



13 October 2023

The Manager  
Company Announcements Office  
ASX Limited

Dear Sir / Madam

**Pact Group Holdings Ltd (ASX: PGH) – takeover bid by Bennamon Industries Pty Ltd: Target’s Statement**

We attach, by way of service pursuant to item 14 of section 633(1) of the *Corporations Act 2001* (Cth), a copy of the target’s statement of Pact Group Holdings Ltd (**Pact**) in response to the off-market takeover bid by Bennamon Industries Pty Ltd for all of the ordinary shares in Pact.

Yours sincerely

**Kathryn de Bont**  
General Counsel and Company Secretary  
Pact Group Holdings Ltd

For further information regarding the takeover bid by Bennamon Industries Pty Ltd and the Target’s Statement contact:

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**Pact Shareholder offer information line**

1300 631 379 (from within Australia)  
+61 3 9415 4681 (from overseas)  
Monday to Friday between 8.30am and 5.30pm (Melbourne time)

**This document has been authorised for release by each Director of Pact other than Mr Geminder, who has recused himself from the Board’s consideration of the takeover bid.**

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# PACT GROUP

## Target's Statement

issued in response to the off-market takeover offer made by Bennamon Industries Pty Ltd, a wholly owned subsidiary of Kin Group Pty Ltd, for all the ordinary shares in Pact Group Holdings Ltd.



# REJECT

Your Independent Directors unanimously recommend that you **REJECT** the takeover offer from Bennamon.

To reject Bennamon's offer, **DO NOTHING.**

This is an important document and requires your immediate attention.

If you are in any doubt about how to deal with this document, you should contact your broker, financial adviser or legal adviser immediately.

Financial adviser

**FLAGSTAFF**

Legal adviser



**HERBERT  
SMITH  
FREEHILLS**

# Important notices

## Nature of this document

This document is a Target's Statement issued by Pact Group Holdings Ltd (ABN 55 145 989 644) (**Pact** or **Company**) under Part 6.5 Division 3 of the Corporations Act in response to the off-market takeover bid made by Bennamon Industries Pty Ltd (ACN 666 620 677) (**Bennamon**), a wholly owned subsidiary of Kin Group Pty Ltd (ACN 095 313 714) (**Kin Group**).

A copy of this Target's Statement was lodged with ASIC and given to ASX on 13 October 2023. Neither ASIC nor ASX nor any of their respective officers take any responsibility for the content of this Target's Statement.

## Key dates

<b>Date of Bennamon's Offer</b>	27 September 2023
<b>Date of this Target's Statement</b>	13 October 2023
<b>Close of Bennamon's Offer Period (unless extended or withdrawn)</b>	7.00pm (Melbourne time) on 8 November 2023

## Pact shareholder information

Pact has established a shareholder information line which Pact Shareholders may call if they have any queries in relation to Bennamon's Offer. The telephone number for the shareholder information line is 1300 631 379 (for calls made from within Australia) or +61 3 9415 4681 (for calls made from outside Australia). Calls to the shareholder information line may be recorded.

## Defined terms

A number of defined terms are used in this Target's Statement. These terms are explained in section 8 of this Target's Statement.

## Effect of rounding

A number of figures, amounts, percentages, prices, estimates, calculations of value and fractions in this Target's Statement are subject to the effect of rounding. Accordingly, actual numbers may differ from those set out in this Target's Statement.

## No account of personal circumstances

This Target's Statement does not take into account your individual objectives, financial situation or particular needs. It does not contain personal advice. You should seek independent financial and taxation advice before making a decision as to whether or not to accept the Offer.

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## Disclaimer as to forward-looking statements

Some of the statements appearing in this Target's Statement may be in the nature of forward-looking statements. You should be aware that such statements are only predictions and are subject to inherent risks and uncertainties. Those risks and uncertainties include factors and risks specific to the industry in which Pact operates as well as general economic conditions, prevailing exchange rates and interest rates and conditions in the financial markets. Actual events or results may differ materially from the events or results expressed or implied in any forward-looking statement. None of Pact, Pact's officers and employees, any persons named in this Target's Statement with their consent or any person involved in the preparation of this Target's Statement, makes any representation or warranty (express or implied) as to the accuracy or likelihood of fulfilment of any forward-looking statement, or any events or results expressed or implied in any forward-looking statement, except to the extent required by law. You are cautioned not to place undue reliance on any forward-looking statement. The forward-looking statements in this Target's Statement reflect views held only as at 11 October 2023.

## Maps and diagrams

Any diagrams, charts, graphs and tables appearing in this Target's Statement are illustrative only and may not be drawn to scale. Unless stated otherwise, all data contained in diagrams, charts, graphs and tables is based on information available at 11 October 2023.

## Privacy

Pact has collected your information from the Pact register of shareholders for the purpose of providing you with this Target's Statement. The type of information Pact has collected about you includes your name, contact details and information on your shareholding in Pact. Without this information, Pact would be hindered in its ability to issue this Target's Statement. The Corporations Act requires the name and address of shareholders to be held in a public register. Your information may be disclosed on a confidential basis to Pact's related bodies corporate and external service providers (such as the share registry of Pact and print and mail service providers) and may be required to be disclosed to regulators such as ASIC. If you would like details of information about you held by Pact, please contact Computershare Investor Services Pty Limited at the address shown in the Corporate Directory. Pact's privacy policy is available at <https://pactgroup.com/privacy-policy-2/>. The registered address of Pact is 'Building 1' Level 5, 658 Church Street, Cremorne VIC 3121.

# Letter from the Chair of the Independent Board Committee

Dear fellow Pact Shareholder

**The Independent Board Committee recommends you **REJECT** Kin Group's offer for your Pact Shares by **TAKING NO ACTION** and allowing the Offer to lapse.**

You have recently received a Bidder's Statement from Bennamon Industries Pty Ltd (**Bennamon**), a wholly owned subsidiary of Kin Group Pty Ltd (**Kin Group**), outlining an unsolicited off-market takeover offer to acquire your shares in Pact Group Holdings Ltd (**Pact** or the **Company**) for \$0.68 cash per Pact Share (the **Offer**).

**An Independent Board Committee has been formed to ensure your interests are protected**

Kin Group already owns just over 50% of the shares in Pact and is associated with Pact's Non-Executive Chair, Raphael Geminder. Accordingly, we have taken appropriate steps to ensure Pact Shareholders' interests are protected, including the formation of a special board committee of the Company's Independent Directors (the **Independent Board Committee** or **IBC**) to evaluate and respond to the Offer. The IBC consists of Michael Wachtel and Carmen Chua.

This Target's Statement sets out Pact's formal response to the Offer and the recommendations provided in this Target's Statement are provided by the members of the Independent Board Committee only.

**An Independent Expert considers the Offer to be neither fair nor reasonable**

The Independent Board Committee appointed Kroll Australia Pty Ltd (**Kroll**) as an Independent Expert to give an independent opinion as to whether Kin Group's Offer is fair and reasonable to Pact Shareholders.

The Independent Expert has concluded that the Offer of \$0.68 per Pact Share is **neither fair nor reasonable** and is **below the Independent Expert's estimated value of a Pact Share of \$1.06 to \$1.51**. A full copy of the Independent Expert's Report is set out in Attachment 1 to this Target's Statement.

**You should REJECT the Offer**

The Independent Board Committee has carefully considered the Offer to assess whether it is in the best interests of Pact Shareholders and believes that the Offer undervalues your Pact Shares. As such, the Independent Board Committee unanimously recommends that you **REJECT** the Offer for the reasons set out below.

*To **REJECT** the Offer, you should **TAKE NO ACTION** in respect of the Offer.*

1. The Independent Expert has determined that the Offer is neither fair nor reasonable.
2. The timing of the Offer is opportunistic.
3. The last financial year EV/EBITDA multiple implied by the Offer is low relative to Pact's historical trading multiples.
4. Kin Group is attempting to increase its level of control over Pact without paying a customary premium.
5. Pact is executing on its transformation strategy, including a \$20m cost reduction initiative and a pending divestment to reduce leverage by \$160m. The Offer does not reflect the potential benefit of these initiatives.
6. Kin Group is currently not in a position to unilaterally delist Pact.
7. The other reasons given by Kin Group to accept the Offer are not compelling.

You are encouraged to read this Target's Statement (including the Independent Expert's Report set out in Attachment 1) in full and to consider the Offer having regard to your personal circumstances. You should also seek any independent financial, legal, taxation or other professional advice that you require prior to deciding what action you should take in respect of the Offer.

For completeness, each Independent Board Committee member, including myself, intends to **REJECT** the Offer for their Pact Shares.

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### **Kin Group's intention to delist Pact "as soon as it is able to do so"**

In its Bidder's Statement, Kin Group has advised of its intention to delist Pact from ASX "as soon as it is able to do so".

It is important for Pact Shareholders to be aware that, if Kin Group does not reach the 90% compulsory acquisition level, delisting from the ASX is subject to a number of safeguards, including:

- The Pact Directors would need to make that decision, bearing in mind their usual fiduciary duties. Kin Group cannot unilaterally effect a delisting.
- Kin Group and its associates would need to increase their holding to at least 75% of issued shares under the Offer (from 50.02% as notified to Pact as at 11 October 2023). In addition, there would need to be less than 150 other shareholders with shares worth \$500 or more. There are currently more than 6,500 Pact Shareholders with such holding. Even if both tests were satisfied, the Offer would then need to have been kept open for 2 weeks after the 75% level was reached. Shareholders that do not accept the Offer would then need to be given at least 3 months' notice of the delisting.
- If Kin Group does not reach 75% under the Offer or if there are more than 150 other shareholders with Pact Shares worth \$500 or more when the Offer closes, the process is more complicated for Kin Group to be able to delist Pact and Kin Group would need to wait at least 12 months. Shareholders have some form of protection under legislation. See section 5.6 for further information.

Taken together, these factors mean that you should have sufficient time to consider the Offer.

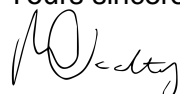
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The IBC will continue to keep you fully informed of key developments in relation to the Offer. All Company announcements are available on our website, [pactgroup.com](http://pactgroup.com).

For further details, please don't hesitate to call our shareholder information line on 1300 631 379 (within Australia) or +61 3 9415 4681 (outside Australia).

We thank you for your continued support.

Yours sincerely,



**Michael Wachtel**

Chair, IBC

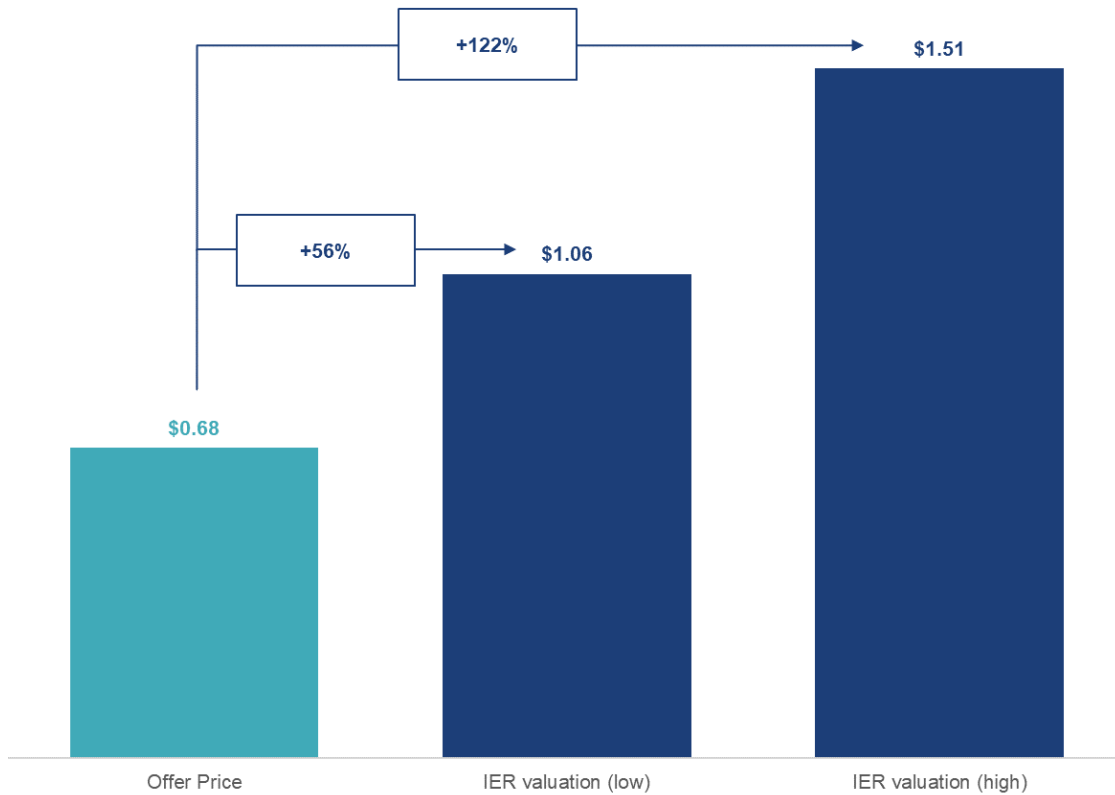
# 1 Why you should **REJECT** Bennamon's Offer

<b>#1</b>	<b>The Independent Expert has determined that the Offer is neither fair nor reasonable</b>	Section 1.1
<b>#2</b>	<b>The timing of the Offer is opportunistic</b>	Section 1.2
<b>#3</b>	<b>The last financial year EV/EBITDA multiple implied by the Offer is low relative to Pact's historical trading multiples</b>	Section 1.3
<b>#4</b>	<b>Kin Group is attempting to increase its level of control over Pact without paying a customary premium</b>	Section 1.4
<b>#5</b>	<b>Pact is executing on its transformation strategy, including a \$20m cost reduction initiative and a pending divestment to reduce leverage by \$160m. The Offer does not reflect the potential benefit of these initiatives</b>	Section 1.5
<b>#6</b>	<b>Kin Group is currently not in a position to unilaterally delist Pact</b>	Section 1.6
<b>#7</b>	<b>The other reasons given by Kin Group to accept the Offer are not compelling</b>	Section 1.7

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## 1.1 The Independent Expert has determined that the Offer is neither fair nor reasonable

The Independent Expert has determined that the Offer is neither fair nor reasonable and is below the Independent Expert's estimated value of a Pact Share of \$1.06 to \$1.51. The Independent Expert's estimated value range for a Pact Share is 56% to 122% higher than the Offer Price.



## 1.2 The timing of the Offer is opportunistic

The Offer has been made at a time when Pact Shares are trading at the low end of the range at which they have traded over the five years leading up to the date of the Offer. The Offer is also at a 4% discount to the volume weighted average trading price per Pact Share during the period from when the Offer was announced on 13 September 2023 to 11 October 2023<sup>1</sup> (inclusive) of \$0.71<sup>2</sup>.

Closing share price of Pact Shares on ASX from 13 September 2018 to 11 October 2023



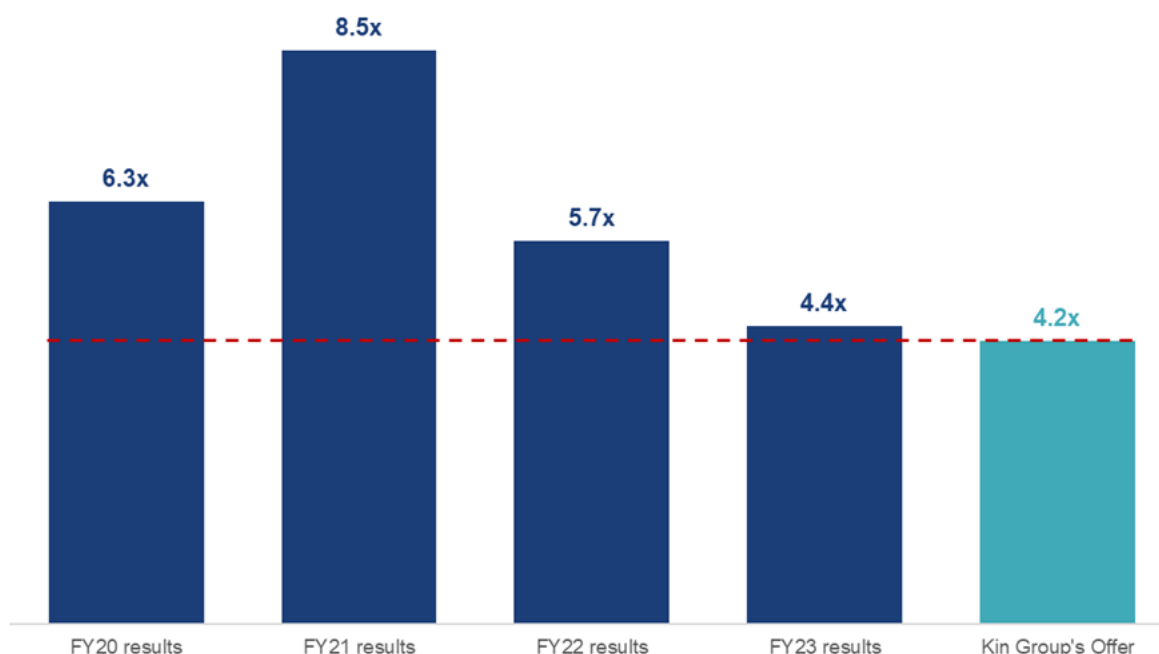
<sup>1</sup> 11 October 2023 is the last practical trading day before the date of this Target's Statement.

<sup>2</sup> VWAP of Pact Shares during the relevant period. Trading data sourced from IRESS. As permitted by the ASIC Corporations (Consents to Statements) Instrument 2016/72, ASX share price trading information can be sourced from IRESS without its consent.

### 1.3 The last financial year EV/EBITDA multiple implied by the Offer is low relative to Pact's historical trading multiples

Kin Group's Offer implies an Enterprise Value (EV)<sup>3</sup>/EBITDA multiple of only 4.2x (using FY23 pre-AASB16 EBITDA<sup>4</sup>), which is low relative to Pact's historical trading multiples.

Pact's historical EV/EBITDA multiple (LTM, pre-AASB16)



As mentioned below, Pact has made substantial progress on delivering its transformation plan. The Independent Directors believe continued successful execution of this transformation plan should lead to increased earnings and, potentially, a market re-rating through an increase in Pact's EV/EBITDA multiple. Given that Pact has borrowings within its capital structure, any such market re-rating would have a meaningful impact on the value of Pact's equity.

### 1.4 Kin Group is attempting to increase its level of control over Pact without paying a customary premium

The Offer Price represents a mere 0.7% premium to Pact's undisturbed price of \$0.675 per Pact Share on 12 September 2023 (a share price which was below the 5 trading day VWAP of \$0.69 leading up to the Offer), which is well below the customary premium for a transaction of this nature.

### 1.5 Pact is executing on its transformation strategy, including a \$20m cost reduction initiative and a pending divestment to reduce leverage by \$160m. The Offer does not reflect the potential benefit of these initiatives

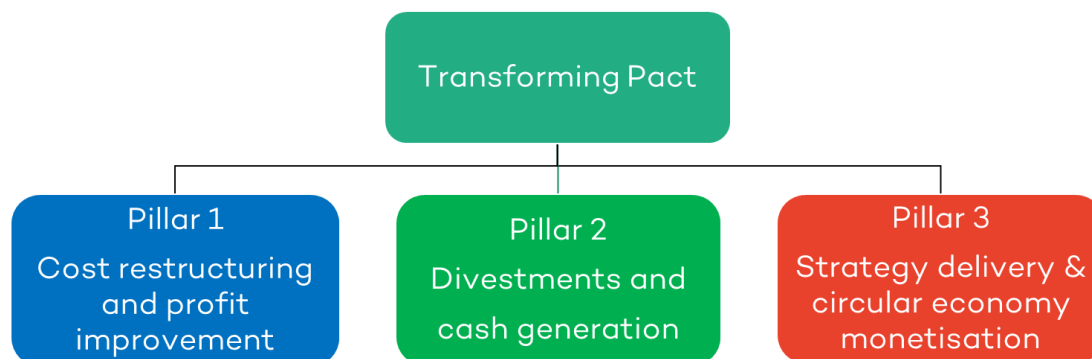
Pact's vision is to lead the Circular Economy through its unique manufacturing capabilities, technical expertise, innovation platforms and access to recycled materials. Pact believes that achieving this vision will enable it to deliver a sustainable competitive advantage, driven by structural market tailwinds, such as likely Government-mandated recycled content obligations.

<sup>3</sup> EV for FY20 to FY23 results is calculated as the VWAP in the 5 trading days post-results announcement (including the day thereof) multiplied by shares outstanding plus disclosed net debt at the relevant financial year end. EV for the Offer is calculated as the Offer Price multiplied by current shares outstanding plus FY23 disclosed net debt. No pro forma adjustments for the Crate Transaction have been made.

<sup>4</sup> EBITDA is pre-AASB16 and is either as disclosed by Pact (where disclosed) or calculated as reported net debt divided by gearing, as presented in Pact's disclosed investor presentations, which is consistent with the methodology adopted by Kin Group and disclosed in footnote 8 on page 8 of the Bidder's Statement. No pro forma adjustments for the Crate Transaction have been made.



To enable it to make these investments and achieve its vision of leading the Circular Economy, Pact has developed a three-pillar transformation plan. While it originally intended to provide the below detail at its 2023 AGM, the Offer process has accelerated Pact's disclosure of its transformation plan and its current status.



Pact has made substantial progress on delivering its transformation plan as follows:

<p><b>Pillar 1: Cost restructuring and profit improvement</b></p>	<p>During Q1 FY24, Pact implemented a cost reduction program which led to approximately 175 staff exiting the Company at a total cost of approximately \$5m. Cost savings from this initiative are approximately \$20m per annum on a 'go forward' basis, with the reduced cost base in effect from October 2023.</p> <p>Pact will seek to further optimise its cost structure in the short-term through supply chain and procurement savings.</p>
<p><b>Pillar 2: Divestments and cash generation</b></p>	<p>After payment of estimated capital gains tax of approximately \$60m<sup>5</sup> and other transaction costs and duties, Pact has estimated it will receive \$160m in net cash proceeds in CY23 arising from the sale of 50% of Crate Pooling and Crate Manufacturing (<b>Crate Transaction</b>), which will be used to reduce debt. Pro forma for the Crate Transaction, Pact's FY23 leverage would have reduced from 3.0x to 2.6x<sup>6</sup> if the transaction had closed on 30 June 2023.</p> <p>Pact is at various stages of assessing the potential divestment of other non-core businesses to further reduce leverage, including:</p> <ul style="list-style-type: none"> <li>• Contract Manufacturing: Pact recommenced sale preparations in late 2022 and, subject to Board approval, intends to relaunch a formal sale process following completion of the Crate Transaction. Should all (or parts) of Contract Manufacturing be sold below its tax cost base, any capital loss could be used to offset taxable capital gains from the financial year the capital loss is incurred; and</li> <li>• Viscount Rotational Mouldings (<b>VRM</b>) which, following the Crate Transaction, is no longer considered 'core'. Pact is in early-stage negotiations with parties interested in acquiring the business.</li> </ul>

<sup>5</sup> The capital gains tax payable will be subject to various factors including the balance sheet at the time of completion and whether the earn-out is achieved.

<sup>6</sup> Consolidated leverage inclusive of Pact's 50% share of the pro forma FY23 net profit after tax from Crate Manufacturing and Crate Pooling.

<p><b>Pillar 3: Strategy delivery and Circular Economy monetisation</b></p>	<p>Pact is delivering on its strategy to lead the Circular Economy and has publicly disclosed several strategic targets, including:</p> <ul style="list-style-type: none"> <li>✓ Value from its Circular Economy strategy of at least an additional \$25m run-rate EBIT by the end of FY25<sup>7</sup>, supported by recent recycled packaging partnerships with Woolworths and Aldi;</li> <li>✓ An ambition of delivering an EBIT margin to sales ratio in Packaging Australia of 10% by FY26<sup>8</sup>. Expected benefits from capital investment and procurement efficiencies further support this ambition; and</li> <li>✓ Refining the portfolio and reducing gearing below 2.5x, accelerated by the sale of 50% of Crate Pooling and Crate Manufacturing for \$160m in net proceeds.</li> </ul>
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Kin Group’s Bidder’s Statement contains numerous statements indicating support for Pact’s strategy and management team, some of which have been quoted below. However, the Offer does not reflect the potential benefit of these initiatives.

- ✓ *“Kin Group will continue to be supportive of Pact’s management team and its employees”*
- ✓ *“Kin Group is supportive of the sale of 50% of Pact’s Crate Pooling Business... and Pact’s cost out programme focusing on flattening operating costs in FY24”*
- ✓ *“Kin Group intends to support and prioritise increased investment in capital expenditure and strategic M&A”*

The Independent Directors recommend that you **REJECT** the Offer so that you can share in the upside that may be achieved through Pact continuing to execute on its transformation strategy and working to achieve its vision of leading the Circular Economy.

### 1.6 Kin Group is currently not in a position to unilaterally delist Pact

Kin Group’s stated intention to delist Pact “as soon as it is able to do so” requires further explanation than that contained in the Bidder’s Statement. Notably, if Kin Group does not reach the 90% compulsory acquisition level, delisting from the ASX is subject to a number of safeguards, including:

- The Pact Directors would need to make that decision, bearing in mind their usual fiduciary duties.
- Kin Group and its associates would need to increase their holding to at least 75% of issued Pact Shares under the Offer (from 50.02% as notified to Pact as at 11 October 2023). In addition, there would need to be less than 150 other shareholders with Pact Shares worth \$500 or more. There are currently more than 6,500 Pact Shareholders with such holding. Even if both tests were satisfied, the Offer would then need to have been kept open for 2 weeks after the 75% level was reached. Pact Shareholders that do not accept the Offer would then need to be given at least 3 months’ notice of the delisting.
- If Kin Group does not reach 75% under the Offer or if there are more than 150 other shareholders with Pact Shares worth \$500 or more when the Offer closes, Kin Group would need to wait 12 months and then propose a special resolution of shareholders, which would require 75% of votes to be in favour. Pact Shareholders would be given at least one month after such a resolution before delisting could occur.

<sup>7</sup> Incremental to the \$20m in cost savings from Pillar 1.



<sup>8</sup> The 10% EBIT margin ambition for Packaging Australia is partially supported by the EBIT benefit of the Circular Economy strategy.

- Other protections under legislation may also be available.

Taken together, these factors mean that you should not be rushed into accepting the Offer because of a fear about an imminent delisting of Pact.

### 1.7 The other reasons given by Kin Group to accept the Offer are not compelling

The IBC considers that Kin Group's other stated reasons to accept the Offer are not compelling, and recommends you ignore these purported reasons and **REJECT** the Offer.

#	Reason given by Kin Group in the Bidder's Statement	Compelling?	Observations
1	<i>"Pact faces a challenging environment, with supply chain disruptions, inflationary pressures, fluctuating resin prices, labour constraints and macroeconomic uncertainty"</i>		<p>Pact's trading environment in Q1 FY24 was as follows:</p> <ul style="list-style-type: none"> <li>• Supply chain disruptions have moderated, with international shipping costs reducing while domestic freight costs remain elevated;</li> <li>• Input costs remain elevated, but are stabilising;</li> <li>• Resin prices are stable;</li> <li>• Labour constraints are beginning to stabilise; and</li> <li>• As outlined in section 1.5, Pact has implemented several initiatives to strengthen its operations in the context of ongoing macroeconomic uncertainty.</li> </ul>
2	<i>"Pact is now a smaller business with a reduced earnings base."</i>		<p>Pact has grown revenue over the last four years to a record \$1.95bn in FY23. Excluding the revenue that will be deconsolidated following the Crate Transaction, Pact's revenue in FY23 would have been \$1.83bn, which is 1.4% higher than Pact's average revenue over FY20 to FY22.</p> <p>Pact will own 50% of the business being sold under the Crate Transaction and will retain proportional exposure to its net profit after tax earnings going forward.</p>
	<i>"Notwithstanding the sale of 50% of Pact's Crate Pooling Business, Pact will likely continue to have high debt in light of its ongoing capital expenditure plan."</i>		<p>Compared to FY23:</p> <ul style="list-style-type: none"> <li>• The Crate Transaction is estimated to result in \$160m of net cash proceeds which will be used to repay debt, resulting in pro forma FY23 leverage of 2.6x9, and Pact is considering additional divestment options that could further reduce leverage;</li> <li>• Pact has guided FY24 capital expenditure to be in the order of \$85m, which is lower than FY23 capital expenditure of \$130m; and</li> <li>• Pact implemented \$20m of cost savings in September and October 2023, supporting free cash flow.</li> </ul>
	<i>"Accordingly, there is uncertainty about the prospect of future dividends in the short to medium term"</i>		<p>While the prospect of Pact paying a dividend in the short to medium term is uncertain and could be subject to competing objectives, Pact's financial capacity to do so has improved in-light of the leverage, capital expenditure and earnings comments above.</p>

<sup>9</sup> Inclusive of Pact's 50% share of the Net Income from Crate Manufacturing and Crate Pooling.

#	Reason given by Kin Group in the Bidder's Statement	Compelling?	Observations
3	<i>"Kin Group controls Pact and the prospect of a competing offer eventuating is highly unlikely"</i>	X	Shareholders do not have to choose between competing offers, as they have the option of retaining their Pact Shares or selling them on market. As at 11 October 2023, Pact's share price is higher than the Offer Price.
	<i>"Kin Group intends to delist the business as soon as it is able to do so"</i>		Kin Group is currently not able to unilaterally delist Pact. See section 5.6 for further information.
4	<i>"Pact is no longer in the S&amp;P / ASX 300 Index and has low institutional investor support."</i>	X	Institutional investors currently make up over 20% of Pact's share register.
	<i>"Compared to recent trading prices, the share price has declined and may fall further after the Offer closes"</i>		Timing the Offer when Pact's share price has declined highlights the opportunistic nature of the Offer, which is at a discount to Pact's most recent trading prices. That Pact's share price may fall in the absence of the Offer is purely speculative.
5	<i>"Unconditional cash offer provides certainty at a price above the closing price of Pact Shares (on 12 September 2023, the day prior to the Announcement Date) and an opportunity for minority shareholders to receive liquidity"</i>	X	As at 11 October 2023, Pact's share price is higher than the Offer Price, meaning Pact shareholders who wish to sell may realise greater value by selling on ASX.  In the relevant trading period referenced in section 4.4 of the Bidder's Statement, that is over the last twelve months prior to the Offer, Pact shareholders traded a total of \$239 million worth of Pact Shares with average daily liquidity of 873,132 Pact Shares.

## 2 Frequently asked questions

This section answers some questions you may have about the Offer. It is not intended to address all relevant issues for Pact Shareholders. This section should be read together with all other parts of this Target's Statement.

Question	Answer
1 <b>What is Bennamon (i.e. the bidder) offering for my Pact Shares?</b>	Bennamon is offering \$0.68 cash for each Pact Share.
2 <b>What choices do I have as a Pact Shareholder?</b>	As a Pact Shareholder, you have the following choices in respect of your shares: <ul style="list-style-type: none"> <li>do nothing and reject the Offer;</li> <li>sell your shares on the ASX; or</li> <li>accept the Offer.</li> </ul>
3 <b>Why is there an Independent Board Committee (IBC)?</b>	The IBC is required because all of the shares in the bidder, Bennamon, are indirectly owned by Kin Group, which is ultimately owned by the family of the Chair of Pact, Mr Geminder. The IBC comprises the Independent Directors.  The establishment of the IBC ensures the independence of the advice given to shareholders in this Target's Statement.
4 <b>What are the Independent Directors recommending?</b>	Each Independent Director recommends that you <b>REJECT</b> the Offer (and intends to do so in respect of their own Pact Shares).
5 <b>What is the Independent Expert's opinion of the Offer?</b>	The Independent Expert has concluded that the Offer is neither fair nor reasonable.  A copy of the Independent Expert's Report is contained in Attachment 1.
6 <b>How do I reject the Offer?</b>	To reject the Offer, simply do nothing.
7 <b>What are the consequences of accepting the Offer?</b>	If you accept the Offer, you will be bound to sell your Pact Shares to Bennamon under the terms of the Offer.
8 <b>If I accept the Offer, can I withdraw my acceptance?</b>	No. Once you have accepted the Offer, you will be unable to revoke or withdraw your acceptance.
9 <b>When does the Offer close?</b>	The Offer is scheduled to close at 7.00pm (Melbourne Time) on 8 November 2023 unless extended as required or permitted by the Corporations Act.
10 <b>Are there any conditions to the Offer?</b>	No, the Offer is unconditional.
11 <b>Can Bennamon withdraw the Offer?</b>	Bennamon may not withdraw the Offer if you have already accepted it. Before you accept the Offer, Bennamon may only withdraw the Offer with the written consent of ASIC and subject to the conditions (if any) specified in such consent.
12 <b>What are the prospects of a competing offer?</b>	Given over 50% of Pact Shares are controlled by entities associated with Mr Geminder, which state in the Bidder's Statement that they have no intention of selling their shares, the prospects of a competing offer are low.

Question	Answer
<p>13 <b>What happens if I do nothing?</b></p>	<p>You will remain a shareholder of Pact.</p> <p>While Bennamon states that it intends to have Pact removed from the official list of the ASX as soon as it is able to do so, Bennamon is not currently able to unilaterally delist Pact, which would be a decision for the Board and subject to compliance with ASX requirements and other legal obligations. However, there is a risk that delisting may occur should certain conditions be fulfilled, as discussed in section 5.6 of this Target's Statement.</p> <p>If Bennamon acquires 90% or more of Pact Shares, Bennamon states that it intends to compulsorily acquire your Pact Shares.</p>
<p>14 <b>Can I be forced to sell my Pact Shares?</b></p>	<p>You cannot be forced to sell your Pact Shares unless Bennamon is legally allowed to proceed to compulsorily acquire your Pact Shares. This requires Bennamon and its associates to acquire at least 90% of all Pact Shares (under the Offer or otherwise).</p> <p>If Bennamon compulsorily acquires the outstanding Pact Shares, you will receive the same consideration for your Pact Shares that you would have received under the Offer, although it will take longer for you to receive the Offer Price.</p> <p>For more information about compulsory acquisition, refer to section 5.5 of this Target's Statement.</p>
<p>15 <b>Can I accept the Offer for only some of my Pact Shares?</b></p>	<p>No. The terms of the Offer state that you may only accept the Offer in respect of all of your Pact Shares.</p>
<p>16 <b>When will I be paid if I accept the Offer?</b></p>	<p>If you accept the Offer, you will be paid cash within one month after you accept the Offer or 21 days after the Offer closes, whichever is earlier.</p>
<p>17 <b>What are the tax implications of accepting the Offer?</b></p>	<p>A general outline of the tax implication of accepting the Offer is set out in section 6 of this Target's Statement.</p> <p>As the outline is general in nature and not intended to constitute tax advice to Pact Shareholders, you should seek your own independent advice on the tax implications applicable to your specific circumstances.</p>
<p>18 <b>Who should I call if I have any questions?</b></p>	<p>Pact Shareholders should call 1300 631 379 (for calls made from within Australia) or +61 3 9415 4681 (for calls made from outside Australia) if they have any queries. This shareholder information line is available Monday to Friday between 8.30am and 5.30pm (Melbourne time).</p>

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## 3 Overview of Pact

### 3.1 Overview

#### (a) Summary

Pact is a leading provider of specialty packaging solutions, servicing both consumer and industrial sectors. Pact specialises in the manufacture and supply of rigid plastic and metal packaging, materials handling and pooling solutions, contract manufacturing services, recycling and sustainability services.

Pact has three operating segments:

- Packaging & Sustainability;
- Materials Handling & Pooling; and
- Contract Manufacturing.

#### (b) Packaging & Sustainability

The Packaging & Sustainability segment is a leader in sustainable packaging and plastics recycling, differentiated through manufacturing, technical and innovation capability and access to recycled materials.

Pact is a market leader in rigid plastic packaging in Australia and New Zealand with a growing presence in Asia. The business is also a leader in select rigid metals packaging sectors in Australia and New Zealand and a leading supplier of sustainability, environmental, reconditioning and recycling services in Australia and New Zealand.

The Packaging & Sustainability segment contributed 65% of Pact's revenue in FY23.

#### (c) Materials Handling & Pooling

The Materials Handling & Pooling segment is an integral service provider to major supermarkets, retailers and governments and provides sustainable and efficient supply chain solutions through best-in-class reuse platforms and technology. The business is a leading Australian supplier of polymer materials handling and custom moulded products for use in infrastructure and other projects. The business is also the largest supplier of returnable produce crate pooling services in Australia and New Zealand.

In August 2023, Pact announced the sale of 50% of its Crate Pooling and Crate Manufacturing business (part of the Materials Handling & Pooling segment) to HRL Morrison & Company Group LP, a global infrastructure investment manager. Completion is expected later in CY23 and is subject to regulatory and other approvals. Pact will retain 50% ownership of the business via a joint venture, which will not be consolidated but equity accounted in Pact's accounts. The estimated cash proceeds from the sale, net of estimated capital gains tax of approximately \$60m<sup>10</sup>, transaction costs and duties, are \$160 million, with further earn-out potential of \$20 million.

As a result of the Crate Transaction, Pact has determined that its rotational moulding business, Viscount Rotational Mouldings (**VRM**) is no longer core, and has commenced a process to sell the business. The process is at a very early stage and there is no guarantee that a sale will occur.

The Materials Handling & Pooling segment also includes Pact Retail Accessories, a closed loop plastic garment hanger and accessories re-use business operating across several countries in Asia as well as in Australia, the USA and the UK.

The Materials Handling & Pooling segment contributed 17% of Pact's revenue in FY23, or 12% pro forma for the Crate Transaction referenced above.

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<sup>10</sup> The capital gains tax payable will be subject to various factors including the balance sheet at the time of completion and whether the earn-out is achieved.

## (d) Contract Manufacturing

The Contract Manufacturing segment is a leading supplier of innovative contract manufacturing services for the home, personal care and health and wellness sectors in Australia. The business includes manufacturing capability for liquid, powder, aerosol and tablet-based products. Pact has recently invested in excess of \$50m relocating its liquid filling operations to a new purpose built facility in Horsley Park, NSW including installation of a new state-of-the-art liquid filling line at this facility, which is expected to be operational in Q2 FY24.

