ORORA

# INVESTOR RESULTS RELEASE

## Orora results for the year ended 30 June 2022

**Disciplined execution of strategy results in a 14.6% increase in underlying EBIT and a 28.2% increase in underlying EPS compared to the prior year**

**FY22 results reflect strong revenue and earnings growth in North America with a robust earnings performance in Australasia**

**FINANCIAL SUMMARY**

- Underlying net profit after tax (NPAT) was $187.1m, up 19.4% on the prior year or 17.6% on a constant currency basis.
- Underlying earnings per share (EPS) was 21.7 cents per share (cps), up 28.2%.
- Statutory NPAT was $184.7m and Basic EPS was 21.4cps.
- Sales revenue was $4,090.8m, up 15.6% on FY21, or up 13.0% on a constant currency basis, driven by:
  - North America revenue up 17.7% (14.3% on a constant currency basis), reflecting a significant improvement in operating performance, with revenue growth for OPS and OV; and
  - Australasian revenue up 9.0%, attributable to higher aluminium costs that have been passed through to customers and slight growth in Cans and Glass volumes, partially offset by Glass product sales mix.
- Underlying earnings before interest and tax (EBIT) was $285.5m, up 14.6% (12.7% on a constant currency basis), attributable to:
  - Continued strong financial performance in North America, driven by significant earnings growth in manufacturing and distribution. Constant currency EBIT increased 32.6%, a result of revenue growth and an ongoing focus on business optimisation, customer account profitability management and cost to serve, with OPS margins improving by 80bps to 5.2%.
  - Robust earnings performance in Australasia with EBIT growth in line with forecast and prior year, up $0.3m, driven by:
    - Sustained volumes in Cans, across most formats, and a slight improvement in mix, following significant volume growth in the prior year;
    - A change in Glass product sales mix to lower profit margin categories as Glass cycled the impact of Chinese tariffs on Australian wine exports; and
    - Inflationary pressures relating to freight, energy and materials, mostly offset by cost recoveries and improvement in operating efficiencies.
  - Australasia EBIT margin down 140bps to 16.6% primarily due to the impact of higher aluminium costs passed through to customers.
  - Positive translational FX impact from US denominated earnings of $4.6m. US dollar earnings were translated at AUD/USD ~73 cents in FY22, compared to ~75 cents in the prior period.
- Strong cash generation, with underlying operating cash flow of $272.6m, up $26.6m, driven by earnings growth and continued working capital management, partially offset by higher base capex.
- Cash conversion improved to 73.5% (FY21: 72.9%).

| Financial Summary[1] Continuing Operations A$m | FY22 | FY21 | Change % | Change % Constant Currency |
|---|---|---|---|---|
| Australasia revenue | 909.1 | 834.1 | 9.0% | |
| North America revenue | 3,181.7 | 2,703.9 | 17.7% | 14.3% |
| **Total revenue** | **4,090.8** | **3,538.0** | **15.6%** | **13.0%** |
| EBITDA[2] | 403.4 | 369.3 | 9.2% | 7.5% |
| Australasia EBIT | 150.6 | 150.3 | 0.2% | |
| North America EBIT | 134.9 | 98.8 | 36.6% | 32.6% |
| **EBIT** | **285.5** | **249.1** | **14.6%** | **12.7%** |
| **NPAT** | **187.1** | **156.7** | **19.4%** | **17.6%** |
| EPS (cents)[3] | 21.7 | 16.9 | 28.2% | |
| Return on Sales (EBIT margin)[4] | 7.0% | 7.0% | | |
| Operating cash flow[5] | 272.6 | 246.0 | 10.8% | |
| Cash conversion[6] | 73.5% | 72.9% | | |
| RoAFE[7] | 22.4% | 19.9% | | |
| Dividends per share (cents) | 16.5 | 14.0 | 17.9% | |
| Net Debt[8] | 629 | 453 | | |
| Leverage[9] | 1.8x | 1.5x | | |
| Gearing | 46% | 37% | | |

