY21, the broader macroeconomic conditions remain uncertain due to the ongoing impact of COVID-19. Consequently, Pro-Pac will continue to drive and prioritise a culture of health, safety and wellbeing and enforcing the rigorous protocols across all sites in Australia, New Zealand and Malaysia to reduce the risk of potential transmission of COVID-19. The security of supply of essential products and services to our customers will be at the forefront of everything we do.

Against that backdrop, Pro-Pac will continue to focus on its primary strategy of maximising long-term shareholder value through:

- Organic growth - by improving the core business and growing organically over the longer term;
- Operational efficiency - by driving further improved cost efficiencies and working capital[3] through centralised procurement, process improvements, automation and integration of like activities; and
- Inorganic growth - growth through earnings accretive acquisitions in existing and adjacent market segments.

FY21 will be a year of consolidation as Pro-Pac delivers on critical transformational projects that will drive a step change in our cost base in FY22 and beyond and in our manufacturing capability and ability to address new markets. Key objectives for management over the coming 12 months include:

- Transitioning production from the Chester Hill facility and the deployment of new and existing equipment to our other sites to consolidate the Group's operational footprint; and
- Successfully delivering on the ERP project to enable business rationalisation and efficiency.

The first two months of FY21 have started well for Pro-Pac and carried forward positive momentum with performance currently tracking ahead of prior year. A business update will be provided at the Annual General Meeting in November.

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

For further information, please contact:

Tim Welsh
Chief Executive Officer & Managing Director
Email: investors@ppgaust.com.au
Tel: (61 3) 9474 4222

Iona MacPherson
Chief Financial Officer
Email: investors@ppgaust.com.au
Tel: (61 3) 9474 4222

About Pro-Pac Packaging:

Pro-Pac Packaging is a diversified manufacturing and distribution business providing innovative flexible, rigid and industrial 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 and New Zealand. 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.

[1] EBITDA represents profit/(loss) before net finance costs, income taxes, depreciation and amortisation, and significant items and is reported for before applying AASB 16 *Leases*.

[2] Net debt is defined as interest-bearing liabilities, less cash and cash equivalents and is reported for before applying AASB 16 *Leases*.

[3] Working capital represents trade and other receivables, plus inventories, plus deposits and prepayments, less trade and other payables.

[4] EBITDA margin is calculated as EBITDA divided by revenue and is reported for before applying AASB 16 *Leases*.

[5] Gearing is calculated as net debt divided by EBITDA (adjusted to include 12-months EBITDA for acquisitions) and is reported for before applying AASB 16 *Leases*.

[6] pcp means previous comparative period.