As announced on 21 January 2020, Pact previously ran a formal sale process to sell the Contract Manufacturing segment (**CM Sale Process**). The CM Sale Process was disrupted for an extended period by the onset of the global COVID-19 pandemic. Ultimately, following a careful review of offers received for the business, Pact announced on 13 October 2021 that it had ceased the CM Sale Process. Subsequently, Pact recommenced sale preparations for the segment in late 2022 and engaged financial and accounting advisers. Subject to Board approval, Pact intends to recommence a sale process for the Contract Manufacturing segment in CY23. No formal decision has been made to sell the segment, which would be subject to Board approval.

Should a sale of Contract Manufacturing occur, it is likely that Pact would incur a capital loss for tax purposes given the decline in earnings of the various businesses since acquisition. Any capital loss incurred would be available for use by Pact to offset taxable capital gains from the financial year the capital loss is made.

The Contract Manufacturing services segment contributed 18% of Pact's revenue in FY23.

## 3.2 Board of Directors

The Directors of Pact are:

- Raphael Geminder (Non-Executive Chair);
- Carmen Chua (Independent Non-Executive Director);
- Sanjay Dayal (Managing Director and Group Chief Executive Officer); and
- Michael Wachtel (Independent Non-Executive Director).

Mr Geminder is also a director of Bennamon and Kin Group, which is ultimately controlled by the Geminder family. Accordingly, Mr Geminder has a conflict of interest in relation to the Offer.

See section 4.1 for further information about how the Independent Directors are protecting the interests of Pact Shareholders in relation to the Offer.

## 3.3 Management team

Pact's management team comprises:

- Sanjay Dayal (Managing Director and Group Chief Executive Officer);
- Paul Washer (Chief Financial Officer);
- Douglas Cohen (Executive General Manager: Pact Packaging Australia & Asia);
- Camillo Colombo (Executive General Manager: Pact Retail Accessories);
- Gavin Garland (Executive General Manager: Contract Manufacturing & Group Safety);
- Deanne Holdsworth (Executive General Manager: Pact Packaging New Zealand);
- Carolyn Ireland (General Manager: Investor Relations & Transformation);
- Stephen Loh (Executive General Manager: Supply Chain);
- Siobhan McCrory (Executive General Manager: People & Culture, Sales, Marketing & Innovation);



- Andrew Smith (Executive General Manager: Pact Recycling & Demand Creation);
- Jonathon West (Executive General Manager: Strategy & Joint Ventures);
- Wayne Williams (Executive General Manager: Pact Reuse (Supply Chain, Infrastructure and Environmental Solutions)); and
- Kathryn de Bont (General Counsel and Company Secretary).

### 3.4 Financial information

#### (a) First quarter FY24 earnings update

Pact's revenue results for the first quarter of FY24 continue the trend experienced in the fourth quarter of FY23 with soft demand across Agribusiness in Packaging Australia, Recycling and China Packaging. Revenue in the first quarter of FY24 was \$473m, which was down 3% on last year due to sluggish demand in Packaging & Sustainability whereas Materials Handling & Pooling and Contract Manufacturing continue to deliver revenue at or higher than last year.

Pact's underlying EBITDA for the first quarter of FY24 was \$63.2m, in line with last year as the impact of lower revenues has been offset by improved margins from the benefit of lower resin and other material costs compared to last year.

Pact's underlying EBIT for the first quarter of FY24 is in line with last year.

Pact has not yet incurred any material benefits from its transformation initiatives in the first quarter of FY24 as these were only completed in Australia in mid-September 2023 and in New Zealand in early October 2023.

Currently, Pact remains on track to deliver a full year EBIT for FY24 in line with consensus.

#### (b) Historical financial information

Comprehensive financial information about Pact can be found on the ASX website at [www.asx.com.au](http://www.asx.com.au). This includes copies of Pact's historical consolidated financial statements for FY23, FY22 and FY21, which can be found in:

- the 2023 Pact annual report (released to ASX on 12 October 2023);
- the 2022 Pact annual report (released to ASX on 12 October 2022); and
- the 2021 Pact annual report (released to ASX on 29 October 2021).

### 3.5 Risk factors

In considering the Offer, Pact Shareholders should be aware that there are a number of risk factors associated with either accepting the Offer or rejecting the Offer and continuing to hold Pact Shares.

In deciding whether to accept the Offer, Pact Shareholders should read this Target's Statement (and the Bidder's Statement) carefully and consider these risks. While some of these risks can be mitigated, some are outside of the control of Pact and cannot be mitigated.

The risks set out in this section 3.5 do not take into account the individual investment objectives, financial situation, position or particular needs of Pact Shareholders.

In addition, these risks are general in nature only and do not cover every risk that may be associated with an investment in Pact now or in the future.

#### (a) Risks associated with accepting the Offer

The IBC unanimously recommends that Pact Shareholders **REJECT** the Offer for the reasons set out in section 1.

(1) Possible appreciation of Pact Shares in the future

By accepting the Offer, you may forego any ability to sell your Pact Shares in the future for a higher price than the Offer Price, although the IBC can give no assurances and makes no forecast as to whether this will occur. Since the Offer was announced on 13 September 2023, Pact's share price has consistently traded above the Offer Price.

(2) Possibility of M&A Activities

Pact is frequently assessing acquisitions and investments that complement its strategy and meet internal return hurdles, and potential divestments of non-core businesses to improve its funding position (**M&A Activities**). By accepting the Offer, you will not be able to benefit from any value creation that may arise from Pact successfully executing on its M&A Activities.

**(b) Selected risks associated with rejecting the Offer**

Rejecting the Offer may have the following risks, depending on the outcome of the Offer, in addition to those general risks applicable to an investment in Pact (as described in section 3.5(c) below):

(1) Compulsory acquisition

If Bennamon and its associates become entitled to exercise compulsory acquisition rights, you may be compelled to sell your Pact Shares to Bennamon for the same price as under the Offer, but may not receive the consideration for some time. Bennamon would generally be entitled to exercise compulsory acquisition rights should the combined shareholding of Bennamon and its associates in Pact reach 90% or more. Bennamon has disclosed that, in that scenario, it intends to compulsorily acquire all remaining Pact Shares.

(2) Kin Group's strategic priorities as a partially-owned controlled entity

Should Bennamon and its associates, including Kin Group, achieve a combined shareholding of less than 90% of Pact, Kin Group's intentions in relation to Pact are set out in section 10 of the Bidder's Statement. Kin Group's intentions have a number of possible implications for remaining minority Pact Shareholders and include:

- Kin Group reserves its right to appoint nominees of Kin Group to the Pact Board to reflect its controlling shareholding;
- Kin Group intends to have Pact removed from the official list of the ASX as soon as it is able to do so (see below);
- Kin Group intends to support and prioritise increased investment in capital expenditure and strategic M&A, which may require pursuing equity capital raisings; and
- Pact would be unlikely to resume payment of dividends if appropriate opportunities exist to reinvest cash flows.

In relation to Kin Group's intention to delist Pact as soon as it is able to do so, Kin Group is currently not able to delist Pact, which would be a decision for the Board and subject to compliance with ASX requirements and other legal obligations. See section 5.6 for further information.

**(c) Selected risks associated with an investment in Pact**

There are risks which are specific to Pact and other risks which apply to similar investments generally, which may adversely affect the future operating and financial performance of Pact and the price or value of Pact Shares.

The key material risks to which Pact Shareholders will continue to be exposed to if they retain their current investment in Pact are set out on pages 19 to 21 of Pact's 2023 annual report, which was released on 12 October 2023. The risks described therein are not the only

risks that Pact faces. That section does not purport to be, nor should it be construed as representing, an exhaustive summary of the risks associated with an investment in Pact.

Other risks may not be known to Pact and some currently believed to be immaterial may subsequently turn out to be material. One or more or a combination of these risks could materially impact Pact's businesses, its operating and financial performance, the price or value of Pact Shares or the dividends (if any) paid in respect of Pact Shares.

#### Closing the Crate Transaction

As announced on 16 August 2023, Pact has agreed to sell a 50% minority stake in its Crate Pooling and Crate Manufacturing business to HRL Morrison & Company Group LP at an implied enterprise value of \$380m on a debt free, cash free basis, subject to customary completion adjustments. The net cash proceeds from the sale are estimated to be \$160m and Pact will use these proceeds to repay debt so as to reduce Pact's leverage.

As at 11 October 2023, completion of the transaction remains subject to regulatory and other approvals which, as part of the sale agreement, need to be secured by 29 February 2024 (**Sunset Date**). Pact currently anticipates that these approvals will be received during CY23. However, should these approvals not be received by the Sunset Date, there is a risk that the transaction does not complete and the estimated net proceeds of \$160m are not received.

### 3.6 Publicly available information about Pact

Pact is a disclosing entity (as that term is defined in the Corporations Act) and is subject to regular reporting and disclosure obligations under the Corporations Act and the Listing Rules. Copies of documents lodged with ASX by Pact may be obtained from the ASX website at [www.asx.com.au](http://www.asx.com.au).

## 4 Recommendation of the Independent Directors

### 4.1 Independent assessment of the Offer

The Chair of Pact, Mr Geminder, is a director of the bidder, Bennamon, and its parent company, Kin Group, which is ultimately controlled by the Geminder family. Accordingly, Mr Geminder has a conflict of interest in relation to the Offer.

In broad terms, three measures have been taken to protect the interests of minority shareholders.

- (a) In recognition of Mr Geminder's conflict, a special board committee comprising only the Independent Directors of Pact was established to evaluate and respond to the Offer. This is called the Independent Board Committee or IBC.
- (b) The IBC considered how best to manage Mr Geminder's conflict, bearing in mind that his input and insights on company matters are highly regarded by the other Directors. This led to two arrangements being agreed.
  - First, Mr Geminder will continue in his role as Chair of Pact, but will recuse himself from the Pact Board in connection with any deliberations in relation to the Offer or a competing proposal (if any). Section 7.7 below outlines relief granted by ASIC which has enabled this Target's Statement to be prepared without input from Mr Geminder.
  - Second, the IBC and Mr Geminder have agreed a number of protocols which place limits on Mr Geminder's access to company information for the duration of the Offer. To the extent Pact provides Mr Geminder with additional information during the Offer, Pact will endeavour to provide that information to all other Pact Shareholders. For this reason, Pact has included the earnings update for the first quarter of FY24 in section 3.4(a) of this Target's Statement.

The IBC considers that these arrangements are in the best interests of Pact Shareholders and ensure the independence of the advice given to shareholders in this Target's Statement, as well as equal access to material information for all Pact Shareholders.

- (c) In addition, as required by the Corporations Act whenever the bidder has voting power in excess of 30% and/or where the bidder and the target company have a director in common, an independent expert, Kroll Australia Pty Ltd, has been appointed to give a report whether, in its view, the Offer is fair and reasonable. The Independent Expert's Report is attached in Attachment 1.

### 4.2 Directors' recommendation

The Independent Directors, Mr Wachtel and Ms Chua, recommend that you **REJECT** the Offer for the reasons set out in section 1 of this Target's Statement.

Mr Geminder and Mr Dayal have declined to make a recommendation on whether the Offer should be accepted for the following reasons:

- (a) Mr Geminder has a conflict of interest as described in section 4.1; and
- (b) Mr Dayal is the Managing Director and Group Chief Executive Officer of Pact and is therefore not considered an independent director of the Company.

## 5 Key features of the Offer

### 5.1 Summary of the Offer

<b>The Offer</b>	Bennamon is offering to acquire all of your Pact Shares. The Offer is unconditional.
<b>Offer Price</b>	Bennamon is offering \$0.68 cash for each Pact Share.
<b>Offer Period</b>	Unless the Offer is withdrawn or extended, it is open for acceptance until 7.00pm (Melbourne Time) on 8 November 2023. The circumstances in which Bennamon may extend or withdraw the Offer are set out in sections 5.3 and 5.4 of this Target's Statement.
<b>Timing for receipt of consideration if you accept the Offer</b>	If you accept the Offer, you will be paid cash within one month after you accept the Offer or 21 days after the end of the Offer Period, whichever is earlier.

### 5.2 If you sell your Pact Shares on market, you will not receive any improved Offer Price

If you sell your Pact Shares on market and Bennamon subsequently improves the Offer Price, you will not be entitled to the benefit of that improved Offer Price. This differs from accepting the Offer as, in that case, accepting Pact Shareholders will be entitled to receive the increased Offer Price.

### 5.3 Variation of the Offer

Bennamon may increase the Offer Price or extend the Offer Period at any time up until the end of the Offer Period.

In addition, there will be an automatic extension of the Offer Period if, within the last 7 days of the Offer Period, Bennamon improves the consideration offered under the Offer. In such circumstances, the Offer Period is automatically extended so that it ends 14 days after the relevant event occurs.

If Bennamon increases the Offer Price, any Pact Shareholder who has already accepted the Offer will automatically be entitled to receive the amount of the increase on their Pact Shares.

### 5.4 Withdrawal of the Offer

Bennamon may not withdraw the Offer if you have already accepted it. Before you accept the Offer, Bennamon may only withdraw its Offer for Pact Shares with ASIC's written consent, subject to any conditions specified in such consent.

Any withdrawal of the Offer must be announced by Bennamon to ASX.

### 5.5 Compulsory acquisition

#### (a) Compulsory acquisition following the Offer

Bennamon states in section 10.5(a)(i) of its Bidder's Statement that, if it satisfies the required threshold, it intends to compulsorily acquire any Pact Shares it does not already own.

If you choose to reject the Offer, Bennamon may be entitled to compulsorily acquire your Pact Shares on the same terms as the Offer if, during or at the end of the Offer Period,

Bennamon and its associates have a relevant interest in at least 90% (by number) of Pact Shares.

Pact Shareholders have statutory rights to challenge any compulsory acquisition, but a successful challenge will require the relevant shareholder to establish to the satisfaction of a court that the terms of the Offer do not represent 'fair value' for the Pact Shares. If Pact Shares are compulsorily acquired, Pact Shareholders who have their Pact Shares compulsorily acquired are likely to be issued their consideration approximately 5 to 6 weeks after the compulsory acquisition notices are dispatched to them.

**(b) Future compulsory acquisition by Bennamon**

Even if Bennamon does not satisfy the compulsory acquisition threshold referred to in section 5.5(a), it is possible that Bennamon will, at some time after the end of the Offer Period, become the beneficial holder of 90% of Pact Shares. Bennamon would then be able to compulsorily acquire Pact Shares not owned by it within six months of becoming the holder of 90% of Pact Shares. The price for compulsory acquisition under this procedure would have to be considered in a report of an independent expert at the relevant time.

**5.6 Bennamon's intention to delist Pact**

Bennamon will be able to delist Pact from the ASX if it reaches the 90% compulsory acquisition threshold. In addition, Bennamon has said that it intends to seek a delisting of Pact if the Offer closes with Bennamon and its associates holding less than 90%. If Pact is delisted, Pact Shares will not be able to be bought or sold on the ASX.

**(a) Important legal protections concerning a delisting of Pact**

Pact Shareholders should note the following important legal protections regarding any potential delisting of Pact:

- (1) Any decision to apply to ASX to delist Pact would need to be made by the Pact Board.
- (2) The Pact Board could only decide to seek a delisting if the Board concludes that this action is in the best interests of Pact and Pact Shareholders as a whole at the relevant time.
- (3) ASX states<sup>11</sup> that it will use its discretion to ensure that the delisting of any entity is being sought for acceptable reasons. For example, ASX notes that a request to remove an entity from ASX that is primarily or solely aimed at denying minority securityholders a market for their securities, in order to coerce them into accepting an offer from a controlling securityholder to buy their securities at an undervalue, would be an unacceptable reason for requesting removal from the official list of ASX.
- (4) ASX applies a number of guidelines to safeguard the interests of minority shareholders in the context of any proposed delisting.
- (5) A key ASX guideline provides that the approval of minority Pact Shareholders would most likely be needed for ASX to allow delisting following a takeover bid unless each of the following four conditions are met:
  - (A) Bennamon and its associates have attained ownership or control of at least 75% of Pact Shares;
  - (B) there are fewer than 150 Pact Shareholders (excluding Bennamon and its related bodies corporate) whose shareholding is worth at least \$500. As at 11 October 2023, there were more than 6,500 Pact Shareholders with a shareholding of at least \$500;

<sup>11</sup> See ASX Guidance Note 33, which sets out ASX's policy in relation to the delisting of entities from the ASX official list.

- (C) the Offer remains open for at least an additional 2 weeks after Bennamon and its associates have attained ownership or control of at least 75% of Pact Shares; and
- (D) Pact has applied for removal from the official list of ASX no later than one month after the close of the Offer.
- (6) ASX states that it will usually require the following conditions to be satisfied before it will act on a request for delisting:
- (A) Pact sends a letter or email to Pact Shareholders advising them of the nominated time and date at which Pact will be removed from the official list of the ASX and that if they wish to sell their Pact Shares on ASX, they will need to do so before Pact is removed from the official list of ASX, and if they do not, that they will only be able to sell their Pact Shares off-market; and
- (B) the removal of Pact from the official list of ASX not take place any earlier than 3 months after that statement has been sent to Pact Shareholders, so that they have at least that period to sell their Pact Shares on ASX should they wish to do so.

If the above conditions are not satisfied, the ASX may approve an application for Pact to be delisted from the ASX with Pact Shareholder approval. Bennamon and its associates would only be entitled to vote on the resolutions approving the delisting if the approval was sought later than 12 months after the Offer closes.

- (7) Even if the ASX requirements are satisfied, a minority shareholder may have rights under section 232 of the Corporations Act to prevent a delisting if they can show that delisting is contrary to the interests of shareholders as a whole or oppressive to, unfairly prejudicial to, or unfairly discriminatory against, a shareholder or shareholders whether in that capacity or in any other capacity. That remedy may be available even where the board has acted in good faith for a purpose within the directors' power, but which reasonable directors would think to be unfair.

**(b) Disadvantages to Pact Shareholders on delisting**

If, despite the above procedural protections, Pact is ultimately delisted at some point in the future, any remaining Pact Shareholders (i.e. those who did not accept the Offer) would be holders of unquoted shares. A delisting could result in a number of disadvantages for those Pact Shareholders, such as:

- (1) the absence of an orderly, transparent and timely mechanism for share trading;
- (2) restricted information compared to that currently provided, as Pact would no longer be subject to the continuous disclosure requirements of the Listing Rules. If Pact remains a public company after delisting and has at least 100 members, Pact would still be required to disclose material information to ASIC and likely on its website. Nevertheless, the level of shareholder reporting in these circumstances could be diminished; and
- (3) the ceasing of various requirements and protections for minority shareholders under the Listing Rules. Examples of provisions that would cease to apply include:
- (A) restrictions on the issue of new securities;
- (B) a governance framework for related party transactions; and
- (C) requirements to seek shareholder approval for significant changes in the nature or scale of Pact's activities.

## 6 Tax considerations for Pact Shareholders

### 6.1 Introduction

The following is a general description of the Australian income tax and GST consequences for Pact Shareholders relating to the Offer. It is general in nature and is not intended to constitute tax advice to Pact Shareholders. Accordingly, each Pact Shareholder should seek independent professional advice in relation to their own particular circumstances.

The information below deals only with the taxation implications for Pact Shareholders who hold their Pact Shares on capital account. It does not address the taxation implications for Pact Shareholders who:

- hold their Pact Shares for the purposes of speculation or a business of dealing in securities (e.g. as trading stock) or who otherwise hold their Pact Shares on revenue account;
- have made any of the tax timing method elections pursuant to the taxation of financial arrangements rules in Division 230 of the *Income Tax Assessment Act 1997* (Cth) in relation to gains and losses on their Pact Shares;
- are subject to the Investment Manager Regime under Division 842 of the *Income Tax Assessment Act 1997* (Cth) in relation to gains and losses on their Pact Shares; or
- acquired their Pact Shares pursuant to an employee share or option plan.

Pact Shareholders who are tax residents of a country other than Australia (whether or not they are also residents, or are temporary residents, of Australia for tax purposes) should take into account the tax consequences under the laws of their country of residence, as well as under Australian law, of accepting the Offer.

The information contained in this section is based on the Australian law and administrative practice in effect at the date of this Target's Statement.

### 6.2 Australian resident shareholders

#### (a) Pact Shareholders who accept the Offer

Acceptance of the Offer will involve the disposal by Pact Shareholders of their Pact Shares by way of transfer to Bennamon. This change in the ownership of the Pact Shares will constitute a CGT event for Australian CGT purposes.

The date of disposal for CGT purposes will be the date the contract to dispose of the Pact Shares is formed, which is the date of acceptance if you decide to accept the Offer.

#### (b) Compulsory acquisition

If a Pact Shareholder does not dispose of their Pact Shares under the Offer and their Pact Shares are subsequently compulsorily acquired in accordance with Part 6A.1 of the Corporations Act, those Pact Shareholders will also be treated as having disposed of their Pact Shares for CGT purposes.

The date of disposal for CGT purposes will be the date when Bennamon becomes the owner of the Pact Shares.

#### (c) Calculation of capital gain or capital loss

Pact Shareholders will make a capital gain to the extent that their capital proceeds from the disposal of the Pact Shares are more than the cost base of those Pact Shares. Conversely, Pact Shareholders will make a capital loss to the extent that their capital proceeds are less than their cost base of those Pact Shares.

The cost base of the Pact Shares generally includes the cost of acquisition and certain non-deductible incidental costs of their acquisition and disposal.



The capital proceeds of the CGT event will equal the consideration price of \$0.68 cash per Pact Share received by the Pact Shareholder in respect of the disposal of their Pact Shares.

Individuals, complying superannuation entities or trustees that have held their Pact Shares for at least 12 months should be entitled to discount the amount of the capital gain (after application of capital losses) from the disposal of Pact Shares by 50% in the case of individuals and trusts or by 33⅓% for complying superannuation entities. For trusts, the ultimate availability of the discount may depend on a beneficiary's entitlement to the discount. Companies are not entitled to discount the amount of the capital gain.

Capital gains (prior to any CGT discount) and capital losses of a taxpayer in an income year are aggregated to determine whether there is a net capital gain. Any net capital gain is included in assessable income and is subject to income tax. Capital losses may not be deducted against other income for income tax purposes, but may be carried forward to offset against future capital gains (subject to satisfaction of loss recoupment tests for certain taxpayers).

### **6.3 Goods and services tax**

Pact Shareholders should not be liable for GST in respect of a disposal of their Pact Shares.

Pact Shareholders may be charged GST on costs (such as adviser fees) that relate to their participation in the Offer. Pact Shareholders may be entitled to input tax credits or reduced input tax credits for such costs, but should seek independent advice in relation to their individual circumstances.

## 7 Additional information

### 7.1 Interests and dealings in Pact Shares and Performance Rights

As at 11 October 2023, the Directors had the following relevant interests in Pact Shares and Performance Rights:

Director	Number of Pact Shares	Number of Performance Rights
Raphael Geminder <sup>12</sup>	172,210,184	Nil
Carmen Chua	210,000	Nil
Sanjay Dayal	40,000	940,429
Michael Wachtel	41,925	Nil
<b>Total</b>	<b>172,502,109</b>	<b>940,429</b>

No Director has acquired or disposed of a relevant interest in any Pact Shares or Performance Rights in the 4 month period ending on the date immediately before the date of this Target's Statement, other than:

- on 12 September 2023, Mr Geminder (via Bennamon) purchased 850,000 Pact Shares for a price of \$0.68 each; and
- on 15 August 2023, 497,967 unvested Performance Rights held by Mr Dayal lapsed in accordance with their terms for nil consideration.

In addition, as Mr Geminder is regarded as controlling the bidder, he is taken to have acquired a relevant interest in shares the subject of acceptances of the Offer. As at 11 October 2023, Pact has been notified that a total of 50,590 Pact Shares have been the subject of acceptances of the Offer.

### 7.2 Issued capital

As at 11 October 2023, Pact's issued capital consisted of:

- 344,290,053 fully paid ordinary shares; and
- 1,892,372 Performance Rights and myPact Rights.

### 7.3 Substantial holders

The following persons have voting power in 5% or more of Pact Shares.

Substantial holder	Number of Pact Shares	Voting power
Kin Group and its associates (including Bennamon and Salvage Pty Ltd) <sup>13</sup>	172,210,184	50.019%
Investors Mutual Limited <sup>14</sup>	22,519,891	6.54%

<sup>12</sup> Includes relevant interests in Pact Shares held by Raphael Geminder per notifications provided by Kin Group to the Company in relation to the number of shares subject to acceptances of the Offer as at 11 October 2023.

<sup>13</sup> Per notifications provided by Kin Group to the Company in relation to the number of shares subject to acceptances of the Offer as at 11 October 2023.

<sup>14</sup> Per the most recent substantial shareholder notice released to the ASX by Investors Mutual Limited dated 30 March 2021.

## 7.4 Effect of the Offer on Pact's material contracts

In anticipation of Kin Group (combined with its associates) acquiring a relevant interest in more than 50% of Pact Shares, Pact conducted a preliminary review to determine whether, upon the occurrence of such an acquisition, any change of control or other provisions might be triggered under Pact's material contracts. Kin Group (combined with its associates) acquired control of Pact on or before 12 September 2023.

Set out below is a summary of the findings from that review.

### (a) Material customer contracts

Change of control provisions in a number of Pact's material customer contracts may be triggered, which could give rise to termination rights in favour of the counterparty.

Since conducting its review, Pact has not received notice from any counterparty seeking to rely on a change of control provision in relation to a contract as a result of Kin Group (and its associates) acquiring control.

As far as the Independent Directors and Mr Dayal are aware, there has been no indication that a counterparty may seek to rely on such a provision in the context of Kin Group (combined with its associates) further increasing its shareholding in Pact as a result of the Offer.

### (b) Banking facilities

Review provisions in Pact's banking facilities may be triggered by a change of control, which could have an adverse effect on Pact. In anticipation of this, Pact renegotiated the terms of these facilities such that the change of control provisions would not be triggered upon Kin Group and its related bodies corporate acquiring more than 50% of Pact Shares.

In addition, the financiers under Pact's banking facilities have the right to cancel the facilities or declare all outstanding debt due and payable early where there has been an event of default. An event of default may be triggered if, among other things, Pact is delisted or suspended from trading for more than five consecutive business days.

### (c) Leases

Change of control provisions in Pact's leases would generally not be triggered due to a standard carve out that applies to a change of control while Pact remains listed on the ASX. In respect of leases which do not contain the standard carve out, since conducting its review, Pact has not received notice from any landlord seeking to rely on a change of control provision in relation to a lease as a result of Kin Group (and its associates) acquiring control.

As far as the Independent Directors and Mr Dayal are aware, there has been no indication that a landlord may seek to rely on such a provision in the context of Kin Group (combined with its associates) further increasing its shareholding in Pact as a result of the Offer.

### (d) Joint venture arrangements

Change of control provisions in a number of Pact's joint venture arrangements would not be triggered due to carve outs that apply either because Kin Group is not a named competitor of the relevant joint venture partner or to a change of control while Pact remains listed on the ASX.

## 7.5 Effect of the Offer on Pact's incentive arrangements

Pact currently operates the following equity incentive arrangements:

- the Pact Long Term Incentive Plan under which 1,877,984 Performance Rights have been granted (and have not lapsed or been forfeited) and are expected to vest in the ordinary course subject to the satisfaction of certain performance and service-related conditions, of which:
  - 664,788 Performance Rights were made in respect of the 2022 financial year; and

- 1,213,196 Performance Rights were made in respect of the 2023 financial year.

The Performance Rights will be automatically exercised upon vesting. For each Performance Right, the holder will receive a fully paid Pact Share or the cash value of the Pact Share;

- the myPact Rights Plan under which 14,388 myPact Rights have been granted and are expected to vest in the ordinary course subject to the satisfaction of certain service-related conditions. Upon vesting, each myPact Right will be automatically exercised and the holder will receive a fully paid Pact Share; and
- the myPact Share Plan under which 338,722 Pact Shares have been issued or allotted and are subject to trading restrictions.

The Board has a broad discretion under the above plans to determine the treatment of these incentives and the timing of such treatment in the context of the Offer.

At this stage, the IBC (acting on behalf of the Board) has not made any formal determination to exercise any discretion under any of the above plans as a result of the Offer, but has reserved its right to do so. The IBC will continue to monitor the progress of the Offer and consider whether to exercise its discretion depending on the level of acceptances.

For completeness, Pact also operates a Pact Director Share Acquisition Plan under which Pact Shares have been acquired by certain former and current Non-Executive Directors of Pact. These Pact Shares are not subject to trading or other restrictions (other than trading in accordance with Pact's policy for dealing in securities where held by current Directors). Accordingly, the Offer will extend to these Pact Shares.

## 7.6 Consents

Kroll Australia Pty Ltd has given and not withdrawn before the lodgement of this Target's Statement with ASIC, its written consent to be named in this Target's Statement as Pact's Independent Expert in the form and context it is so named and to the inclusion of the Independent Expert's Report contained in Attachment 1 to this Target's Statement. Kroll Australia Pty Ltd has not caused or authorised the issue of this Target's Statement and, other than any references to its name and the Independent Expert's Report, takes no responsibility for any part of this Target's Statement.

In addition, the following persons have given, and not withdrawn before the lodgement of this Target's Statement with ASIC, their written consent to be named in this Target's Statement in the form and context in which it appears:

- Flagstaff Partners, to being named as Pact's financial adviser;
- Herbert Smith Freehills, to being named as Pact's legal adviser; and
- Computershare Investor Services Pty Limited, to being named as Pact's share registrar.

None of these persons have caused or authorised the issue of this Target's Statement, and does not make or purport to make any statement in this Target's Statement or any statement on which a statement in this Target's Statement is based (other than a statement included in this Target's Statement with the consent of that party) and takes no responsibility for any part of this Target's Statement other than any reference to its name and the statements (if any) included in the Target's Statement with the consent of that party.

As permitted by ASIC Class Order 13/521, this Target's Statement contains statements which are made, or based on statements made, in documents lodged with ASIC or given to the ASX, or announced on the Company Announcements Platform of the ASX. Pursuant to the Class Order, consent is not required for the inclusion of such statements in this Target's Statement. Any Pact Shareholder who would like to receive a copy of any of those documents may obtain a copy (free of charge) during the Offer Period by contacting the Pact shareholder information line on 1300 631

379 (for calls made from within Australia) or +61 3 9415 4681 (for calls made from outside Australia) between 8.30am and 5.30pm (Melbourne time), Monday to Friday.

As permitted by ASIC Corporations (Consents to Statements) Instrument 2016/72, this Target's Statement:

- may include or be accompanied by certain statements:
  - fairly representing what purports to be a statement by an official person; or
  - that are a correct and fair copy of, or extract from, what purports to be a public official document; or
  - that are a correct and fair copy of, or extract from, a statement which has already been published in a book, journal or comparable publication; and
- contains trading data sourced from IRESS provided without their consent.

### **7.7 No other material information**

This Target's Statement is required to include all the information that Pact Shareholders and their professional advisers would reasonably require to make an informed assessment whether to accept the Offer, but:

- only to the extent to which it is reasonable for investors and their professional advisers to expect to find this information in this Target's Statement; and
- only if the information is known to any Director of Pact.

ASIC has exercised its powers under section 655A(1) of the Corporations Act to modify section 638(1A) of the Corporations Act such that the Target's Statement will not be required to include information known to Mr Geminder. This modification is appropriate given Mr Geminder has recused himself from the Board's consideration of the Offer.

Accordingly, this Target's Statement only includes information known to the Independent Directors and Mr Dayal. It is appropriate for information known to Mr Dayal to be included in this Target's Statement given his executive role within Pact and in-depth knowledge of Pact's business.

The Directors (excluding Mr Geminder) are of the opinion that the information that Pact Shareholders and their professional advisers would reasonably require to make an informed assessment whether to accept the Offer is the information contained in:

- the Bidder's Statement (to the extent that the information is not inconsistent or superseded by information in this Target's Statement);
- Pact's releases to the ASX, and in the documents lodged by Pact with ASIC before the date of this Target's Statement; and
- this Target's Statement.

The Directors (excluding Mr Geminder) have assumed, for the purposes of preparing this Target's Statement, that the information in the Bidder's Statement is accurate (unless they have expressly indicated otherwise in this Target's Statement). However, they do not take any responsibility for the contents of the Bidder's Statement and are not to be taken as endorsing, in any way, any or all statements contained in it.

In deciding what information should be included in this Target's Statement, regard has been had to:

- the nature of the Pact Shares;
- the matters that Pact Shareholders may reasonably be expected to know;
- the fact that certain matters may reasonably be expected to be known to Pact Shareholders' professional advisers; and
- the time available to Pact to prepare this Target's Statement.

## 8 Glossary and interpretation

### 8.1 Glossary

The meanings of the terms used in this Target's Statement are set out below.

Term	Meaning
\$, A\$ or AUD	Australian dollar.
ACN	Australian company number.
ASIC	Australian Securities and Investments Commission.
ASX	ASX Limited ABN 98 008 624 691 and, where the context requires, the financial market that it operates.
Bennamon	Bennamon Industries Pty Ltd (ACN 666 620 677), being the bidder under the Offer.
Bidder's Statement	the replacement bidder's statement of Bennamon dated 25 September 2023.
Board	the board of directors of Pact.
CGT	capital gains tax.
CM Sale Process	has the meaning given in section 3.1(d) of this Target's Statement.
Contract Manufacturing	the Contract Manufacturing operating segment of Pact described in section 3.1(d) of this Target's Statement.
Corporations Act	<i>Corporations Act 2001</i> (Cth).
Crate Pooling and Crate Manufacturing	the Crate Pooling and Crate Manufacturing business referred to by Pact in its ASX announcement titled "2023 full year results release" released on 16 August 2023.
Crate Transaction	has the meaning given in section 1.5 of this Target's Statement.
CY23	the calendar year ended 31 December 2023.
CY24	the calendar year ended 31 December 2024.
Director	a director of Pact.
EBIT	earnings before interest and taxation.
EBITDA	earnings before interest, taxation, depreciation and amortisation.
EV	enterprise value.
FY	financial year
FY20	the financial year ended 30 June 2020.
FY21	the financial year ended 30 June 2021.
FY22	the financial year ended 30 June 2022.

Term	Meaning
<b>FY23</b>	the financial year ended 30 June 2023.
<b>FY24</b>	the financial year ended 30 June 2024.
<b>FY25</b>	the financial year ended 30 June 2025.
<b>FY26</b>	the financial year ended 30 June 2026.
<b>GST</b>	goods and services tax or similar value added tax levied or imposed in Australia under the GST Law or otherwise on a supply.
<b>GST Law</b>	has the same meaning as in the <i>A New Tax System (Goods and Services Tax) Act 1999</i> (Cth).
<b>Independent Board Committee or IBC</b>	a committee of the Board comprising the independent directors of Pact, namely Mr Wachtel and Ms Chau.
<b>Independent Directors</b>	means all of the directors of Pact, other than Mr Geminder and Mr Dayal.
<b>Independent Expert or Kroll</b>	Kroll Australia Pty Ltd (ABN 73 116 738 535).
<b>Independent Expert's Report</b>	the independent expert's report prepared by Kroll and dated 12 October 2023 which is contained in Attachment 1 to this Target's Statement.
<b>Kin Group</b>	Kin Group Pty Ltd (ACN 095 313 714) and including Bennamon if required.
<b>Listing Rules</b>	the listing rules of ASX (as amended or varied from time to time).
<b>M&amp;A Activities</b>	has the meaning given in section 3.5(a)(2) of this Target's Statement.
<b>Materials Handling &amp; Pooling</b>	the Materials Handling & Pooling operating segment of Pact described in section 3.1(c) of this Target's Statement.
<b>myPact Right</b>	a right issued under the myPact Rights Plan adopted by the Board.
<b>Offer</b>	the offer by Bennamon for the Pact Shares, details of which are contained in section 13 of the Bidder's Statement.
<b>Offer Period</b>	the period during which the Offer will remain open for acceptance in accordance with section 13.5 of the Bidder's Statement.
<b>Offer Price</b>	\$0.68 per Pact Share.
<b>Packaging &amp; Sustainability</b>	the Packaging & Sustainability operating segment of Pact described in section 3.1(b) of this Target's Statement.
<b>Pact or Company</b>	Pact Group Holdings Ltd (ACN 145 989 644).
<b>Pact Long Term Incentive Plan</b>	the long-term incentive plan adopted by the Board on 1 October 2016.
<b>Pact Share</b>	a fully paid ordinary share in Pact.
<b>Pact Shareholder</b>	a registered holder of Pact Shares.

Term	Meaning
Performance Right	a performance right issued under the Pact Long Term Incentive Plan.
Target's Statement	this document (including the attachment), being the statement of Pact under Part 6.5 Division 3 of the Corporations Act.
VRM	Viscount Rotational Mouldings.
VWAP	volume weighted average price.

## 8.2 Interpretation

In this Target's Statement:

- (a) Other words and phrases have the same meaning (if any) given to them in the Corporations Act.
- (b) Words of any gender include all genders.
- (c) Words importing the singular include the plural and vice versa.
- (d) An expression importing a person includes any company, partnership, joint venture, association, corporation or other body corporate and vice versa.
- (e) A reference to a section, clause, attachment and schedule is a reference to a section of, clause of and an attachment and schedule to this Target's Statement as relevant, unless stated otherwise.
- (f) A reference to any legislation includes all delegated legislation made under it and amendments, consolidations, replacements or re-enactments of any of them.
- (g) Headings and bold type are for convenience only and do not affect the interpretation of this Target's Statement.
- (h) A reference to time is a reference to Melbourne time, unless otherwise stated.
- (i) A reference to dollars, \$, A\$, AUD, cents, ¢ and currency is a reference to the lawful currency of the Commonwealth of Australia.

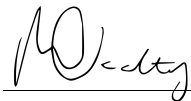


## 9 Authorisation

This Target's Statement has been approved by a resolution passed by each Director of Pact other than Mr Geminder, who has recused himself from the Board's consideration of the Offer.

Signed for and on behalf of Pact:

*date* 13 October 2023

*sign here* ▶  \_\_\_\_\_

*print name* Michael Wachtel

*position* Independent Non-Executive Director

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**Attachment 1:  
Independent Expert's Report**

Kroll Australia Pty Ltd  
Level 32, 85 Castlereagh St  
Sydney NSW 2000  
[www.kroll.com](http://www.kroll.com)

Ph: (02) 8286 7200  
PO Box: Q113, Queen Victoria Building 1230  
ABN: 73 116 738 535



The Independent Directors  
Pact Group Holdings Ltd  
Level 5, Building 1  
658 Church Street  
Cremorne VIC 3121

12 October 2023

Dear Independent Directors

## Part One – Independent Expert’s Report

### 1 Introduction

On 13 September 2023, Kin Group Pty Ltd (**Kin Group**) made an unconditional off-market takeover offer through its wholly-owned subsidiary Bennamon Industries Pty Ltd (**Bennamon**), to acquire all of the issued ordinary shares in Pact Group Holdings Ltd (**Pact**) for \$0.68 cents in cash per fully paid ordinary Pact share (**Pact Share**) (the **Offer**).