- The final dividend is 8.5 cps, a 1.0 cent or 13.3% increase on FY21. Total dividends declared for FY22 of 16.5 cps, a 2.5 cent or 17.9% increase from FY21, representing a dividend payout ratio of 76.2%.
- The final dividend is unfranked and sourced from the conduit foreign income account. The ex-dividend date is 5 September 2022, the record date is 6 September 2022 and the payment date is 10 October 2022.
- The Dividend Reinvestment Plan will be reinstated for this dividend.
- Net debt at 30 June 2022 was $629.0m, up $176.1m from $452.9m at 30 June 2021, attributable to the on-market share buyback of $109.0m, higher capital expenditure and the FX increase on US dollar denominated borrowings ($27.8m), partially offset by higher earnings.
- Leverage was 1.8 times EBITDA, up from 1.5 times at 30 June 2021 and 1.6x at 31 December 2021. Current leverage remains below the long-term target of 2.0 to 2.5 times EBITDA.
- RoAFE was 22.4%, up from 19.9% in FY21, reflecting higher North American earnings, partially offset by higher Australasian average working capital.
- Foreign exchange translation sensitivity on EBIT and NPAT to a 1 cent move in the AUD/USD on an annualised basis is ~$2.2m and ~$1.4m, respectively.

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1 This report includes certain non-IFRS financial information (operating cash flow, average funds employed, EBIT and EBITDA). This information is considered by Management in assessing the operating performance of the business and has been included for the benefit of investors. References to earnings throughout this report are reference to earnings before interest and tax and significant items.
2 Earnings before interest tax, depreciation and amortisation
3 Calculated as underlying NPAT / weighted average ordinary shares (net of Treasury Shares)
4 Calculated as EBIT / Sales
5 Excludes cash significant items that are considered to be outside of the ordinary course of operations and discontinued operations
6 Calculated as underlying operating cash flow / underlying cash EBITDA
7 Calculated as EBIT / trailing 12-month average funds employed
8 Net debt excludes the impact of AASB 16 *Leases*
9 Calculated as Net Debt (excluding AASB 16 *Leases*) / trailing 12 months underlying EBITDA including discontinued operations (excluding AASB 16 *Leases*)

**CAPITAL MANAGEMENT UPDATE**

- In October 2021, Orora announced an on-market share buyback[10], purchasing ~30.7m shares at an average price of $3.55 and returning a further $109.0m to shareholders.
- Orora's disciplined approach to capital deployment and working capital management ensures the balance sheet remains strong to pursue organic and inorganic investment.

**STRATEGY UPDATE**

- The Group's corporate strategy underpins Orora's purpose to be a leading sustainable packaging solutions provider through three strategic pillars:
  - Pillar 1: Optimise to grow through operational improvement and best in class execution;
  - Pillar 2: Enhance and expand core products and services to enhance Orora's customer value proposition; and
  - Pillar 3: Enter new segments that are complementary to Orora's capabilities.
- These strategic pillars are supported by eight key principles which help ensure business decisions, strategic initiatives and everyday actions drive progress towards delivering our strategy.
- Orora's business units have formulated strategic priorities in each of these pillars, underpinned by a focus on sustainability, innovation and digitisation.
- The strategic pillars form a critical part of Orora's blueprint for shareholder value creation. The pursuit of our priorities has ensured continued resilience in our business model, and supported positive progress in the optimisation of our operations as well as stabilisation and transition to growth in North America.
- Orora's strategy is expected to continue to generate strong cash flows from the core business operations.
- Deployment of this cash will be to a combination of investments in the core businesses, strategic acquisitions that enhance Orora's product and service offering and capital management considerations, taking into account Orora's targeted dividend payout ratio of 60% - 80% of NPAT and targeted leverage ratio of 2.0 to 2.5 times EBITDA.
- Orora is well-positioned for growth and continues to actively prepare for the deployment of further capital in the near and medium term – both within our market leading Australasian Beverage business, as evidenced by the organic capex investments in both Cans and Glass, and in response to growth opportunities that emerge to expand our product and service capabilities in North America following the stabilisation of our businesses.
- Future growth initiatives will be assessed across all businesses with a rigorous approach to capital allocation ensuring that only value accretive investments that meet Orora's return criteria (to generate a return with an appropriate premium to WACC depending on risk of the investment) are undertaken.
- Orora continues to invest in its market leading Australasian operations, investing in capacity and capabilities to support strong end-market customer demand combined with a focus on business optimisation to drive sustainable earnings growth.

