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19 February 2020

PACT GROUP 2020 HALF YEAR RESULTS

OVERVIEW

A$ MILLION	HY 2020 Statutory	HY 2020 Excl AASB16[1]	HY 2019	Movement Excl AASB16
Revenue	**886**	**886**	915	(3%)
EBITDA (before significant items)	**145**	**113**	110	2%
EBIT (before significant items)	**79**	**71**	70	3%
NPAT (before significant items)	**33**	**37**	36	4%
Statutory NPAT	**35**	**39**	(320)	-
Interim dividend – cents per share	**-**	**-**	-	-

(1) The Group has applied AASB 16: *Leases* from 1 July 2019 using the modified retrospective approach to transition. Accordingly, comparatives have not been restated. The Company has provided results excluding impacts from AASB16 to compare current year results to the prior year on a consistent basis. These impacts are detailed at Note 5.1 of the Consolidated Half-Year Financial Report.

- Revenue down 3% to $885.1 million (pcp: $915.4 million)
- EBITDA of $145.4 million (pcp: $110.1 million); excluding AASB 16 EBITDA up 2% to $112.6 million
- EBIT of $78.6 million (pcp: $69.5 million); excluding AASB 16 EBIT up 3% to $71.4 million
- NPAT of $32.7 million (pcp: $35.7 million); excluding AASB 16 NPAT up 4% to $37.0 million
- Improved margins delivered through the improved recovery of prior period pricing lags along with strong cost control and overhead management
- Volume challenges remain in the Australian packaging business and the Contract Manufacturing segment
- Growth delivered in the Materials Handling segment and the Asian packaging business
- Disciplined balance sheet management, with strong operating cash flows and capital expenditure control resulting in reduced net debt (excluding AASB 16 impact)
- Gearing (excluding AASB 16) improved and within targeted range at 2.9x
- The Board has endorsed a new business strategy to "*Lead the Circular Economy*" with several strategic initiatives already underway
  - The Group has commenced a sale process in respect of its Contract Manufacturing division
  - Memorandum of Understanding signed with Cleanaway and Asahi to jointly develop local plastic recycling capability
  - Acquisition of a majority position in Australian Recycled Plastics for $3.6 million, expanding the Group's recycling footprint
- No interim dividend determined, with cash to be retained to fund strategic initiatives and reduce debt

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Pact Group Holdings Ltd ('Pact' ASX: PGH) today announced a statutory net profit after tax of $35 million for the half year ended 31 December 2019. This included a significant gain after tax of $2 million.

The Company's financial results for the half year reflect the adoption of AASB16: Leases. Comparatives for the prior corresponding period have not been restated. The Company has provided results excluding impacts from AASB16 to compare current year results to the prior year on a consistent basis.

Excluding AASB16 impacts, net profit after tax before significant items was $37 million, up 4% compared to $36 million in the prior corresponding period (pcp).

The Board has determined that there will be no interim dividend (pcp: nil) with cash to be retained to fund strategic initiatives and reduce debt.

IMPROVED MARGINS AND DISCIPLINED BALANCE SHEET MANAGEMENT

Pact Group Managing Director and Chief Executive Officer, Mr Sanjay Dayal, said, "Whilst it has been a difficult period in our Australian businesses from a demand perspective, I am pleased to deliver results which illustrate demand growth in our offshore operations, improved margins, a stronger balance sheet and the successful commissioning of several key growth initiatives.

"From a demand perspective, we delivered modest growth in our offshore operations, with both New Zealand and Asia improved. Our materials handling segment saw strong volume uplift with the commencement of pooling services to ALDI. Our existing pooling volumes remained solid.

"Underlying demand in our Australian packaging businesses remained challenging. In the industrial sectors, adverse macro-economic impacts continue to weigh on demand. This includes direct and indirect impacts from drought in Australia. Demand in our consumer sectors remained subdued, whilst volumes in the health and wellness sector were adversely impacted by customer destocking. Health and wellness demand also adversely impacted our contract manufacturing business, with volumes down significantly on the prior year.

"Though volumes were down, our margins improved. The resin cost environment improved, and we have continued to recover some of the adverse pricing lags that impacted earnings in prior periods. We managed our controllables, delivering significant efficiencies in our operations and reducing overheads. Benefits from site rationalisations undertaken in the prior year have delivered in line with expectation.

"Importantly, we managed our balance sheet with discipline. Operating cashflow was very strong and capital expenditure was well controlled. Leverage was improved and within our targeted range of less than 3x.

"In the period we commenced crate pooling services into the ALDI fresh produce supply chain. These operations have performed incredibly well. Volumes and earnings have been in line with expectation, and customer feedback has been outstanding.

"We also recently expanded our reuse operations to support a major contract win in the USA. Services commenced in January, in line with expectations. The success of these initiatives is extremely pleasing given the importance of our pooling and reuse platforms in delivering our new Company Vision to L*ead the Circular Economy*."