Kin Group is ultimately controlled by Salvage Pty Ltd, which is a trustee company for the Geminder family trust. Mr Raphael Geminder is the Chair of Pact and Kin Group. As a consequence he has recused himself from the Pact Board in connection with any deliberations in relation to the Offer or a competing proposal (if any). The lead independent director of Pact, Mr Michael Wachtel, is chairing the Independent Board Committee meetings for the purposes of the Offer.

Kin Group and its associates (including Bennamon) have a relevant interest in 50.019% of the quoted Pact Shares on issue.<sup>1</sup>

An overview of the Offer is provided in Section 5.1 of this report and full details of the Offer are included in the replacement bidder’s statement lodged with the Australian Securities and Investments Commission (**ASIC**) dated 25 September 2023 (**Bidder’s Statement**) (with despatch completed on 29 September 2023) and the Target’s Statement issued by Pact. The Offer is unconditional and not subject to any defeating conditions. Unless withdrawn or varied, the Offer is open for acceptance from 27 September 2023 until 7:00 pm (Melbourne time) on 8 November 2023 (**Offer Period**).

Pact is a leading provider of specialty packaging solutions, servicing both consumer and industrial sectors in over 100 locations across 15 countries in Australia, New Zealand and Asia. Pact specialises in the manufacture and supply of rigid plastic and metal packaging, materials handling solutions, contract manufacturing services and recycling and sustainability services. Pact is listed on the Australian Securities Exchange (**ASX**), and as at 12 September 2023, the trading day prior to the announcement of the Offer, Pact had a market capitalisation of \$232.4 million.<sup>2</sup>

Kin Group is a diversified, global, long-term focused investor ultimately controlled by the Geminder family with offices in Melbourne, Australia and New York City, the United States.<sup>3</sup> Kin Group has investments across retail, packaging and property with other investments in listed companies including a 20.2% stake in discount retailer The Reject Shop, 66.5% of Pro-Pac Packaging (as at last substantial holder notice) and

<sup>1</sup> Includes acceptances under the Offer notified by Bennamon to Pact as at 4 pm on 11 October 2023.

<sup>2</sup> Calculated as the closing share price of \$0.675 multiplied by 344,290,053 quoted Pact Shares outstanding as per the ASX Notification of Cessation of Securities on 7 July 2023.

<sup>3</sup> Kin Group Takeover Announcement, 13 September 2023, Capital IQ.

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4.4% in skincare and make-up distributor McPhersons.<sup>4</sup> Bennamon was incorporated in March 2023 for the purpose of acquiring an interest in Pact Shares, pursuant to the Offer.

The Independent Directors recommend that Pact Shareholders reject the Offer.

In order to assist Pact Shareholders in assessing the Offer, the Independent Directors of Pact have appointed Kroll Australia Pty Ltd (**Kroll**) to prepare an independent expert's report setting out whether, in our opinion, the Offer is fair and reasonable to Pact Shareholders in the absence of a superior proposal. This report sets out Kroll's opinion as to the merits or otherwise of the Offer and will be included in the Target's Statement prepared by Pact to be sent to Pact Shareholders in response to the Offer.

Further information regarding Kroll, as it pertains to the preparation of this report, is set out in Appendix 1.

Kroll's Financial Services Guide is contained in Part Two of this report.

## 2 Scope of report

Section 640 of the *Corporations Act 2001* (Cth) (the **Corporations Act**) states that a target's statement made in response to a takeover offer for shares in an Australian listed entity must include or be accompanied by an independent expert's report if:

- the bidder's voting power in the target is 30% or more; or
- where the parties to the transaction have common directors.

In this case, a statutory requirement for an independent expert's report does apply since:

- Bennamon's voting power in Pact is greater than 30%; and
- Mr Geminder is a director of Bennamon and a director of Pact.

In undertaking our work, we have referred to guidance provided by ASIC in its Regulatory Guides in particular, Regulatory Guide 111 'Content of expert reports' (**RG 111**) which outlines the principles and matters which it expects a person preparing an independent expert report to consider.

Further details of the relevant technical requirements and the basis of assessment in forming our opinion are set out in Section 6 of this report.

## 3 Opinion

### 3.1 Background

In 2002, Mr Raphael Geminder acquired the industrial packaging operations of Visy Industries Pty Ltd, a company owned by his father-in-law, the late Richard Pratt. Pact was incorporated in 2010 to act as a holding company for the business and was listed on the ASX in December 2013 at \$3.80, with Mr Geminder retaining a 39.8% interest.<sup>5</sup>

Subsequently, Pact experienced profitable growth both organically and through acquisition and its share price closed at a high of \$7.28 on 2 May 2017. Although Pact continued its acquisition strategy, including the acquisition of the Contract Manufacturing business, this did not translate into growth in profits, with Pact's earnings declining in FY18 and FY19, largely as a result of the underperformance of Contract Manufacturing. From listing until 30 June 2019, Pact had spent \$710.2 million on acquisitions and \$451.6 million in capital expenditure. As a result of the decline in Underlying EBITDA<sup>6</sup> and increase in borrowings to fund acquisitions, Pact's leverage reached a high of 3.3 times at 31 December 2018, above its target of 3.0 times.<sup>7</sup>

In April 2019, a new Managing Director and Chief Executive Officer, Mr Sanjay Dayal, was appointed and Pact commenced a strategy review, focused on restoring margins, volumes and efficiency. From the high of \$7.28 on 2 May 2017, the share price declined by 64.0% to \$2.62 on 11 February 2020, immediately prior

<sup>4</sup> Kin Group interests sourced from Capital IQ as at 12 October 2023.

<sup>5</sup> Pact Prospectus, November 2013.

<sup>6</sup> Underlying EBITDA is a non-IFRS financial measure which is calculated as earnings before underlying adjustments, finance costs (net of interest revenue), tax, depreciation and amortisation.

<sup>7</sup> Calculated as net debt divided by rolling 12 months Underlying EBITDA excluding the impact of lease accounting following the adoption of AASB 16 *Leases*.

to the market wide sell off in response to the COVID-19 pandemic. Pact was removed from the S&P/ASX 200 Index on 23 September 2019.

In February 2020, Pact announced a new vision and strategy with the intention to lead the Circular Economy. Pact's new strategic priorities included strengthening its core, focusing the portfolio and strengthening the balance sheet and turning around and defending the core Australia and New Zealand (**ANZ**) packaging business. The commencement of the sale process for Contract Manufacturing, which had been announced in January 2020, was directed towards this strategy. The strategy also included increasing investment in capital expenditure from \$93 million in FY15 to FY19 to \$300 million in FY20 to FY24 to address underinvestment and improve competitiveness in Packaging & Sustainability. It also aimed to expand reuse and recycling capability including leveraging regional scale, by growing the Asian packaging platform.

Pact's share price declined by a further 50.0% from 11 February 2020 to close at a low of \$1.31 on 24 March 2020 amidst the broader market sell-off at the onset of the COVID-19 pandemic.

Pact's share price increased by 247.3% from 24 March 2020 to close at \$4.55 on 19 August 2021, which likely reflects the improved FY20 and FY21 financial results as Pact benefited from higher grocery and hand sanitiser sales during the COVID-19 pandemic. Dividends were resumed with the final FY20 dividend and FY21 dividends being in line with Pact's target payout ratio.

As a result of continued market uncertainty, on 13 October 2021, Pact announced that it had ceased the sale process of its Contract Manufacturing business.

At the following Annual General Meeting presentation on 29 November 2021, Pact reaffirmed its strategic growth initiatives and added the near term initiative of returning the Australian packaging EBIT margins to a global industry standard of 10.0% by FY25.<sup>8</sup> On the release of the FY22 financial results on 17 August 2022, Pact added the target of delivering value from the Circular Economy of at least an additional \$25 million EBIT, with the run rate to be achieved by the end of FY25.<sup>9</sup> This uplift from recycling, together with, capital investment and procurement efficiencies, would contribute to the 10% EBIT margin for Packaging Australia.

Pact invested over \$50 million in FY22 and FY23 to construct a new state-of-the-art liquid facility at Horsley Park, which is expected to result in higher Contract Manufacturing profits from FY24. The facility is fully contracted, however, execution risk remains in bringing the plant to full capacity.

Post-pandemic earnings were impacted by slower recovery in China, following the end of China's zero COVID policy in January 2023, and continuing supply chain inefficiencies and labour shortages. High inflation and interest rates impacted consumer spending patterns and supply costs, which were also impacted by surging raw materials costs and adverse weather conditions in underlying markets. Whilst above guidance, the 1H23 results identified that gearing was at a temporary high of 3.2 times caused by elevated debt levels as a result of the accelerated capital expenditure program consistent with the announced strategy. No dividends were declared for FY23, reflecting Pact's desire to preserve cash to reduce debt and continue its capital expenditure program. Going forward, the main capital expenditure requirements to achieve earnings targets relates to growth capital expenditure within Packaging Australia and expenditure to upgrade the dairy facility to produce lightweight bottles.

Due to the continued decline in the share price, Pact was removed from the S&P/ASX 300 Index on 20 March 2023.

On 15 May 2023, Pact reduced guidance for FY23 citing tightening economic conditions, softer demand in Asia and recent weather events in New Zealand. It also indicated that it was undertaking a comprehensive cost out programme focusing on flattening operating costs in FY24.

On 16 August 2023 Pact announced the sale of 50% of its Crate Pooling and Crate Manufacturing business (**Crate Transaction**) with the cash proceeds committed to reducing debt.

Despite these initiatives, from the closing high of \$4.55 on 19 August 2021, Pact's share price declined to close at \$0.675 on 12 September 2023, the last trading day before the announcement of the Offer.

It is in this context that Pact received the Offer from Kin Group on 13 September 2023.

Pact management has announced the following in the Target's Statement:

<sup>8</sup> Pact Annual General Meeting Presentation, 29 November 2021.

<sup>9</sup> Pact FY22 Full Year Results Presentation, 17 August 2022.

- that it had developed a three-pillar transformation plan to enable Pact to achieve its vision of leading the Circular Economy. The plan includes the existing strategic targets to deliver and monetise the plan to lead the Circular Economy (Pillar 3) as well as previously undisclosed outcomes of various initiatives (as Pact management had been waiting for certainty as to their outcome), including \$20 million of annualised cost restructuring and profit improvement (Pillar 1) that is expected to complete in October 2023, as well as the financial implications of the Crate Transaction (in particular, that it resulted in an estimated capital gains tax liability of approximately \$60 million and would have reduced Pact's FY23 leverage from 3.0 times to 2.6 times<sup>10</sup> if the transaction had closed on 30 June 2023) and reinvigoration of the plan to sell Contract Manufacturing and that it is in early-stage negotiations with parties interested in acquiring VRM (Pillar 2). Should all (or parts) of Contract Manufacturing be sold at below its tax cost base, any capital loss could be used to offset taxable capital gains from the financial year the capital loss is incurred. This requires that Contract Manufacturing is sold in FY24;
- a 1Q24 market conditions update, which indicates that supply chain disruptions have moderated, with international shipping costs reducing while domestic freight costs remain elevated, input costs remain elevated, but are stabilising, resin prices are stable and labour constraints are beginning to stabilise. Furthermore, Pact has implemented several initiatives to strengthen its operations in the context of ongoing macroeconomic uncertainty; and
- a 1Q24 trading update, which indicates that Pact's Underlying EBIT for 1Q24 was slightly above last year and currently, Pact remains on track to deliver a full year Underlying EBIT for FY24 in line with broker consensus.

### 3.2 Summary of opinion

#### In our opinion the Offer is neither fair nor reasonable.

In arriving at this opinion, we have assessed whether the Offer is:

- **fair**, by comparing the Offer Price to our assessed value of a Pact Share on a controlling interest basis. This approach is in accordance with the guidance set out in RG 111; and
- **reasonable**, by assessing the implications of the Offer for Pact Shareholders, the alternatives to the Offer that are available to Pact, and the consequences for Pact Shareholders of not accepting the Offer.

**We have assessed the value of a Pact Share on a controlling interest basis to be in the range \$1.06 to \$1.51. As the Offer of \$0.68 falls below our assessed value range for a Pact Share, the Offer is not fair.**

The range of values is relatively wide, which reflects Pact's high financial leverage, even after adjusting for the estimated cash proceeds from the Crate Transaction. The high financial leverage includes the impact of lease liabilities, growth capital expenditure required to achieve target earnings under the transformation plan and assumed costs to implement synergies.

In forming our view as to the value of Pact Shares, we have considered a range of factors including the benefit of the strategic targets under Pillar 3 of the transformation plan which were previously disclosed, including EBIT margin in Packaging Australia of 10% by FY26 as well as the financial benefits of the new Horsley Park Contract Manufacturing site. Kroll has deducted the substantial growth and dairy capital expenditure required to achieve those targets and reflected the risk of achieving the targets in our selected multiples. Kroll has also considered the impact of the \$20 million of recently implemented annualised cost restructuring and profit improvement (Pillar 1), the financial impact of the Crate Transaction (Pillar 2) as well as the 1Q24 market conditions and trading update, each of which was first disclosed to the market in the Target's Statement. Our valuation does not attribute any value to any potential to offset the capital gains tax liability on the Crate Transaction with a potential capital loss on a sale of Contract Manufacturing.

In addition, in accordance with ASIC's RG 111.11, Kroll has valued Pact on a 100% basis (i.e. our valuation does not take into consideration Kin Group's pre-bid stake) and considered synergies available to a hypothetical acquirer of Pact. In this regard, we consider that there are a number of global packaging companies that would potentially be interested in acquiring Pact. Even without an existing presence in Australia, such an acquirer is likely to be able to achieve significant synergies, including the ability to

<sup>10</sup> Consolidated leverage inclusive of Pact's 50% share of the pro forma FY23 net profit after tax from Crate Pooling and Crate Manufacturing.

leverage technology, reduce raw material prices by buying internally, reduce procurement costs through greater scale and reduce a portion of corporate and back office costs.

Our analysis of the fairness of the Offer is detailed further in Section 3.3 of this report.

In accordance with RG 111, an offer might be reasonable if, despite not being fair, the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher bid before the close of the offer. **Kroll is of the view that there are no substantive reasons that, despite not being fair, support a reasonable conclusion.** The considerations that are relevant to an assessment of the reasonableness of the Offer include:

- Pact Shareholders can currently sell their Pact Shares on the ASX for a price that is greater than the Offer Price;
- the Offer Price represents a substantial discount to most trading over the last 12 months;
- by exiting their investment in Pact, shareholders will not participate in any future growth in the value of Pact arising from the transformation plan (including the benefits from the Crate Transaction and, potentially, the sale of Contract Manufacturing), however, they will no longer be exposed to the risks facing the business;
- potential for dividends is uncertain;
- in the absence of the Offer, the Pact share price will reflect the information disclosed in the Target's Statement, including the transformation plan and the 1Q24 market conditions and trading update;
- Pact Shares are reasonably liquid;
- Kin Group already has control of Pact;
- the likelihood of a superior proposal emerging from a third party is low. It is uncertain whether the Independent Directors will be able to extract a higher offer from Kin Group;
- the consideration under the Offer provides a certain value that is below the prices at which Pact Shares are currently trading (as at the date of this report); and
- if Pact Shareholders do not accept the Offer and Kin Group increases its holding, there is a risk that trading in Pact Shares becomes illiquid, and the share price may fall further. It may be difficult for Pact Shareholders to sell their shares without impacting the share price. In certain circumstances, Kin Group may delist Pact Shares from the ASX, an intention that is stated in the Bidder's Statement. In this instance, transaction costs will be borne by Pact.

Other matters which Pact Shareholders should consider in assessing the Offer include:

- the Offer has no minimum acceptance condition; and
- the tax implications of the Offer.

Our analysis of the reasonableness of the Offer is detailed further in Section 3.4 of this report. The decision to accept the Offer is a matter for individual Pact Shareholders based on their views as to value, expectations about future market conditions and their particular circumstances, including investment strategy and portfolio, risk profile and tax position. If in doubt, Pact Shareholders should consult their own professional adviser regarding the action they should take in relation to the Offer.

### 3.3 The Offer is not fair

#### 3.3.1 Valuation of Pact

In accordance with RG 111.11, fairness should be assessed by comparing the offer price with the value of the securities the subject of the offer. The comparison should be made:

- assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length, noting that while synergies that can only be achieved by one bidder should not be taken into account, however, synergies that are available to other bidders should be taken into account; and
- assuming 100% ownership of the 'target'. The expert should not consider the percentage holding of the 'bidder' or its associates in the target when making this comparison. Rather, a bidder's pre-bid stake is relevant to the assessment of reasonableness.

Kroll has assessed the value of Pact's equity to be in the range of \$366.1 million to \$519.9 million, which corresponds with a value per Pact Share in the range of \$1.06 to \$1.51 on a fully diluted basis.<sup>11</sup> In accordance with RG 111.11, our range of assessed values reflects 100% ownership of Pact (i.e. it does not take into consideration Kin Group's pre-bid stake of 50.004%) and, therefore, incorporates a control premium. As our valuation includes a control premium, our range of assessed values per share exceeds the price at which we expect Pact Shares would trade on the ASX in the absence of the Offer.

The value of Pact's equity has been determined utilising a sum-of-the parts methodology, by aggregating our estimated fair value of each of Pact's operating segments (minority basis) and potential synergies, together with the value of the 50% interest in Crate Pooling and Crate Manufacturing retained, the value of joint ventures and associates, and net borrowings (after the receipt of the estimated net cash proceeds from the Crate Transaction). The valuation is summarised as follows.

#### Pact Summary of Value (\$ Millions)

	Section Reference	Low	High
Packaging & Sustainability	9.3	846.9	955.3
Materials Handling & Pooling (residual) <sup>1</sup>	9.4	185.8	204.9
Contract Manufacturing	9.5	112.8	127.2
Net synergies <sup>2</sup>	9.6	80.4	92.3
<b>Value of Pact's operating business (100% control basis)</b>		<b>1,225.9</b>	<b>1,379.7</b>
50% interest in Crate Pooling and Crate Manufacturing retained	9.7	118.5	118.5
Joint ventures and associates	9.8	46.8	46.8
Other assets/(liabilities)	9.9	(0.5)	(0.5)
<b>Enterprise value (100% control basis)</b>		<b>1,390.7</b>	<b>1,544.5</b>
Adjusted net borrowings <sup>3</sup>	9.10	(1,024.6)	(1,024.6)
<b>Value of Pact's equity (100% control basis)</b>		<b>366.1</b>	<b>519.9</b>
Number of shares outstanding – diluted (millions) <sup>4</sup>	8.6.6	346.2	344.3
<b>Value per Pact Share – diluted (100% control basis) (\$)</b>		<b>\$1.06</b>	<b>\$1.51</b>

Source: Kroll analysis.

1. Excludes 100% of Crate Pooling and Crate Manufacturing.
2. Net synergies is net of dis-synergies and deducts implementation costs.
3. Adjusted net borrowings is cash, estimated net proceeds from the Crate Transaction and net interest rate derivatives less lease liabilities and Pact's normalised level of interest bearing liabilities.
4. Kroll has applied a range of shares outstanding assuming full dilution in the low case, and no dilution in the high case. Refer to Section 8.6.6 of this report.

The range of values is relatively wide, which reflects Pact's high financial leverage, even after adjusting for the estimated net cash proceeds from the Crate Transaction. The high financial leverage includes the impact of lease liabilities, growth capital expenditure required to achieve target earnings under the transformation plan and assumed costs to implement synergies.

Our valuation range of \$1.06 to \$1.51 per Pact Share reflects a premium over the closing price of Pact Shares immediately prior to the announcement of the Offer of between 57.0% and 123.7%, and a premium to the one month VWAP prior to the Offer in the range of 38.6% to 97.4%. This premium reflects:

- that our valuation of Pact includes a control premium, rather than a valuation of a minority interest in the company as traded on the ASX. The premiums observed in completed transactions are broadly in the range of 25% to 40% depending on the individual circumstances.<sup>12</sup> In this regard, we note that synergies available to global packaging companies are potentially material. Even without an overlapping geographical footprint relative to Pact, such acquirers are likely to be able to leverage technology, reduce raw material prices by buying internally, reduce procurement costs through greater scale and reduce duplicated corporate and back office costs. Excluding the value attributed to

<sup>11</sup> Low value assumes that all Pact Performance Rights and myPact Rights vest as a result of the Offer, such that the total number of diluted shares outstanding is 346,182,425. High value assumes no vesting as a result of the Offer, such that the total number of shares outstanding is 344,290,053. Refer to Section 8.6.6 of this report.

<sup>12</sup> 2022 Mergerstat Review. Range represents median premium from 2012 to 2021. Premiums are calculated based on the seller's closing price five business days before the initial announcement. The calculations exclude negative premiums and premiums over 250%.



synergies (\$0.23 to \$0.27 per Pact Share), Kroll's valuation range (minority basis) is \$0.83 to \$1.24 per Pact Share. In other words, Kroll's valuation includes a control premium in the range of 21.8% to 27.7%;<sup>13</sup>

- that our valuation includes the positive impact of information which has been disclosed in the Target's Statement, but which was not disclosed as at 12 September 2023, the last trading day before the announcement of the Offer, including the \$20 million of annualised cost restructuring and profit improvement outlined in Pillar 1 of the transformation plan, the financial impact of the Crate Transaction as outlined in Pillar 2 and management's observation that market conditions had stabilised; and
- Pact's potentially depressed share price in the lead up to the announcement of the Offer as a result of investor concern regarding Pact's ability to execute on its strategy, failure to sell Contract Manufacturing, absence of a dividend and its elevated gearing levels, with the market potentially pricing in a dilutive equity raising in order to reduce leverage.

In forming our view as to the value of Pact Shares we have considered a series of factors including:

- the 2025 National Packaging Targets, increasing demand for more sustainable and recyclable products and a shift away from metal and glass packaging, offset by an increasing demand for flexible packaging;
- historical and projected operating margins for the three operating segments, which have fluctuated throughout the COVID-19 pandemic and may continue to be impacted by ongoing supply chain inefficiencies and inflationary pressures on consumer demand and raw material costs, depending on Pact's ability to pass-through cost increases, noting that the 1Q24 market conditions update in the Target's Statement indicates that some of these pressures have eased;
- transformation initiatives (Pillar 1), which have achieved run rate savings of \$20 million (\$13 million in FY24, with FY25 being the first full year of benefits);
- the financial impact of the Crate Transaction (Pillar 2), including the receipt of an estimated \$160 million in net cash proceeds, which will be used to reduce debt. Kroll's valuation does not reflect the potential sale of Contract Manufacturing or VRM, nor does it include the potential for any capital loss arising from a sale of all (or parts) of Contract Manufacturing below its tax cost base to offset taxable capital gains on the Crate Transaction from the financial year the capital loss is incurred (up to \$0.17 per Pact Share). This requires that Contract Manufacturing is sold in FY24;
- strategic targets under Pillar 3 of the transformation plan, including:
  - value from its Circular Economy Strategy of at least an additional \$25 million run-rate EBIT by the end of FY25, supported by recent recycled packaging partnerships with Woolworths and Aldi; and
  - Underlying EBIT margin growth in Packaging Australia to 10% by FY26, supported by margin uplift from the Circular Economy Strategy, capital investment and procurement efficiencies;
- financial benefits of the new Contract Manufacturing site at Horsley Park once operational in FY24;
- the risk of achieving the strategic targets, which is reflected in the selected multiples for Packaging & Sustainability and Contract Manufacturing, and the significant growth and dairy capital expenditure required to achieve earnings targets for Packaging Australia, which we have deducted in our valuation of Packaging & Sustainability; and
- Pact's carried forward and potential income and capital gains tax losses, however, recognising that the ability to utilise them is uncertain and it is unlikely that an acquirer would attribute significant value to them.

As a cross check, Kroll has compared the implied multiples of Pact's FY23 Underlying EBITDA<sup>14</sup> (100% control) to the multiples of EBITDA observed in recent packaging transactions.

<sup>13</sup> Calculated as \$0.23/\$0.83 and \$0.27/\$1.24.

<sup>14</sup> Underlying EBITDA is a non-IFRS financial measure which is calculated as earnings before underlying adjustments, finance costs (net of interest revenue), tax, depreciation and amortisation.

**Pact Implied Multiples (100% Control) (\$ Million unless Otherwise Stated)**

	Section reference	Parameter	Low	High
<b>Value of Pact's operating business (ex Crate Pooling)</b>	<b>9.1</b>		<b>1,225.9</b>	<b>1,379.7</b>
100% of Crate Pooling & Crate Manufacturing operating business <sup>1</sup>	9.7		405.0	405.0
<b>Value of Pact's operating business (post AASB-16)</b>			<b>1,630.9</b>	<b>1,784.7</b>
Lease liabilities as at 31 August 2023	9.10		(503.0)	(503.0)
<b>Value of Pact's operating business (pre AASB-16)</b>			<b>1,127.9</b>	<b>1,281.7</b>
Multiple of FY23 Underlying EBITDA (post AASB 16) (times) <sup>2</sup>	8.3.1	275.2	5.9	6.5
Multiple of FY23 Underlying EBITDA (pre AASB 16) (times) <sup>3</sup>	8.3.1	190.8	5.9	6.7

Source: Kroll analysis.

Notes:

1. Grossed up for debt and lease liabilities.
2. Calculated as FY23 Underlying EBITDA (post AASB 16) of \$277.0 million (refer to Section 8.3.1 of this report), less \$1.8 million income from associates, which are valued separately.
3. Calculated as FY23 Underlying EBITDA (post AASB 16) of \$277.0 million (refer to Section 8.3.1 of this report), less \$84.4 million of lease expenses, less \$1.8 million of income from associates, which are valued separately.

The range of implied multiples of 5.9 to 6.5 times FY23 Underlying EBITDA (post AASB 16) is consistent with the low end of the observed historical EBITDA multiples for the selected packaging transactions, however, we do not consider this to be unreasonable as the lower multiples allow for the additional risk of Pact achieving earnings and strategic targets.

### 3.3.2 Assessment of fairness

A comparison of our assessed value per Pact Share, on a control basis, to the Offer Price is illustrated as follows.

#### Fairness Assessment (\$)



Source: Kroll analysis

As the Offer Price is below the low end of our range of values for a Pact Share, **the Offer is not fair**. The Offer Price is at a 35.8% discount to the low end of Kroll's valuation range. This discount is significant, however, is unsurprising given the Offer Price approximates the last closing price of Pact Shares on 12 September 2023, whereas Kroll's valuation includes a control premium (in accordance with ASIC's RG 111.11). As discussed, Kroll's valuation includes a control premium in the range of 21.8% to 27.7%.<sup>15</sup>

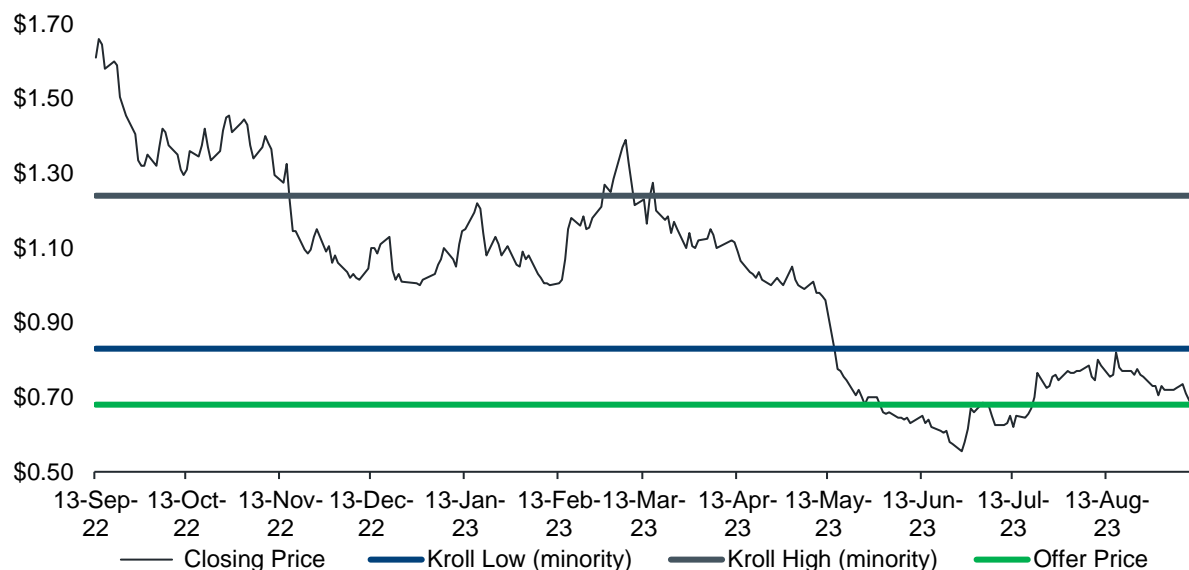
Excluding the value attributed to synergies of \$0.23 to \$0.27 per Pact Share, Kroll's valuation range (minority basis) is \$0.83 to \$1.24 per share. The Offer Price of \$0.68 falls below the low end of this range, which likely reflects that:

- Kroll's valuation includes the positive impact of information which has been disclosed in the Target's Statement but which was not publicly disclosed as at 12 September 2023, including the \$20 million in annualised cost restructuring and profit improvement and the financial impact of the Crate Transaction as outlined in Pillars 1 and 2 of the transformation plan, respectively, as well as Pact management's observation that market conditions have stabilised;
- the Pact share price was likely depressed in the lead up to the Offer (refer to Section 3.3.1 of this report); and

<sup>15</sup> Calculated as \$0.23/\$0.83 and \$0.27/\$1.24.

- the Offer Price approximates the last closing price for Pact Shares, rather than trading over a longer period of time.

### Comparison of Offer Price to Assessed Value (Minority Basis) (\$)



Source: Kroll analysis

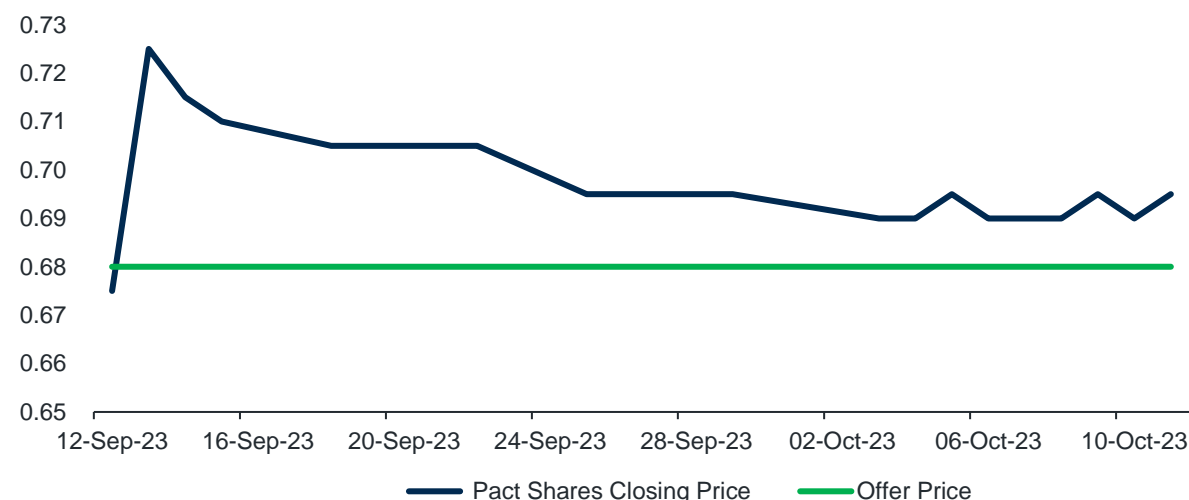
### 3.4 The Offer is not reasonable

In accordance with RG 111, an offer might also be reasonable if, despite not being fair, the expert believes that there are sufficient reasons for shareholders to accept the offer in the absence of any higher bid before the close of the offer. Kroll is of the view that there are no substantive reasons that despite not being fair, the Offer is reasonable. The considerations that are relevant to an assessment of the reasonableness of the Offer are set out as follows.

#### 3.4.1 Pact Shareholders can currently sell their shares on the ASX for a price that is greater than the Offer Price

Since the Offer was announced on 13 September 2023, Pact Shares have consistently traded above the Offer Price of \$0.68, potentially reflecting market speculation that the Independent Directors will be able to extract a higher offer from Kin Group.

#### Trading in Pact Shares since 12 September 2023



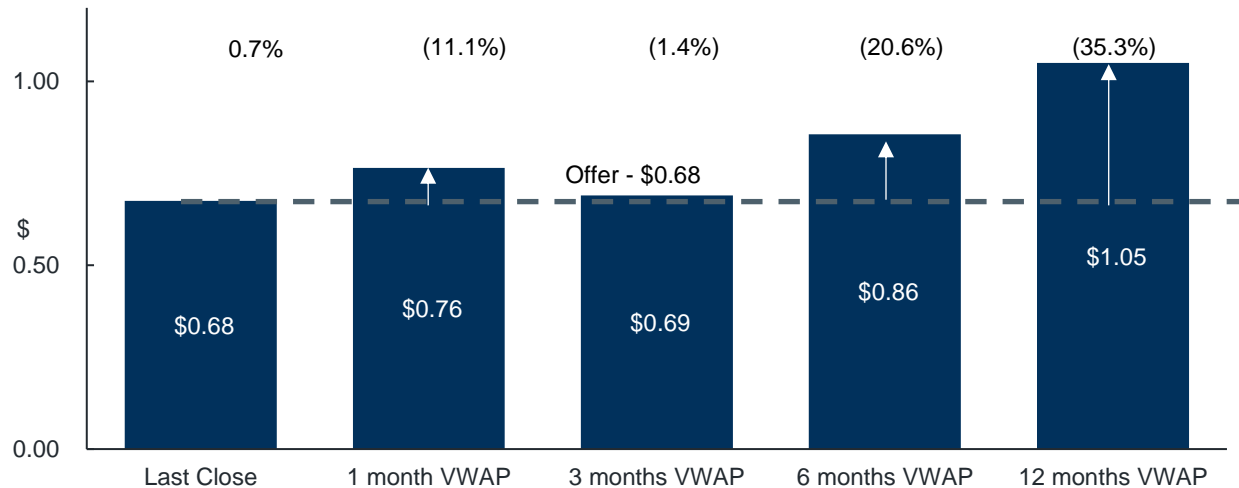
Source: S&P Capital IQ, Kroll analysis.

As a consequence, it is currently possible for Pact Shareholders to sell their Pact Shares on the ASX for a price that is greater than the Offer Price, although this may not continue.

### 3.4.2 The Offer Price represents a discount to most trading over the last 12 months

The Offer Price of \$0.68 represents a premium of 0.7% to Pact's closing price on 12 September 2023 and a discount in the range of 1.4% to 35.3% relative to the volume weighted average price (VWAP) calculated over various periods up until 12 September 2023, the last trading day prior to the announcement of the Offer.

#### Offer Price relative to the Pact Share Price



Source: Kroll analysis.

Note 1: The premiums illustrated above have been calculated based on the closing price and VWAP of Pact Shares up until 12 September 2023, being the last trading day prior to the announcement of the Offer.

We note that:

- typically, an acquirer will pay a premium to obtain control of a target company. Observations from transaction evidence indicate that control premiums are broadly in the range of 25% to 40% for completed transactions depending on the individual circumstances.<sup>16</sup> Furthermore, in transactions where it was estimated the combined entity would be able to achieve significant synergies, the premium was frequently estimated to be in excess of this range. Where an acquirer increases control from a controlling position, however, they may choose not to offer a full control premium. Kin Group presently holds a 50.019% interest in Pact;<sup>17</sup>
- the Offer Price of \$0.68 is 59.0% lower than the highest closing price within the 12 months preceding the Offer, of \$1.66 on 14 September 2022. We note that from then until 12 September 2023, the last trading day before the announcement of the Offer, Pact's share price declined steeply, underperforming the comparable listed packaging companies and broader indices. During this period, Comparable Company Index<sup>18</sup> increased by 11.1%, the S&P/ASX All Ordinaries Index (**All Ordinaries**) increased by 4.7% and the Pact share price declined by 59.3% to close at \$0.675;
- the discounts of the Offer Price to recent share trading are potentially understated since:
  - as discussed in Section 3.3.1 of this report, Pact's share price was potentially depressed in the lead up to the announcement of the Offer; and
  - the discounts are calculated relative to Pact's share trading up until 12 September 2023. Since that date, in the Target's Statement, Pact has announced anticipated positive benefits from the transformation plan and advised that market conditions had stabilised.

<sup>16</sup> 2022 Mergerstat Review. Range represents median premium from 2012 to 2021. Premiums are calculated based on the seller's closing price five business days before the initial announcement. The calculations exclude negative premiums and premiums over 250%.

<sup>17</sup> Includes acceptances under the Offer notified by Bennamon to Pact as at 4 pm on 11 October 2023.

<sup>18</sup> Kroll has combined global comparable listed companies into a unique index. The index includes Aptar Group, Silgan Holdings and Berry Group Inc. It has been created with S&P CapitalIQ based on the aggregate market capitalisation of these companies.

### 3.4.3 By exiting their investment in Pact, shareholders will not participate in any future growth in the value of Pact

Opportunities for growth include:

- benefits from the transformation plan that had not yet been publicly disclosed as at the date on which the Offer was announced (as Pact management had been waiting for certainty as to their outcome), including:
  - an estimated \$20 million in annualised cost restructuring and profit improvement under Pillar 1, which is expected to complete in October 2023;
  - the financial impact of the Crate Transaction (Pillar 2), which reduced leverage (from 3.0 times to 2.6 times<sup>19</sup> pro forma FY23 leverage) as a result of the \$160 million in net cash proceeds (after an estimated capital gains tax liability of approximately \$60 million), and which is expected to be implemented by the end of CY23. The Crate Transaction is also expected to allow Pact to undertake growth and dairy capital expenditure required to achieve strategic targets for the Packaging Australia business; and
  - the opportunity for further deleveraging from a potential sale of Contract Manufacturing and VRM (Pillar 2). In addition, should all (or parts) of Contract Manufacturing be sold below its tax cost base, any capital loss could be used to offset the estimated capital gains tax liability from the Crate Transaction (up to \$0.17 per Pact Share). This requires that Contract Manufacturing is sold in FY24;
- the benefit of strategy delivery and Circular Economy monetisation (Pillar 3), which has not yet been fully implemented, including:
  - value from its Circular Economy Strategy of at least an additional \$25 million in run-rate EBIT by the end of FY25, supported by recent recycled packaging partnerships with Woolworths and Aldi; and
  - Underlying EBIT margin growth in Packaging Australia to 10% by FY26, supported by margin uplift from the Circular Economy Strategy, capital investment and procurement efficiencies; and
- the benefit of the new Horsley Park Contract Manufacturing facility, which is expected to be operational in FY24 (unless sold prior), noting that most of the capital expenditure required has already been spent, however, the first full year of earnings from the plant is not until FY25.