**SUSTAINABILITY UPDATE**

- Orora has made good progress on 'Our Promise to the Future' sustainability goals and commitments which are aligned to the refreshed pillars of Circular Economy, Climate Change and Community.
- As a proven leader in Circular Economy initiatives, Orora is on track to achieve its 2025 goal of 60% recycled content in the glass packaging it manufactures, with use of recycled glass (cullet) increasing year on year. In FY22, recycled glass cullet comprised an average of 38% in glass containers produced by Orora, up from 31% in the prior year.
- Commissioning of the new Cullet Beneficiation Plant at Gawler, South Australia, is almost complete, which will significantly increase the recycled content in our glass packaging, reduce glass going to landfill, reduce greenhouse gas emissions, and further reduce our need to use virgin material in production.
- Under the Climate Change pillar, Orora is on track to achieving our interim goal of a 40% reduction in greenhouse gas emissions for Scope 1 and 2 by 2035. Initiatives include:
  - Construction of an oxygen plant to upgrade the G3 furnace at the Gawler Glass Plant to oxyfuel technology. The G3 furnace will move into the top 10% of energy efficient furnaces worldwide, delivering Orora a step change reduction in fossil fuel use and reducing nitrogen oxide and carbon dioxide emissions;
  - Completed the review and implementation of findings from the Task Force on Climate-related Financial Disclosures (TCFD). No material risks were identified, with our strategy fit-for-purpose and supportive of long-term sustainable growth;
  - A reduction in greenhouse gas emissions by 8.3% (location-based factors Scope 1 & 2) and 4.1% (location-based factors Scope 1 and market-based factors Scope 2) from FY19 baseline;
  - Ongoing renewable energy initiatives as part of procuring greenhouse gas free electricity for the global business; and
  - A program of procuring electrical warehouse-based vehicles for OPS in North America.
- Under the Community pillar, which focuses on the safety, health and human rights of Orora's team members and communities, Orora has led a number of initiatives including launching Stay Safe rules globally; a global Safety Assurance Audit; Our Orora Culture Shaping workshops; Women in Leadership (WILO) program, now in its sixth year; Publishing the company's second Modern Slavery Statement; and Delivering Unconscious Bias training across Orora's North American business.

**OUTLOOK**

- The Orora Group earnings are expected to be higher in FY23, reflecting the resilience of the business in what is expected to be a challenging year of economic conditions.
- In Australasia, EBIT is expected to be broadly in line with FY22, with 1H23 impacted by inflationary cost increases ahead of further 2H23 customer price recovery.
- In North America, further EBIT growth is expected, reflecting the full year impact of FY22 price increases and continued implementation of profit improvement programs.
- This outlook remains subject to global and domestic economic conditions, currency fluctuations and the continuing impacts of the COVID-19 pandemic.

10 An Appendix 3C was released on 21 October 2021. The on-market share buyback commenced on 5 November 2021.

**BALANCE SHEET**

- Key balance sheet movements since June 2021 were:
  - Cash and cash equivalents was up $2.0m to $52.6m and was broadly in line with prior year;
  - Other current assets rose $324.9m as a result of trade and other receivables and inventory, each increasing by $63.4m and $251.7m, respectively. Trade and other receivables increased primarily on the back of strong sales revenue in North America. Supply chain challenges impacting stock availability resulted in lower than normal inventory levels in FY21. Inventory levels increased in FY22 as stock levels were replenished in both Cans (aluminium) and in OPS. Higher commodity prices also contributed to an increase in the value of inventory. The FX impact to other current assets was $50.7m (increase);
  - Net property, plant and equipment ("PP&E") increased by $57.7m. Capex spend for FY22 was $87.2m which included $26.9m cans and ends capacity investment and $19.0m relating to the Cullet Beneficiation Plant. Depreciation for the period was $64.4m (excluding RoU assets). The FX impact on PP&E was $10.8m (increase);
  - Intangible assets increased by $22.0m which was largely as a result of movement in FX rates, up $29.2m, partially offset by $8.9m amortisation for the period;
  - Net debt increased by $176.1m from 30 June 2021, with the main drivers being the $109.0m spent on the on-market share buyback, increased capital expenditure ($30.1m) partially offset by stronger earnings. The FX impact was $27.8m (increase). Orora remains well within all debt covenant requirements and has committed undrawn debt facilities of $372.4m to support future investment and growth;
  - Increase in payables and provisions of $271.3m was driven primarily by the increase in trade and other payables of $280.4m, relating principally to the increase in inventories. The FX impact was $39.8m (increase); and
  - The net of Right of Use Asset ("ROU") and Lease Liability remained broadly in line with prior year, declining $1.5m. RoU Assets and Lease Liabilities relate predominantly to the North American businesses, with very few leases in Australia.

