Pro-Pac Packaging Limited
ABN: 36112971874

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Pro-Pac Packaging Reports 1H24 Results

Pro-Pac Packaging Limited (ASX: PPG) ("**Pro-Pac**" or "**the Company**" or "**the Group**") today announces its results for the half year ended 31 December 2023 ("**1H24**").

1H24 Financial Highlights
Revenue from continued operations down by 13.3% across the Group at $158.9 million, during the half-year reflecting the impact of pass through of lower raw material costs (primarily resin costs) to customers as a result of pricing adjustment mechanisms built into contracts. Additionally, volumes were lower compared to prior period with difficult trading conditions on the back of reduced consumer spending patterns in the marketplace.
PBT[1] from continuing operations up by $0.7 million at a loss of $5.5 million compared to 1H23 due to the benefits of cost reduction programs completed in the prior year. The Group continues to look to improve profitability in the face of challenging market conditions.
EBITDA pre-AASB 16[2] from continuing operations up by $2.0 million at a profit of $1.2 million compared to 1H23.
Net debt[3] up $7.9 million at $22.9 million (30 June 2023: $15.0 million).
Safety Highlights
LTIFR[4] reduced by 24.2% during the half year to 8.31 for 1H24 (FY23: 10.96)

Commenting on the 1H24 results, Pro-Pac's CEO & Managing Director John Cerini said:

"Our revenue for the half year was $158.9 million, 13.3% lower than the corresponding period of $183.3 million.

Nevertheless EBITDA (pre AASB16) was $1.2 million versus $(0.8) million for 1HY23.

We continue to build on the improved service quality, delivery and the ease of doing business.

We recently completed the installation of a new printing press within our Perfection Packaging business, which will assist with our printing production efficiencies and capacity.

Safety continues to be a key priority and during the period our LTIFR reduced from 10.96 to 8.31.

We continue to make progress with our recycling facility, that is being assisted by a $13.9 million Federal Government grant.

The grant was received from the Federal Government's Modern Manufacturing Initiative to establish a soft plastic film recycling plant and create a circular economy for the plastic waste through the development of recycled raw materials which can be used in packaging films and products manufactured by PPG and its business partners.

Kin Group, the Company's major shareholder, has committed to the role of developer of the selected site in Albury. Significant work has been done on preparation of the development application, which is expected to be lodged in the near term, with initial building works beginning Q4FY24.

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The required equipment has been selected after an extensive investigation and tendering process, and agreements entered into with the relevant suppliers.

Discussions with interested industry collaboration partners is being undertaken to establish a consortium of parties to optimise the collection of feedstock, processing of waste plastic films and the offtake of manufactured products with recycled content."

1H24 Overview

1H24 Continuing Operations Financial Performance

A$ million	1H24 $'M	1H23 $'M	Change
Statutory results:			
Revenue	158.9	183.3	(24.4)
Statutory profit after tax	(6.9)	(4.9)	(2.0)
Operating results:			
EBITDA pre-AASB 16	1.2	(0.8)	2.0
EBIT	(2.6)	(3.7)	1.1
PBT	(5.5)	(6.2)	0.7
PBT margin[5]	*(3.5%)*	*(3.4%)*	*(0.1)*
Significant items	-	(0.3)	0.3

- Revenue from continuing operations was $158.9 million, a 13.3% decrease from 1H23 reflecting the impact of pass through of lower raw material costs (primarily resin costs) to customers as a result of price adjustment mechanisms built into contracts. Additionally, volumes were lower compared to the prior period with difficult trading conditions on the back of reduced consumer spending patterns in the marketplace and the current weather conditions in both Australia and New Zealand are having an impact on our agricultural volumes.

- EBITDA pre-AASB 16 from continuing operations increased during the half-year to a profit of $1.2 million from a loss of $0.8 million in 1H23:
  - Benefits of cost reduction programs completed in the prior period.
  - The Group continues to look to improve profitability in the face of challenging market conditions.

- Significant items/costs within the first half statutory profit after tax result were nil (2022: $0.3million)

Group (Continuing and Discontinued Operations) Financial Performance

A$ million	1H24 $'M	1H23 $'M	Change
Statutory results:			
Revenue	158.9	185.5	(26.6)
Statutory profit after tax	(6.9)	(5.7)	(1.2)
Operating results:			
EBITDA pre-AASB 16	1.2	(0.9)	2.1
EBIT[6]	(2.6)	(3.8)	1.2
PBT	(5.5)	(6.3)	0.8
PBT margin	*(3.5%)*	*(3.4%)*	*(0.1)*
Significant items	-	(1.3)	1.3

Balance Sheet

A$ million	Dec-23 $'M	Jun-23 $'M	Change
Working capital[7]	76.3	72.3	4.0
Net debt	(22.9)	(15.0)	(7.9)
Other net assets	74.4	78.5	(4.1)
Net assets	127.8	135.8	(8.0)
Share capital	320.5	320.5	-
Other equity	(192.7)	(184.7)	(8.0)

Working capital increased by $4.0 million during the half-year:

- Receivables – increase of $1.0 million or 1%;
- Inventories – decrease of $2.7 million with inventory reduction, in particular raw material holdings, along with a decrease in the resin price during the period;
- Trade payables – decrease of $5.7 million following the inventory reduction during the period and the reduced activity in December compared to June as a result of destocking throughout the supply chain.

