ASX Announcement

16 February 2022

Pact Group FY22 first half results

Circular economy strategy progressing well, challenging half in Contract Manufacturing as expected

A$ million	1H2022	1H2021	Movement
Revenue	**927**	894	4%
Packaging & Sustainability	***56***	*54*	*3%*
Materials Handling & Pooling	***28***	*31*	*(9%)*
Contract Manufacturing Services	***(1)***	*13*	*(106%)*
Underlying EBIT	**83**	99	(16%)
Underlying NPAT	**39**	52	(25%)
Underlying adjustments after tax	**(60)**	(2)	
Reported NPAT	**(21)**	50	(142%)
Interim dividend - cents per share	**3.5**	5.0	(30%)

- Widespread and persistent supply chain challenges well managed
- Intense focus on recovering significant raw material and supply chain cost inflation
- Volume growth in Asia closures, packaging, and crate pooling. Solid volumes in hanger reuse services
- Solid performance in Packaging and Materials Handling segments
- Contract Manufacturing segment significantly impacted by higher costs and lower volumes. Non-cash impairments and write-downs of $65 million after tax recognised, turnaround underway
- Solid cash conversion despite supply chain challenges
- Gearing within target range
- Continued momentum in the execution of strategy to Lead the Circular Economy
  - Commissioning of new Albury recycling facility to be complete in February 2022
  - Volume growth in sustainable packaging, further investments underway to enhance manufacturing capability of recycled content packaging
  - Continued pooling penetration and conversion in fresh produce sector
  - Australian packaging operations continue to improve
  - Operational synergies to be realised through site rationalisation in New Zealand
- Interim ordinary dividend of 3.5 cents per share (65% franked to be paid in April 2022)

PACT GROUP HOLDINGS LTD
ABN 55 145 989 644

Building 3, 658 Church Street, Cremorne VIC 3121 Australia
T +61 3 8825 4100 **F** +61 3 9815 8388 **W** pactgroup.com.au

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Pact Group Holdings Ltd ('Pact' ASX: PGH) today announced a reported net loss after tax of $21 million for the half year ended 31 December 2021, compared to a profit of $50 million in the prior corresponding period (pcp). This included a net after-tax expense for underlying adjustments of $60 million (pcp: $2 million), mostly related to non-cash impairments and write-downs in the Contract Manufacturing segment of $65 million after tax, discussed further below.

Underlying net profit after tax (NPAT) was $39 million, down 25% compared to $52 million in the pcp.

The Board has determined an interim ordinary dividend of 3.5 cents per share, franked to 65% (pcp: 5 cents per share).

Solid performance in Packaging and Materials Handling, challenging half in Contract Manufacturing

The Company delivered underlying EBIT of $83 million, compared to $99 million in the pcp. The Packaging and Materials Handling segments performed well in a challenging operating environment, with combined underlying earnings almost in line with the pcp. In the Contract Manufacturing segment, the recovery of significant cost inflation was challenging, and volumes were lower. Underlying earnings in this segment were down $14 million.

Pact Group Managing Director and Chief Executive Officer, Mr Sanjay Dayal, said, "The results in our Packaging and Materials Handling segments in the period have been strong, despite widespread and persistent pandemic related challenges faced by the entire sector. This includes significant cost inflation and widespread supply chain disruption impacting the availability of raw materials, pallets, and labour.

"In the Packaging & Sustainability segment we delivered higher earnings, with underlying EBIT up 3%. Our operational agility enabled us to support our customers in a disrupted environment, delivering good volume growth. The closures, dairy and agriculture sectors performed particularly well. Increased demand for sustainable packaging in the fresh food segment also delivered growth. While supply chain challenges created some operational inefficiencies, this was mitigated by improvements in other areas. An intense focus on recovering increasing costs delivered outstanding results.

"In the Materials Handling & Pooling segment, we delivered good organic growth in fresh produce crate pooling and maintained solid volumes in garment hanger reuse, albeit volumes here were slightly down on the robust post-lockdown volumes delivered in the prior year. We made great progress in recovering higher freight costs, which particularly affected the supply chain businesses, however the price/cost equation was slightly unfavourable in the first half. Some operational inefficiencies arising from supply chain disruption also impacted earnings.

"As we discussed at our AGM in November, trading in the Contract Manufacturing segment was challenging. Earnings were significantly impacted by higher raw material and supply chain costs and lower volumes. The good news is that we have a turnaround underway. While trading will remain challenging in the near-term, volumes are slowly improving through most channels after extended periods of lockdown, and we are implementing strategies to recover costs."

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Balance sheet remains strong, gearing within target levels

The Company maintained gearing within targeted levels at 2.7x, with net debt at $601 million and a solid operating cashflow conversion rate of 73%.

“We have been steadfastly focused on protecting our balance sheet”, Mr Dayal said. “We delivered solid operating cashflows and maintained net debt in line with the prior year despite the challenges in the period. Working capital at the end of December was higher, impacted by increased safety stock, needed to manage volatility in the supply chain. Capital expenditure was well controlled, and gearing remained in our targeted range.”