| Balance Sheet A$m | 30 June 2022 | 30 June 2021 | Change % |
|---|---|---|---|
| Cash | 52.6 | 50.6 | 3.9% |
| Other Current Assets | 1,255.1 | 930.2 | 34.9% |
| Property, Plant & Equipment | 685.2 | 627.5 | 9.2% |
| ROU Lease Assets | 173.7 | 200.5 | (13.4%) |
| Goodwill & Intangible Assets | 433.2 | 411.2 | 5.3% |
| Other Non-Current Assets | 109.0 | 104.6 | 4.2% |
| **Total Assets** | **2,708.8** | **2,324.6** | 16.5% |
| Borrowings | 681.6 | 503.5 | 35.4% |
| ROU Lease Liabilities | 224.5 | 252.8 | (11.2%) |
| Payables & Provisions | 1,071.0 | 799.7 | 33.9% |
| Total Equity | 731.7 | 768.6 | (4.8%) |
| **Total Liabilities & Equity** | **2,708.8** | **2,324.6** | 16.5% |
| Net Debt | 629.0 | 452.9 | |
| Leverage | 1.8x | 1.5x | |
| Gearing | 46% | 37% | |

**CASH FLOW**

- Underlying operating cash flow remains strong at $272.6m, up $26.6m or 10.8%.
- EBITDA up 9.2% to $403.4m.
- Cash conversion of 73.5% is marginally above the prior year of 72.9%.
- Main movements to note in cash flow include:
  - Increase in cash EBITDA (sum of EBITDA and non-cash items), up 10.0%, broadly in-line with EBITDA;
  - Total increase in the movement in working capital, up $1.0m to $62.6m, and broadly in-line with FY21; and
  - Base capex of $36.4m was $4.5m higher compared to FY21.
- Interest payments of $17.8m were $4.2m lower than FY21, attributable to payment of bank facility establishment fees in the prior year.
- Tax payments of $55.4m in FY22 reflect a return to normal company tax payments, following Fibre sale related impacts in FY21.
- Growth capex of $50.8m, was $25.6m higher than the prior year. This primarily relates to expenditure on the new canning line and ends capacity expansion at the Dandenong and Ballarat plants ($26.9m) as well as construction of the Cullet Beneficiation Plant ($19.0m).
- Average total working capital to sales was 6.6% (FY21: 6.4%), with the marginal increase largely reflecting higher inventory as stock levels were replenished in FY22.
- The medium-term management target for average total working capital to sales is less than 10.0%.
- FY23 total capex is expected to be ~$230m, with growth capex of ~$150m.

| Cash Flow[1] A$m | FY22 | FY21 | Change % |
|---|---|---|---|
| **EBITDA** | **403.4** | **369.3** | **9.2%** |
| Lease repayments[11] | (59.1) | (59.4) | |
| Non-cash Items | 26.8 | 27.7 | |
| **Cash EBITDA** | **371.1** | **337.6** | **10.0%** |
| Movement in Total Working Capital | (62.6) | (61.6) | |
| Base Capex | (36.4) | (31.9) | |
| Sale Proceeds | 0.5 | 1.9 | |
| **Underlying Operating Cash Flow** | **272.6** | **246.0** | **10.8%** |
| Cash Significant Items | (27.0) | (33.8) | |
| **Operating Free Cash Flow** | **245.6** | **212.2** | **15.7%** |
| Interest | (17.8) | (22.0) | |
| Tax | (55.4) | 1.5 | |
| Growth capex | (50.8) | (25.2) | |
| **Free Cash Available to Shareholders** | **121.6** | **166.5** | **(27.0%)** |
| *Cash Conversion* | 73.5% | 72.9% | |