### 3.4.4 The potential for dividends is uncertain

In the Target's Statement, Pact management notes that while the prospect of Pact paying a dividend in the short to medium term is uncertain and could be subject to competing objectives, Pact's financial capacity to do so has improved in light of the pro forma reduction in leverage, capital expenditure and earnings benefits of the transformation plan. Kroll notes that brokers are forecasting dividends in excess of target (40% of Underlying NPAT) from FY25.

It should be noted, however, that Kin Group currently has control of Pact and, as a result, can influence its dividend policy. In the Bidder's Statement, Kin Group has advised that it intends to prioritise increased investment into the business and maintain the suspension of dividends to focus on strategic M&A activities and capital expenditure, which may require pursuing equity capital raisings.

### 3.4.5 Pact Shareholders will no longer be exposed to the risks facing Pact

By accepting the Offer, Pact Shareholders will no longer be exposed to the risks facing the business, including:

- closing the Crate Transaction, which is subject to regulatory and other approvals which, as part of the sale agreement, need to be secured by 29 February 2024 (sunset date). Pact currently anticipates that these approvals will be received during CY23. However, should these approvals not be received by the Sunset Date, there is a risk that the transaction does not complete and the estimated net proceeds of \$160 million are not received;

<sup>19</sup> Consolidated leverage inclusive of Pact's 50% share of the pro forma FY23 net profit after tax from Crate Pooling and Crate Manufacturing.

- executing on the transformation plan, including the successful sale of Contract Manufacturing and VRM and achieving targets under the Circular Economy Strategy. We note that the \$20 million in annualised cost restructuring and profit improvement (Pillar 1) has already been achieved although the benefit has not flowed through to the 1Q24 trading update and although the new Contract Manufacturing plant is fully contracted and a majority of capital expenditure has already been spent, there remains execution risk in bringing the plant to full capacity;
- as noted, there is a potential for any capital loss, should all (or parts) of Contract Manufacturing be sold below its tax cost base, to offset taxable capital gains arising from the Crate Transaction. This requires that Contract Manufacturing is sold in FY24;
- Pact has recently experienced supply chain disruptions, inflationary pressures, labour constraints and macroeconomic uncertainty. In the Target's Statement, however, Pact management advised that supply chain disruptions have moderated, with international shipping costs reducing while domestic freight costs remain elevated, input costs remain elevated, but are stabilising, resin prices are stable and labour constraints are beginning to stabilise;
- there is a risk that Pact is unable to achieve its target of 2.5 times leverage ratio by 30 June 2024. Kroll notes that this ratio is an internal target and does not reflect banking covenants; and
- as discussed in Section 3.4.4 of this report, it is uncertain when Pact will resume paying dividends, which may continue to impact its share price.

#### 3.4.6 Pact's share price in the absence of the Offer

The Pact share price is currently trading above the Offer Price, which does not include a control premium, potentially reflecting market speculation that the Independent Directors will be able to extract a higher offer from Kin Group. In the absence of the Offer, a superior proposal or speculation concerning a superior proposal, the Pact share price is likely to align to levels consistent with Pact's undisturbed trading prices (up until 12 September 2023), with an allowance for:

- subsequent announcements in relation to company specific initiatives or financial performance which the market may assess as value enhancing or diminishing. In this regard:
  - while Pact management originally intended to provide detail of the transformation plan at its 2023 Annual General Meeting, the Offer process has accelerated Pact's disclosure of the transformation plan and its current status. Information contained in the Target's Statement that was not previously disclosed and which is expected to have a positive influence on share price includes:
    - the \$20 million of annualised cost restructuring and profit improvement outlined in Pillar 1;
    - confirmation of the approximately \$160 million in net cash proceeds from the Crate Transaction, which will be applied to reducing debt and lowering leverage as outlined in Pillar 2;
    - having recommenced sale preparations for Contract Manufacturing in late 2022 and the potential sale of VRM in Pillar 2; and
    - the potential for any capital loss arising from the sale of all (or parts) of Contract Manufacturing below its tax cost base to be used to offset the estimated capital gains tax liability from the Crate Transaction of approximately \$60 million from the financial year the capital loss is incurred. This requires that Contract Manufacturing is sold in FY24;
- in the Target's Statement, Pact advised that market conditions had stabilised; and
- in the Target's Statement, Pact has provided a 1Q24 trading update which indicates that Pact's Underlying EBIT for 1Q24 was slightly above last year and that currently, Pact remains on track to deliver a full year Underlying EBIT for FY24 in line with broker consensus; and
- on 13 September 2023, Kin Group lodged a substantial shareholder notice advising that on 12 September 2023, it had gained a 50.004% relevant interest in Pact (currently 50.019%<sup>20</sup>). In the Bidder's Statement, Kin Group has advised that it intends to prioritise increased investment into the business and maintain the suspension of dividends to focus on strategic M&A activities and capital expenditure, which may require pursuing equity capital raisings;

<sup>20</sup> Includes acceptances under the Offer notified by Bennamon to Pact as at 4 pm on 11 October 2023.

- **any sector developments:** in this regard, from 12 September 2023 (the last trading day before the Offer) until 11 October 2023, the Comparable Company Index decreased by 3.6%; and
- **trends in broader equity markets:** in this regard, from 12 September 2023 (the last trading day before the Offer) until 11 October 2023, the All Ordinaries decreased by 1.6%.

In the absence of the Offer, in the short term, the Pact share price will reflect the information disclosed in the Target's Statement, including the transformation plan and the 1Q24 market conditions and trading update. It is not possible to assess Pact's share price in the medium to long term, given the range of factors impacting its share price, including actual progress against the transformation plan, the results of potential sales of Contract Manufacturing and VRM, the ability of Pact to reduce leverage to 2.5 times by 30 June 2024, timing of any future dividend, the impact of any further increase in shareholding by Kin Group on liquidity and the potential for unforeseen events as well as the unpredictability of market sentiment.

### 3.4.7 Pact Shares are reasonably liquid

As discussed in Section 8.7.4 of this report, trading in Pact Shares is reasonably liquid, with 66.2% of the quoted Pact Shares on issue (131.7% of free float)<sup>21</sup> being traded in the 12 months to 12 September 2023. Pact Shares have been sufficiently liquid to give Pact Shareholders confidence that, unless Kin Group substantially increases its shareholding in Pact as a result of the Offer, they would be able to exit their investment at a time of their choosing, although there is no certainty as to the price at which Pact Shareholders would realise their investment at that time.

### 3.4.8 Kin Group already has control of Pact

Bennamon has advised Pact that including acceptances under the Offer, it has a relevant interest in 50.019% of Pact Shares.<sup>22</sup> As a result, even if no further Pact Shareholders accept the Offer, Kin Group will be in a position to significantly influence the composition of Pact's Board and management and the strategic direction of the businesses of Pact and future dividend policy. As noted in the Bidder's Statement, as a result of Kin Group's substantial shareholding in Pact, it has the ability to pass or block an ordinary resolution (50% of votes cast) and has the ability to block a special resolution (at least 75% of votes cast and 50% of shareholders present and voting). Kin Group may be able to carry out many of the intentions set out in Section 10 of the Bidder's Statement and Section 3.4.12 of this report.

Kroll notes that from 16 September 2022 until 12 September 2023, Kin Group had a 49.747% relevant interest in Pact and, therefore, had effective control. Consequently, if the Offer does not proceed, this situation will remain relatively unchanged.

### 3.4.9 The likelihood of a superior proposal emerging from a third party is low. It is uncertain whether the Independent Directors will be able to extract a higher offer from Kin Group

The likelihood of a superior proposal from a third party is considered to be low as any third party proposal would need to have Kin Group's support as a result of its 50.019% interest in Pact.

Pact Shareholders may reject the Offer in the expectation that the Independent Directors will be able to extract a higher offer from Kin Group. In this regard, we note that:

- it is possible that no higher offer from Kin Group will be forthcoming. Kroll notes that Mr. Geminder (through vehicles controlled by him) has previously lodged off market takeover offers for McPherson's Limited (**McPherson's**), announced on 25 March 2021 and The Reject Shop Limited (**The Reject Shop**), announced on 21 November 2018. The premiums were below premiums typically observed in control transactions, at 9.8% and 11.1% to the last close, respectively, and 11.5% and 19.0% to the one-month VWAPs, despite Mr. Geminder's pre-bid stakes of only 5.0% and 2.7%. In each case, the respective boards rejected the offer, however, no higher offer was made. As a result of acceptances under the offers, Mr. Geminder acquired an additional 16.3% of The Reject Shop, bringing its interest to 19.0%, whilst no substantial shareholder notices were lodged following the McPherson's offer. We note, however, that past behaviour is no guarantee of future behaviour;
- Kin Group already has control of Pact through its 50.019% interest in Pact, which enables it to significantly influence the composition of Pact's Board and management and the strategic direction of

<sup>21</sup> Free float excludes Kin Group's 49.747% substantial shareholding in Pact Shares held from 16 September 2022 until 12 September 2023.

<sup>22</sup> Includes acceptances under the Offer notified by Bennamon to Pact as at 4 pm on 11 October 2023.

the businesses of Pact and future dividend policy. Mr. Geminder's desire to acquire 100% of Pact (as opposed to increasing Kin Group's interest in Pact outside the 'creep' provisions<sup>23</sup>) is unclear. We note that the Offer does not contain a minimum acceptance condition; and

- it is not apparent that Kin Group could achieve any substantial synergies by acquiring 100% of Pact, other than saving public company costs.

Kroll notes that even if a superior proposal does not emerge, Pact Shareholders can currently sell their shares on market at a price that is greater than the Offer Price.

#### **3.4.10 The consideration under the Offer provides a certain value that is below the price at which Pact Shares are currently trading**

The Offer is unconditional and provides Pact Shareholders an opportunity to exit their investment in Pact at a pre-tax value that is certain and which, however, is at a discount to current trading in Pact Shares. In any event, trading of Pact Shares is currently sufficiently liquid to give Pact Shareholders confidence that they would be able to exit their investment at a time of their choosing (unless Kin Group substantially increases its interest in Pact), although there is no certainty as to the price at which Pact Shareholders would realise their investment at that time.

#### **3.4.11 Other considerations**

##### **No minimum acceptance condition**

The Offer has no minimum acceptance condition.

##### **Taxation implications for Pact Shareholders**

General tax implications for Pact Shareholders that hold their Pact Shares on capital account are outlined in Section 6 of the Target's Statement.

Section 6.2 of the Target's Statement considers the implications of accepting the Offer for resident and Pact Shareholders who hold their shares on capital account. In particular, the disposal of Pact Shares will be a capital gains tax event for resident Pact Shareholders. This means that resident Pact Shareholders will need to determine whether a capital gain or a capital loss arises in respect of their disposal of Pact Shares.

Non-resident Pact Shareholders will need to determine their own tax outcomes.

We note that Pact Shareholders should consider their individual taxation circumstances and review Section 6 of the Target's Statement for further information where it applies to their circumstances. Pact Shareholders should obtain their own independent professional advice on the tax consequences of disposing of their Pact Shares under the Offer.

#### **3.4.12 Consequences if the Offer does not proceed**

As the Offer is not conditional upon a minimum acceptance level, there are many potential outcomes in terms of Kin Group's final interest in Pact, ranging anywhere from its current relevant interest of 50.019% through to 100% control. We have summarised the major implications below.

In the event Kin Group maintains its current 50.019% interest in Pact Shares, inter alia:

- non-associated shareholders will remain as minority shareholders in Pact and will be exposed to the future operational risks and benefits of Pact as a standalone entity;
- Pact will remain listed on the ASX;
- in the absence of the Offer, the Pact share price will reflect the information disclosed in the Target's Statement, including the transformation plan and the 1Q24 market conditions and trading update (refer to Section 3.4.6 of this report);
- Kin Group will continue to be in a position to significantly influence the composition of Pact's Board and management and the strategic direction of the businesses of Pact and future dividend policy through its 50.019% interest in Pact. As noted in the Bidder's Statement, Kin Group currently has the ability to pass or block an ordinary resolution (50% of votes cast) and has the ability to block a special

<sup>23</sup> Item 9 of Section 611 of the Corporations Act allows for the acquisition of up to 3% every six months from a starting point of at least 19%.



resolution (at least 75% of votes cast and 50% of shareholders present and voting). Kin Group may be able to carry out some of the intentions set out in Section 10 of the Bidder's Statement (summarised below);

- Kin Group will remain entitled to increase its interest in Pact under the 'creep' provisions of the Corporations Act, which permit acquisitions of no more than 3% of a public company's issued capital every six months. To the extent Kin Group continues to grow its interest in Pact via this mechanism, this will further reduce the free float of Pact and can be expected to impact on future liquidity in Pact shares, which in turn may affect Pact's share price; and
- Pact will bear transaction costs in relation to the Offer.

If, following the Offer, Kin Group holds between 50.019% and 90.0% of Pact's issued capital:

- non-associated shareholders will continue to be minority shareholders in a company controlled by Kin Group;
- if Kin Group substantially increases its shareholding, it is possible that Pact's share price will fall from current levels and it is reasonable to expect that the liquidity in Pact Shares will be adversely impacted;
- in Section 10 of the Bidder's Statement, Kin Group has advised that should it have control of Pact, it will:
  - conduct a review of Pact's operations covering current strategy, financial and operating matters;
  - continue to be supportive of Pact's management team and its employees. In particular, Kin Group is supportive of the Crate Transaction and Pact's cost out programme focused on flattening operating costs in FY24;
  - increase its overall influence on governance and the day-to-day operations of Pact's business, seek to second Kin Group executives to assist the management team and appoint additional Kin Group nominees to the Pact Board;
  - maintain the suspension of dividends to focus on debt repayment and capital expenditure in light of increased interest costs;
  - review Pact's overall capital structure and capital management policies including further equity capital raisings or asset divestments which may be required to fund Pact's objectives and reduce debt; and
  - depending upon the level of its final shareholding and after taking legal and financial advice, review whether to maintain the listing of Pact on the ASX. In these circumstances, there is a risk that, depending upon the level of acceptances of the Offer, non-associated shareholders who decide not to accept the Offer might ultimately end up holding a minority interest in an unlisted public company (refer to Section 1.7 of the Target's Statement);
- Kin Group will still be able to rely on the 'creep' provisions of the Corporations Act to increase its interest further. If Kin Group acquires 90% or more of the Pact Shares, it intends to compulsorily acquire the remaining Pact Shares; and
- Pact will bear transaction costs in relation to the Offer.

In the Bidder's Statement, Kin Group has stated that should, following the Offer, it hold at least 90.0% of Pact's issued capital, it will:

- proceed to compulsory acquisition of the outstanding Pact Shares in accordance with Part 6A. 1 of the Corporations Act;
- delist Pact; and
- convert Pact into a proprietary limited company.

## 4 Other matters

Our report has also been prepared in accordance with the relevant provisions of the Corporations Act and other applicable Australian regulatory requirements and has been prepared solely for the purpose of Section 640 of the Corporations Act. We do not assume any responsibility or liability to any other party as a result of reliance on this report for any other purpose.

This report constitutes general financial product advice and has been prepared without taking into consideration the individual circumstances of Pact Shareholders. This advice, therefore, does not consider the financial situation, objectives or needs of individual Pact Shareholders.

The decision of Pact Shareholders as to whether or not to accept the Offer is a matter for individual shareholders who should, therefore, consider the appropriateness of our opinion to their specific circumstances. As an individual's decision to accept the Offer may be influenced by their particular circumstances, we recommend that individual Pact Shareholders, including residents of foreign jurisdictions, seek their own independent professional advice.

Our opinion is based solely on information available as at the date of this report. This information, and our limitations and reliance on information section, are set out in Appendix 2. We have not undertaken to update our report for events or circumstances arising after the date of this report other than those of a material nature which would impact upon our opinion.

References to financial years have been abbreviated to 'FY', references to half years have been abbreviated to 'H' and references to quarters have been abbreviated to 'Q'. For Pact, the financial year is the 12 months to 30 June and half years are the six months to 31 December. All currencies are Australian dollars unless otherwise specified.

Kroll has prepared a Financial Services Guide as required by the Corporations Act. The Financial Services Guide is included at the end of this report.

The above opinion should be considered in conjunction with, and not independently of, the information set out in the remainder of this report, including the appendices.

Yours faithfully



Ian Jedlin  
Authorised Representative



Celeste Oakley  
Managing Director

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Independent Expert's Report  
and  
Financial Services Guide  
in relation to the proposed acquisition of Pact Group Holdings Ltd



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## 5 The Offer

### 5.1 Overview

On 13 September 2023, Kin Group announced an unsolicited, unconditional off-market takeover offer of \$0.68 cents in cash per share for all of the ordinary shares in Pact. The Offer was made by Bennamon, a wholly owned subsidiary of Kin Group.

Kin Group disclosed that together with its associates (including Bennamon) it had relevant interests in 50.004% of the quoted Pact Shares on issue as at 12 September 2023. The Chairman of Kin Group, Mr Raphael Geminder, who is also the Chair of Pact, advised the Pact Board of his conflict of interest in respect of the Offer and has recused himself from the Pact Board in connection with any deliberations in relation to the Offer or a competing proposal (if any). The lead independent director of Pact, Mr Michael Wachtel, is chairing the Independent Board Committee meetings for the purposes of the Offer.

Full details of the Offer are included in the Bidder's Statement dated 25 September 2023 and the Target's Statement issued by Pact.

The Independent Directors recommend that Pact Shareholders reject the Offer.

### 5.2 Offer unconditional

The Offer is unconditional, which means it is not subject to any defeating conditions, as noted in Section 13.10 of the Bidder's Statement.

### 5.3 Transaction costs

Pact may incur third party costs and expenses in connection with the Offer, including fees payable to external advisors of Pact.

## 6 Scope of the report

### 6.1 Purpose

Section 640 of the Corporations Act states that a target's statement made in response to a takeover offer for shares in an Australian listed entity must include or be accompanied by an independent expert's report if:

- the bidder's voting power in the target is 30% or more; or
- where the parties to the transaction have common directors.

In this case, a statutory requirement for an independent expert's report does apply since:

- Bennamon's voting power in Pact is greater than 30%; and
- Mr Geminder is a director of Bennamon and a director of Pact.

We have been appointed for this purpose.

Our report has also been prepared in accordance with the relevant provisions of the Corporations Act and other applicable Australian regulatory requirements and has been prepared solely for the purpose of Section 640 of the Corporations Act. We do not assume any responsibility or liability to any other party as a result of reliance on this report for any other purpose.

### 6.2 Basis of assessment

We have referred to guidance provided by ASIC in its Regulatory Guides in particular, RG 111, which outlines the principles and matters which it expects a person preparing an independent expert's report to consider when providing an opinion on whether a takeover bid is fair and reasonable to shareholders.

RG 111.10-12 states:

- 'fair and reasonable' is not regarded as a compound phrase;
- an offer is 'fair' if the value of the offer price or consideration is equal to or greater than the value of the securities subject to the offer;

- the comparison should be made assuming 100% ownership of the ‘target’ and irrespective of whether the consideration is scrip or cash;
- the expert should not consider the percentage holding of the ‘bidder’ or its associates in the target when making this comparison; and
- an offer is ‘reasonable’ if it is ‘fair’. An offer might be ‘reasonable’ if, despite being ‘not fair’, the expert believes that there are sufficient reasons for shareholders to accept the offer in the absence of any higher bid before the close of the offer.

RG 111.13 sets out the factors an expert might consider in assessing whether an offer is reasonable:

- the bidder’s pre-existing voting power in securities in the target;
- other significant shareholding blocks in the target;
- the liquidity of the market in the target’s securities;
- taxation losses, cash flow or other benefits through achieving 100% ownership of the target;
- any special value of the target to the bidder, such as particular technology, etc;
- the likely market price if the offer is unsuccessful; and
- the value to an alternative bidder and likelihood of an alternative offer being made.

RG 111.11 provides that an offer is fair if the value of the consideration is equal to or greater than the value of the securities subject to the offer. This comparison can be made assuming 100% ownership of the ‘target’ and irrespective of whether the consideration is scrip or cash and without regard to the percentage holding of the bidder or its associates in the target entity. That is, RG 111.11 requires the value of the target to be assessed as if the bidder was acquiring 100% of the issued equity (i.e. on a controlling interest basis). In addition, any special value of the ‘target’ to a particular ‘bidder’ (e.g. synergies that are not available to other bidders) should not be taken into account under the comparison.

Accordingly, when assessing the full underlying value of Pact, we have considered those synergies and benefits which would be available to more than one potential purchaser (or a pool of potential purchasers) of Pact. As such, we have not included the value of special benefits that may be unique to any particular acquirer.

## 7 Industry

### 7.1 Overview

Pact operates primarily in the rigid packaging industry, including rigid packaging recycling, but also operates in the pooling industry and the contract manufacturing industry.

#### The packaging industry

The packaging industry is a global industry which aims at providing a coordinated system of preparing goods for transport, warehousing, sale and end-user/storage, and assists in the protecting, preserving, transporting, informing, and marketing products. The industry is comprised of six end-user segments – food, drink, healthcare, cosmetics, consumer good and industrial packaging.

The packaging industry consists of three primary forms of packaging:

- **board packaging:** the largest segment of packaging, accounting for over 30% of total packaging sales. Products include, folding cartons, flatpack boxes, corrugated packaging, and liquid cartons;<sup>24</sup>
- **flexible packaging:** the second largest and fastest growing segment of packaging at over 24% of the total market.<sup>25</sup> Products include sacks, bags and pouches, wrapping and lidding, often made up from plastic, foil and paper. Combining the qualities of plastic, paper and aluminium foil to deliver lower cost, lightweight and food safe alternatives that compare favourably with traditional packaging such as glass and cartons; and

<sup>24</sup> The Future of Global Packaging to 2026, David Platt, 2021.

<sup>25</sup> The Future of Global Packaging to 2026, David Platt, 2021.

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- **rigid plastic packaging:** at over 20% of the total market, this form of packaging includes plastic bottles, jars, cups and various other products.<sup>26</sup> An alternative to traditional packaging, such as glass and jars, products remain protected from crushing, tearing and leaking, whilst being less fragile and easier to transport. Additional characteristics of rigid packaging such as moisture resistance, microwavability and food safety make it a favourable option for the food and beverage sector.

Remaining forms of packaging include metal, glass and other, making up over 20% of the market. Their products include, steel cans, caps, glass bottles and jars, and other wooden packaging such as boxes and pallets.

### The pooling industry

The pooling industry refers to pooling solutions, whereby companies provide outsourced management of reusable and returnable pallets, crates and containers (the pooling equipment). Customers incorporate the pooling equipment into their supply chain and wider business models, replacing previous, single use alternatives such as board boxing. Customers are primarily in the consumer goods sector, including fresh food, dry grocery, retail, general manufacturing industries, and the automotive industry.

### The contract manufacturing industry

The contract manufacturing industry refers to outsourcing the preparation of finished goods, providing customers with solutions that allow them to compete in areas they otherwise could not due to equipment, staffing, capability, scale, or other limitations. Customers pay the contract manufacturers to prepare finished goods, which may include the sourcing and transport of raw materials, and the manufacture of products in their entirety. In addition to this, Contract Manufacturers also engage in non-manufacturing operations such as filling and repackaging.

## 7.2 Rigid plastic packaging industry

### 7.2.1 Industry structure

The rigid plastic packaging industry is not dissimilar to other manufacturing businesses – materials are purchased and processed to manufacture the goods that are sold to the customers. In the case of rigid plastic packaging, Polyethylene Terephthalate (**PET**), Polypropylene (**PP**) and High Density Polyethylene (**HDPE**) are the three main plastics used in the production of rigid packaging. The characteristics of these are described in further detail in Section 7.2.2 of this report.

There are multiple steps in the packaging lifecycle, including:

- **packaging design:** this can be a collaborative process between manufacturer and end-users, with packaging designs being tailored to specific products, with different goals and capabilities. End-users will select the shape, size and material used in their packaging, aimed at trying to protect, preserve and communicate their product to potential customers;
- **sourcing and manufacturing:** rigid packaging manufacturers will then source the raw materials and begin manufacturing the rigid packaging;
- **distribution:** packaging is either transported to the end-user who packages their own finished product, or this packaging of the finished product will be done on the same site that the rigid packaging is manufactured;
- **retailing:** the finished product once packaged, is shipped to customers and on sold to commercial customers or consumers; and
- **recovery:** once the packaging is no longer used it can either be disposed of or collected for reuse or recycling.

As is discussed in Section 7.2.3, the growing sustainability trend in the rigid packaging industry is driving increased recycling in the industry. This is aimed at moving away from single use packaging towards a circular economy where the packaging is used again in the production cycle.

<sup>26</sup> The Future of Global Packaging to 2026, David Platt, 2021.

## 7.2.2 Raw material prices

Raw materials are the largest portion of cost of goods sold in the rigid packaging industry and although these are passed on to the customer through price changes, there is a lag associated with this which hurts margins of existing contracts. The price of the plastics/resins used in production therefore has a considerable effect on the profitability of the manufacturers. These prices fluctuate as they are driven by the supply and demand of global commodity markets. Given the importance of raw material costs to profitability, industry operators structure contracts in such a way that allows for the passthrough of fluctuations in prices to customers. In Section 8.2.2 of this report it is identified that approximately 60% of Pact contracts allow for such passthroughs.

The primary plastics used in the rigid packaging industry are PET, the largest material type for rigid plastic packaging, PP and HDPE. These are all processed into pellets and can be traded as commodities.

PET is a clear, strong and lightweight plastic which belongs to the polyester family. The basic building blocks of PET are ethylene glycol and terephthalic acid which are combined to form pellets of PET. These resin pellets are heated to a molten liquid so they can be easily moulded into items of any shape. PET finds use in packaging, fabrics, and the textile industry, due to its resistance to impact, moisture, alcohols, and solvents. Its crystalline form is often used for take-home and prepared-food packaging as it can be reheated in the microwave.

PP and HDPE both belong to the thermoplastic family – they can be melted and reformed multiple times, and can also be reheated multiple times without considerable deterioration. PP is more rigid, has a higher melting temperature, is food-safe, and moisture resistant. Both PP and HDPE are produced by extracting propylene gas and ethylene from crude oil and combining these with other ingredients in specific processes.

The reliance on crude oil byproducts is a large driver of price fluctuations in the PP and HDPE market, meaning global movements in crude oil can affect the input costs of the rigid packaging sector.

## 7.2.3 Trends

The rigid packaging industry is subject to a number of threats and opportunities, including the following.

### Sustainability

Sustainable packaging aims at reducing the use of resources, energy and waste over a packages lifecycle with the intention of reducing the harm caused to the environment. This is primarily driven by increased regulation, (see Section 7.2.4 of this report), and a changing consumer and customer preference for sustainable packaging.

Consumers preferences have changed in recent times, with different geographies identifying different end-user products as priorities for sustainable packaging. Generally, consumers perceive sustainable packaging to be a high priority, with Asia (China, Indonesia and India) indicating the highest level of concern.<sup>27</sup> This was measured by consumers' willingness to pay a premium for sustainable packaging. Chinese consumers identified sustainable packaging in fresh fruit and vegetable, fresh meat and dairy products as a priority whereas in India, consumers indicated fast food to be a priority.<sup>28</sup> In Australia it has been found that for 80% of Australians the composition of a products packaging impacts purchasing behaviours, with favourability given towards recyclable products and a willingness to pay a premium.<sup>29</sup>

These surveys showed consumers are looking for more sustainable packaging, and in China and India consumers are perceiving recyclable and compostable plastics as more sustainable.<sup>30</sup>

### Consumer health and wellness

Consumers are increasingly aware of how their spending decisions affect their health and wellness, with preferences for packaging that maintains freshness in food and beverage products on the rise.<sup>31</sup> This is contributing to the rise in flexible packaging with its superior characteristics for transporting fresh food.

<sup>27</sup> Sustainability in packaging: Global regulatory development across 30 countries, February 2022, McKinsey & Company.

<sup>28</sup> Sustainability in packaging: Consumer views in emerging Asia, March 2021, McKinsey & Company

<sup>29</sup> Veolia and YouGov: Australians call for all packaging to be recyclable December 2022.

<sup>30</sup> Sustainability in packaging: Global regulatory development across 30 countries, February 2022, McKinsey & Company.

<sup>31</sup> Sustainability in Packaging: Inside the minds of US consumers, 2020, McKinsey & Company.



## Urbanisation

As consumers seek convenience and portability, particularly when it comes to food and beverages, demand for longer shelf lives, microwavable and resaleable packaging, and single-serve, carry-away and easy-open packs continues to increase. The growth in online shopping, in particular food is helping to drive packaging.<sup>32</sup>

## Supermarkets

Growth in retail chains world-wide, particularly in developing regions such as Asia, South America and Eastern Europe, has driven an increase in demand for packaging in order to meet the increasing sales volumes.

## Technology

Changes in consumer preferences are driving innovation and development of new packaging products in the market, including:

- **smart packaging:** technology within packaging that interacts with the product to increase consumer and business utility. Examples of this include:<sup>33</sup>
  - **active packaging:** aimed at increasing the useful life of the product inside, such as light filtering materials, or ethylene and oxygen absorbers; and
  - **intelligent packaging:** involving sensors or indicators that monitor the products condition and provide information about its status, such as temperature or freshness indicators.
- **big data and cloud:** computing which allows packaging companies to digitalise their operations and better manage data; and
- **mass-customisation:** the increased variety and specificity of packages of certain product.

## Flexible packaging

Flexible packaging provides a lower cost, lighter weight alternative which consumes fewer resources and less energy in production, and has significant reductions in transport cost<sup>s.34</sup> Consumers consider flexible packaging to be convenient because it is typically easier to open, store and reseal.<sup>35</sup>

## Product substitutions

As consumers packaging preferences shift towards more sustainable solutions, trends have arisen in the substitutions that are being made. On the one hand, consumers are moving away from metal, glass, and non-recyclable rigid plastic packaging in exchange for recyclable rigid packaging. However, rigid packaging is also experiencing a negative trend towards flexible packaging, with consumers considering flexible packaging to be more convenient as noted above.<sup>36</sup> In Australia, these consumer preferences are being reinforced through changes to the regulations.

### 7.2.4 Regulatory environment

Regulation aims at limiting the environmental harm caused in the production, use and disposal of packaging. With end-users of rigid packaging often being large exporters, rigid packaging can reach the end of its lifecycle and be disposed of, or recycled in, countries outside of where it was produced. Therefore, global regulation can influence rigid package producers, whose products ultimately end up overseas.

Globally, regulation differs greatly between countries with very little alignment in strictness or maturity. New regulations continue to be introduced with recent reports outlining that 29 out of 30 countries studied have started to discuss and implement sustainable-packaging regulations.<sup>37</sup> This trend of increasing regulation

<sup>32</sup> Australian Bureau of Statistics, Retail Trade, Australia, October 2020.

<sup>33</sup> Smart Packaging: Definition and Benefits, ImpacX, the internet of packaging company.

<sup>34</sup> The Future of Global Packaging to 2026, David Platt, 2021.

<sup>35</sup> Flexible Packing, Leading the Way in Innovation, FPA, 2023.

<sup>36</sup> Flexible Packing, Leading the Way in Innovation, FPA, 2023.

<sup>37</sup> Sustainability in packaging: Global regulatory development across 30 countries, February 2022, McKinsey & Company.

will see a shift from less sustainable packaging, such as glass and expanded Polystyrene, to more sustainable packaging that can be recycled (such as PET) or is compostable (such as fibre packaging).

In Australia, the Australian Packaging Covenant Organisation (**APCO**) works with governments and brand owners to reduce the environmental impact of packaging.

In 2018, APCO established its ambitious 2025 National Packaging Targets which apply to the voluntary members of APCO. Members receive guidance on how to improve the sustainability of their packaging, and in particular they receive support in reaching regulatory obligations under the current National Environment Protection (Used Packaging Materials) Measure 2011.

The 2025 National Packaging Targets are aimed at creating a new sustainable pathway for the way packaging is managed in Australia. The Targets are:

- 100% of packaging being reusable, recyclable or compostable by 2025;
- 70% of plastic packaging being recycled or composted by 2025;
- 50% of average recycled content included in packaging by 2025 (revised from 30% in 2020); and
- the phase out of problematic and unnecessary single-use plastic packaging by 2025.

The 2025 National Packaging Targets apply to all packaging that is made, used and sold in Australia.

In the rigid packaging sector specifically, APCO has set material specific targets for recycled content in plastic packaging made from PET, high-density PP and PE, key plastics used in the rigid packaging industry.

A new regulatory scheme is expected to be established by the end of 2025, and prior to this there will be targeted consultation with industry, governments and ultimately the public. Reforms are intended to ensure all packaging available in Australia is designed to be recovered, reused, recycled and reprocessed safely in line with circular economy principles.

#### 7.2.5 Competition

The global packaging industry is competitive and fragmented. Global participants are subject to different regulatory frameworks, competitive domestic environments and differing product characteristics.

Key elements to competition include the following.

##### **Barriers to entry**

Due to the shape of rigid packaging, it occupies a lot of space, making it inefficient and costly to transport unless it is stackable or nestable. Rigid packaging companies typically try to produce the packaging close to where their customers manufacture to reduce transport costs. This often means that companies with international customer bases will require international production sites close to their customer base. This is costly and challenging to do, and acts as an entry barrier for international participants and/or participants who don't have geographical diversity.

Regulation can also act as a barrier for new participants. If the recycling targets previously mentioned in Section 7.2.4 of this report were made mandatory, which is a possibility, they would require the necessary technology and means to implement. If companies have not prioritised this investment, their business model might no longer be sustainable.

##### **Scale**

Scale provides rigid package producers with a stronger negotiating position with both customers and raw materials providers. In addition to this, increased efficiency and reduced cost per unit are both attributes of scale.

##### **Operating efficiency**

Key elements that help drive operational efficiency:

- the ability to maintain an effective cost position is determined by several factors that ultimately drive the profitability of rigid packaging manufacturers over time. Heavier packaging, such as glass and steel, will be less efficient and more expensive to transport than lighter packaging, such as plastic. Rigid packaging is often less efficient and more expensive to transport than flexible packaging. Proximity between package manufacturer and customer base drives freight savings; and

- the ability to pass through raw material costs is an important factor for rigid packaging companies. In periods where resin prices are changing quickly these costs are harder to pass on, so companies with greater ability to do so will maintain margins during these periods.

### Diversification

Rigid packaging producers can diversify on several fronts:

- product diversification** – with the end-user likely being involved in the design of the rigid packaging, product diversification can be achieved through offering products made of different materials and production processes as well as the differently designed packages;
- geographical diversification** – this is a challenge for the rigid packaging industry due to the cost of shipping their products long distances unless they are stackable or nestable. Despite this, geographical diversification can be achieved by expanding production locations into different regions. This can allow companies to benefit from developing economies which have strong growth profiles; and
- customer diversification** – a diverse customer base can reduce exposure to the risks associated with individual sectors and industries through greater contract stability and reliability.

### Product differentiation

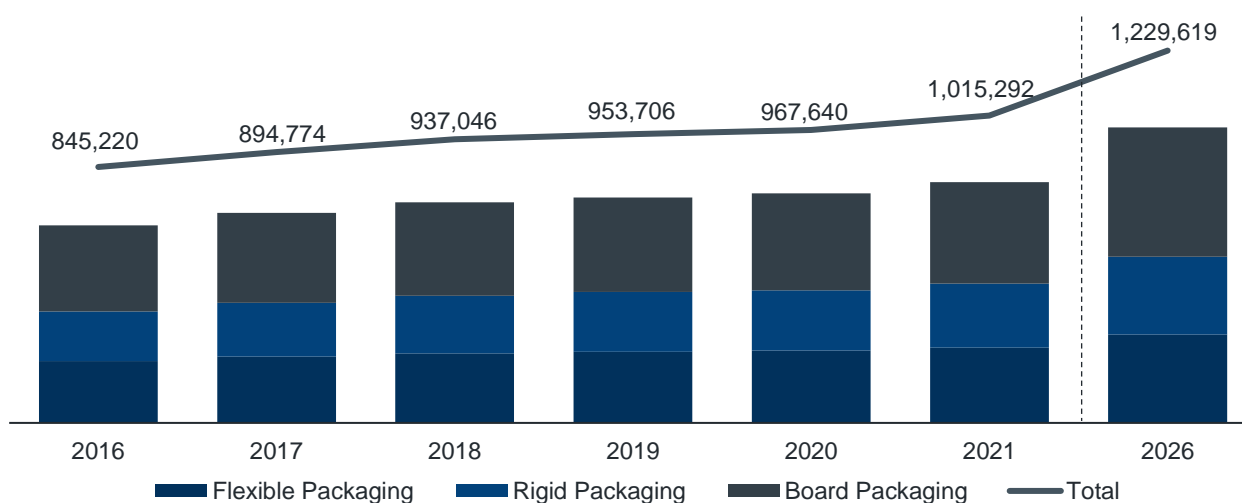
Product differentiation refers to a rigid packaging producer's ability to distinguish itself from other market players. It can be achieved by offering value-added products, different technology, and unique product designs by engaging with end-users in the design, meaning products are by nature unique. Additionally, unique materials, timing and production methods can also act as an additional form of distinguishment.

## 7.2.6 End-User Outlook

Global rigid packaging grew from 2016 to 2019 at an annual average rate of 6.5% to \$197.9 billion. The COVID-19 pandemic caused a slowdown in rigid packaging, with only 0.6% growth in 2020, and at the time was projected to grow a further 6.1% in 2021 to reach \$211.2 billion. Rigid packaging sales are forecast to grow during 2021 to 2026 at an annual rate of 4.0% to \$257.2 billion.<sup>38</sup>

The following graph illustrates the portion of the global packaging market attributable to the three largest segments – flexible, rigid and board packaging. Despite flexible packaging posing a threat to the rigid packaging market, rigid packaging continues to grow as it also replaces other forms of packaging, such as glass, aluminium and board packaging.