BUSINESS REVIEW

Group revenue for the half year at $885.1 million was 3.3% lower than the pcp of $915.4 million. The half year included an incremental four months of results from TIC Retail Accessories ("TIC"). Excluding the acquisition impact of TIC, underlying revenue was 7.0% lower than the pcp. Lower overall net volumes and lower pricing (reflecting the partial pass through of lower resin input costs) were partly offset by favourable foreign exchange translation benefits. Growth was delivered in the Materials Handling and Pooling segment through the expansion of crate pooling operations in Australia to support ALDI and the incremental impact of the TIC acquisition, which more than offset softer industrial demand. Packaging and Sustainability volumes were lower as the Australian

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business continued to experience challenging trading conditions in a number of sectors (including a further weakening in agricultural demand due to worsening drought conditions) which more than offset modest volume growth in New Zealand and Asia. Contract Manufacturing Services volumes were significantly lower in its health and wellness sector and also softer in the homecare and personal care categories.

EBITDA of $145.4 million was $35.3 million higher than the pcp including a positive impact of $32.8 million from the adoption of AASB 16 (which has the effect of reducing operating costs and increasing depreciation and interest costs relating to right of use assets). Excluding the impact of AASB 16, EBITDA was $112.6 million, an increase of $2.5 million or 2.2% on the pcp. Earnings were favourably impacted by the incremental contribution of the TIC acquisition along with the partial recovery of pricing lags incurred in prior periods. In addition, operating costs and overheads were tightly managed, network efficiency benefits were delivered, and the Group also benefitted from generally favourable foreign exchange movements (as the New Zealand dollar strengthened against the Australian dollar). These benefits were however partly offset by the adverse impact of overall lower net volumes, particularly in the Australian packaging business and the Contract Manufacturing Services segment.

Excluding AASB 16, the EBITDA margin for the half was 12.7%, up from 12.0% in the pcp, driven by the recovery of pricing lags and strong cost management.

EBIT of $78.6 million for the half year was $9.1 million higher than the pcp including a positive impact of $7.3 million relating to AASB 16. Excluding this impact, EBIT was $1.9 million (2.7%) up on the pcp due primarily to the earnings impacts noted above. Underlying depreciation and amortisation (excluding an additional $25.5 million relating to right of use assets under AASB 16) was largely in line with the pcp.

Excluding AAS16, the EBIT margin for the half was 8.9%, up from 8.1% in the pcp.

STRATEGY

The Company completed a review of strategy during the period and has established a Vision to *lead the circular economy through reuse, recycling and packaging solutions*. The strategy targets delivery of top quartile shareholder returns and the Company's sustainability promise of 30% recycled content across its portfolio by 2025. The Strategy sets three priorities for the Group:

1. Strengthen the Core
2. Expand reuse and recycling capability; and
3. Leverage regional scale.

A summary of the Strategy and further detail on the Company's priorities is included in the Half Year Results Investor Presentation released today.

Commenting on the new strategy Mr Dayal said, "What we have defined through the review process is an exciting Vision that establishes a clear direction for the Company.

"Our Vision is to *lead the circular economy through reuse, recycling and packaging solutions*, clearly aligning our special capabilities to industry needs. The plastics industry is changing rapidly, and our strategy sets clear priorities regarding our response to this change. Plastics sustainability is not only a social and environmental need. It is an economic necessity.

"Pact is uniquely positioned to lead the packaging industry through transition to the circular economy. We have industry leading packaging capability to improve sustainability through product design, and the scale to provide a meaningful offtake "sink" for recycled materials. We have the recycling capability to collaborate across the value chain to turn plastic waste into a valuable resource. And we have solutions through our reuse platforms that meet the growing need for alternatives to single-use packaging.

“The competitiveness of our packaging platform is critical to our success. We will focus on improving our overall competitiveness through organisational structure, operating efficiency and the performance of our equipment. Our priorities will be assessed through the lens of our customers. Whilst rationalising our footprint will be required, this will not be our first or only focus.

“We will promote discipline in all capital decisions and will maintain a strong balance sheet. We have developed a capital allocation model that will guide our investment and allocation decisions. We will improve our return on invested capital. The recommencement of dividends is a strategic focus.

“We have established detailed plans that support the delivery of our strategy, and I am excited that a number of these plans are already underway.

“We have signed a Memorandum of Understanding with Cleanaway and Asahi to jointly develop local plastic recycling capability. This partnership is a meaningful step in improving the plastics value chain and developing a local circular economy. Waste collected in this country will be processed and used locally. The venture illustrates strong collaboration across industry and government, and a genuine commitment to the sustainability of plastics by all parties.

“We have a clear vision for the future, and when we combine capability, collaboration and strong leadership, we can deliver significant long-term value for all stakeholders.”

The Company will release further details of the Strategy on 25th March 2020 as part of a proposed Pact Investor Day.

OUTLOOK

- Volume challenges will continue in the Group’s Australian packaging and contract manufacturing businesses.
- The potential impact on sales and supply chains from further disruption related to the coronavirus outbreak and other macro-economic factors is uncertain at this time.
- The outcome of the proposed sale of Contract Manufacturing Services and its impact on FY20 earnings is not yet known.

Excluding Contract Manufacturing Services, the Group expects EBITDA (before significant items) from its continuing operations for FY20 to be generally in line with FY19 (on a comparable basis[1]), subject to global economic conditions.

1. Adjusting for the impact of AASB16 on FY20 EBITDA

ENDS

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Pact will host an investor briefing at 10.00am (AEDT) today. Teleconference registration can be made via the link https://s1.c-conf.com/diamondpass/10003854-invite.html. The briefing can also be accessed at https://webcasting.boardroom.media/broadcast/5e2942852ebe134c1d7e006b. A recording of the briefing will be available on the Pact website as soon as practicable after the briefing.

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