11 Cash impact of AASB 16 Leases has been included in operating cash to provide a view of cash EBITDA

# AUSTRALASIA

### KEY POINTS

- Sales revenue was up 9.0% due to higher aluminium costs which have been passed onto customers and slight growth in Cans and Glass volumes, partially offset by Glass product sales mix.
- Excluding the impact of aluminium pass through, sales revenue increased 1.5%.
- EBIT was in line with forecast and prior year, up $0.3m to $150.6m. This result underscores the resilience of the Beverage business with Cans volumes remaining strong following significant Cans volume growth in FY21 whilst the Beverage business navigated a higher inflation operating environment and supply chain related disruptions.
- Australasia's FY22 earnings performance reflects:
  - Sustained volumes in Cans combined with a slight improvement in product sales mix;
  - A change in Glass product sales mix to lower profit margin categories as the business cycled the impact of Chinese tariffs on Australian wine exports. This was partially offset by the successful launch of new products which contributed to 2H22 Glass earnings exceeding 1H22; and
  - Inflationary pressures relating to freight, energy, and materials as well as COVID-19 related supply chain and customer site disruptions, which were mostly offset by cost recoveries and improvement in operating efficiencies.
- EBIT margin declined by 140bps to 16.6%, primarily reflecting the impact of higher aluminium costs passed through to customers.
- Underlying operating cash flow of $156.0m was $2.0m below FY21 as a result of lower cash EBITDA, partially offset by lower base capex.
- Continued strong cash conversion of 72.9%.
- The movement in total working capital increased by $1.3m to $43.0m, primarily reflecting the replenishment of inventories depleted in FY21.
- Base capital expenditure of $15.2m was $3.7m lower than FY21.
- Growth capital expenditure of $49.8m was $34.5m higher, primarily due to investment in the cans line and ends capacity expansion ($26.9m) and the Cullet Beneficiation Plant ($19.0m).
- RoAFE was 24.6%, a decline of 80 bps on FY21, driven primarily by higher average working capital.

| Financial Summary[1] A$m | FY22 | FY21 | Change % |
|---|---|---|---|
| Revenue | 909.1 | 834.1 | 9.0% |
| EBIT | 150.6 | 150.3 | 0.2% |
| EBIT Margin % | 16.6% | 18.0% | |
| RoAFE | 24.6% | 25.4% | |

| Segment Cash Flow A$m | FY22[1] | FY21[1] | Change % |
|---|---|---|---|
| **EBITDA** | **195.6** | **197.8** | **(1.1%)** |
| Lease repayments | (3.7) | (6.0) | |
| Non-cash Items | 21.9 | 27.1 | |
| **Cash EBITDA** | **213.8** | **218.9** | **(2.3%)** |
| Movement in Total Working Capital | (43.0) | (41.7) | |
| Base Capex | (15.2) | (18.9) | |
| Sale Proceeds | 0.4 | (0.3) | |
| **Underlying Operating Cash Flow** | **156.0** | **158.0** | **(1.3%)** |
| Cash Significant Items | (26.6) | (28.5) | |
| **Operating Free Cash Flow** | **129.4** | **129.5** | **(0.1%)** |
| *Cash Conversion* | 72.9% | 72.2% | |

### BEVERAGE BUSINESS GROUP

**Cans:**

- Earnings were marginally above FY21 driven by a slight increase in volumes, across most formats, and an improvement in product sales mix. The business was impacted by supply chain disruptions in Can production volumes in 1H22 and increased costs associated with freight, logistics and non-aluminium related materials.
- Despite the impact of COVID-19 customer site disruptions continuing into 2H22, volumes were ahead of FY21, underpinned by ongoing strong demand in both craft and mainstream beer, and carbonated soft drink segments, which benefited from a continuation of the preference shift from glass and plastic to can formats. Slim and Sleek can volumes were up in FY22, reflecting improved activity in the off-premises and convenience channels compared to FY21.
- Volumes increased in other alcoholic beverages such as craft beer, seltzers, RTD's, and wine and non-alcoholic beverages such as energy drinks, still and sparkling water.

**Glass:**

- Earnings were slightly below the prior year, attributable in part to product margin mix, as the business cycled the impact of reduced bottled wine exports to China and launched new lower margin products.
- Second half revenue and earnings improved year-on-year with growth in volumes driven by beer and the successful expansion into the Spirits and Olive Oil markets, as the business diversified its portfolio. Total FY22 volumes were slightly up on FY21.
- The increase in new product volumes also helped curtail the impact of a packaging mix shift in beer, higher supply chain costs and commodity prices (Soda Ash), combined with a lag in passing cost increases through to customers.

**Closures:**

- Closure earnings were slightly below FY21, due to lower wine bottle volumes combined with international supply and shipping challenges for aluminium.
- The shortfall in volume was partially offset by favourable customer and product sales mix with a shift to premium closures.
- 2H22 earnings improved on 1H22 attributable to new customer wins.