**Global Packaging Sales by Leading Types (US\$ Million, Current Prices and Current Exchange Rates (2021))**



Source: The Future of Global Packaging to 2026, David Platt, 2021.

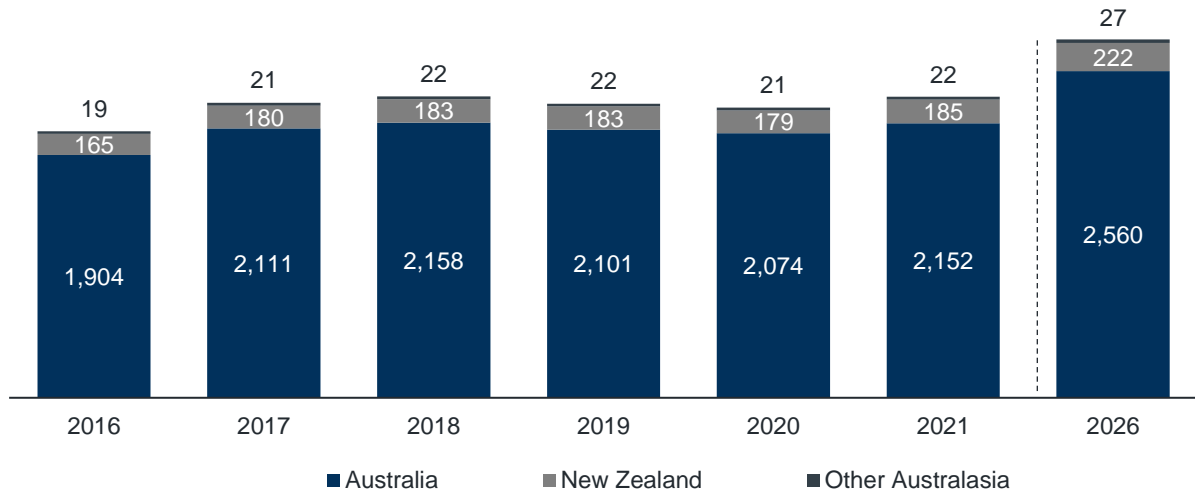
Note 1: The horizontal axis does not increase in set intervals.

Asia is the largest consumer of rigid packaging, followed by North America and Western Europe. Africa and Asia have higher forecast growth rates compared to any other region. More mature packaging regions in

<sup>38</sup> The Future of Global Packaging to 2026, David Platt, 2021.

North America, Western Europe and Australasia are forecast to grow at rates far below global averages. China is the world's largest consumer of rigid plastic packaging, followed by the United States and then Japan. India and China registered the highest growth in rigid packaging sales from 2016 to 2019.<sup>39</sup>

**Australasia Rigid Packaging Consumption (US\$ Millions, current prices and current exchange rates (2021))**



Source: The Future of Global Packaging to 2026, David Platt, 2021.

Note 1: The horizontal axis does not increase in set intervals.

In Australasia, food is the largest end-user market for rigid plastics. As indicated previously, favourable characteristics such as microwavability, moisture resistance and food safety all make it effective at storing and transporting food and drinks.

**7.3 Pooling industry**

**7.3.1 Size**

As at July 2022, the global pallet pooling market size was projected to reach US\$7.1 billion in 2022, and sales were also forecast to increase at a steady 6.1% CAGR which would increase the market size to US\$ 12.9 billion by 2032.<sup>40</sup>

**7.3.2 Trends**

The introduction of lightweight pallets made from composite materials such as plastic and aluminium is expected to drive sales in the market. These pallets are often returned to the supplier or customer more than once in a circular system, unlike many other forms of pooling equipment which see less frequent reuse.

**7.3.3 Competitive landscape**

Top global players in the pooling industry include Brambles Limited, Schoeller Arca Systems Holding, Faber Halbertsma Group BV, Euro Pool System International B.V, and Loscam Australia Pty Limited, accounting for roughly 75% of market share. The demand for pallet pooling in China is expected to surge at a 6.7% CAGR through to 2032.<sup>41</sup>

**7.4 Contract manufacturing industry**

**7.4.1 Size**

The global market for contract manufacturing is expected to experience substantial growth from US\$246.51 billion in 2022 to US\$512.7 billion by 2029 at a CAGR of 9.5%.<sup>42</sup>

<sup>39</sup> The Future of Global Packaging to 2026, David Platt, 2021.

<sup>40</sup> Pallet Pooling Market by Structural Design, Material Composite, End-Use & Region, July 2022, Future Market Insights.

<sup>41</sup> Pallet Pooling Market by Structural Design, Material Composite, End-Use & Region, July 2022, Future Market Insights.

<sup>42</sup> Global Contract Manufacturing Market, Research and Market May 2023.

#### 7.4.2 Competition

Recent examples of shipping delays, such as the blockage of the Suez Canal in Egypt in 2020, and material shortages have had a large impact on manufacturing companies and have therefore become a priority for contract manufacturers customers. Contract manufacturers offer benefits through speed, cost savings, geographical location, and convenience.

Speed is driven by technology and investment into the manufacturing infrastructure, which increases cost in exchange for assurance that timings and supply chain efficiencies can be achieved for the customer.

Additionally, contract manufacturers provide expertise in specific aspects of the market, the product development and design, and identification of consumer trends.

#### 7.4.3 Barriers to entry

Barriers to entry into the contract manufacturing market include:

- expertise – as contract manufacturers specialise in specific aspects of a production line they develop a level of expertise in this area beyond that of other broader manufacturing participants;
- infrastructure – often requiring considerable capital to build; and
- relationships – as contract manufacturers continue to work with the same customers, they become more integrated into their supply chain and become a trusted part of their business model.

#### 7.4.4 Trends

Growing expenses for the necessary infrastructure required to develop the products can make outsourcing manufacturing to contract manufacturers the most cost-effective option. This simplifies the production process and streamlines the supply chain by reducing the overall cost.

Technological advancements such as machine learning, big data and artificial intelligence are being considered for rapid manufacturing. These technical advancements also help in mass production and scalability in a short span of time.

## 8 Profile of Pact

### 8.1 Background

In 2002, Mr Raphael Geminder acquired the industrial packaging operations of Visy Industries Pty Ltd, a company owned by his father-in-law, the late Richard Pratt. Pact was incorporated in 2010 to act as a holding company for the business. Pact grew through product innovation and the acquisition of 34 packaging businesses in Australia, New Zealand and Asia, and was floated as a \$1.1 billion company at an offer price of \$3.80 per share in December 2013. The float raised \$648.8 million, and along with a new debt package, the proceeds were used to repay a promissory note to Geminder Holdings, repay its existing debt and acquire certain entities in connection with the initial public offering. Mr Raphael Geminder retained a 39.8% stake.<sup>43</sup>

#### 8.1.1 Growth phase (FY14 to FY19)

From 2015 until 2018, Pact diversified its operations organically and through acquisition:

- it entered into contract manufacturing through the following acquisitions:
  - Jalco Group, a supplier of outsourced manufacturing and filling in the non-food fast moving consumer goods (**FMCG**) sector, in September 2015 for \$80.1 million;
  - Australian Pharmaceutical Manufactures (**APM**), a provider of manufacturing and packaging services for nutraceutical's, in September 2016 for \$88.6 million; and
  - Pascoe's Group, a manufacturer of aerosol and liquid based consumer products within the household and industrial chemicals category, in February 2017 for \$51.8 million;
- it expanded packaging in Asia through the acquisition of Closure Systems International (**CSI**) Asia and Graham Packaging Group (**GPC**) (together, **Asia Acquisition**) in February 2018 for \$149.3 million. CSI Asia is a leader in plastic closure design, manufacturing, and high-speed capping equipment and

<sup>43</sup> Pact Prospectus, November 2013.

application systems. GPC Asia produces plastic bottles via injection blow moulding and extrusion blow moulding; and

- it entered crate pooling in FY16 and invested significant capital expenditure in FY17 to FY19 in establishing the business in Australia. Pact also expanded its pooling solutions business through the acquisition of TIC Retail Accessories, a closed loop plastic garment hanger and accessories re-use business, in October 2018 for \$130.8 million.<sup>44</sup>

In February 2019, Pact announced a new operating model with three key product portfolio segments:

- Packaging & Sustainability;
- Materials Handling & Pooling; and
- Contract Manufacturing.

Following a period of earnings growth, Pact's earnings declined in FY18 and FY19, impacted by the underperformance of Contract Manufacturing. A majority of acquisitions were funded through a combination of cash, existing debt facilities and the issue of shares to vendors. By the end of FY19, Pact had spent \$710.2 million on acquisitions and \$451.6 million on capital expenditure since listing. Pact's leverage reached a high of 3.3 times at 31 December 2018, above its target of 3.0 times, largely as a result of the decline in Underlying EBITDA,<sup>45</sup> and in September 2019, Pact was removed from the S&P/ASX 200 Index.

### 8.1.2 Leading the Circular Economy (FY20 to FY25)

In April 2019, a new Managing Director and Chief Executive Officer, Mr Sanjay Dayal, was appointed and Pact commenced a strategy review, focused on restoring margins, volumes and efficiency. In February 2020, Pact announced a new vision and new strategy.

#### *Vision*

Pact's vision is to *Lead the Circular Economy* through reuse, recycling and packaging solutions, with the target of providing top quartile shareholder returns and 30% recycled content across the portfolio by 2025. The new vision aligned with Pact's *End of Waste Sustainability Promise* and 2025 Sustainability Targets announced on 26 September 2018, following the 2025 National Packaging Targets announced by Australia's Minister for the Environment. By 2025, Pact intends to:

- eliminate all problematic packaging that it produces;
- have solutions to reduce, reuse and recycle all single use secondary plastic packaging in retailers; and
- offer an average of 30% recycled content across its packaging portfolio.

#### *Strategy*

Pact's strategic priorities are to:

- strengthen its core, including:
  - focusing the portfolio and strengthening the balance sheet; and
  - turning around and defending the core Australia and New Zealand (**ANZ**) packaging business. In February 2020, Pact announced increasing investment in sustaining capital from \$93 million in FY15 to FY19 to \$300 million in FY20 to FY24 to address underinvestment and improve competitiveness in Packaging & Sustainability;
- expand reuse and recycling capability including:
  - lead plastics recycling in ANZ;
  - scale-up reuse solutions;
  - differentiate industrial and infrastructure businesses; and
- leverage regional scale, by growing the Asian packaging platform.

<sup>44</sup> Includes all transaction costs and completion adjustments, but excludes contingent consideration not realised.

<sup>45</sup> Underlying EBITDA is a non-IFRS financial measure which is calculated as earnings before underlying adjustments, finance costs (net of interest revenue), tax, depreciation and amortisation.

In order to provide top quartile shareholder returns, Pact set the following targets:

- target hurdle of 15% ROIC<sup>46</sup> on all growth capital (pre-AASB 16 basis);
- a strong balance sheet with leverage below 3 times (pre-AASB 16 basis);
- offer an average of 30% recycled content across the packaging portfolio;
- a focused portfolio with investments and divestments clearly aligned to strategy; and
- return to payment of dividends.

Consistent with the new plan to strengthen its core business and balance sheet, Pact initiated a sale process for the Contract Manufacturing segment in January 2020.

The operating model for Packaging & Sustainability in Australia was transformed with the implementation of a new customer centric structure and investment in improved platform capability. Spend was assessed through a prioritisation framework aligned to Pact's strategy. As a result of a reduction in discretionary spend and deferment of non-essential capital expenditure, ROIC improved to 12.6% in FY20 (up 1.5% since FY19, pre-AASB 16) and leverage improved to 2.6 times.

Strategic initiatives to expand recycling capacity were progressed with the formation of a joint venture with Cleanaway and Asahi Beverages in February 2020 to develop a \$45 million plastic pelletising facility in Albury, New South Wales and agreeing to acquire Flight Plastics NZ, a New Zealand based packaging manufacturer with integrated PET recycling capability operating in the fresh food segment in August 2020.

#### *COVID-19 pandemic period (FY20 to FY22)*

Underlying EBITDA and margins improved in FY20 despite challenges in the early months of the COVID-19 pandemic, impacted by organic growth in the Contract Manufacturing hygiene category and in crate pooling services. Dividends also resumed with a final dividend for FY20 in line with the payout target of 40% of Underlying Net Profit After Tax (Underlying **NPAT**). Pact's share price declined sharply in February and March 2020 amidst the broader share market sell-off at the onset of the COVID-19 pandemic.

As Pact was deemed an essential service during the COVID-19 pandemic, manufacturing plants were allowed to continue operating with strict hygiene protocols, management of onsite attendance and contract tracing requirements. Pact's diversified portfolio and customer base limited the adverse impacts of the COVID-19 pandemic. Strong demand for packaged groceries and hygiene products offset reduced packaging volumes in the industrial and consumer retail sectors. Pact however experienced significant disruptions in global freight and supply chains, and labour availability. Incremental COVID-19 related costs were supported by the receipt of COVID-19 financial assistance during FY20 and FY21.

Pact completed the acquisition of Flight Plastics in January 2021 for \$23.8 million and continued to invest in recycling initiatives, entering a second joint venture with Cleanaway in July 2021 for a new \$38 million, 20,000 tonne plastic recycling facility in Laverton, Victoria, and a third joint venture with Cleanaway, Asahi Beverages and Coca-Cola Europacific Partners (**CCEP**) in August 2021 to build a \$50 million facility in Altona North, Victoria in 2022.

Government initiatives to optimise the use of recycled and reused materials such as the Mordialloc Freeway in Victoria continued during the pandemic and during 2021 Pact constructed noise walls for a nine-kilometre stretch of freeway from 75% recycled materials including soft plastics. In November 2021, Pact announced the receipt of \$20 million in funding from the Federal Government's Modern Manufacturing Initiative for Recycling and Clean Energy Manufacturing projects to support approximately \$76 million in new equipment and facility upgrades at 15 of Pact's operations in New South Wales, Victoria, Queensland and Western Australia to be completed by mid-2024.

As a result of the economic uncertainty during the COVID-19 pandemic, on 13 October 2021, Pact announced that it had ceased the sale process of Contract Manufacturing. At the following Annual General Meeting presentation on 29 November 2021, Pact reaffirmed its strategic growth initiatives and added the near term initiative of returning the Australian packaging margins to global industry standard of 10.0% by FY25.<sup>47</sup>

<sup>46</sup> ROIC represents return on funds employed. ROIC is defined by Pact as rolling 12 months EBIT divided by average funds employed. Funds employed represents total assets (less cash and cash equivalents) less current liabilities (excluding interest bearing liabilities). Average funds employed are calculated as an average of the period opening and closing balances.

<sup>47</sup> Pact Annual General Meeting Presentation, 29 November 2021

In May 2022, Pact acquired Synergy Packaging, a Victorian-based manufacturer of non-beverage rigid PET containers supplying mainly to small health and personal care businesses for \$20.1 million.

On release of the FY22 financial results on 17 August 2022, Pact added the target of delivering value from the Circular Economy Strategy of at least an additional \$25 million EBIT, with run rate achieved by the end of FY25.<sup>48</sup> This uplift from recycling, together with, capital investment and procurement efficiencies, would contribute to the 10% EBIT margin for Packaging Australia.

In light of elevated gearing levels and capital investment requirements, Pact dividends in FY22 did not reach the 40% payout target.

*Post COVID-19 pandemic period (from FY23)*

Pact has continued to progress towards its sustainability targets, announcing strategic partnerships with Woolworths Group and Aldi Australia to manufacture recycled plastic packaging for their brand ranges, and converting \$420 million of existing loan facilities into Sustainability Linked Loans under which Pact's loan margins are subject to achievement of sustainability performance targets (refer to Section 8.4.1 of this report. As at 30 June 2023, Pact reached 12% average recycled content across its plastic packaging (up from 7% as at 30 June 2020) and has advised that it is on track to meet the 30% target.

Additional strategic targets set in FY23 include resetting gearing levels to below 2.5 times by the end of FY24, achieving a total recordable injury frequency rate (**TRIFR**) below 8.0 by FY24 and to reduce Scope 1 and 2 Greenhouse Gas emissions by 50% by 2030 in Australia and New Zealand.<sup>49</sup>

Post-pandemic earnings have however been impacted by slower recovery in China, following the end of zero COVID policy in January 2023, and continuing supply chain inefficiencies and labour shortages. High inflation and interest rates have impacted consumer spending patterns and as well as supply costs, which have also been impacted by surging raw materials costs and adverse weather conditions in underlying markets.

No dividends were paid for FY23, reflecting Pact's desire to preserve cash to reduce debt and continue its capital expenditure program to enable a higher percentage of recycled content and upgrade platforms.

Pact has continued existing business reorganisation programs, including consideration of divestment and cash generation opportunities.

On 16 August 2023 Pact announced the Crate Transaction for cash proceeds net of transaction costs, duties and taxes of \$160 million, with a further potential earn out of \$20 million. Pact will retain 50% ownership of the business via a joint venture, as part of the Materials Handling & Pooling segment. The transaction is expected to complete in the 2023 calendar year subject to regulatory and other approvals, and the cash proceeds are committed to reducing debt.

The continued decline in Pact's market capitalisation has been marked by the removal of Pact from the S&P/ASX 300 Index on 20 March 2023. As at 12 September 2023, the trading day prior to the announcement of the Offer, Pact had a market capitalisation of \$232.4 million.<sup>50</sup>

### 8.1.3 Three-pillar transformation plan

As announced in the Target's Statement, Pact has developed a three-pillar transformation plan to enable it to achieve its vision of leading the Circular Economy. Pact believes that achieving this vision will enable it to deliver a sustainable competitive advantage, driven by structural market tailwinds, such as likely Government-mandated recycled content obligations.

Pact management had originally intended to provide the following detail at the 2023 Annual General Meeting on 14 November 2023, however, the Offer process has accelerated Pact's disclosure of the transformation plan and its current status.

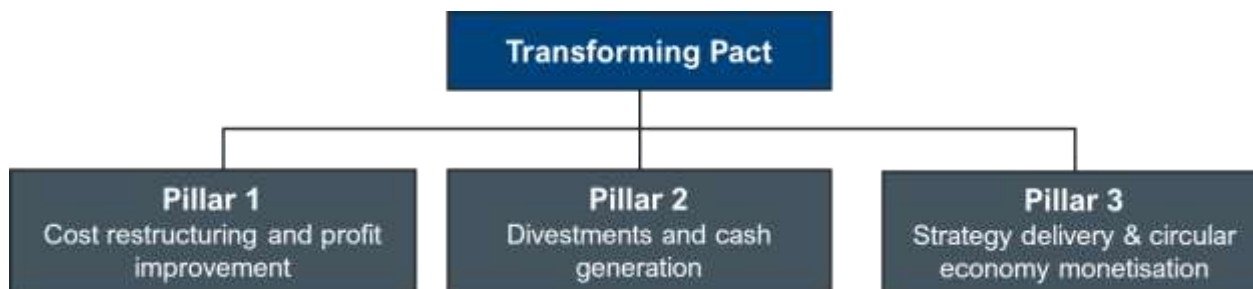
<sup>48</sup> Pact FY22 Full Year Results Presentation, 17 August 2022.

<sup>49</sup> Pact 2023 Full Year Results Presentation, 16 August 2023

<sup>50</sup> Calculated as the closing share price of \$0.675 multiplied by 344,290,053 quoted Pact Shares outstanding as per the ASX Notification of Cessation of Securities on 7 July 2023.



### Three-Pillar Transformation Plan



Source: Target's Statement.

#### Pillar 1: Cost restructuring and profit improvement

In April 2023, Pact commenced a cost reduction program that led to approximately 175 staff exiting Pact at a total cost of approximately \$5 million. As at September 2023, Pact had achieved run rate savings of \$20 million per annum, with the first full year of benefits being FY25. Further savings are anticipated through procurement and supply chain savings;

#### Pillar 2: Divestments and cash generation:

- **financial impact of the Crate Transaction:** after the payment of expected capital gains tax of approximately \$60 million, Pact expects to receive \$160 million in net cash proceeds in CY23 arising from the Crate Transaction, which will be used to reduce debt. Pro forma for the Crate Transaction, Pact's FY23 leverage would have reduced from 3.0 times to 2.6 times<sup>51</sup> if the transaction had closed on 30 June 2023.
- Pact is at various stages of assessing the potential divestment of other non-core businesses to further reduce leverage, including:
  - Contract Manufacturing: Pact recommenced sale preparations in late 2022 and, subject to Board approval, intends to relaunch a formal sale process. Should all (or parts) of Contract Manufacturing be sold below its tax cost base, any capital loss could be used to offset taxable capital gains from the financial tax year the capital loss is incurred; and
  - VRM which, following the Crate Transaction, is no longer considered 'core'. Pact is at early-stage negotiations with several parties interested in acquiring the business.

#### Pillar 3: Strategy delivery and Circular Economy monetisation

Pact is delivering on its strategy to lead the Circular Economy and has disclosed several strategic targets:

- value from its Circular Economy Strategy of at least an additional \$25 million run-rate EBIT<sup>52</sup> by the end of FY25, supported by recent recycled packaging partnerships with Woolworths and Aldi;
- Underlying EBIT margin growth in Packaging Australia to 10% by FY26, supported by margin uplift from the Circular Economy Strategy, capital investment and procurement efficiencies; and
- refining the portfolio and reducing gearing below 2.5 times, accelerated by the Crate Transaction.

## 8.2 Operations

### 8.2.1 Overview

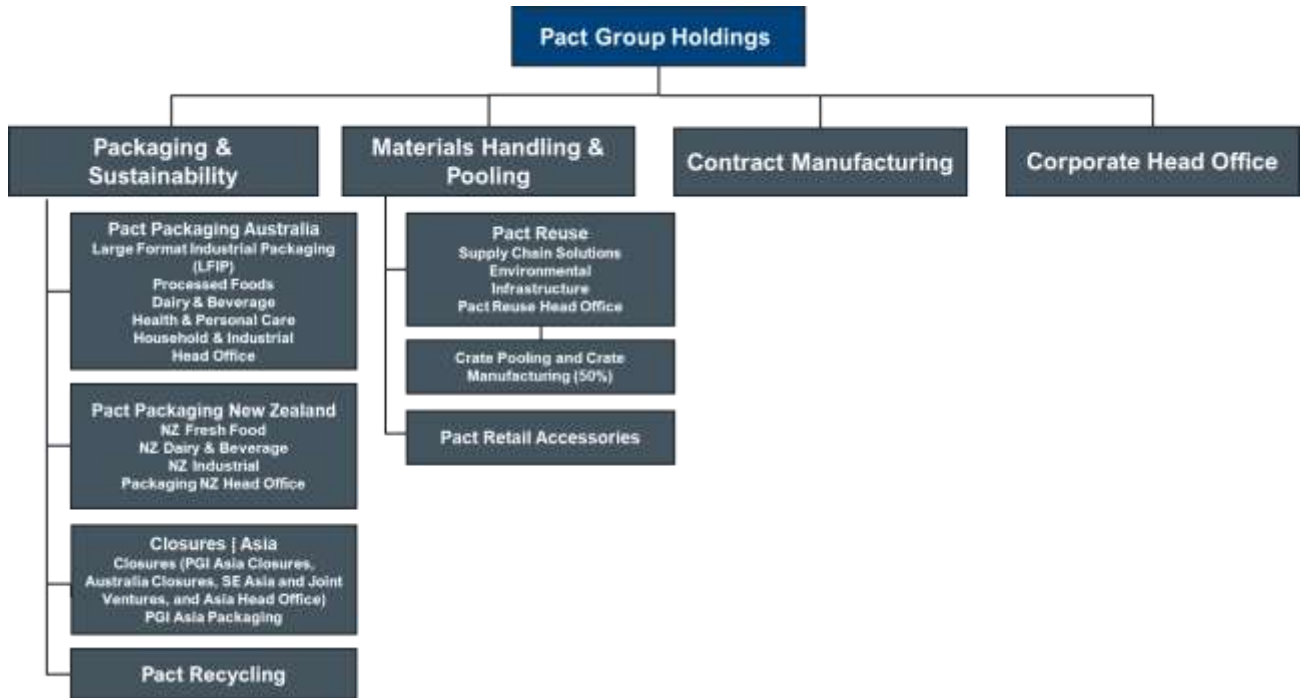
Pact specialises in the manufacture and supply of rigid plastic and metal packaging, materials handling solutions, contract manufacturing services and recycling and sustainability services. Pact provides specialty packaging solutions to both consumer and industrial sectors with approximately 5,400 employees in

<sup>51</sup> Consolidated leverage inclusive of Pact's 50% share of the pro forma FY23 net profit after tax from Crate Pooling and Crate Manufacturing.

<sup>52</sup> Incremental to the \$20 million in cost restructuring and profit improvement from Pillar 1.

approximately 130 locations across 15 countries in Australia, New Zealand and Asia.<sup>53</sup> A flow chart illustrating the three reporting segments and underlying divisions and businesses is provided below.

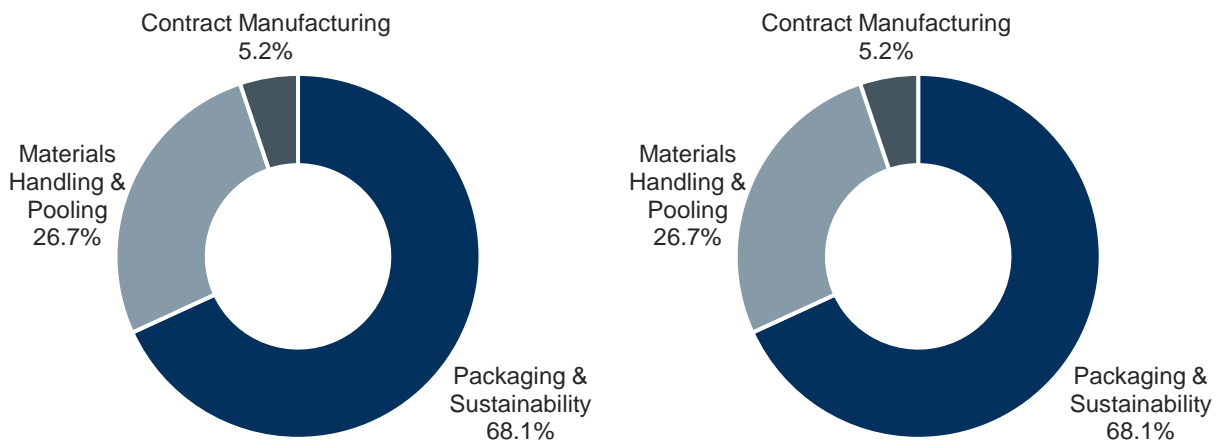
**Pact Operating Structure**



Source: Management information.

In FY23, Packaging & Sustainability contributed 64.5% of revenue and 68.1% of Underlying EBITDA. Materials Handling & Pooling has the highest margins, contributing 17.5% of revenue and 26.7% of Underlying EBITDA, while margins for Contract Manufacturing are relatively low, contributing 18.0% of revenue but only 5.2% of Underlying EBITDA. Revenue and Underlying EBITDA by segment (excluding corporate eliminations) in FY23 are illustrated in the following charts.

**Pact Segment Share of FY23 Revenue and Underlying EBITDA**



Source: Pact Annual Reports.

Notes:

1. Excludes inter-segment revenue eliminations of \$37.5 million.
2. Underlying EBITDA is calculated as earnings before underlying adjustments, finance costs (net of interest revenue), tax, depreciation and amortisation.

<sup>53</sup> Source: Management Information.

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### Pact's commitment to the Federal Government Modern Manufacturing Fund

Pact has commenced an investment of \$75 million over four years to 2026 to upgrade manufacturing capability and to:

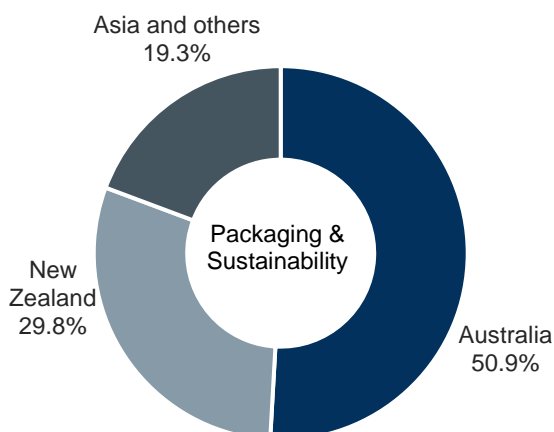
- enable up to 50% recycled content in milk bottles;
- boost production of 100% rPET beverage bottles;
- upgrade mobile garbage bin manufacturing capability to meet growth from four bin waste collection initiatives and increase use of recycled content; and
- increase capability to use recycled content in industrial packaging.

As noted in Section 8.1.2 of this report, a \$20 million grant has been awarded from the Federal Government's Modern Manufacturing Initiative to support this investment.

### 8.2.2 Packaging & Sustainability

Packaging & Sustainability includes the Pact Packaging, Pact Recycling and the Asian Closures divisions. It includes the manufacture and supply of rigid plastic and metal packaging and associated services, together with recycling and sustainability services. Revenue is predominantly sourced from Australia and New Zealand, as shown in the following chart. Revenue sources in Asia are spread across China, Indonesia, Philippines, Singapore, Thailand, Hong Kong, South Korea, Nepal and India.

**Segment Customer Revenue by Geography<sup>1</sup>**



Source: FY23 Consolidated Financial Report.  
 Note 1: Excludes inter-segment revenue elimination.

Pact increased its manufacturing capacity through the recent acquisition of Synergy Packaging in Australia.

Recycling capacity has been increased through the acquisition of Flight Plastics in New Zealand as well as two new joint venture recycling projects in Laverton High Density PE and Altona, Victoria PET, which will be operational by 1H24 with capacity to produce an additional 47,000 tonnes of recycled resin and flake per annum.

Pact's Circular Plastics Australia (PET) joint venture with Cleanaway, Asahi Beverages and Coca-Cola Europacific Partners (**CCEP**) in Albury is the largest PET recycling plant in Australia, capable of processing up to 28,000 tonnes of plastic bottles and other recyclables into flake and food grade pellets to be used as a raw material for the production of packaging for food and beverages.

Strong support has been received from the Victoria Government through the Recycling Victoria Infrastructure Fund and the Australian Government through its Modernisation Fund.

Pact's joint venture in Thailand, Gempack Asia Limited (**Gempack**) has grown exponentially since 2015 when Weener Plastik Beteiligungs GmbH purchased 50% of Gempack shares and contributed capital for investment into new equipment as well as contracts with Beiersdorf, SC Johnson & Unilever. Gempack revenue grew at a CAGR of 27% between 2014 and 2021,

## Market segments and products

An overview of Pact's Packaging & Sustainability products across key market segments is provided in the following table.

Market segment	Products
<b>Dairy &amp; Beverage</b>	<ul style="list-style-type: none"> <li>Pact supplies PET, rPET, HDPE and rHDPE<sup>54</sup> bottles, closures, and crates for products such as fresh milk and drinking yoghurts to juice, water, and alcohol.</li> <li>Pact's range includes the lightest weight milk bottle in the region and recycled PET bottles.</li> </ul>
<b>Processed Food</b>	<ul style="list-style-type: none"> <li>Pact offers recyclable packaging solutions for products such as ice cream, cream, chilled meals, dips, yoghurts, baking goods, spreads, sauces, or dressings.</li> <li>Products are blow moulded and injection moulded and feature recycled content where possible.</li> </ul>
<b>Health &amp; Personal Care</b>	<ul style="list-style-type: none"> <li>Pact customises products such as bottles, jars, vials, tubes and closures of all shapes and sizes for Personal Care and Healthcare clients to provide packaging for skin, hair, and oral care through to pharmaceutical and nutraceutical brands plus animal and human health care products.</li> <li>Pact uses locally sourced recycled content.</li> </ul>
<b>Fresh Food</b>	<ul style="list-style-type: none"> <li>Pact's recycled, fresh food packaging features a unique, full circle production process where plastic is cleaned for reuse in food grade products at a wash plant in New Zealand. Pact is the only provider in the NZ market to offer this capability.</li> <li>Packaging for frozen meals, fruit and veg, seafood, meats, and baked goods uses only locally recycled content.</li> </ul>
<b>Household &amp; Industrial</b>	<ul style="list-style-type: none"> <li>Pact's recyclable range is approved for dangerous goods and specifically designed to handle bulk chemicals used in industrial &amp; household applications such as chlorine, acids, liquid urethanes and cleaning products.</li> </ul>
<b>Bulk Packaging</b>	<ul style="list-style-type: none"> <li>Bulk packaging solutions are designed and manufactured in Australia and are certified to store and transport products from food products to dangerous goods. Solutions include Mauser durable plastic drums, Intermediate bulk containers (IBC) and steel drums.</li> </ul>
<b>Closures</b>	<ul style="list-style-type: none"> <li>Pact offers an extensive range of lightweight closures and caps, child resistant caps, dropper plugs and sports flip top caps.</li> <li>The closures can be made with post-consumer recycled content and are designed for the Dairy and Beverage, Household and Industrial, Health and Personal Care and Processed Food markets.</li> </ul>
<b>Off the shelf Packaging</b>	<ul style="list-style-type: none"> <li>Pact supplies a wide range of non-customised packaging options.</li> </ul>

Source: Pact website.

## Key customers and contracts

Packaging & Sustainability has contracts with leading FMCG and domestic brands.

On 29 June 2023, Pact announced a new strategic partnership with Aldi Australia to supply recycled packaging for products across the supermarket's proprietary brand range, including milk bottles, meat trays, fruit and vegetable punnets, beverage bottles, and shampoo bottles. Pact will make the packaging at its facilities in New South Wales, Victoria and Queensland using recycled PET and HDPE plastic resins.

This partnership followed an announcement on 26 July 2022 of the strategic partnership with Woolworths Group to manufacture and supply recycled packaging for products across their own brand range using approximately 18,000 tonnes of recycled plastic.

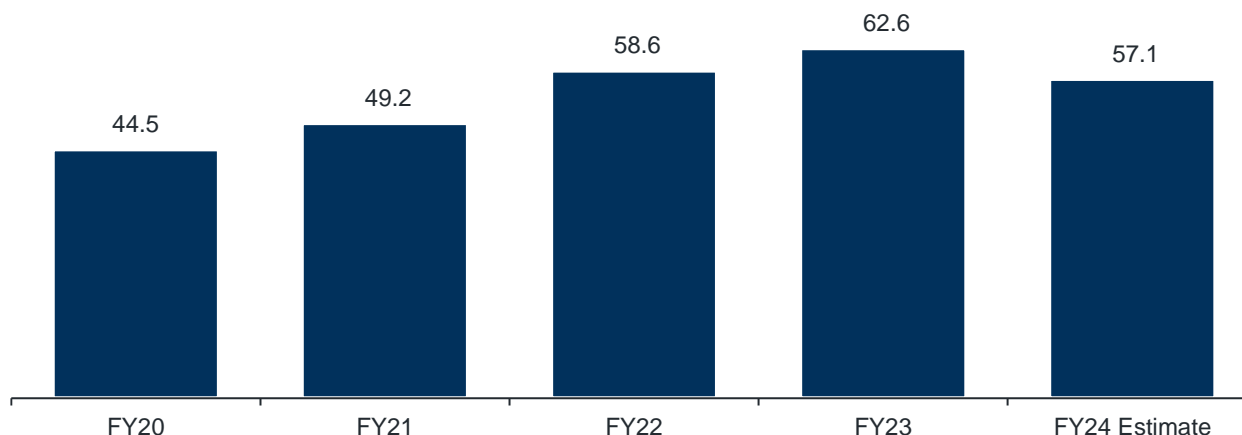
Approximately 60% of packaging contracts include rise and fall clauses to allow for movements in a range of materials costs, including resin prices.

<sup>54</sup> PET: Polyethylene Terephthalate; HDPE: High-Density Polyethylene. A lowercase r before any of these acronyms denotes that the resin is recycled.

### Growth initiatives

Pacts capital expenditure in Packaging & Sustainability since FY20 is shown in the following chart.

**Capital Expenditure in Packaging & Sustainability (\$ Millions)<sup>1</sup>**



Source: Management information

Note 1: Pact announced on 16 August 2023 in the FY23 Full Year Results Presentation that total capital expenditure for FY24 is to reduce to approximately \$85 million. This chart presents a pro-rata segment estimate.

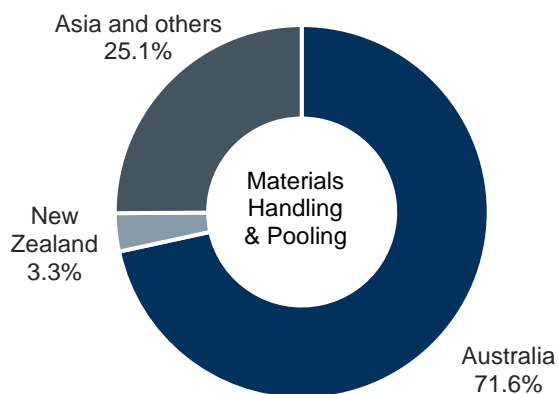
During FY23 Pact invested \$62.6 million in its Australian plastic packaging platforms, including a new Laverton packaging site in Victoria, upgrade of the Brownes Dairy site in Western Australia and closure of the Hastings site in New Zealand. Pact also continued to invest in new capacity in its Asian Closures division, upgrading packaging facilities in Philippines and Thailand, and in FY23, Pact consolidated production into a new site in the Philippines manufacturing deodorant bottles and caps.

As at 31 August 2023, approximately \$46.4 million is remaining for growth investments and the commencement of the Australian dairy platform upgrade which is expected to occur over a three year period.

### 8.2.3 Materials Handling & Pooling

Materials Handling & Pooling is the second largest segment and generates the highest earnings margins. This segment manufactures and supplies polymer materials handling products and custom moulded products for use in infrastructure and other projects. It also supplies returnable produce crate (RPC) pooling services. This segment includes the 'Pact Reuse' division which is focused on eliminating single use through reuse solutions and also includes the 'Pact Retail Accessories' division which provides a 'reuse' service for plastic hangers and security tags to the garment industry. Revenue is predominantly derived from Australia, Asia, the US and United Kingdom, as shown in the following chart. Revenue sources in Asia are spread across China, Hong Kong, India, Bangladesh and Sri Lanka.

**Segment Customer Revenue by Geography<sup>1</sup>**



Source: FY23 Consolidated Financial Report.

Note 1: Excludes inter-segment revenue eliminations.

**Market segments and products**

An overview of the market segments and products in the Materials Handling and Pooling segment is provided in the following table.