The increased working capital, along with capital investment discussed below resulted in net debt increasing from $7.9 million to $22.9 million.

The net debt balance excludes the $5.6 million (excluding GST) of government grant proceeds received in June 2023. (2023: $6.1 million (incl GST))

Cash Management

A$ million	1H24 $'M	1H23 $'M	Change
Net cash flows from operating activities	0.9	(15.5)	16.4
Net cash flows from investing activities	(4.9)	(2.0)	(2.9)
Net cash flows from financing activities	(1.8)	19.3	(21.1)
Net increase/(decrease) in cash	(5.8)	1.8	(7.6)

During the half year ended 31 December 2023, the Group returned to more normalised levels of cash flows compared to the prior year which included the completion of a rights issue which raised net proceeds of $28.3 million.

Cash flows from operating activities were an inflow of $0.9 million, which was an improvement on the prior period which included the use of rights issue funds to improve working capital, including the realignment of payables in the corresponding period.

Net capital expenditure was $4.9 million (1H23: $3.9 million), including $2.6 million of payments for a new Printing Press, which became operational in Q3FY24; and $1.4 million (December 2022: $1.3 million) spent on the development of the new ERP system.

Divisional Results

Flexibles

A$ million	1H24 $'M	1H23 $'M	Change
Revenue	124.5	143.4	(13.2%)
EBITDA pre-AASB 16	1.3	0.0	>100%
EBIT	(2.2)	(2.9)	24.1%
PBT	(3.2)	(3.8)	(15.8%)
PBT margin	(2.6%)	(2.7%)	0.1 bps

Revenue decreased by 13.2% to $124.5 million (2022: $143.4 million) reflecting the impact of pass through of lower raw material costs (primarily resin costs) to customers as a result of price adjustment mechanisms built into contracts. Additionally, volumes were lower compared to prior period with difficult trading conditions on the back of reduced consumer spending patterns in the marketplace.

The EBITDA pre-AASB 16 performance was improved on the prior period with the benefit of cost reduction programs which were taken in the corresponding period. The business continues to look to improve on operating performance in the face of a difficult trading environment.

Industrial Specialty Packaging

A$ million	1H23 $'M	1H22 $'M	Change
Revenue	34.4	39.9	(13.8)%
EBITDA pre-AASB 16	0.6	0.6	-
EBIT	0.4	0.6	(33.3)%
PBT	0.2	0.3	(33.3)%
PBT margin	0.5%	0.8%	(0.3) bps

Revenue decreased by 13.8% to $34.4 million (2022: $39.9 million) as a result of product rationalisation to better alignment with targeted market segments and the impact of difficult trading conditions as discussed above.

The EBITDA pre-AASB 16 performance was in line with last year despite a decrease in volumes for the business as the business exited non-core segments and concentrated on cost reduction and margin improvement.

Outlook

The trading environment remains challenging in a high inflationary market which has impacted consumer buying behaviour.

Our customer service levels have now been restored at levels which meet and exceed expectations, whilst maintaining a strong focus on reducing costs.

Recent investments in new equipment, including the new printing press installed in Q3FY24, will allow the business to grow volumes when the market rebounds, without the need for further significant capital spend.

We continue to work on innovative product offerings, together with our customers, to meet recycled content targets of future Australian Packaging Covenant Organisation (APCO) mandates, which is our strategic priority.

Our focus on our investment in recycling assisted by the Government Grant, will ensure the business takes an important leadership role in the Plastics Industry around soft plastic recycling and the circular economy. We anticipate further announcements on our partnerships and industry collaboration, but our objective is to be operational by Q4FY25.

However, given the current trading environment business remains challenging and volatile.

- We are experiencing higher operating costs on the back of increased input costs;
- Market remains soft with low consumer confidence, resulting in subdued volumes in our existing customer base;
- The current weather conditions in both Australia and New Zealand have had an impact on our agricultural sale volumes;
- The disruption being caused by the Middle East war is starting to affect logistics, customer sentiment and will negatively impact our export sales to the region.

In light of this and following a disappointing January result, we expect be around breakeven EBITDA (pre-AASB 16) for the FY24 year.

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

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About Pro-Pac:

Pro-Pac Packaging Limited (ASX: PPG) is an innovative Flexibles and Industrial Specialty Packaging company with a diversified distribution and manufacturing network throughout Australia and New Zealand. Headquartered in Melbourne, Pro-Pac delivers bespoke packaging solutions for a broad group of blue-chip and SME clients in the industrial, food and beverage, health, agriculture and manufacturing sectors. For further information, please 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'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's control, including resin price, labour pressures and exchange rate fluctuations. These 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'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] PBT refers to profit/(loss) before income taxes and significant items
[2] EBITDA pre-AASB 16 refers profit/(loss) before significant items, depreciation and amortisation, finance costs, interest income, income taxes and before accounting for AASB 16 *Leases*
[3] Net debt is calculated as interest-bearing liabilities, less cash and cash equivalents before accounting for AASB 16 *Leases*
[4] Lost Time Injury Frequency Rate per million hours worked
[5] PBT margin is calculated as PBT divided by revenue
[6] EBIT refers to profit/(loss) before significant items, finance costs, interest income and income taxes
[7] Working capital refers to trade and other receivables, inventories, deposits and prepayments, less trade and other payables