### STRATEGY, GROWTH AND INNOVATION UPDATE

- Orora Australasia's strategy continues to be underpinned by a relentless focus on maintaining leadership in packaging decoration and design, and servicing our customers through manufacturing and supply chain excellence.
- With a portfolio of leading sustainable packaging formats, Orora is well-placed to benefit from continued momentum in consumer preference towards recyclable packaging formats.
- Orora continues to invest in capacity and capabilities in its market leading Australasian operations to support strong end-market customer demand and sustainability initiatives.
- The Australasian operations are in a period of growth in capital expenditure, reflecting a strong customer-led outlook for Can volume growth, underpinned by long-term customer contracts and a commitment to sustainability.
- In FY22, construction commenced on the installation of a new canning line in Dandenong, Victoria and expansion of Can ends capacity at Ballarat, Victoria at a total cost of ~$110m.

## AUSTRALASIA (continued)

- A further ~$85m capacity expansion in a second canning line at Revesby, New South Wales was announced at the Orora Investor Day in April 2022. This investment will commence in FY23, with commissioning in FY25, and add an additional ~10% capacity to Orora's can body production to meet the growth in cans demand and the growing craft beer, seltzer and non-alcoholic drinks segments.
- Commitment to sustainability is reflected by the investment in a Cullet Beneficiation Plant and investment in oxyfuel technology for the G3 Glass furnace rebuild.
  - The Cullet Beneficiation Plant will be fully commissioned in early FY23 at a gross cost of ~$25m. Government funding of ~$8m was welcomed to support this development through the Recycling Modernisation Fund. As at 30 June 2022, ~$5m of Government funding has been received.
  - Construction of an oxygen plant, at a gross cost of ~$40m, is planned to be completed in 2024 to upgrade the G3 furnace at the Gawler Glass Plant to oxyfuel technology. Government funding of $12.5m through the Modern Manufacturing Initiative will be welcomed to support the planned construction.
- The Beverage Group continued to focus on operational excellence through Advanced Manufacturing, including data analytics and Integrated Work Systems deployment. In line with this strategy, investment has continued in the Industry 4.0 plant efficiency initiative. The data analytics platform has now been rolled out to all Cans body sites and at Glass, providing better data to problem solve and improve efficiencies.
- New product development has been a cornerstone of Orora Australasia. The expansion into new glass formats including Spirits and Olive Oil helped mitigate to some extent the impact of lower wine bottle volumes driven by Chinese tariffs on Australian wine exports. The business has now developed a new premium flint colour ("Orora Crystal") that will underpin further penetration in the domestic spirits market.
- With Cans, Orora maintains its market leading decoration and differentiation capabilities, partnering with a range of customers in the introduction of new beverage products to market. The business also successfully won several new customers during FY22.
- Within the Closures business, the team is focused on enhancing our product capabilities through further investment in equipment, increased focus on driving volume growth in higher margin products and mitigating supply chain risk by insourcing flat sheet aluminium supply.
- Quality and service remain paramount, and investments in eCommerce enhancements continue to assist with customer engagement.

**PERSPECTIVES FOR FY23 - AUSTRALASIA**

- The Australasian business will continue to identify and implement cost reduction initiatives, reinvest in upgrades to the asset base, build out new capacity with the support of customers and mitigate supply chain challenges. This is consistent with Orora's proven approach to offset ongoing cost headwinds, in addition to pursuing organic and inorganic growth.
- Substantial investment in capital expenditure will continue in FY23, comprising:
  - Cans multi-size line at Dandenong (~$80m), scheduled for completion in 2H23;
  - Cans ends capacity expansion at Ballarat (~$30m), scheduled for completion in 1H23;
  - Cans second line at Revesby (~$85m), scheduled for completion in 2H25;
  - Preparation for the Glass G3 furnace rebuild at Gawler (~$90m), scheduled for completion in 2024; and
  - Preparation for construction of the Oxygen plant at Gawler (~$40m), scheduled for completion in 2024.
- Energy costs comprise ~10% of Australasia's cost of sales, with Glass constituting >75% of energy spend. The impact of energy price rises is reduced due to the following PPAs and wholesale / retail fixed price contracts.
  - Wholesale gas contract for Gawler (Glass) with annual usage 100% contracted until end of 2025 and partially contracted to end of 2027;
  - VIC/NSW/SA electricity usage hedged until end of 2027 under wind farm PPA's; and
  - Various gas and electricity retail fixed price contracts by state which expire between end of 2022 and 2026.
- The Orora Australasia business again delivered robust earnings in FY22 against the backdrop of a higher inflation operating environment and supply chain related disruptions. Inflation and supply chain challenges will continue into FY23, impacting the benefit of continued strength in Cans demand and volume growth, as well as growth and mix optimisation in Glass. EBIT is expected to be broadly in line with FY22, with 1H23 impacted by inflationary cost increases ahead of 2H23 customer price recovery.
- Cash conversion in FY23 is expected to be greater than 70.0%, excluding the G3 glass furnace rebuild, which is treated as base capex.