Market segment	Products
<b>Supply Chain Solutions</b>	<ul style="list-style-type: none"> <li>Pact enables the movement of products in various forms of RPC including Bins, Totes and Crates to Pallets, Nally Megabins and Folding Bins.</li> <li>Pact offers Track &amp; Trace technology and laundering, washing and reconditioning services.</li> </ul>
<b>Environmental Solutions</b>	<ul style="list-style-type: none"> <li>Pact equips local government, businesses, and households with pre-collection and source separation solutions, including two-wheeled and four-wheeled wheelie bins</li> <li>Key brands include SULO and WasteMaster. SULO bins made by Pact Environmental Solutions can be manufactured with up to 80% locally sourced recycled material.</li> </ul>
<b>Infrastructure Solutions</b>	<ul style="list-style-type: none"> <li>Through Pact’s injection moulding, recycling &amp; rotational moulding capabilities, it can economically produce large infrastructure products such as telecommunication pits, water tanks and storage products. Hard to recycle soft plastics can be turned into bespoke designs that can mimic materials such as steel or concrete, while being significantly lighter and easier to install. Examples of recycled products include Noise Walls, Custom moulding and polymeric cable covers.</li> </ul>
<b>Retail Accessories</b>	<ul style="list-style-type: none"> <li>Since 1989, Pact Retail Accessories (formerly TIC Retail Accessories) has been working with global fashion retailers to supply a service to return and reuse hangers and security tags to keeps hangers and accessories out of landfill and in circulation for many years.</li> </ul>

Source: Pact website.

**Key customers and contracts**

Woolworths and Aldi are key strategic partners in Materials Handling & Pooling:

- Pact’s contract to own operate, wash, and store a crate pool for Woolworths Group (Woolworths Contract) generates annual revenue in excess of \$50 million per annum. The crates replace single use corrugated cardboard, waxed cardboard and polystyrene boxes that are designed to be used around 14 times before being recycled. The 10 year contract was originally announced on 16 May 2016, and on 24 July 2023, Pact announced the extension of the Woolworths Contract for a further 10 years, to 2037; and
- Pact’s contract with Aldi was also recently extended for an additional five years to 2029.

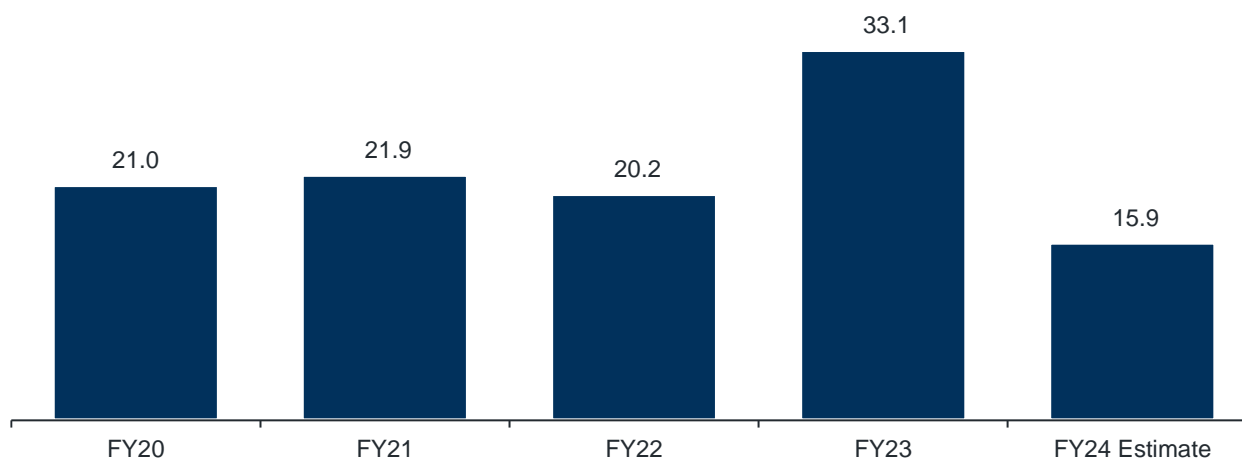
Hanger reuse services were expanded for a major USA contract won in January 2020, and a new contract in Europe won during FY21. Pact has long term partnerships with many of the world’s leading fashion houses, large-scale retailers, department stores and speciality fashion outlets.

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### Growth initiatives

Pact's capital expenditure in Materials Handling & Pooling since FY20 is shown in the following chart.

**Capital Expenditure in Materials Handling & Pooling (\$ Millions)<sup>1</sup>**



Source: Management information

Note 1: Pact announced on 16 August 2023 in the FY23 Full Year Results Presentation that total capital expenditure for FY24 is to reduce to approximately \$85 million. This chart presents a pro-rata segment estimate.

In FY23, Pact invested \$33.1 million in introducing a new folding mega-bin, and adding capacity to SULO mobile garbage bin platforms in Australia to support council bin rollouts, including recycled content. Pact also significantly increased the crate pool in New Zealand.

As noted in Section 8.1 of this report, Pact is forming a new 50-50 joint venture partnership with global investment manager Morrison & Co for the Crate Pooling business to accelerate new growth opportunities, and using proceeds from the transaction to reduce debt. Pact is in early-stage negotiations with several parties interested in acquiring the VRM business.

#### 8.2.4 Contract Manufacturing

Pact is a leading supplier of Contract Manufacturing services in Australia for the home, hygiene, personal care and health & wellness categories. It has a diversified portfolio and broad manufacturing capability for liquid, powder, aerosol, and therapeutic vitamin and wellness solutions products.

As noted in Section 8.1.1 of this report, Contract Manufacturing is made up of three business: Jalco Group, Pascoe's and APM. Some products are sold into overseas markets such as New Zealand, however Contract Manufacturing revenue is predominantly sourced from Australia.

Higher demand for hygiene products during the COVID-19 pandemic boosted revenue and margins for this segment. The severely disrupted supply chains during the global pandemic have also prompted demand for onshore manufacturing capability.

#### Market segments and products

An overview of Pact's Contract Manufacturing product offering by market segment is provided in the following table.

Market segment	Products
Home Care	<ul style="list-style-type: none"> <li>Pact has flexible and purpose built facilities that utilise the latest blending, granulating and packaging technologies</li> <li>Manufacturing categories include; laundry, household cleaning, car care, pest control, edible oils, air care and pet cleaning.</li> <li>Pact's research and development capabilities together with investment in technology and innovation enable it to provide lower manufacturing costs and faster project completion times.</li> </ul>

Market segment	Products
<b>Personal Care</b>	<ul style="list-style-type: none"> <li>Pact supports customers across all aspects of production, from consumer and product research to product development and formulation to testing, manufacturing and packaging.</li> <li>Pact's personal care capabilities are large-scale and comprehensive ranging from gentle baby products, bath and body washes and lotions to complete hair care ranges, colour cosmetics, facial skin care like; cleansers, exfoliators and active serums.</li> </ul>
<b>Wellness</b>	<ul style="list-style-type: none"> <li>Pact serves the Vitamins &amp; Supplements and Edible Oils markets with a wide range of specialised Therapeutic Goods Association (<b>TGA</b>)-registered formulations in Tablets, Hard Capsules, Sachets and Powdered Products.</li> <li>Pact has a strong base to provide promotional packaging with pre-formulated products.</li> </ul>

Source: Pact website.

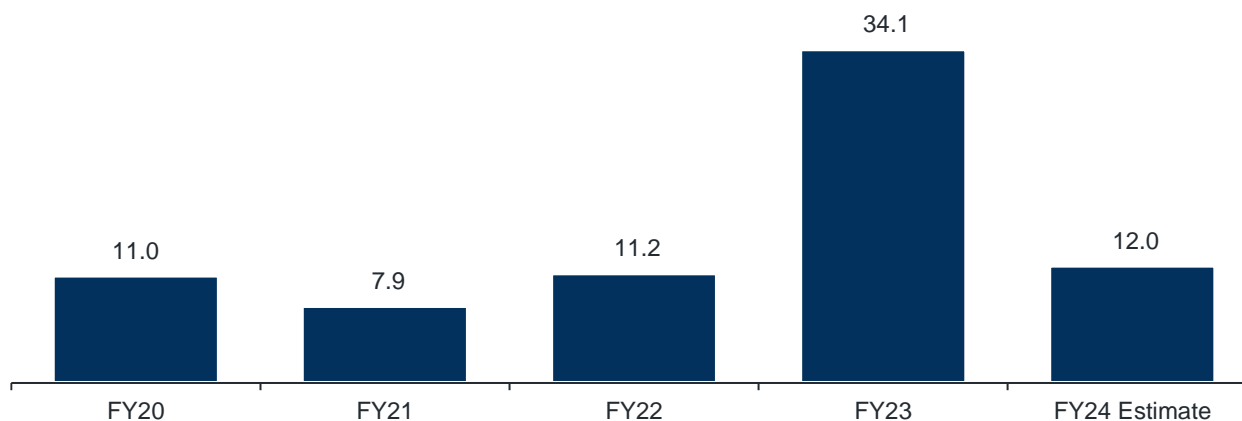
### Key customers and contracts

Strong customer relationships are formed through the production process. Key customers include well known FMCG brands. The Contract Manufacturing division also sells products under its own brands, including Glitz and Hovex.

### Growth initiatives

Pact's capital expenditure in Contract Manufacturing since FY20 is shown in the following chart.

#### Capital Expenditure in Contract Manufacturing (\$ Millions)<sup>1</sup>



Source: Management information

Note 1: Pact announced on 16 August 2023 in the FY23 Full Year Results Presentation that total capital expenditure for FY24 is to reduce to approximately \$85 million. This chart presents a pro-rata segment estimate.

Following notice of termination of its current lease arrangements, Pact invested over \$50 million in FY22 and FY23 to construct a new state-of-the-art liquid facility at Horsley Park that has a high speed filling line to enable faster production for Household and Laundry care products. A majority of the capital expenditure has already been spent. The facility is forecast to be operational in FY24 following the reallocation of seven standard lines from an existing facility in New South Wales. From all eight production lines, the Horsley Park site has the capacity to fill approximately 14,000 bottles per hour.

The Target's Statement announced Pact's intention to recommence a sale process of Contract Manufacturing in 2023, however, noted that no formal decision has been made to sell the segment, which would be subject to Board approval.

### 8.2.5 Related party transactions

As described in the FY23 Pact Consolidated Financial Report, transactions between Pact and related parties include:

- revenue in the Packaging & Sustainability and Contract Manufacturing segments from sales to related parties including Green's General Foods Pty Ltd, The Reject Shop Limited, Remedy Kombucha Pty



Ltd, Propax Pty Ltd, Gem-Care Products Pty Ltd, The Hive (Australia) Pty Ltd, BG Wellness Holdings Pty Ltd and Brimful Beverages Pty Ltd;

- an exclusive supply agreement with Pro-Pac Packaging Limited, an entity in which Mr Raphael Geminder owns 66.52% (2022: 57.4%), for certain raw materials such as flexible film packaging, flexible plastic bags and tapes to Pact. The Group's supply agreement with Pro-Pac expired on 31 December 2021 and is now continuing on a month-on-month basis. The total value of this arrangement is approximately \$3.2 million (2022: \$3.3 million). The agreement is on commercial terms which the Pact Board has determined are at arms' length in accordance with Section 210 of the Corporations Act 2001; and
- property leases. Pact leased 10 properties (eight in Australia and two in New Zealand) from Centralbridge Pty Ltd (as trustee for the Centralbridge Unit Trust), Centralbridge Two Pty Ltd, Centralbridge (NZ) Limited and Albury Property Holdings Pty Ltd, which are each controlled by entities associated with Mr Raphael Geminder and are therefore related parties of the Group (Centralbridge Leases). The aggregate annual rent payable by Pact under the Centralbridge Leases for the period ended 30 June 2023 was \$6.2 million (June 2022: \$5.9 million). The rent payable under the Centralbridge Leases was determined based on independent valuations and market conditions at the time the leases were commercially agreed. As at 30 June 2023, the total lease liabilities owing to Centralbridge Leases is \$34.2 million (June 2022: \$32.4 million). The leases are on commercial terms which the Pact Board has determined are at arms' length in accordance with Section 210 of the Corporations Act.

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## 8.3 Financial performance

### 8.3.1 Historical financial performance

Pact's consolidated financial performance for FY20 to FY23 is summarised as follows.

#### Pact Financial Performance (\$ Million)

	FY20 audited	FY21 audited	FY22 audited	FY23 audited
<b>Revenue</b>				
Packaging & Sustainability	1,143.9	1,131.1	1,208.6	1,282.1
Materials Handling & Pooling	315.6	344.0	353.5	346.7
Contract Manufacturing	394.2	321.9	306.3	357.3
Eliminations	(44.5)	(35.4)	(30.7)	(37.5)
<b>Revenue</b>	<b>1,809.2</b>	<b>1,761.6</b>	<b>1,837.7</b>	<b>1,948.6</b>
Raw materials and consumables used	(786.2)	(734.2)	(823.9)	(898.5)
Employee benefits expense	(441.1)	(436.4)	(440.2)	(464.5)
Occupancy, repair and maintenance, administration and selling expenses	(292.9)	(293.8)	(302.3)	(324.3)
Share of profit (loss) in joint ventures and associates <sup>1</sup>	3.1	3.1	1.6	1.8
Other income / (expenses) <sup>2</sup>	9.7	14.6	17.0	13.9
<b>Underlying EBITDA<sup>3</sup></b>	<b>301.8</b>	<b>314.9</b>	<b>289.8</b>	<b>277.0</b>
Depreciation and amortisation	(135.5)	(132.0)	(133.6)	(131.7)
<b>Underlying EBIT<sup>4</sup></b>	<b>166.3</b>	<b>182.9</b>	<b>156.2</b>	<b>145.3</b>
Total underlying adjustments	6.5	(8.4)	(77.2)	(66.4)
<b>Reported EBIT</b>	<b>172.8</b>	<b>174.5</b>	<b>79.0</b>	<b>78.9</b>
Net finance costs	(60.0)	(49.4)	(54.5)	(76.2)
Loss on derecognition of financial assets	(2.8)	(1.8)	(2.1)	(6.5)
<b>Statutory net profit / (loss) before income tax expense</b>	<b>110.0</b>	<b>123.3</b>	<b>22.4</b>	<b>(3.8)</b>
Income tax expense	(21.2)	(35.8)	(10.2)	(2.8)
<b>Statutory net profit / (loss)</b>	<b>88.8</b>	<b>87.5</b>	<b>12.2</b>	<b>(6.6)</b>
Less: underlying adjustments after tax	(15.6)	6.0	58.0	51.4
<b>Underlying NPAT<sup>5</sup></b>	<b>73.2</b>	<b>93.5</b>	<b>70.2</b>	<b>44.9</b>
<b>Growth</b>				
Revenue growth	(1.4%)	(2.6%)	4.3%	6.0%
Underlying EBITDA growth	nmf <sup>7</sup>	4.3%	(8.0%)	(4.4%)
Underlying EBIT growth	nmf	10.0%	(14.6%)	(7.0%)
<b>Profitability</b>				
Underlying EBITDA margin	16.7%	17.9%	15.8%	14.2%
Underlying EBIT margin	9.2%	10.4%	8.5%	7.5%
<b>Interest coverage</b>				
Net interest cover (times) <sup>6</sup>	6.4	9.6	8.0	4.3
Net interest cover (including leasing) (times) <sup>6</sup>	4.8	6.2	5.3	3.6

Source: Summary of Financial Results as per the Pact FY20, FY21, FY22 and FY23 Annual Reports, and Kroll analysis. Totals may not add due to figures being rounded to the nearest \$100,000 dollars.

Notes:

- Share of profit (loss) in joint ventures and associates is recognised within Packaging & Sustainability. The carrying value of the joint ventures and associates are summarised in Section 8.4 of this report.
- Other income includes rental income, sundry revenue, JV income, Government grants, and external dividends. Other expenses is comprised of share based payments, realised net foreign exchange losses, loss on sale of property, plant and equipment, and unrealised gains on revaluation of foreign exchange forward contracts. Excludes equity accounted income from joint ventures and associates which is shown separately.
- Underlying EBITDA is a non-IFRS financial measure which is calculated as earnings before underlying adjustments, finance costs (net of interest revenue), tax, depreciation and amortisation.
- Underlying EBIT is a non-IFRS financial measure which is calculated as earnings before underlying adjustments, finance costs (net of interest revenue) and tax.

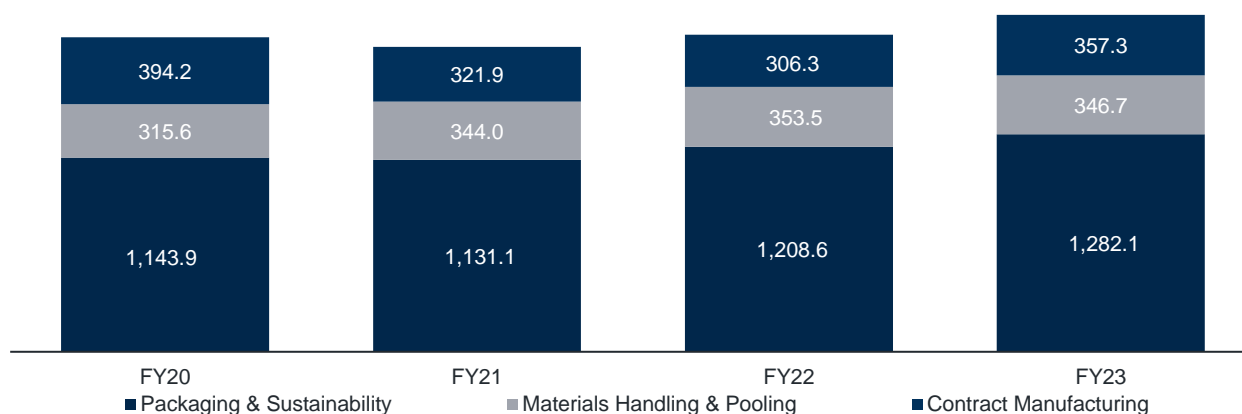
Notes: (continued)

5. Underlying NPAT is a non-IFRS financial measure which is calculated as net profit after tax before underlying adjustments.
6. Net interest cover is a non-IFRS financial measure which is calculated as rolling 12 months Underlying EBITDA divided by rolling 12 months net finance costs (excluding losses on de-recognition of financial assets). Interest cover has been presented both excluding and including the impact of lease accounting since the adoption of AASB16.
7. nmf is not meaningful. Underlying EBITDA and Underlying EBIT growth in FY20 is not meaningful as Pact has not restated FY19 results for AASB 16 accounting.

With regard to the financial performance summarised above, we note the following:

- revenue declined in FY21, as revenue growth in Materials Handling & Pooling was more than offset by a contraction in Contract Manufacturing. In FY22, revenue increased despite a continued decline in Contract Manufacturing revenue. In FY23, revenue increased as Packaging & Sustainability and Contract Manufacturing increased strongly, despite a decline in Materials Handling & Pooling. For further detail on each segment, refer to Sections 8.3.2 to 8.3.4 of this report;

**Pact Revenue by Segment<sup>1</sup>**



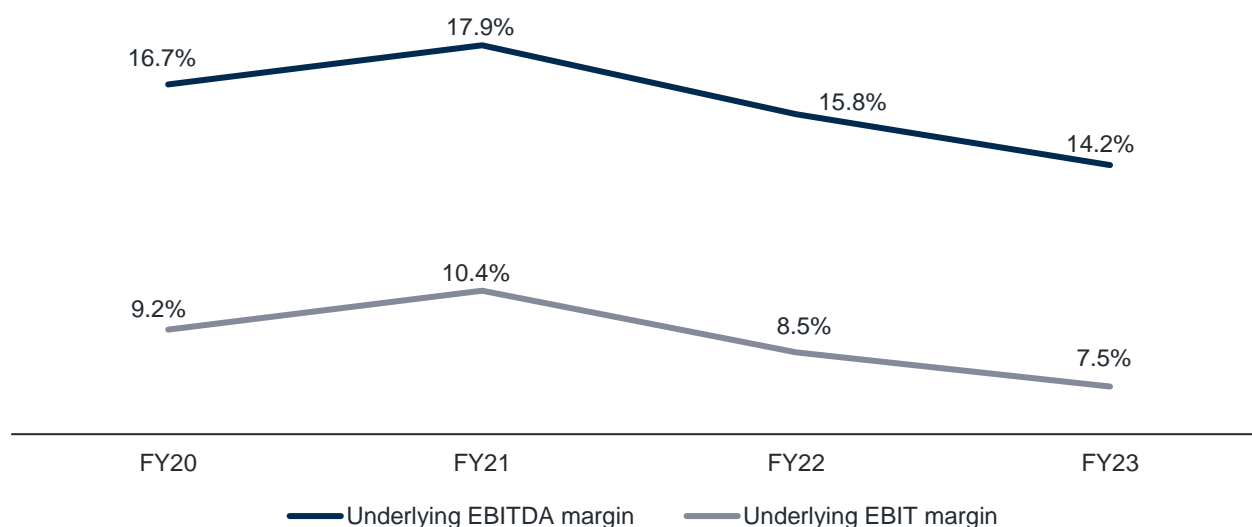
Source: Annual reports and Kroll analysis

Note 1: Excludes inter-segment revenue eliminations

- following an uplift in FY21, Underlying EBITDA declined in FY22 and FY23, driven by a number of challenges Pact faced over the past few years. These include the impacts from the COVID-19 pandemic, a changing macroeconomic landscape characterised by rising interest rates and inflationary pressures, and supply chain issues including disruptions caused by severe weather patterns. From a segment perspective, poor operating performance from the Contract Manufacturing business has been the primary contributor to negative Underlying EBITDA growth. Refer to Sections 8.3.2 to 8.3.4 of this report for more detail;
- Underlying EBIT has moved in line with Underlying EBITDA. Pact recorded an increase in Underlying EBIT in FY21, 10.0% growth year-on-year, before experiencing a decline in FY22 and FY23. Underlying EBITDA and Underlying EBIT margins have also followed a similar trend, with an improvement in FY21 followed by declines in FY22 and FY23, as shown in the following chart:

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### Movements in Underlying EBITDA and Underlying EBIT Margins from FY20 to FY23



Source: Pact annual reports and Kroll analysis

- depreciation and amortisation expenses have remained relatively stable during this time as higher capital expenditure was offset by below the line tangible asset write offs in FY22 and FY23;
- total underlying adjustments have increased materially since FY20, with significant expenses noted in FY22 and FY23:
  - FY22 adjustments primarily consist of \$42.3 million in tangible asset write-offs and a \$29.9 million intangible asset impairment, each within Contract Manufacturing, due to COVID-19 related disruption to operations and supply chains and volume losses in key categories, as well as a moderated medium-term outlook and the unavoidable relocation of a major site. Other adjustments include \$35.6 million in business restructuring costs and inventory write downs offset by \$30.7 million predominantly from compensation for business closures and profit on sale of properties;
  - FY23 adjustments include a \$52.6 million tangible asset write-off and \$13.8 million of costs relating to business restructuring programs. Tangible asset write-offs relate to Australian and Chinese packaging assets within Packaging & Sustainability which are no longer expected to generate benefits given current strategic plans. Meanwhile, business restructuring programs included the exit of a site in the New Zealand packaging business and the transition to new manufacturing facilities in the Australian packaging business and Contract Manufacturing;

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## Pact Underlying Adjustments

	FY20 audited	FY21 audited	FY22 audited	FY23 audited
Transaction costs	(4.0)	(1.7)	(6.7)	(4.0)
Costs arising from factory fire	-	(4.0)	(1.7)	-
Inventory write downs and related disposal costs	-	-	(17.8)	-
Insurance settlements for events in prior periods	-	1.8	7.0	1.2
Profit on sale of properties	-	4.4	20.5	2.8
Net gain on lease modifications	4.5	-	2.7	-
Reversal of contingent consideration obligation	30.0	-	-	-
Finalisation of acquisition consideration	(7.2)	-	-	-
Compensation for business closure	-	-	8.9	-
<b>Business restructuring programs:</b>				
- restructuring costs	(4.8)	(6.2)	(10.7)	(9.3)
- asset write downs	(0.2)	-	(4.4)	(4.5)
- right of use asset impairment	-	-	(2.7)	-
<b>Impairment and write-off expenses:</b>				
- tangible assets write-off	-	(2.7)	(42.3)	(52.6)
- intangible assets impairment	(11.8)	-	(29.9)	-
<b>Total underlying adjustments</b>	<b>6.5</b>	<b>(8.4)</b>	<b>(77.2)</b>	<b>(66.4)</b>

Source: Pact annual reports and Kroll analysis.

- net finance costs increased by 39.6% (excluding loss on de-recognition) in FY23. The movement was largely driven by the recent rise in interest rates and an increase in expenses on lease liabilities due to two new properties in Packaging & Sustainability and Contract Manufacturing. Interest bearing liabilities remained relatively stable. Interest cover (excluding leases) declined from 9.6 times in FY21 to 4.3 times in FY23, reflecting lower earnings and higher interest expenses over the period. Interest cover (including leasing) has followed a similar trend; and
- Underlying EPS declined in FY22 and FY23. Pact targets a dividend payout ratio of 40% of underlying NPAT over the medium term. The payout ratio was below this level in FY20 as Pact did not declare an interim FY20 dividend with cash to be retained to fund strategic initiatives and reduce debt. Dividends were resumed with the final FY20 dividend and FY21 dividends being in line with Pact's target payout ratio. The FY22 distribution payout ratio of 25% was below the target with cash retained in view of the challenging economic environment. No dividends were declared in FY23, with management citing temporarily elevated gearing and capital investment requirements.

## Pact Per Share Metrics

	FY20 audited	FY21 audited	FY22 audited	FY23 audited
Number of Pact Shares at period end (basic) (million)	344.0	344.0	344.3	344.3
Basic EPS (cents) <sup>1</sup>	25.8	25.4	3.5	(1.9)
Underlying EPS (cents) <sup>2</sup>	21.0	27.0	20.0	13.0
ROIC <sup>3</sup>	10.6%	11.8%	9.8%	9.0%
Dividends per ordinary share (cents)	3.0	11.0	5.0	0.0
Dividend payout ratio <sup>4</sup>	14%	41%	25%	0%

Source: Pact annual reports and Kroll analysis.

Notes:

- Calculated by dividing the net profit for the year attributable to ordinary equity holders of Pact by the weighted average number of ordinary shares outstanding during the year.
- Underlying EPS (cents) is earnings per share before underlying adjustments.
- ROIC represents return on invested capital and is defined as rolling 12 months Underlying EBIT divided by rolling 12 months average total assets (excluding cash, cash equivalents and deferred tax) less current tax liabilities (excluding interest bearing liabilities and tax liabilities).
- Calculated by dividing dividends per ordinary share (cents) by Underlying EPS (cents).

### 8.3.2 Packaging & Sustainability

A summary of the financial results for Packaging & Sustainability from FY20 to FY23 is provided below.

#### Packaging & Sustainability Results

	FY20 audited	FY21 audited	FY22 audited	FY23 audited
Revenue	1,143.9	1,131.1	1,208.6	1,282.1
Operating expenses	(962.6)	(940.4)	(1,010.9)	(1,093.3)
<b>Underlying EBITDA</b>	<b>181.3</b>	<b>190.7</b>	<b>197.7</b>	<b>188.8</b>
Depreciation and amortisation	(90.5)	(86.1)	(87.5)	(87.1)
<b>Underlying EBIT</b>	<b>90.8</b>	<b>104.6</b>	<b>110.2</b>	<b>101.7</b>
<b>Statistics</b>				
Revenue growth	(5.3%)	(1.1%)	6.9%	6.1%
Underlying EBITDA growth	<i>nmf</i>	5.2%	3.7%	(4.5%)
Underlying EBIT growth	<i>nmf</i>	15.2%	5.3%	(7.7%)
Underlying EBITDA margin	15.8%	16.9%	16.4%	14.7%
Underlying EBIT margin	7.9%	9.2%	9.1%	7.9%

Source: Pact annual reports and Kroll analysis.

Despite a decline in revenue in FY21, Underling EBITDA and Underlying EBIT margins increased as a result of disciplined management of costs, lower depreciation, and a more favourable product mix. In FY22, the first full year of results from Flight Plastics combined with favourable market conditions resulted in strong revenue and volume growth, and margins were relatively stable.

In FY23, revenue increased as a result of the first full year of results from Synergy Packaging and more favourable cost pass-throughs. Across the segment the ANZ businesses performed strongly, with 8% and 9% revenue growth respectively, whilst the Asia business experienced a much lower growth at 1%.

Despite this growth, 2H23 saw decreased demand in the agricultural and coatings markets, and increases in domestic freight and labour costs were not able to be fully recovered. These factors negatively impacted upon Underlying EBITDA and Underlying EBIT margins.

### 8.3.3 Materials Handling & Pooling

A summary of the financial results for Materials Handling & Pooling from FY20 to FY23 is provided below.

#### Materials Handling & Pooling Results

	FY20 audited	FY21 audited	FY22 audited	FY23 audited
Revenue	315.6	344.0	353.5	346.7
Operating expenses	(242.6)	(258.4)	(270.1)	(272.7)
<b>Underlying EBITDA</b>	<b>73.0</b>	<b>85.6</b>	<b>83.4</b>	<b>74.0</b>
Depreciation and amortisation	(28.8)	(31.2)	(33.5)	(33.8)
<b>Underlying EBIT</b>	<b>44.2</b>	<b>54.4</b>	<b>49.9</b>	<b>40.2</b>
<b>Statistics</b>				
Revenue growth	6.6%	9.0%	2.8%	(1.9%)
Underlying EBITDA growth	<i>nmf</i>	17.2%	(2.5%)	(11.3%)
Underlying EBIT growth	<i>nmf</i>	23.2%	(8.3%)	(19.5%)
Underlying EBITDA margin	23.1%	24.9%	23.6%	21.3%
Underlying EBIT margin	14.0%	15.8%	14.1%	11.6%

Source: Pact annual reports and Kroll analysis.

Revenue increased by 9.0% and 2.8% in FY21 and FY22, respectively, whilst FY23 revenue declined by 1.9%.

In light of the COVID-19 pandemic, FY21 saw strong revenue growth off the back of increased penetration into the fresh produce sector, new reuse contracts in Europe and increased volumes in the United States.

The FY23 revenue decline was driven by the slowdown in the clothing retail industry drove a 17.0% decline in Retail Accessories revenue, primarily in the first half of the financial year as retailers inventories were adjusted to pre-pandemic levels after which performance picked up.

Despite the improvements in volume, Underlying EBITDA and Underlying EBIT margins held relatively stable from FY20 to FY22. Underlying EBITDA and Underlying EBIT margins decreased by 2.3% and 2.5% respectively in FY23, impacted by the sharp slowdown in the retail garment sector.

#### 8.3.4 Contract Manufacturing

A summary of the financial results for Contract Manufacturing from FY20 to FY23 is provided below.

##### Contract Manufacturing Results

	FY20 audited	FY21 audited	FY22 audited	FY23 audited
Revenue	394.2	321.9	306.3	357.3
Operating expenses	(346.7)	(283.3)	(297.6)	(343.0)
<b>Underlying EBITDA</b>	<b>47.5</b>	<b>38.6</b>	<b>8.7</b>	<b>14.3</b>
Depreciation and amortisation	(16.2)	(14.8)	(12.7)	(11.0)
<b>Underlying EBIT</b>	<b>31.3</b>	<b>23.8</b>	<b>(4.0)</b>	<b>3.3</b>
<b>Statistics</b>				
Revenue growth	5.9%	(18.3%)	(4.8%)	16.6%
Underlying EBITDA growth	<i>nmf</i>	(18.8%)	(77.5%)	64.7%
Underlying EBIT growth	<i>nmf</i>	(23.8%)	(116.7%)	183.6%
Underlying EBITDA margin	12.1%	12.0%	2.8%	4.0%
Underlying EBIT margin	7.9%	7.4%	(1.3%)	0.9%

Source: Pact annual reports and Kroll analysis.

Contact Manufacturing has seen significant fluctuations in earnings over the last four financial years. Following a strong result in FY20, led by COVID-19 influenced demand in the hygiene category, revenue declined by 18.3% in FY21 and 4.8% in FY22. FY21 revenue was impacted by both the normalisation of the hygiene category demand and the automotive factory fire which disrupted operations, whilst FY22 saw lower volumes from the COVID-19 disruption in the first half of the year.

The FY22 revenue decrease was coupled with a large decline in the Underlying EBITDA margin, due to rapid cost inflation, and decreased demand caused by COVID-19 lockdowns.

FY23 results improved, driven by increases in consumer spending and price recovery, corresponding with the Underlying EBITDA margin recovery from 2.8% in FY22 to 4.0% in FY23. The Horsley Park facility is expected to be operational in FY24, and is expected to result in operational improvements.

#### 8.3.5 Outlook

Pact management has not released earnings guidance for FY24 or beyond, however, in the Target's Statement, it provided a market conditions update for 1Q24:

- supply chain disruptions have moderated, with international shipping costs reducing while domestic freight costs remain elevated;
- input costs remain elevated, but are stabilising;
- resin prices are stable;
- labour constraints are beginning to stabilise; and
- Pact has implemented several initiatives to strengthen its operations in the context of ongoing macroeconomic uncertainty.

It also provided a 1Q24 earnings update, which indicated that:

- Pact's revenue results for the 1Q24 continue the trend that it experienced in the 4Q23 with soft demand across Agribusiness in Packaging Australia, Recycling and China packaging. Revenue in the 1Q24 was \$473 million, which was down 3% on last year due to sluggish demand in Packaging & Sustainability whereas Materials Handling & Pooling and Contract Manufacturing continue to deliver revenue at or higher than last year;
- Pact's Underlying EBITDA for 1Q24 of \$63.2 million, is in line with last year as the margin impact of lower revenues has been offset by improved margins from the benefit of lower resin and other material costs compared to last year;
- Pact's Underlying EBIT for 1Q24 is slightly above last year;
- Pact has not yet incurred any material benefits from its transformation initiatives in 1Q24 as these were only completed in Australia during September 2023 and will occur in New Zealand during October 2023; and
- currently, Pact remains on track to deliver a full year Underlying EBIT for FY24 in line with consensus.

In order to provide an indication of future financial performance, Kroll has considered broker forecasts. As far as Kroll is aware, Pact is followed by three brokers, of which one is a financial adviser on the Offer and has, therefore, been excluded from our analysis. The remaining two brokers each published reports following the release of Pact's FY23 financial results on 16 August 2023. Further detail is provided in Appendix 3.

#### Pact Broker Consensus (\$ Million)

	Actual	Broker Consensus		
	FY23	FY24	FY25	FY26
<b>Underlying revenue</b>	<b>1,948.6</b>	<b>1,885.0</b>	<b>1,881.4</b>	<b>1,912.4</b>
<b>Underlying EBITDA</b>	<b>277.0</b>	<b>287.0</b>	<b>287.1</b>	<b>291.4</b>
Depreciation and amortisation	(131.7)	(133.3)	(130.0)	(131.0)
<b>Underlying EBIT</b>	<b>145.3</b>	<b>153.7</b>	<b>157.1</b>	<b>160.4</b>
<b>Underlying NPAT</b>	<b>44.9</b>	<b>57.9</b>	<b>62.9</b>	<b>66.8</b>
<b>Key Metrics</b>				
<i>Underlying revenue growth</i>	6.0%	(3.3%)	(0.2%)	1.6%
<i>Underlying EBITDA growth</i>	(4.4%)	3.6%	0.0%	1.5%
<i>Underlying EBIT growth</i>	(7.0%)	5.8%	2.2%	2.1%
<i>Underlying EBITDA margin</i>	14.2%	15.2%	15.3%	15.2%
<i>Underlying EBIT margin</i>	7.5%	8.2%	8.3%	8.4%
<i>Underlying EPS (cents)</i>	13.0	16.7	18.1	19.1
<i>DPS (cents)</i>	0.0	3.8	8.6	9.6
<i>Payout ratio</i>	0.0%	22.8%	47.5%	50.3%

Source: Pact broker reports and Kroll analysis.

Note 1: Depreciation and amortisation is calculated as difference between Underlying EBITDA and Underlying EBIT for forecasted years.

With regard to the Pact broker consensus summarised above, we note:

- one broker upgraded estimates following the release of the FY23 financial results, citing early signs of a turnaround with a stronger outlook for Contract Manufacturing, the Crate Transaction and de-gearing impacts;
- the other broker downgraded estimates to reflect elevated labour and freight costs and lower pass-throughs from falling resin costs, balanced by a slightly more positive view on Contract Manufacturing and core packaging demand/cost environments heading into FY24;
- despite opposing movements in financial estimates, both brokers expect earnings margins to improve as resin prices decline;
- one broker noted that the Crate Transaction will dilute the contribution from Pact's Reuse (Materials Handling & Pooling) segment and increase exposure to more cyclical retail demand; and



- brokers note that de-gearing remains crucial for Pact given the higher interest rate environment, which should be assisted by EBITDA growth, reduced capital expenditure guidance and proceeds from the Crate Transaction.

As the Pillar 1 savings of the transformation plan were not announced at the time of the FY23 results release, the brokers forecasts do not reflect the savings in their estimates. However, brokers have adjusted financial forecasts for the Crate Transaction and associated de-gearing impacts. One broker has also mentioned the cost out program in Material Handling & Pooling business which was offset by lower volumes.

The broker consensus forecast by Pact segment is set out as follows.

**Pact Broker Consensus By Segment (\$ Million)**

	Actual	Broker consensus		
	FY23	FY24	FY25	FY26
<b>Segment revenue</b>				
Packaging & Sustainability	1,282.1	1,256.2	1,272.0	1,275.8
Materials Handling & Pooling	346.7	272.0	191.2	191.2
Contract Manufacturing	357.3	366.3	373.7	381.2
<b>Segment Underlying EBITDA</b>				
Packaging & Sustainability	188.8	199.6	206.3	201.6
Materials Handling & Pooling	74.0	57.4	38.7	37.9
Contract Manufacturing	14.3	24.1	28.5	29.0
<b>Revenue growth</b>				
Packaging & Sustainability	6.1%	(2.0%)	1.3%	0.3%
Materials Handling & Pooling	(1.9%)	(21.5%)	(29.7%)	0.0%
Contract Manufacturing	16.6%	2.5%	2.0%	2.0%
<b>Underlying EBITDA growth</b>				
Packaging & Sustainability	(4.5%)	5.7%	3.4%	(2.3%)
Materials Handling & Pooling	(11.3%)	(22.4%)	(32.6%)	(2.1%)
Contract Manufacturing	64.7%	68.5%	18.3%	1.8%
<b>Underlying EBITDA margin</b>				
Packaging & Sustainability	14.7%	15.9%	16.2%	15.8%
Materials Handling & Pooling	21.3%	21.1%	20.2%	19.8%
Contract Manufacturing	4.0%	6.6%	7.6%	7.6%

Source: Pact broker reports

In relation to the above:

- only one broker provided estimates by segment;
- brokers note that Packaging & Sustainability margins remain weak, however have a slightly more positive outlook for packaging demand and the cost environment;
- Materials Handling & Pooling reflects the completion of the Crate Transaction in the 2023 calendar year. The Crate Pooling & Crate Manufacturing joint venture has been proportionately consolidated from FY24. One broker expects that the Retail Accessories division will remain challenged from softer global retail demand, driven by increased global cost-of-living pressures; and
- Contract Manufacturing reflects a slightly stronger outlook given the improved volumes and contract repricing in the segment in FY23.