Delivery of strategy continues

The Company continued to progress its strategy to lead the circular economy through packaging, reuse, and recycling solutions.

Mr Dayal said, “We are delighted to announce the commissioning of our new recycling facility in Albury is nearing completion. This project will be delivered on time and on budget, which is quite a feat in the current pandemic climate. Albury is the first of several projects we have committed to with leading industry partners, that are supporting a step-change in Australia’s capability to recycle waste locally. Albury will produce around 20,000 tonnes of recycled PET annually for use in beverage bottles and other food packaging. A further two recycling projects, which will lift recycling output by an additional 40,000 tonnes, remain on track for commissioning in FY23.

“These projects give Pact access to quality food grade recycled content for use in food and other packaging and complement our existing 40,000 tonne recycling capability. Access to recycled materials differentiates Pact in our packaging and industrial markets, where our customers are increasingly seeking sustainable alternatives. We have delivered organic growth in the fresh food sector through contract wins for sustainable packaging, underpinned by our recycling and manufacturing capability.

“To meet growing demand for sustainable products, we are investing around $80 million over the next 3 years to enhance our manufacturing capability. This includes enabling up to 50% recycled content in milk bottles and 100% recycled content in beverage bottles. In the area of industrial products, we are investing to increase manufacturing capacity for garbage bins, which will enable Pact to increase the use of recycled content in bins and to meet increased demand from 4-bin recycling initiatives across Australia.

“In the area of reuse, we continue to make progress in the conversion of single-use to reusable packaging. While the pace of conversion has been slowed by disruption in the period, we expect this to accelerate when conditions normalise.

“We are making great improvements in our business fundamentals, and this is underpinning Pact’s resilience. We are more customer focused, with stronger operational capability, better insights, and leadership structures in place to respond effectively in a dynamic operating environment. We continue to prioritise our customers, manage our margins, and keep our people safe.

“Our strategy is delivering value. I am proud of the progress we are making and thank the entire Pact team for the commitment and discipline they have demonstrated in the period.”

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Underlying adjustments

Underlying Adjustments in the period (detailed below) were a net expense of $60 million after-tax, relating to non-cash impairments and write-downs in the Contract Manufacturing segment of $65 million, and a net gain of $5 million on other adjustments. Other adjustments delivered a net cash benefit of approximately $14 million in the period.

Mr Dayal said, “Following what has been a challenging half in our Contract Manufacturing businesses, we have recognised several non-cash impairments.

“We are focused on improving performance here, and the turnaround is underway. We have appointed new leadership to drive improvements in business fundamentals, including the recovery of ongoing cost inflation, and seek new business opportunities with greater urgency. While the operating environment will remain challenging in the near-term, we expect value to return as conditions normalise and the turnaround progresses.”

Underlying adjustments ($m)	After tax profit impact	Cash impact	Comments
Gain on sale of property	7	16	Gain on sale of property, $16 million cash received in December in relation to the transaction
Non-cash inventory write-down in Contract Manufacturing segment	(12)	-	Non-cash write-down of hand-sanitiser related inventory
Non-cash impairments in the Contract Manufacturing segment	(53)	-	Non-cash impairment of goodwill, other intangibles and plant and equipment
Other	(2)	(2)	Site closure costs and other adjustments
Total Underlying Adjustments	(60)	14	

Gain on property sale
A gain on the part-disposal of property in China. Cash of $16 million was received in December in relation to the transaction ($10 million for transfer of property, $6 million for incentives to relocate). Further cash proceeds of approximately $20 million will be received when the transaction completes, expected before the end of FY22.

Inventory write-down and disposal costs
Hand sanitiser related inventory was written down and associated disposal costs recognised, following an assessment to discontinue with this product line in response to a severely overstocked market.

Contract Manufacturing impairments
Non-cash impairments of goodwill, other intangibles and plant and equipment recognised in relation to the Contract Manufacturing segment. This follows an assessment of carrying value as part of Pact’s periodic impairment review and reflects current trading conditions, a moderated medium-term outlook and the unavoidable relocation of a major site. The relocation will require capital expenditure of $20 million over the next 12 months (included in Group capital expenditure estimates).

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FY22 Outlook

In a challenging and disrupted operating environment, an intense focus on cost recovery and operational agility will continue to underpin resilience in the Packaging and Materials Handling segments. In the Contract Manufacturing segment, the turnaround will drive a slightly improved performance in the second half.

We expect to deliver FY22 underlying EBIT of between $155 million and $165 million, subject to global and domestic conditions.

~END~

Pact will host an investor briefing at 10.00am (AEDT) today. The briefing can be accessed live at https://event.webcasts.com/starthere.jsp?ei=1527120&tp_key=d95ef9e2dd. A recording will be available on the Pact website as soon as practicable.

For further information contact:

Anita James
General Manager Finance and Investor Relations
+61 3 8825 4116

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