# NORTH AMERICA

**KEY POINTS**

- North American sales were up 17.7% to $3,181.7m, with a year-on-year increase achieved for both OPS and OV. On a constant currency basis, revenue was up 14.3% to US$2,308.3m.
- North America's EBIT increased by 36.6% to $134.9m (up 32.6% on a constant currency basis to US$97.9m).
- Significant earnings growth in both manufacturing and distribution was driven by improvements in account profitability, operating efficiency and a relentless focus on managing inflationary inputs and cost to serve.
- EBIT margins increased 50bps to 4.2% compared to FY21.
- Underlying operating cash flow increased by 28.7% or US$18.9m to US$84.6m, driven by a 17.7% increase in EBITDA, partially offset by an increase in base capex of US$5.7m.
- Total capex of US$16.1m was broadly in line with the prior year of US$17.1m.
- Cash conversion remains strong at 74.1%, consistent with FY21.
- RoAFE increased by 530bps to 20.3% reflecting the higher earnings.
- Reported EBIT includes a positive A$4.6m FX translation impact.

**ORORA PACKAGING SOLUTIONS (OPS)**

- OPS delivered 15.1% revenue growth, primarily attributable to price increases.
- EBIT margin improved by 80bps to 5.2%, reflecting the importance of improving customer account profitability, realising benefits from acquisition integration and managing supply cost inflation.
- The strong growth in earnings in FY22 reflects an improved operating performance in both the distribution and manufacturing businesses, disciplined pricing management and account profitability execution, as the business continues to drive improvements in operating efficiency and cost to serve.
- The EBIT margin increase was the result of the profit improvement program focussed on margin recovery and efficiency programs which delivered a strong 2H22. Normal second half seasonality softness was offset by progressive price increases. The improved financial performance was driven by:
    - Price increases executed in the current and prior periods and strong active management of inflationary pressures;
    - Continued business optimisation through embedding pricing disciplines driving alignment and prioritisation, leveraging the ERP and associated data analytics to provide additional transparency to sales representatives, further enhancing account profitability, decision making on price, procurement, and costs to serve;
    - An increase in the quality of customer earnings as the share of wallet from profitable customers expanded, and unprofitable customers were exited and replaced; and
    - Operational and financial benefits from the integration of Pollock and Bronco operations into a singular OPS Central region.

**ORORA VISUAL (OV)**

- OV delivered revenue growth on FY21, with the increase in sales revenue driven from an improvement in retail activity and stronger packaging sales.
- The FY22 contribution margin remained broadly in line with FY21.
- Business integration actions across the four OV sites is yielding improvements in operational performance as operations are streamlined.
- Revenue for the Top 20 Customers represents over 55% of the revenue base. These typically national customers are predominantly in defensive end segments including food and beverage, telco, horticulture, education and beauty, home and apparel.
- Initiatives are underway within OV to drive further profit growth and improve returns in a higher inflation operating environment.

| Financial Summary[1] A$m | FY22 | FY21 | Change % |
|---|---|---|---|
| Sales Revenue | 3,181.7 | 2,703.9 | 17.7% |
| EBIT | 134.9 | 98.8 | 36.6% |
| EBIT Margin % | 4.2% | 3.7% | |
| RoAFE | 20.3% | 15.0% | |

| Financial Summary[1] US$m | FY22 | FY21 | Change % |
|---|---|---|---|
| Sales Revenue | 2,308.3 | 2,019.8 | 14.3% |
| EBIT | 97.9 | 73.8 | 32.6% |

| Segment Cash Flow[1] US$m | FY22 | FY21 | Change % |
|---|---|---|---|
| **EBITDA** | **150.8** | **128.1** | 17.7% |
| Lease repayments | (40.2) | (39.9) | |
| Non-cash Items | 3.5 | 0.5 | |
| **Cash EBITDA** | **114.1** | **88.7** | **28.7%** |
| Movement in Total Working Capital | (14.2) | (14.9) | |
| Base Capex | (15.4) | (9.7) | |
| Sale Proceeds | 0.1 | 1.6 | |
| **Underlying Operating Cash Flow** | **84.6** | **65.7** | **28.7%** |
| Cash Significant Items | (0.3) | (4.0) | |
| **Operating Free Cash Flow** | **84.3** | **61.7** | **36.6%** |
| *Cash Conversion* | 74.1% | 74.1% | |