## 8.4 Financial position

Pact's consolidated financial position as at 30 June 2020, 2021, 2022 and 2023 is summarised as follows.

### Pact Consolidated Financial Position (\$ Million)

	As at 30 June 2023			
	2020 Audited	2021 Audited	2022 Audited	2023 Audited <sup>1</sup>
Trade and other receivables	149.7	129.3	125.1 <sup>2</sup>	146.3
Inventories	223.7	242.7	284.6	252.2
Trade and other payables	(378.1)	(351.2)	(397.0) <sup>2</sup>	(390.0)
<b>Net working capital</b>	<b>(4.7)</b>	<b>20.8</b>	<b>12.7</b>	<b>8.5</b>
Property, plant and equipment	996.0	1,014.2	1,006.2	1,048.2
Intangible assets and goodwill	456.1	459.4	425.7	428.5
Contract assets	12.3	13.4	13.4	16.6
Investments in associates and joint ventures	30.9	35.1	45.5	46.8
Provisions	(56.7)	(64.4)	(73.4)	(68.8)
Net tax asset (liability)	2.2	(2.5)	16.4	26.7
Other items <sup>3</sup>	4.9	10.8	24.1	20.1
<b>Total funds employed</b>	<b>1,441.0</b>	<b>1,486.8</b>	<b>1,470.6</b>	<b>1,526.6</b>
Cash	76.0	62.2	101.5	79.1
Interest-bearing loans and bank borrowings including bank overdraft	(689.5)	(647.2)	(662.3)	(664.6)
Lease liabilities	(454.9)	(469.9)	(486.0)	(532.4)
<b>Net cash / (debt) (including leases)</b>	<b>(1,068.4)</b>	<b>(1,054.9)</b>	<b>(1,046.8)</b>	<b>(1,117.9)</b>
<b>Net assets</b>	<b>372.6</b>	<b>431.9</b>	<b>423.8</b>	<b>408.7</b>
Contributed equity	1,750.5	1,750.5	1,751.7	1,751.7
Reserves	(901.3)	(902.4)	(891.3)	(894.7)
Retained earnings	(476.6)	(416.2)	(436.7)	(448.3)
<b>Total Equity</b>	<b>372.6</b>	<b>431.9</b>	<b>423.8</b>	<b>408.7</b>
<b>Statistics</b>				
<i>Number of Pact Shares at period end (basic) (million)</i>	344.0	344.0	344.3	344.3
<i>Net assets per share<sup>4</sup></i>	\$1.08	\$1.26	\$1.23	\$1.19
<i>Net tangible assets per share<sup>5</sup></i>	(\$0.24)	(\$0.08)	(\$0.01)	(\$0.06)
<i>Gearing<sup>6</sup></i>	2.6x	2.4x	2.7x	3.0x

Source: Pact Annual Reports and Kroll analysis.

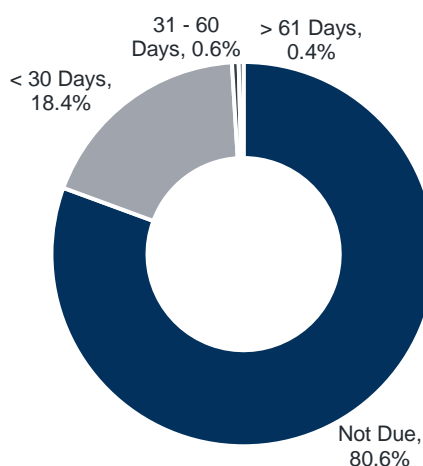
Notes:

1. Announced in August 2023 was the sale of 50% of the Crate Pooling business. Pact will deconsolidate 100% of the net assets of the crate pooling business in return for cash and a 50% equity investment in a new joint venture. The intention is for cash proceeds to decrease interest bearing loans and bank borrowings.
2. The balances of trade and other receivables and trade and other payables as at 30 June 2022 were restated in the 2023 Consolidated Financial Report.
3. Includes prepayments, other current financial assets, other non-current financial assets, other current financial liabilities and other non-current financial liabilities.
4. Calculated as net assets divided by number of Pact Shares at period end (basic).
5. Calculated as net assets less intangible assets and goodwill divided by number of Pact Shares at period end (basic).
6. Gearing is calculated as net debt divided by rolling 12 months Underlying EBITDA excluding the impact of lease accounting following the adoption of AASB 16 Leases.

With regard to the consolidated financial position summarised above, we note the following:

- net working capital reached a high of \$20.8 million as at 30 June 2021 and has since reduced to \$8.5 million as at 30 June 2023. Importantly, Pact reports a trade receivable balance with a low degree of ageing beyond payment terms which is labelled "Not due", as per the following chart:

### Trade Receivable Ageing



Source: FY23 Consolidated Financial Report

- Pact is engaged in a debtor securitisation program, wherein it can securitise up to \$180 million of trade debtors. This has a deflationary impact on working capital by moving these trade receivables off balance sheet;
- inventory levels were elevated as at 30 June 2022 to ensure customers received orders on time despite supply chain difficulties;
- property, plant and equipment (**PPE**) net of accumulated depreciation has remained relatively stable with a gradual increase of \$52.2 million from 30 June 2020 to a balance of \$1,048.2 million as at 30 June 2023. This is reflective of the continued investments to support Pact's strategy, net of tangible asset write downs;
- the intangibles balance as at 30 June 2023 was primarily comprised of goodwill (\$428.0 million), which is split between Packaging & Sustainability, \$261.9 million, and Materials Handling & Pooling, \$166.1 million;
- contract assets are recognised for the manufacture and storage of goods or products as the performance obligations are satisfied;
- investments in associates and joint ventures represents the carrying value of eight entities, as follows;

#### Pact Associates and Joint Ventures as at 30 June 2023 (\$ Million)

Entity	Percentage Holding (%)	Carrying Value 30 June 2023
Spraypac Products (NZ) Limited	50.0%	0.7
Weener Plastop Asia, Inc.	50.0%	1.6
Gempack Asia Limited (Gempack)	50.0%	15.9
PT Weener Plastop Indonesia Inc	50.0%	3.5
Australian Recycled Plastic Pty Ltd	50.8%	4.0
Circular Plastics Australia (PET) Holdings Pty Ltd (CPAP)	33.3%	13.4
Circular Plastic Australia Pty Ltd (CPA)	50.0%	7.7
Circular Plastics Australia (LDPE) Pty Ltd	33.3%	-
<b>Total</b>		<b>46.8</b>

Source: FY23 Consolidated Financial Report Note 3.3.

- provisions as at 30 June 2023 were \$68.8 million, which includes both current and non-current employee benefits, and other provisions of \$15.4 million, which comprised business restructuring, \$2.5 million, and make good on leased premises provisions, \$12.9 million;
- as at 30 June 2023, Pact had a cash balance of \$79.1 million, representing a \$22.5 million decrease from 30 June 2022; and

- Pact recorded increases in lease liabilities from 30 June 2020 to 30 June 2023, with \$532.4 million as at 30 June 2023.

### 8.4.1 Borrowings

Pact has multiple debt facilities which allow Pact to draw down upon the facilities as needed. Additionally, all facilities have their own debt covenants based on gearing and interest ratios.

#### Pact Borrowings as at 30 June 2023 (\$ Million)

	Drawn	Undrawn	Limit	Maturity
Working Capital facility	1.0	21.9	22.9	Evergreen
Sustainability linked loan facility	171.0	65.8	236.8	Apr-25
Subordinated debt facility	74.8	0.0	74.8	Jul-25
Sustainability linked loan facility	123.8	61.3	185.1	Jan-26
Loan facility	94.6	182.0	276.6	Jan-27
Term facility	200.0	-	200.0	Dec-27
<b>Total loans and borrowings</b>	<b>665.3</b>	<b>331.0</b>	<b>996.3</b>	

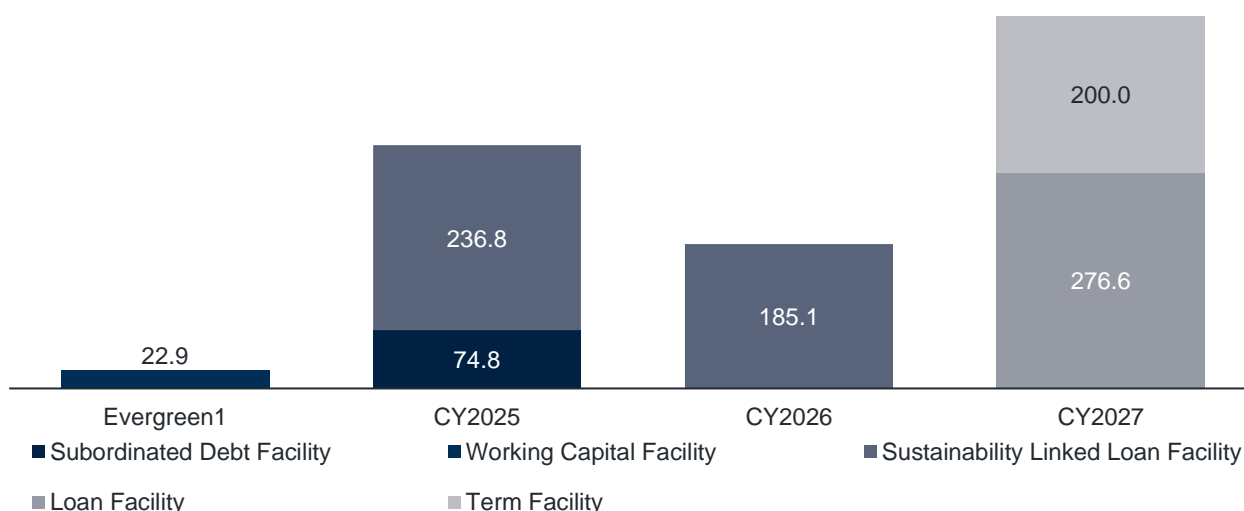
Source: Pact Annual Reports, management reports and Kroll analysis. Totals may not add due to figures being rounded to the nearest tenth of million dollars.

The Group uses interest rate swaps to manage interest rate risk, and the subordinated term debt facility, denominated in US dollars, is fully hedged.

The debt facilities above are spread across a range of maturities, with the shortest dated facility, excepting the Evergreen working capital facility, maturing in April 2025. The maturity profile of all tranches can be seen in the below graph.

Pact's cash flow is seasonal as it is aligned with underlying markets such as the dairy season in New Zealand, and fruit, ice cream and pest seasons in Australia.

#### Debt Facility Maturity Profile as at 30 June 2023 (\$ Million)



Source: Pact Annual Reports, management reports and Kroll analysis. Evergreen is a form of revolving debt facility without a predetermined maturity date, and which has an annual review.

Under the sustainability linked loans, Pact is eligible for loan margin benefits if annual sustainability targets are achieved and margin penalties if it underperforms. The sustainability performance targets are:

- an increase in the percentage of recycled content across Pact's packaging portfolio;
- increasing the amount of recycled material processed and distributed to the external market;
- reducing Scope 1 and 2 greenhouse gas emissions; and
- reducing the gender pay gap.

#### 8.4.2 Derivatives

Pact utilises derivative financial instruments to mitigate risks associated with fluctuations in interest rates and foreign currencies, and increase certainty around future cash flows. Specifically, Pact were utilising the following instruments as at 30 June 2023:

- **foreign exchange forward contracts:** used to hedge risks in committed purchases, at year end these contracts had a net carrying amount of \$2.6 million;
- **FX debt forwards:** used to hedge the foreign currency component of debt, at year end these forwards had a carrying amount of \$1.2 million; and
- **interest rate swaps:** used to hedge floating interest rate risks on debt, at year end these swaps had a carrying amount of \$4.4 million.

#### 8.4.3 Taxation

As at 30 June 2023, Pact had \$13.1 million of tax losses for which a benefit was reflected on the balance sheet.

As at 30 June 2023, Pact had a franking credit balance of \$0.6 million.

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## 8.5 Cash flows

Pact's statement of cash flows for FY20 to FY23 is summarised as follows.

### Pact Cash Flow (\$ Million)

	FY20 Audited	FY21 Audited	FY22 Audited	FY23 Audited
<b>Underlying EBITDA</b>	<b>301.8</b>	<b>314.9</b>	<b>289.8</b>	<b>277.0</b>
Decrease/(increase) in working capital and other items <sup>1</sup>	(25.0)	(11.7)	(36.6)	13.8
<b>Operating cash flow<sup>2</sup></b>	<b>276.8</b>	<b>303.2</b>	<b>253.2</b>	<b>290.8</b>
Other items	(4.0)	(0.6)	10.3	(5.5)
Business restructuring spend	(9.3)	(4.1)	(5.4)	(12.6)
Net interest paid	(60.3)	(49.6)	(57.1)	(77.1)
Tax paid	(4.3)	(31.1)	(27.6)	(12.8)
Proceeds from securitisation of trade debtors	(6.8)	3.2	1.2	3.6
<b>Statutory net cash flows from operating activities</b>	<b>192.1</b>	<b>221.0</b>	<b>174.6</b>	<b>186.4</b>
Capital expenditure (net)	(75.8)	(71.4)	(63.7)	(129.7)
Proceeds from Government grants	-	-	8.0	7.0
Lease payments (principal component)	(44.5)	(47.4)	(52.1)	(54.4)
Sundry Items	0.6	2.2	2.5	-
<b>Free cash flow</b>	<b>72.4</b>	<b>104.4</b>	<b>69.3</b>	<b>9.3</b>
Net payments for associates and joint ventures	(3.6)	(9.0)	(12.6)	(0.9)
Purchase of business and subsidiaries, net of cash acquired	-	(23.8)	0.8	-
Payments for deferred acquisition consideration	-	(23.3)	-	(20.1)
(Payments to)/proceeds from joint venture loans	(0.1)	1.1	1.4	(1.5)
Other	0.2	(1.2)	(1.3)	1.6
<b>Cash flow after investing activities</b>	<b>68.9</b>	<b>48.2</b>	<b>57.6</b>	<b>(11.6)</b>
Net (repayments of)/proceeds from borrowings	(42.5)	(32.7)	10.1	(3.0)
Payment of dividends	-	(27.5)	(32.7)	(5.2)
<b>Net cash generated/(used)</b>	<b>26.4</b>	<b>(12.0)</b>	<b>35.0</b>	<b>(19.8)</b>
<b>Opening cash and cash equivalents</b>	<b>50.0</b>	<b>76.0</b>	<b>62.2</b>	<b>99.1</b>
Net cash generated/(used)	26.4	(12.0)	35.0	(19.8)
Effect of exchange rates on cash and cash equivalents	(0.4)	(1.8)	1.9	(1.3)
<b>Closing cash and cash equivalents</b>	<b>76.0</b>	<b>62.2</b>	<b>99.1</b>	<b>78.0</b>
<b>Statistics</b>				
Cash conversion ratio (operating cash flow) <sup>3</sup>	91.7%	96.3%	87.4%	105.0%
Cash conversion ratio (free cash flow) <sup>4</sup>	24.0%	33.2%	23.9%	3.4%
Capital Expenditure – capital expenditure as % of Underlying EBITDA	(25.1%)	(22.7%)	(22.0%)	(46.8%)

Source: Pact 2020, 2021, 2022 and 2023 Annual Reports, and Kroll analysis.

Notes:

1. Calculated as residual between operating cash flow and Underlying EBITDA.
2. Operating cash flow is defined as Underlying EBITDA, adjusted for interest, tax and one-off items.
3. Calculated as operating cash flow divided by Underlying EBITDA.
4. Calculated as free cash flow divided by Underlying EBITDA.

In relation to Pact's cash flows, we note the following:

- Pact has seen significant fluctuations in its net cash generated and used during FY20 through to FY23. Net cash was generated in FY20 and FY22, whilst net cash outflows were observed in FY21 and FY23. These net outflows are primarily the result of the purchases of businesses and subsidiaries, and payments for deferred acquisition consideration. In FY21 this related to acquisitions of Flight Plastics and TIC, whilst FY23 related to Synergy Packaging. However, FY23 also saw a significant increase in net capital expenditures, with outflows reaching \$129.7 million, a 104% increase on FY22 net expenditure;

- net interest paid increased by \$7.5 million in FY22 and \$20.0 million in FY23, driven by increased interest rates and higher lease liabilities;
- free cash flows have reduced by \$57.5 million in FY23 compared to FY22 due to the increase in net capital expenditure from \$63.7 million in FY22 to \$129.7 million in FY23. Capital expenditure comprises both purchases of, and proceeds from sale of, PPE. In the last year, Pact invested heavily into the business strategy, which focuses on upgrading the manufacturing platform, increasing capacity and relocating facilities. On a segment basis, Pact invested approximately \$63 million into Packaging & Sustainability, \$33 million into Materials Handling & Pooling as well as \$34 million into Contract Manufacturing;
- Government grants of \$8.0 million and \$7.0 million were noted in FY22 and FY23 respectively, with an additional \$5.0 million yet to be received as part of the \$20.0 million award stemming from the Federal Government's Modern Manufacturing Initiative;
- the increase in principal lease payments of \$2.3 million from \$52.1 million in FY22 to \$54.4 million in FY23 is reflective of lease asset additions; and
- no dividends were paid in FY20 as Pact did not declare a final FY19 or interim 1H20 dividend. Dividends were resumed with the final FY20 dividend and FY21 dividends being in line with Pact's target payout ratio. Lower dividends were paid in FY23 as the final FY22 dividend was below the target payout ratio and no dividends were declared in FY23.

## 8.6 Capital structure and ownership

### 8.6.1 Overview

As at 11 October, 2023, Pact had the following securities on issue:

- 344,290,053 quoted shares on the ASX; and
- 1,892,372 Pact Performance Rights and myPact Rights.

### 8.6.2 Shares on issue

As at 11 October 2023, Pact had 8,713 registered shareholders. The top 20 registered shareholders accounted for 79.7% of shares on issue and mainly included institutional nominees and Kin Group and its associates. Pact has a significant retail shareholder base (holders of less than 100,000 shares) which accounted for 98.8% of shareholders and 14.4% of shares on issue.

Pact has received notices from the following substantial shareholders:

#### Pact Substantial Shareholders as at 11 October 2023

Substantial shareholder	Date of notice	Number of shares	Percentage of issued capital <sup>2</sup>
Salvage Pty Ltd, Kin Group and Bennamon <sup>1</sup>	9 October 2023	172,210,184	50.019%
Investors Mutual Limited	29 March 2021	22,519,891	6.55%

Source: Substantial shareholder notices lodged with the ASX.

Note:

1. Appendix 3Y lodged on 9 October 2023. Includes 50,590 shares the subject of acceptances under the Offer.
2. As at date of notice.

### 8.6.3 Performance Rights

Pact has issued Pact Performance Rights to certain employees under the Pact Long Term Incentive Plan. Upon vesting and exercise, each performance right entitles the holder to one fully paid ordinary Pact Share or, at the Pact Board's discretion, the cash value of the Pact Share. Performance rights vest and automatically exercise subject to certain performance and service related criteria being met over a three year period. The Pact Board has a broad discretion to determine the treatment of Pact Performance Rights and the timing of such treatment in the context of the Offer.

The following table provides an overview of the Pact Performance Rights as at 11 October 2023.

### Pact Performance Rights as at 11 October 2023

Tranche	Vested	Unvested	Total
FY22 LTI	nil	664,788	664,788
FY23 LTI	nil	1,213,196	1,213,196
<b>Total</b>	<b>nil</b>	<b>1,877,984</b>	<b>1,877,984</b>

Source: Pact.

At this stage, the Independent Board Committee has not made any formal determination to exercise any discretion under the Pact Long Term Incentive Plan as a result of the Offer, but has reserved its right to do so, depending on how the Offer progresses.

#### 8.6.4 myPact Rights

As at 11 October 2023, Pact has issued 14,388 rights to certain New Zealand employees under the myPact Rights Plan (**myPact Rights**). Upon vesting, each myPact Right will be automatically exercised and the holder will receive a fully paid ordinary Pact Share. The myPact Rights vest subject to the satisfaction of certain service related conditions. The Pact Board has a broad discretion to determine the treatment of the myPact Rights and the timing of such treatment in the context of the Offer.

At this stage, the Independent Board Committee has not made any formal determination to exercise any discretion under the myPact Rights Plan as a result of the Offer, but has reserved its right to do so, depending on how the Offer progresses.

#### 8.6.5 myPact Shares

As at 11 October 2023, 338,722 fully paid ordinary shares are held by certain Australian and New Zealand employees that were issued or allocated under the myPact Share Plan (**myPact Shares**). The myPact Shares are subject to certain trading restrictions. The Pact Board has a broad discretion to determine the treatment of the myPact Shares, including whether to lift the trading restrictions, and the timing of such treatment in the context of the Offer.

At this stage, the Independent Board Committee has not made any formal determination to exercise any discretion under the myPact Share Plan as a result of the Offer, but has reserved its right to do so, depending on how the Offer progresses.

#### 8.6.6 Range of shares outstanding as a result of the Offer

Assuming all Pact Performance Rights and myPact Rights vest as a result of the Offer proceeding, and new shares are issued rather than purchased on market, the total number of diluted shares outstanding would be 346,182,425.

Assuming none of the Pact Performance Rights and myPact Rights vest as a result of the Offer proceeding, or that all of the Pact Performance Rights and myPact Rights vest and are settled in cash, the total number of diluted shares outstanding would be 344,290,053.

### 8.7 Share price performance

#### 8.7.1 Share market trading since listing

The trading price and volume of Pact Shares since listing on 31 December 2013 at \$3.28 is set out as follows.



### Pact Trading Price and Volume since Listing (\$ and Millions)



Source: S&P CapitalIQ and Kroll analysis.

Four distinct periods of share price performance can be observed:

- **listing to 2 May 2017:** the share price climbed from \$3.28 at listing to close at \$7.28, a 125.0% increase, reflecting five significant business acquisitions (three contract manufacturing businesses, Jalco Group Australian Pharmaceutical Manufacturing and Pascoe's Group as well as recycling company, SULO Group and crate pooling business, Fruit Case Company) and growth in earnings;
- **3 May 2017 to 24 March 2020:** the share price declined by 82.2% to close at \$1.31. During this period:
  - Pact continued its acquisition strategy, however, the acquisitions did not translate into growth in profits, and together with the underperformance of recently acquired Contract Manufacturing business, resulted in a decline in earnings in FY18 and FY19. Key announcements included:
    - announcement on 15 November 2017 of the Asia Acquisition for \$149.3 million, to be funded by a fully underwritten entitlement offer at \$5.28 per share, a 9.1% discount to the last close of \$5.81;
    - announcement on 15 August 2018 of the FY18 results and TIC Retail Accessories acquisition to be funded by cash and scrip. The results were lower than market expectations, with management opting to not provide a guidance update ahead of release, and the TIC acquisition was seen as a questionable strategic choice given the difference in products and the updated financials. Combined this event caused a share price decline of 21.9% from the prior days close to \$4.17;
    - on 12 Feb 2019, Pact announced a significant non-cash impairment and preliminary 1H20 results. No interim 1H19 distribution was declared. The share price fell by 23.9% from \$3.93 on 11 February 2019 to \$2.99 on 14 February 2019. Shortly after this announcement Ubique Asset Management ceased to be a substantial shareholder after selling 27 million securities;
    - announcement on 14 August 2019 of the FY19 results. No final FY19 dividend was declared. The closing share price declined by 20.9% in the following two days;
  - concerns as to Pact's relatively high leverage, which reached a peak of to 3.3 times at 31 December 2018, above its target of 3.0, largely as a result of the decline in Underlying EBITDA. The share price increased by 22.4% in the two days following the announcement of the debt refinance on 27 June 2019 and responded positively on the 21 January 2020 announcement of the intention to divest the lower margin contract manufacturing division in order to drive improved returns, strengthen the balance sheet and improve financial flexibility;
  - announcement on 6 September 2019 of the removal of Pact from the S&P/ASX 200 Index, effective 23 September 2019; and
  - from 12 February 2020, Pact's share price declined by 49.6% to close at a low of \$1.31 on 24 March 2020 amidst the broader share market sell-off at the onset of the COVID-19 pandemic;

- **25 March 2020 to 19 August 2021** the share price increased by 247.3% to close at \$4.55. This increase likely reflected the improved FY20 and FY21 financial results as Pact benefited from higher grocery and hand sanitiser sales during the COVID-19 pandemic and the release of a new strategy intention to lead the circular economy. Dividends were resumed with the final FY20 dividend and FY21 dividends being in line with Pact's target payout ratio; and
- **20 August 2021 to 12 September 2023**, the last trading day before the announcement of the Offer, the share price declined by 85.2% to a close of \$0.675, likely reflecting:
  - investor concern about the level of gearing following the 13 October 2021 announcement that it had ceased the sale process of Contract Manufacturing. As a result, the market was potentially pricing in a dilutive equity raising in order to reduce leverage;
  - post COVID-19 supply chain inflation prompting an earnings downgrade on 15 May 2022;
  - an earnings downgrade in May 2022 preceding the FY22 results in August 2022 which confirmed the further decrease in Underlying EBITDA and Underlying EBIT margins;
  - 1H23 results which, whilst above guidance, identified that gearing was at a temporary high of 3.2 times caused by elevated debt levels for the accelerated capital expenditure program to fund platform upgrades;
  - lower dividends, with the FY22 distribution payout ratio of 25% (below the target) and no dividends being declared in FY23;
  - removal of Pact from the S&P/ASX 300 Index, effective 20 March 2023;
  - from 1 May 2023 to 31 May 2023, the share price declined by 37.1% from \$1.05 to \$0.66. The share price decreased by 21.4% from 1 May 2023 to 15 May 2023 when the FY23 Guidance and Trading Update was released which revised downwards its earnings guidance. Original EBIT guidance was to exceed FY22 earnings of \$156.2 million whilst the updated guidance range was \$142 million to \$147 million, which caused a 21.4% drop in the share price on that day, and a 14.1% decline the next day; and
  - following the release of the FY23 results on 16 August 2023, where Pact advised that it had agreed the Crate Transaction, the share price increased by 7.9% on 16 August 2023 before drifting lower from 17 August 2023.

Overall, in recent years Pact has not convinced the sharemarket that it has the capability to create organic growth which has fuelled investor concerns around the gearing levels as margins have tightened following supply chain disruptions and cost inflation.

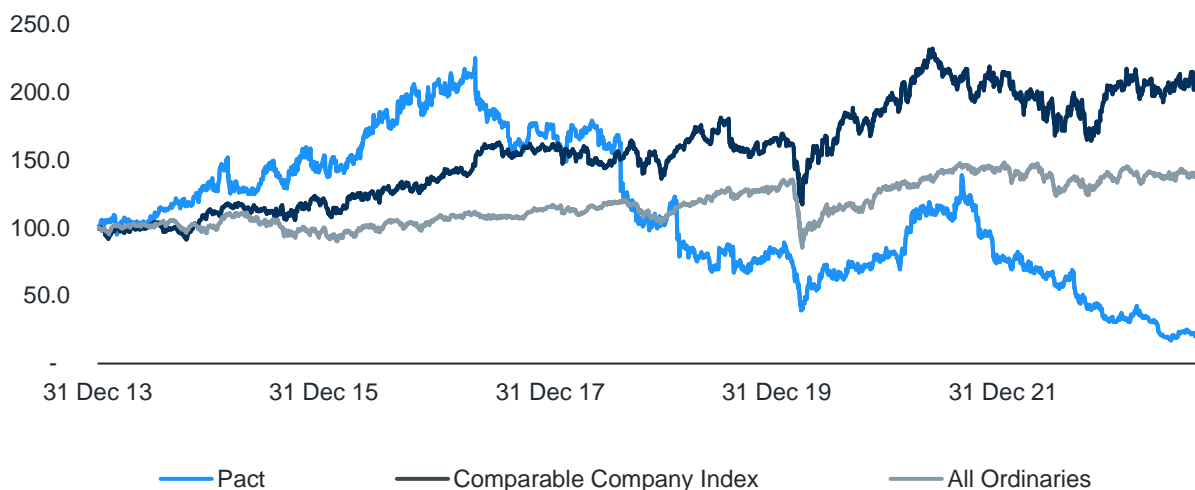
In the month prior to the announcement of the Offer, Pact Shares closed in the range of \$0.66 to \$0.82, at a VWAP of \$0.765, and closed at \$0.675 on the last trading day.

### 8.7.2 Relative share price performance since listing

In order to enable analysis of Pact's share price performance, we have compared Pact's share price performance against what we view as global comparable listed companies combined into a unique index (**Comparable Company Index**<sup>55</sup>) as well as the S&P/ASX All Ordinaries Index (**All Ordinaries**). The following chart sets out the relative performance of Pact Shares against these benchmarks (rebased to 100) since listing on 31 December 2013.

<sup>55</sup> Comparable Company Index includes Aptar Group, Silgan Holdings and Berry Group Inc. It has been created with S&P CapitalIQ based on the aggregate market capitalisation of these companies.

**Pact Share Price Performance Relative to the Comparable Company Index and All Ordinaries since 31 December 2013**



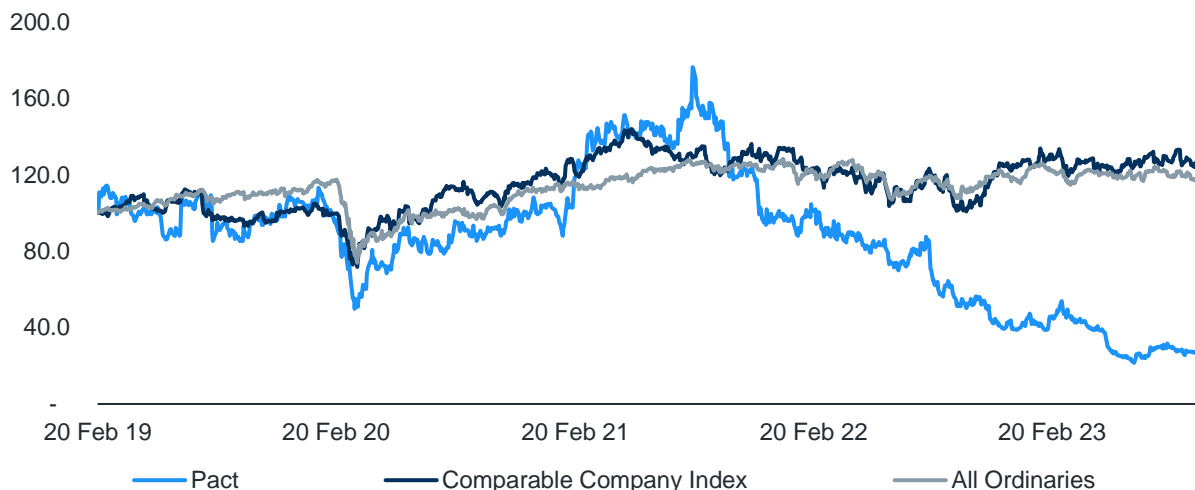
Source: S&P Capital IQ and Kroll analysis.

From listing until May 2017, Pact Shares outperformed the indices, then underperformed the indices until February 2019, with the greatest underperformance coinciding with the release of Pact's FY18 results, 1H19 results and non-cash impairment and FY19 results.

**8.7.3 Recent share price performance**

The performance of Pact Shares relative to the Comparable Company Index (rebased to 100) since 20 February 2019.

**Pact Share Price Performance Relative to Benchmarks since 20 February 2019**



Source: S&P Capital IQ and Kroll analysis.

From February 2019, the Pact share price broadly tracked the indices until March 2021 when it briefly outperformed reflecting the FY20 and FY21 results, after which it underperformed the indices until the announcement of the Offer.

**8.7.4 Liquidity**

An analysis of the volume of trading in Pact Shares, including the VWAP for various periods up to 12 September 2023 (the last trading day before the announcement of the Offer) is set out as follows.

### Pact Liquidity up to 12 September 2023

Period	Low <sup>1</sup>	High <sup>1</sup>	Price (\$) VWAP	Cumulative value (\$ million)	Cumulative volume (million)	Percentage of issued capital <sup>2</sup>
1 day	0.68	0.68	0.68	0.2	0.3	0.1%
1 week	0.66	0.74	0.69	1.8	2.6	0.8%
1 month	0.66	0.82	0.76	9.8	12.8	3.7%
3 months	0.56	0.82	0.69	32.9	47.7	13.9%
6 months	0.56	1.28	0.86	94.2	110.0	31.9%
12 months	0.56	1.66	1.05	239.3	227.9	66.2%

Source: IRESS

Notes:

1. Includes intraday trades.
2. Calculated based on 344,290,053 Pact Shares outstanding.

In the 12 months to 12 September 2023, 66.2% of the quoted Pact Shares on issue were traded (131.7% of free float).<sup>56</sup> This level of trading indicates that Pact Shares are relatively liquid.

## 9 Valuation of Pact

### 9.1 Overview

Kroll has assessed the value of Pact's equity to be in the range of \$366.1 million to \$519.9 million, which corresponds with a value per Pact Share in the range of \$1.06 to \$1.51 on a fully diluted basis.<sup>57</sup> In accordance with RG 111.11, our range of assessed values reflects 100% ownership of Pact (i.e. it does not take into consideration Kin Group's pre-bid stake of 50.004%) and, therefore, incorporates a control premium. As our valuation includes a control premium, our range of assessed values per share exceeds the price at which we expect Pact Shares would trade on the ASX in the absence of the Offer.

The value of Pact's equity has been determined utilising a sum-of-the parts methodology, by aggregating our estimated fair value of each of Pact's operating segments (minority basis) and potential synergies, together with the value of the 50% interest in Crate Pooling and Crate Manufacturing retained, the value of joint ventures and associates, and net borrowings (after the receipt of the estimated net cash proceeds from the Crate Transaction). The valuation is summarised as follows.

<sup>56</sup> Free float excludes Kin Group's 49.747% substantial shareholding in Pact Shares held from 16 September 2022 until 12 September 2023.

<sup>57</sup> Low value assumes that all Pact Performance Rights and myPact Rights vest as a result of the Offer, such that the total number of diluted shares outstanding is 346,182,425. High value assumes no vesting as a result of the Offer, such that the total number of shares outstanding is 344,290,053. Refer to Section 8.6.6 of this report.

**Pact Summary of Value (\$ Millions)**

	Section Reference	Low	High
Packaging & Sustainability	9.3	846.9	955.3
Materials Handling & Pooling (residual) <sup>1</sup>	9.4	185.8	204.9
Contract Manufacturing	9.5	112.8	127.2
Net synergies <sup>2</sup>	9.6	80.4	92.3
<b>Value of Pact's operating business (100% control basis)</b>		<b>1,225.9</b>	<b>1,379.7</b>
50% interest in Crate Pooling and Crate Manufacturing retained	9.7	118.5	118.5
Joint ventures and associates	9.8	46.8	46.8
Other assets/(liabilities)	9.9	(0.5)	(0.5)
<b>Enterprise value (100% control basis)</b>		<b>1,390.7</b>	<b>1,544.5</b>
Adjusted net borrowings <sup>3</sup>	9.10	(1,024.6)	(1,024.6)
<b>Value of Pact's equity (100% control basis)</b>		<b>366.1</b>	<b>519.9</b>
Number of shares outstanding – diluted (millions) <sup>4</sup>	8.6.6	346.2	344.3
<b>Value per Pact Share – diluted (100% control basis) (\$)</b>		<b>\$1.06</b>	<b>\$1.51</b>

Source: Kroll analysis.

1. Excludes 100% of Crate Pooling and Crate Manufacturing.
2. Net synergies is net of dis-synergies and deducts implementation costs.
3. Adjusted net borrowings is cash, estimated net proceeds from the Crate Transaction and net interest rate derivatives less lease liabilities (excluding those attributable to Crate Pooling and Crate Manufacturing) and Pact's normalised level of interest bearing liabilities.
4. Kroll has applied a range of shares outstanding assuming full dilution in the low case, and no dilution in the high case. Refer to Section 8.6.6 of this report.

The range of values is relatively wide, which reflects Pact's high financial leverage, even after adjusting for the estimated cash proceeds from the Crate Transaction. The high financial leverage includes the impact of lease liabilities, growth capital expenditure required to achieve target earnings under the transformation plan and assumed costs to implement synergies.

Our valuation range of \$1.06 to \$1.51 per Pact Share reflects a premium over the closing price of Pact Shares immediately prior to the announcement of the Offer of between 57.0% and 123.7%, and a premium to the one month VWAP prior to the Offer in the range of 38.6% to 97.4%. This premium reflects:

- that our valuation of Pact includes a control premium, rather than a valuation of a minority interest in the company as traded on the ASX. The premiums observed in completed transactions are broadly in the range of 25% to 40% depending on the individual circumstances.<sup>58</sup> In this regard, we note that synergies available to global packaging companies are potentially material. Even without an overlapping geographical footprint relative to Pact, such acquirers are likely to be able to leverage technology, reduce raw material prices by buying internally, reduce procurement costs through greater scale and reduce duplicated corporate and back office costs. Excluding the value attributed to synergies (\$0.23 to \$0.27 per Pact Share), Kroll's valuation range (minority basis) is \$0.83 to \$1.24 per Pact Share. In other words, Kroll's valuation includes a control premium in the range of 21.8% to 27.7%;<sup>59</sup>
- that our valuation includes the positive impact of information which has been disclosed in the Target's Statement, but which was not disclosed as at 12 September 2023, the last trading day before the announcement of the Offer, including the \$20 million of annualised cost restructuring and profit improvement outlined in Pillar 1 of the transformation plan, the financial impact of the Crate Transaction as outlined in Pillar 2 and management's observation that market conditions had stabilised; and
- Pact's potentially depressed share price in the lead up to the announcement of the Offer as a result of investor concern regarding Pact's ability to execute on its strategy, failure to sell Contract

<sup>58</sup> 2022 Mergerstat Review. Range represents median premium from 2012 to 2021. Premiums are calculated based on the seller's closing price five business days before the initial announcement. The calculations exclude negative premiums and premiums over 250%.