**STRATEGY, GROWTH AND INNOVATION UPDATE**

- In both OPS and OV, the management teams have been focused on establishing platforms that enable scalable expansion.
- Strategically, OPS continues to focus on providing customised solutions that enhance the value of its customers' products and services, specialising in small and medium sized runs, enhancing sustainability whilst also reducing the costs of their packaging.
- OPS benefits from its vertically integrated corrugate manufacturing capability ensuring enhanced customer responsiveness and operating flexibility.
- OV's strategy remains focussed on utilising its national footprint, creative resources and breadth of in-house services and manufacturing capabilities to deliver impactful graphic visual solutions for customers.
- Both OPS and OV seek to differentiate themselves in their respective markets through their design capabilities, product expertise, tailored customer solutions, experience of their sales teams, disciplined execution and supply chain excellence.
- OPS continues to invest in new digital platforms that improve productivity and the customer experience. The refreshed eCommerce platform enables customers to transact digitally with customised product offerings via digital channels and on a just in time basis. The omnichannel strategy is designed to integrate all channels of customer engagement and improve the overall customer experience, the first phase of the new platform was launched in FY22 with customers using legacy solutions migrated. Planning for the second phase of the OPS digital transformation is underway.
- OV continues to build on its value proposition to serve regional and national customers with a series of consistent point of purchase, visual communication, and fulfilment offerings. Focus remains on growth in the packaging, horticulture, quick-service restaurant and retail segments. Fabric printing continues to be a strength and key focus area, servicing customers in the telco, beauty, and home and apparel sectors.

## NORTH AMERICA (continued)

**PERSPECTIVES FOR FY23 – NORTH AMERICA**

- The focus for North America remains on driving further positive momentum and continuing to build on the demonstrated operating and earnings performance momentum to drive further earnings, cost efficiency and margin expansion.
- OPS manufacturing could be impacted by softness in the US economy, with volumes potentially contracting year-on-year.
- Inflationary pressures are starting to stabilise with embedded pricing disciplines enabling further price adjustments, if required.
- Management will assess OPS' manufacturing footprint and consider scale expansion opportunities.
- OPS' business platforms are more stabilised and scalable, enabling Management to continue to actively assess M&A product and service capability opportunities in North America.
- With the full year impact of FY22 price increases and continuation of the OPS profit improvement program, further EBIT growth is expected in North America in FY23.
- Cash conversion in FY23 is expected to remain above 70%.

## CORPORATE

- Corporate costs are allocated directly to the business segments.
- Orora has substantial committed headroom under its existing debt facilities (~$372m) with no material maturities until July 2023.
- Leverage ratio of 1.8x is below the long-term target of 2.0x – 2.5x but is expected to increase in FY23 and FY24 due to the growth capex program, with earnings to flow from FY24.
- The decommissioning of the Petrie site is progressing but continues to be a significant and complex exercise involving multiple government agencies. Approximately $26.5m was spent on decommissioning the site during the year ($28.4m in the pcp). Impacts of the unprecedented rainfall levels in Queensland are being managed within the existing provisions. The Group continues to engage a specialist environmental consulting firm to manage the completion of the remaining remediation works. The Petrie related provision at 30 June 2022 represents management's best estimate in respect of the anticipated costs to complete the remediation, using all currently available information and considering applicable legislative and environmental regulations.
- Orora expects dividends in FY23 to be towards the top end of its target payout range (60% - 80% of NPAT).
- Dividends in FY22 will be unfranked, due to the near-term capital investment programs and the tax benefits associated with Australia's instant asset write-off legislation for capital expenditure, as well as other timing differences. The Group does not expect to frank future dividends until after FY24.

## CONFERENCE CALL

Orora is hosting a conference call for investors and analysts at 11:30am today. The audio cast will be available on the Orora website, www.ororagroup.com, within 24 hours.

*Authorised for release to the ASX by Orora's Company Secretary, Ann Stubbings.*