<sup>59</sup> Calculated as \$0.23/\$0.83 and \$0.27/\$1.24.

Manufacturing, absence of a dividend and its elevated gearing levels with the market potentially pricing in a dilutive equity raising in order to reduce leverage.

In forming our view as to the value of Pact Shares we have considered a series of factors including:

- the 2025 National Packaging Targets, increasing demand for more sustainable and recyclable products and a shift away from metal and glass packaging, offset by an increasing demand for flexible packaging;
- historical and projected operating margins for the three operating segments, which have fluctuated throughout the COVID-19 pandemic and may continue to be impacted by ongoing supply chain inefficiencies and inflationary pressures on consumer demand and raw material costs, depending on Pact's ability to pass-through cost increases, noting that the 1Q24 market conditions update in the Target's Statement indicates that some of these pressures have eased;
- transformation initiatives (Pillar 1), which have achieved run rate savings of \$20 million (\$13 million in FY24, with FY25 being the first full year of benefits);
- the financial impact of the Crate Transaction (Pillar 2), including the receipt of an estimated \$160 million in net cash proceeds, which will be used to reduce debt. Kroll's valuation does not reflect the potential sale of Contract Manufacturing or VRM, nor does it include the potential for any capital loss arising from a sale of all (or parts) of Contract Manufacturing below its tax cost base to offset taxable capital gains on the Crate Transaction from the financial year the capital loss is incurred (up to \$0.17 per Pact Share). This requires that Contract Manufacturing is sold in FY24;
- strategic targets under Pillar 3 of the transformation plan, including:
  - value from its Circular Economy Strategy of at least an additional \$25 million run-rate EBIT by the end of FY25; and
  - Underlying EBIT margin growth in Packaging Australia to 10% by FY26, supported by margin uplift from the Circular Economy Strategy, capital investment and procurement efficiencies; and
- financial benefits of the new Contract Manufacturing site at Horsley Park once operational in FY24;
- the risk of achieving the strategic targets, which is reflected in the selected multiples for Packaging & Sustainability and Contract Manufacturing, and the significant growth and dairy capital expenditure required to achieve earnings targets for Packaging Australia, which we have deducted in our valuation of Packaging & Sustainability; and
- Pact's carried forward and potential income and capital gains tax losses, however, recognising that the ability to utilise them is uncertain and it is unlikely that an acquirer would attribute significant value to them.

## 9.2 Approach

### 9.2.1 Overview

Our valuation of Pact has been prepared on the basis of 'fair value'. The generally accepted definition of fair value (and that applied by us in forming our opinion) is the value agreed in a hypothetical transaction between a knowledgeable, willing, but not anxious buyer and a knowledgeable, willing, but not anxious seller, acting at arm's length. Fair value excludes 'special value', which is the value over and above the value that a particular buyer, which can achieve synergistic or other benefits from the acquisition, may be prepared to pay.

The most reliable evidence as to the value of a business or asset is the price at which that business or asset has been bought and sold in an arm's length transaction. ASIC's RG 111.86 (e) indicates that it is appropriate for an expert to consider using as a methodology "any recent genuine offers received by the target for the entire business, or any business units or assets as a basis for valuation of those business units or assets."

In the absence of direct market evidence, fair value is commonly derived by applying one or more of the following valuation approaches:

- the market approach;
- income approach; or

- cost approach.

These approaches are discussed in further detail in Appendix 4. The decision as to which approach to adopt will depend on various factors including the availability and quality of information, the maturity of the business and the actual practice adopted by purchasers of the type of asset or business involved. A secondary methodology is often adopted as a cross-check to ensure the reasonableness of the outcome, with the valuation conclusion ultimately being a judgement derived through an iterative process.

For profitable businesses, the market approach and income approach are commonly used as they reflect 'going concern' values, which typically incorporate some element of goodwill over and above the value of the underlying assets. For businesses that are either non-profitable, non-tradeable or asset rich (e.g. real estate investment trusts), a cost approach is often adopted as there tends to be minimal goodwill, if any.

### 9.2.2 Selection of methodology

A discussion of the rationale for the selection of the valuation methodologies is set out below.

#### Direct market comparison

In the case of Pact, the Crate Transaction represents an arm's length transaction and provides the appropriate evidence as to the value of Pact's remaining 50% interest in the Crate Pooling and Crate Manufacturing business.

#### Market approach

The market approach is based on comparing the asset or business to identical or comparable assets or businesses for which there is available price information. It is commonly adopted where:

- the asset or business or similar assets or businesses are actively publicly traded (**market comparable methodology**);
- there are frequent and/or observable transactions in comparable assets or businesses (**comparable transactions methodology**); and
- there is substantial operating history and a consistent earnings trend.

Pact has an established track-record of revenues which are predominantly driven by contracted, strategic partnerships and supported by growing demand for sustainable packaging, which makes revenues relatively stable and predictable. Although each of the segments have experienced variability in earning margins in recent years, Pact has progressed strategic and transformation plan initiatives such that the segments are expected to return to steady state margins in FY25 or FY26. In addition, there are a number of publicly traded packaging peers and transactions involving broadly similar companies from which to calculate meaningful multiples. Consequently, a market approach has been used as the primary valuation approach.

Application of this approach involves the capitalisation of the cash flows or earnings of a business or segment at a multiple that reflects both the risks and the future growth prospects of the income it generates. This methodology requires an element of professional judgement as to:

- the level of earnings or cash flows that are expected to be maintainable indefinitely, adjusted for non-recurring items and other known factors likely to impact on future operating performance; and
- an appropriate capitalisation multiple that reflects the risk and growth prospects associated with the level of earnings being capitalised. The capitalisation multiple is usually determined having regard to market evidence derived from comparable transactions and sharemarket prices for comparable companies, whilst also considering the specific characteristics of the business being valued.

The earnings base to which a multiple is commonly applied include revenue, EBITDA, EBIT and net profit after tax. The choice between parameters is usually not critical and should give a similar result. EBIT for Crate Pooling and Crate Manufacturing is not available and brokers do not forecast EBIT at a segment level. Consequently, we have utilised historical and forecast EBITDA (adjusted to exclude exceptional items) multiples in our market approach.

Maintainable earnings should reflect the earnings that can be achieved in the future for the business on an ongoing basis. It is an estimation of the earnings or cash flows that a hypothetical purchaser would utilise for valuation purposes, having regard to historical and forecast operating results, non-recurring items of income and expenditure, and other known factors that are likely to have an impact on the businesses operating performance.

A capitalisation of earnings methodology requires consideration of an appropriate level of maintainable earnings (refer to Section 9.3.2, 9.4.2 and 9.5.2 of this report) and capitalisation multiple (refer to Section 9.3.3, 9.4.3 and 9.5.3 of this report). The selected maintainable earnings is based on an assessment of maintainable revenue and maintainable EBITDA margin. Kroll has deducted Pact's significant growth and dairy capital expenditure required to achieve a maintainable level of earnings.

Rule-of-thumb valuation benchmarks are sometimes considered to be an application of the market approach. They generally should not be given substantial weight unless market participants place particular reliance on them. In any event, we are not aware of any rules-of-thumb applicable to the packaging, pooling or contract manufacturing industries.

### Income approach

Under an income approach, the value of an asset is determined by converting future cash flows to a current value. It is commonly adopted when:

- the income producing ability is the critical element affecting value from a market participant perspective;
- future cash flows can be estimated on a reasonable basis; and
- there is not a substantial operating history, there is a variable pattern of cash flow, or the asset or business has a finite life.

The most common application of the income approach is the DCF methodology. This methodology allows for cash flows to reflect a range of risks and opportunities and also allows for a range of scenarios to be modelled.

A DCF methodology can be applied to cash flows to the whole asset or business or cash flows to equity. Cash flows to the whole asset or business is most commonly used because an asset or business should theoretically have a single value that is independent of how it is financed or whether income is paid as dividends or reinvested.

Utilising the DCF methodology requires estimation of cash flows for a number of years and discounting those cash flows back to present value. Pact has provided forecasts for Pact's segments and divisions, however, forecast data would require a range of specific adjustments and updates to accurately reflect current estimates for each of the segments and divisions on a reasonable basis and accordingly, is not considered suitable for Kroll's valuation purposes.

### Cost approach

A cost-based approach is most appropriate for businesses where the value lies in the underlying assets and not the ongoing operations of the business (e.g. real estate holding companies). This approach does not generally capture growth potential or internally generated intangible value associated with a company.

A cost approach has been used to value Pact's associates and joint ventures where the entities are holding companies, are unprofitable, or the value is driven by facilities which are still under development.

#### 9.2.3 Control premium

Consistent with the requirements of RG 111, we have assumed 100% ownership of Pact and, therefore, our valuation includes a control premium.

Successful transactions are commonly completed with an implied acquisition premium to the pre-trading equity price of the target in the order of 25% to 40% depending on the individual circumstances.<sup>60</sup> In considering the evidence provided by actual transactions, it is important to recognise that the observed premium for control is an outcome of the valuation process, not a determinant of value, and that each transaction will reflect to varying degrees the outcome of a unique combination of factors, including:

- the acquirer's capacity to realise full control over the strategy and cash flows of the target entity;
- the magnitude of synergies available to all acquirers, for example, the rationalisation of costs related to duplicated functions, or the removal of costs associated with the target being a listed entity;

<sup>60</sup> 2022 Mergerstat Review. Range represents median premium from 2012 to 2021. Premiums are calculated based on the seller's closing price five business days before the initial announcement. The calculations exclude negative premiums and premiums over 250%.



- uncertainties related to the timing of full realisation of target synergies;
- the expected costs to migrate and integrate the business;
- the nature of the bidder (i.e. whether the acquirer is a financial investor or a trade participant);
- synergistic or special value that may be unique to a particular acquirer;
- the interest acquired in the transaction with consideration to the bidder's pre-existing shareholding in the target;
- the prevailing conditions of the economy and capital markets at the time of the transaction with consideration to the position in the overall market cycle;
- desire (or anxiety) for the acquirer to complete the transaction;
- whether the acquisition is competitive; and
- the extent the target company's share price already reflects a degree of takeover speculation.

The premium that is ultimately applied must have regard to the circumstances of each case. In some situations, it may be appropriate to apply no premium for control, for example, there are transactions where no corporate buyer is prepared to pay a price in excess of the prices paid by institutional investors through an initial public offering. Accordingly, an assessment as to an appropriate control premium, if any, is essentially a matter of judgement.

There are a number of global packaging companies that would potentially be interested in acquiring Pact, including other rigid packaging suppliers such as Mauser Packaging Solutions (**Mauser**), Berry Global Group (**Berry**) and Alpla Group (**Alpla**). Even without an existing presence in Australia, such an acquirer would likely be able to achieve significant synergies, including the ability to leverage technology, reduce raw material prices by buying internally, reduce procurement costs through greater scale and reduce a portion of duplicated corporate and back office costs. Consequently, we consider that a substantial control premium could reasonably be expected to be paid by a hypothetical acquirer.

In order to reflect cost savings available to a pool of potential acquirers, we have considered run-rate synergies expected to be achieved in selected comparable transactions in the packaging industry. Revenue or 'soft' synergies have not been reflected as it is not possible to reliably estimate the quantum of such synergies. Cost synergies are discussed in Section 9.6 of this report.

Earnings multiples have been based on the multiples implied by prices at which comparable companies are trading, and multiples implied by transactions have also been considered. As we have considered potential synergies within earnings we have not applied a control premium in our assessment of our earnings multiples as adding both an adjustment to earnings to reflect synergies and a control multiple in the valuation would result in an overstatement of the benefits of any transaction.

## 9.3 Valuation of Packaging & Sustainability

### 9.3.1 Summary of value

Kroll has assessed the value of Packaging & Sustainability using a market approach having regard to capitalisation of multiples for selected listed packaging companies, and transactions involving packaging companies. This assessment also requires consideration of an appropriate level of maintainable earnings (refer to Section 9.3.2 of this report) and an appropriate capitalisation multiple (refer to Section 9.3.3 of this report). Kroll has also deducted future capital expenditure required to achieve the maintainable level of earnings (refer to Section 9.3.4 of this report).

Utilising a capitalisation of earnings methodology, Kroll has determined the value of the Packaging & Sustainability operating business (on a post-AASB 16 basis) to be in the range of \$846.9 million to \$955.3 million. The results of this assessment are presented as follows.

### Value of Packaging & Sustainability Operating Business – Capitalisation of EBITDA (\$ Million)

	Section Reference	Valuation Range	
		Low	High
Maintainable revenue	9.3.2	1,275.0	1,275.0
Maintainable EBITDA margin	9.3.2	17.0%	17.0%
<b>Maintainable EBITDA</b>	9.3.2	<b>216.8</b>	<b>216.8</b>
Capitalisation multiple	9.3.3	4.5	5.0
<b>Value of Packaging &amp; Sustainability (minority basis)</b>		<b>975.4</b>	<b>1,083.8</b>
Present value of capital expenditure to reach maintainable earnings	9.3.4	(128.4)	(128.4)
<b>Value of Packaging &amp; Sustainability (minority basis)</b>		<b>846.9</b>	<b>955.3</b>

Source: Kroll analysis.

#### 9.3.2 Maintainable earnings

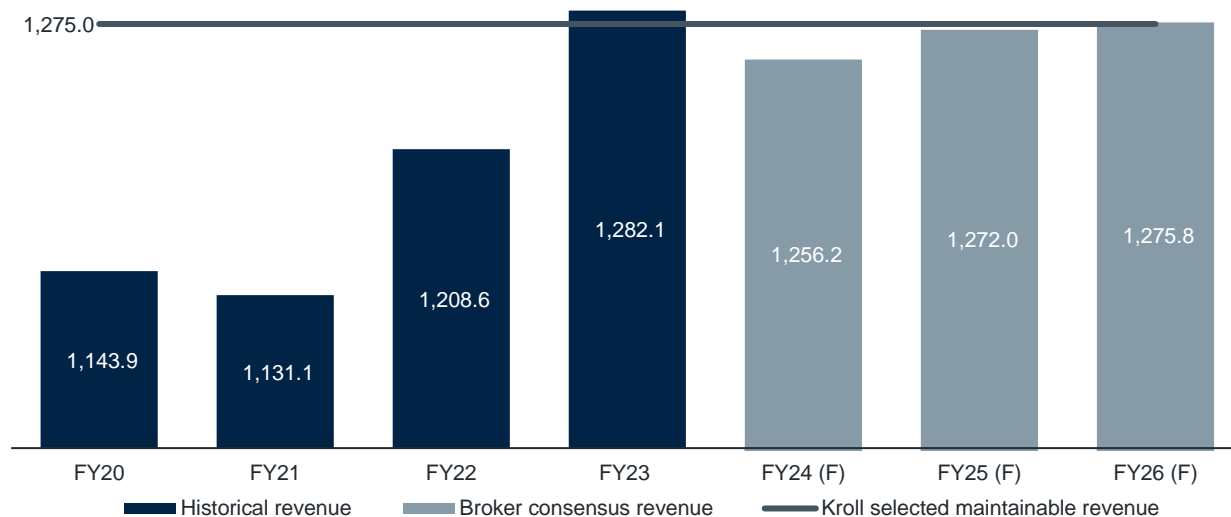
In order to assess a maintainable EBITDA for Packaging & Sustainability, we have considered the segment's historical financial performance, internal budget data, Pact's 1Q24 market conditions and trading updates, broker consensus forecasts for FY24, FY25 and FY26, and transformation plan savings to date. We have also considered whether it is appropriate to apply any adjustments to these earnings in order to provide an indication of maintainable earnings.

The selected maintainable earnings are based on an assessment of maintainable revenue and maintainable EBITDA margin.

#### Maintainable revenue

Kroll has selected a maintainable level of revenue of \$1,275.0 million. The following chart shows the reported revenue for Packaging & Sustainability from FY20 to FY23 and brokers consensus forecast from FY24 to FY26 relative to Kroll's selected maintainable revenue.

#### Packaging & Sustainability Revenue (\$ Million)



Source: Kroll analysis.

In relation to Packaging & Sustainability revenue we note the following:

- revenue growth in FY22 and FY23 was supported by the acquisitions of Flight Plastics and Synergy Packaging. As noted in Section 8.3.2 of this report, FY23 revenue also benefited from more favourable cost pass-throughs and growth in ANZ volumes. Demand in 2H23, however, decreased in the agricultural and coatings markets;
- the broker consensus figures for Packaging & Sustainability reflect the forecasts of the only broker who provided forecasts by segment and, therefore, have been considered with caution. Kroll has also referenced Pact's FY24 budget for the segment;

- the broker's forecast reflects a slightly more positive view on core packaging demand than in their prior estimates; and
- as noted in Section 7.2.3 of this report, growing consumer and customer preferences for sustainable packaging together with increasing regulation supporting recycling is expected to support growth in segment revenue. We consider FY26 to be the most relevant reference period as production facilities will have reached steady state capacity following the completion of growth capital expenditure and necessary upgrades to dairy facilities.

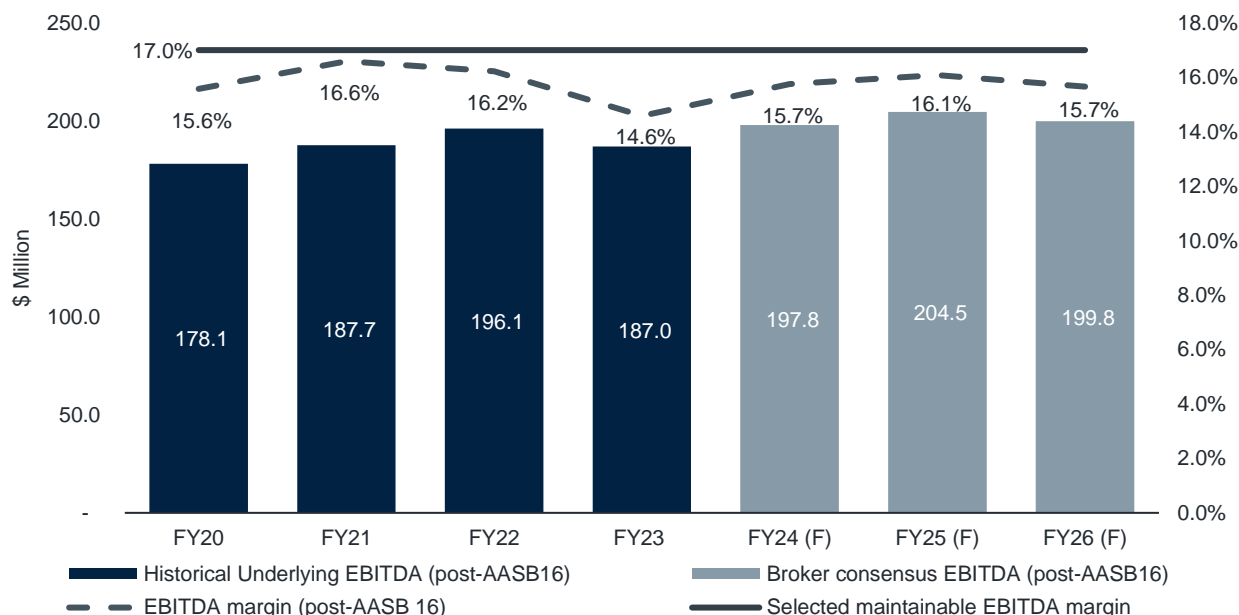
Having regard to the above factors, Kroll has selected maintainable revenue of \$1,275.0 million which aligns with FY26 broker consensus revenue.

### Maintainable EBITDA margin

A maintainable EBITDA margin was applied to the maintainable revenue to determine a maintainable EBITDA. In line with maintainable revenue, we consider FY26 to be the most relevant reference period to assess the maintainable EBITDA margin. For Packaging & Sustainability, Kroll selected a maintainable EBITDA margin of 17.0%.

The following chart shows Packaging & Sustainability's Underlying EBITDA and Underlying EBITDA margin from FY20 to FY26 and Kroll's selected maintainable EBITDA margin.

### Packaging & Sustainability Underlying EBITDA and Underlying EBITDA Margin<sup>1</sup>



Source: Kroll analysis.

Note 1: Historical Underlying Packaging & Sustainability EBITDA excludes income from associates and joint ventures. Broker consensus EBITDA excludes assumed income from associates and joint ventures based on the amount of income from associates and joint ventures in FY23.

In relation to Underlying EBITDA and Underlying EBITDA margin, we note the following:

- earnings margins have fluctuated in recent years. Margins improved in FY21 due to disciplined management of costs and a more favourable product mix offsetting increasing freight and labour costs during the COVID-19 pandemic. In FY22 and FY23, however, the inability to pass through continued increases in domestic freight and labour costs negatively impacted Underlying EBITDA margins;
- Pact's 1Q24 market conditions update, which indicated that supply chain disruptions have moderated, with international shipping costs reducing while domestic freight costs remain elevated, input costs remain elevated, but are stabilising, resin prices are stable and labour constraints are beginning to stabilise;
- Pact's 1Q24 trading update, which indicated that Underlying EBIT was in line with broker consensus;
- both brokers noted weak Packaging & Sustainability margins in FY23, however, expect improving operating conditions. The broker forecast indicates an Underlying EBITDA margin in FY24-FY26 in the range of 15.7% to 16.1%;

- implementation of the \$20 million in cost restructuring and profit improvement under Pillar 1 of the transformation plan commenced in April 2023 and is expected to complete in October 2023. A substantial share of the savings is included in Packaging & Sustainability. As the broker consensus figures were prepared prior to the announcement of the Pillar 1 savings, the broker forecast does not reflect the expected savings;
- Pillar 3 of the transformation plan includes the target of Underlying EBIT margin growth in Packaging Australia to 10% by FY26, the largest division within Packaging & Sustainability, supported by margin uplift from the Circular Economy Strategy, capital investment and procurement efficiencies. The other divisions within Packaging & Sustainability have already reached a 10% Underlying EBIT margin. An Underlying EBIT margin of 10.0% for Packaging & Sustainability equates to an Underlying EBITDA margin of approximately 17.0%; and
- additional growth capital expenditure is required over the next three years to upgrade production facilities to sustainable capacity levels in order to generate the above margins. The additional capital expenditure has been reflected separately in the valuation of Packaging & Sustainability, refer to Section 9.3.4 of this report.

Kroll has selected a maintainable EBITDA margin of 17.0%, which aligns with Pact's target Underlying EBIT margin for Packaging Australia for FY26. On the basis of the preceding analysis, the resulting future maintainable EBITDA for Packaging & Sustainability is \$216.8 million.

### 9.3.3 Capitalisation multiples

In determining an appropriate range of capitalisation multiples to apply to Pact's Packaging & Sustainability maintainable earnings, we have considered the following:

- trading multiples of comparable listed peer companies. The multiples based on sharemarket prices, do not typically include a control premium;
- multiples implied by recent transactions involving global rigid packaging companies. The implied multiples based on transaction prices often include a control premium; and
- the specific attributes of Packaging & Sustainability, including the risks of achieving the targets under the transformation plan (refer to Section 9.3.4 of this report).

On balance, we consider that a multiple of 4.5 times to 5.0 times FY26 EBITDA (excluding a control premium) is appropriate for Packaging & Sustainability.

#### Sharemarket evidence

We have considered a range of listed packaging companies across the United States, Australia, Switzerland and Thailand ranging in size from \$56.3 million in market capitalisation up to \$23.7 billion. Eight companies have FY+3 multiples, which as discussed in Section 9.3.2 of this report, is the timeframe over which Pact is expected to have completed the required capital investment to grow and upgrade facilities to a sustainable, steady state level of operations and the most relevant reference period.

A summary of the comparable company multiples is provided in the following table.

## Packaging Sharemarket Evidence

Company Name	Type of Packaging	Country	Market capitalisation (\$ millions) <sup>1</sup>	Enterprise Value <sup>2</sup> / EBITDA <sup>3</sup>			
				FY	FY+1	FY+2	FY+3
Ball Corporation <sup>4, 5</sup>	Metal	US	22,602.2	8.3	8.0	7.6	7.4
Amcor plc	Mixed	Switzerland	19,875.3	9.1	9.7	9.3	9.0
Crown Holdings, Inc. <sup>4</sup>	Metal	US	15,661.1	9.2	8.5	8.2	8.2
AptarGroup, Inc. <sup>4</sup>	Rigid	US	13,251.6	14.0	13.0	12.1	n.a.
Berry Global Group, Inc. <sup>4</sup>	Mixed	US	10,730.8	7.9	7.6	7.4	7.4
Silgan Holdings Inc. <sup>4</sup>	Rigid	US	7,170.6	9.5	8.8	8.5	8.5
Sealed Air Corporation <sup>4</sup>	Flexible	US	6,976.5	8.4	7.9	7.4	7.1
SCG Packaging Public Company Limited <sup>4</sup>	Mixed	Thailand	6,494.9	8.7	7.8	7.2	7.1
Orora Limited <sup>6</sup>	Mixed	Australia	3,708.1	7.5	7.9	6.3	6.1
TriMas Corporation <sup>4</sup>	Mixed	US	1,576.1	8.4	7.4	n.a.	n.a.
Pro-Pac Packaging Limited	Mixed	Australia	48.1	10.4	n.a.	n.a.	nmf

Source: S&P Capital IQ, Company announcements; Kroll analysis.

Notes:

1. Share price data as at 11 October 2023.
2. Enterprise value is calculated as market capitalisation plus net debt, minority interests, preference shares and leases.
3. EBITDA is presented on a post AASB-16 equivalent basis.
4. For companies whose financial year end is on 31 December 2022 and 2 October 2022, FY+1 has been shifted to FY.
5. Ball Corporation's enterprise value was adjusted to account for the cash generated from the sale of its Aerospace unit for US\$5.5 billion on 17 August 2023.
6. Orora Limited's EBITDA forecast figures are based on broker consensus post Saverglass transaction (synergies included).

Further details regarding the trading multiples, EBITDA margins, and company descriptions for the selected packaging peers are provided in Appendix 5.

In relation to the trading multiples of the identified listed comparable companies, we note:

- the observed FY+3 trading multiples as at 11 October 2023 were between 6.1 times and 9.0 times EBITDA. The forecast EBITDA margins for these companies in FY+3 ranges between 14.0% and 21.3%;
- most of the comparable companies manufacture rigid packaging, however, in most instances the companies also produce other types of packaging including flexible, metal and board packaging. For example, Ball Corporation (**Ball**) and Crown Holdings (**Crown**) primarily produce metal packaging, and Orora Limited (**Orora**) largely provides glass and aluminium packaging, with rigid packaging representing a smaller part of total operations;
- the end-user markets vary between the comparable companies, with the majority supplying to the food and beverages markets, followed by other consumer and industrial sectors:
  - Ball and Crown are predominantly focussed on the beverages market;
  - Orora, Amcor plc (**Amcor**), and Sealed Air Corporation (**Sealed Air**) predominantly supply the food and beverage sectors. Amcor and Sealed Air also focus on protective packaging such as foam, suspension and temperature assurance products; and
  - AptarGroup, Inc (**Aptar**) and Berry focus on consumer markets such as personal and home care, with Berry also supplying industrial markets such as construction and agriculture;
- the companies trading at higher multiples tend to be larger, global companies and offer value-added packaging. Size is a key driver and a contributing factor to higher multiples across the packaging comparable companies. Size drives scale benefits and pricing power amongst material suppliers and is also associated with a larger geographical platform and a diversified customer base:

- Amcor is based in Switzerland and has a market capitalisation of \$19.9 billion<sup>61</sup> and provides both flexible and rigid packaging products to end-users in the food and beverage sectors globally. It is trading at a multiple of 9.0 times FY+3 EBITDA and is forecast to earn an EBITDA margin of 14.0% in FY+3;
- Aptar is based in the United States, has a market capitalisation of \$13.3 billion and is particularly focused on high value-added packaging for dispenser, spray and pump products across beauty and pharmaceutical markets. An FY+3 multiple is not available for Aptar, however its FY, FY+1 and FY+2 multiples are the highest of the group ranging between 12.1 times and 14.0 times. Forecast EBITDA margins for Aptar for FY+1 and FY+2 are 20.2% and 20.1% respectively;
- Orora provides packaging solutions in Australia, New Zealand and globally, and has a market capitalisation of \$3.7 billion. As noted above, Orora largely provides glass and aluminium packaging, with rigid packaging representing a smaller part of total operations. Orora is trading at a multiple of 6.1 times FY+3 EBITDA and is forecast to earn an EBITDA margin of 15.5% in FY+3; and
- TriMas Corporation (**TriMas**) has a market capitalisations of \$1.6 billion. Forecast multiples for FY+2 and FY+3 are not available however TriMas traded at the lowest EBITDA multiples of the group for FY+1, at 7.4 times;
- Pro-Pac has minimal broker coverage and does not have the necessary forecasts to provide helpful multiples in the FY+1, FY+2 and FY+3 periods.

#### Transaction evidence

Kroll has sought to identify relevant transactions involving companies of a similar size and providing similar products and services to those offered by Packaging & Sustainability, for which sufficient financial and transactional data is publicly available.

The selected group of transactions includes global rigid packaging transactions, and as few directly comparable domestic transactions were found, recent domestic transactions involving companies that are relatable in a broader sense were considered, including companies which provide packaging with different solutions.

A summary of the selected transaction multiples is provided in the following table.

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<sup>61</sup> Market capitalisation and enterprise value data for overseas companies is converted to Australian dollars using the exchange rate on the same date as the share price data is calculated.

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## Packaging Transaction Evidence

Announcement Date	Target	Enterprise Value (100%) <sup>1</sup> (\$ million)	EBITDA	Enterprise Value / LTM EBITDA
<b>Rigid Packaging</b>				
8-Dec-20	Guala Closures SpA	1,730.4	184.0	9.4
28-Jul-20	IPL Plastics Inc.	986.3	128.1	7.7
6-Mar-19	Plastics division of DS Smith Plc	841.6	85.0	9.9
11-Nov-17	ShyaHsin Packaging (China) Co., Ltd	1,395.1	138.4	10.1
11-Apr-17	Consolidated Container Company LLC	1599.8	180.0 <sup>2</sup>	8.9
23-Jan-17	WestRock Company (Specialty closures and dispensing systems business)	1,354.9	163.2	8.3
<b>Australia Specific</b>				
15-Jul-20	O-I Glass, Inc. (ANZ Business)	733.0	124.0	5.9
11-Sep-17	Integrated Packaging Group Pty Ltd	177.5	18.1	9.8
11-Jan-16	Colopak Limited	93.3	12.5	7.5

Source: S&P Capital IQ, Mergermarket, Company financial statements; Kroll analysis.

Notes:

1. Transactions in local-denominated currencies are converted at the exchange rate prevailing at the announcement date.
2. EBITDA has been converted using a USD/AUD exchange rate of 1.33. This is consistent with the exchange rate applied to the implied enterprise value.

Of the six global rigid packaging transactions that have been considered, there is no single most comparable transaction as they have been influenced by the market outlook in the countries in which they operate, as well as other company specific factors. Key observations from this group of transactions include:

- each of the target companies were large established businesses with international operations. The transactions occurred between 2017 and 2020 with values ranging in size between \$841.6 million and \$1,730.4 million;
- the majority of transactions mentioned strategy or synergistic benefits, including expansion of product portfolio and manufacturing footprint, long-standing customer relationships and technological enhancements;
- whilst all target companies operated in rigid packaging, the variety of products was diverse, including:
  - non-refillable and aluminium beverage closures, including high value-added closures for spirits and wine; and
  - flexible plastics, rigid plastics and foam products.
- the implied transaction multiples ranged between 7.7 times and 10.1 times LTM EBITDA:
  - the 7.7 times implied multiple related to the \$986.3 million acquisition of IPL Plastic Inc (**IPL**) which offers large format packaging and environmental solutions, consumer packaging solutions and returnable packaging solutions. Historically, the company's trading multiple had traded at a discount to its larger public company peers for a number of reasons, including the results of operations and performance, which were impacted by the COVID-19 pandemic;
  - the 10.1 times implied multiple was related to the \$1.4 billion acquisition of ShyaHsin Packaging (China) Co., Ltd (**ShyaHsin**), a specialist in the production of cosmetic packaging containers. The transaction was in line with acquirer Blackstone Group LP's establishment of a fund focused on healthcare and high-end manufacturing and services.

The three Australian specific packaging transactions included:

- Visy Industries Australia Pty Ltd (**Visy**)'s acquisition of O-I Glass, Inc. (**O-I**)'s five Australian glass bottle manufacturing plants in 2020. This purchase was made at a multiple of 5.9 times EBITDA and may have reflected a lower growth profile for glass packaging. There was however a large strategic benefit to this transaction, allowing Visy to become the primary Australian producer of cartons, cans and glass bottles;

- Pro-Pac Packaging Limited (**Pro-Pac**)'s merger with Integrated Packaging Group Ltd (**IPG**) in 2017 in a \$177.5 million share sale, at a multiple of 9.8 times EBITDA. IPG specialised in flexible packaging and the multiple may have reflected the high growth in the flexible packaging sector. The acquisition also aligned with Pro-Pac's strategy at the time to become the leading flexible and industrial packaging manufacturer and distributor in Australia and New Zealand; and
- in 2016, Graphic Packaging International, Inc. (**GPI**) acquired Colorpak Limited (**Colorpak**) at an enterprise value of \$93.3 million and a corresponding multiple of 7.5 times EBITDA. Colorpak was a leading board packaging (cartons) supplier in Australia and New Zealand.

A summary table of the implied EBITDA multiples and descriptions for the comparable transactions are set out in Appendix 5.

### Capitalisation multiples summary

In forming our view as to the value of Packaging & Sustainability with reference to observed comparable companies and transactions, we have considered a series of factors. A summary of the main items we have considered is as follows:

- the comparable companies all serve various geographies to different degrees subject to their scale, the type of product manufactured (i.e., rigid, flexible or metal) which determines the different market factors they are subject to, like cost and end-product demand;
- Packaging & Sustainability is primarily focused on rigid plastic packaging in Australia, New Zealand and Asia, with growth expected to be driven by increasing recycling platforms and recycled product content. Sustainability is expected to be a major area of focus for packaging companies globally, which are likely to see efforts to innovate to achieve sustainable and inexpensive solutions;
- the selected maintainable EBITDA margin for Packaging & Sustainability of 17.0% is aligned and at the higher end of the comparable company group;
- Orora and TriMas are trading at a multiples of 7.9 and 7.4 times FY+1 EBITDA respectively. Only Orora has a FY+3 EBITDA multiple available of 6.1 times. Packaging & Sustainability is significantly smaller than each of these companies, suggesting a lower multiple is appropriate;
- whilst the observed comparable companies or transactions are not directly comparable with Packaging & Sustainability, they provide an indication of EBITDA multiples for the broader packaging sector. As Packaging & Sustainability is significantly smaller than the observed global packaging companies and transactions, the appropriate FY+3 EBITDA multiple is likely to be lower than 6.0 times on a minority basis;

Based on each of these factors and with an overall regard to each of the multiples of comparable transactions, which include a premium for control, and the attributes of these businesses compared to Packaging & Sustainability, and taking into account the risk of achieving the strategic targets for Packaging Australia, we consider a capitalisation multiple (minority basis) of 4.5 times to 5.0 times FY26 EBITDA to be appropriate.

#### 9.3.4 Present value of capital expenditure to achieve maintainable earnings

As noted in Section 9.3.2 of this report, further capital expenditure is required to grow and upgrade Packaging & Sustainability's plastic packaging and dairy platforms to a sustainable level.

As the level of maintainable earnings and capitalisation multiple applied in Sections 9.3.2 and 9.3.3 of this report reflect Packaging & Sustainability in FY26 when targets are expected to be achieved, the additional capital investment required to reach that level of earnings must be taken into account.

Kroll has estimated the present value of the capital expenditure required to achieve maintainable earnings by discounting back the planned capital expenditure over the next three years at the market cost of debt. The present value is estimated to be \$128.4 million.

### 9.4 Valuation of Materials Handling & Pooling (excluding Crate Pooling & Crate Manufacturing)

#### 9.4.1 Summary of value

Kroll has assessed the value of Materials Handling & Pooling (excluding Crate Pooling & Crate Manufacturing) using a market approach having regard to capitalisation of multiples for selected listed materials handling and pooling companies, and transactions involving materials handling and pooling



companies. This assessment also requires consideration of an appropriate level of maintainable earnings (refer to Section 9.4.2 of this report) and an appropriate capitalisation multiple (refer to Section 9.4.3 of this report). Kroll has also deducted future capital expenditure required to achieve the maintainable level of earnings (refer to Section 9.4.4 of this report).

The value of Pact's remaining 50% share of the Crate Pooling and Crate Manufacturing joint venture, following the Crate Transaction, has been assessed separately in Section 9.7 of this report.

Utilising a capitalisation of earnings methodology, Kroll has determined the value of Materials Handling & Pooling excluding Crate Pooling & Crate Manufacturing (on a post-AASB 16 basis) to be in the range of \$185.8 million to \$204.9 million. The results of this assessment are presented as follows.

**Value of Materials Handling & Pooling operating business (excl. Crate Pooling & Crate Manufacturing) – Capitalisation of EBITDA (\$ million)**

	Section Reference	Valuation Range	
		Low	High
Maintainable revenue	9.4.2	225.0	225.0
Maintainable EBITDA margin	9.4.2	17.0%	17.0%
<b>Maintainable EBITDA</b>	<b>9.4.2</b>	<b>38.3</b>	<b>38.3</b>
Capitalisation multiple	9.4.3	5.0	5.5
<b>Value of Materials Handling &amp; Pooling (minority basis)</b>		<b>191.3</b>	<b>210.4</b>
Present value of capital expenditure to reach maintainable earnings	9.4.4	(5.5)	(5.5)
<b>Value of Materials Handling &amp; Pooling (minority basis)</b>		<b>185.8</b>	<b>204.9</b>

Source: Kroll analysis.

**9.4.2 Maintainable earnings**

In order to assess a maintainable EBITDA for Materials Handling & Pooling (excluding Crate Pooling & Crate Manufacturing), we have considered the segment's historical financial performance, internal budget data, Pact's 1Q24 market conditions and trading updates and transformation plan savings to date for the Materials Handling & Pooling segment excluding 100% of the Crate Pooling & Crate Manufacturing division. The remaining divisions of this segment are TIC Retail Accessories, SULO, the Braeside bin manufacturing plant in Victoria, and VRM.

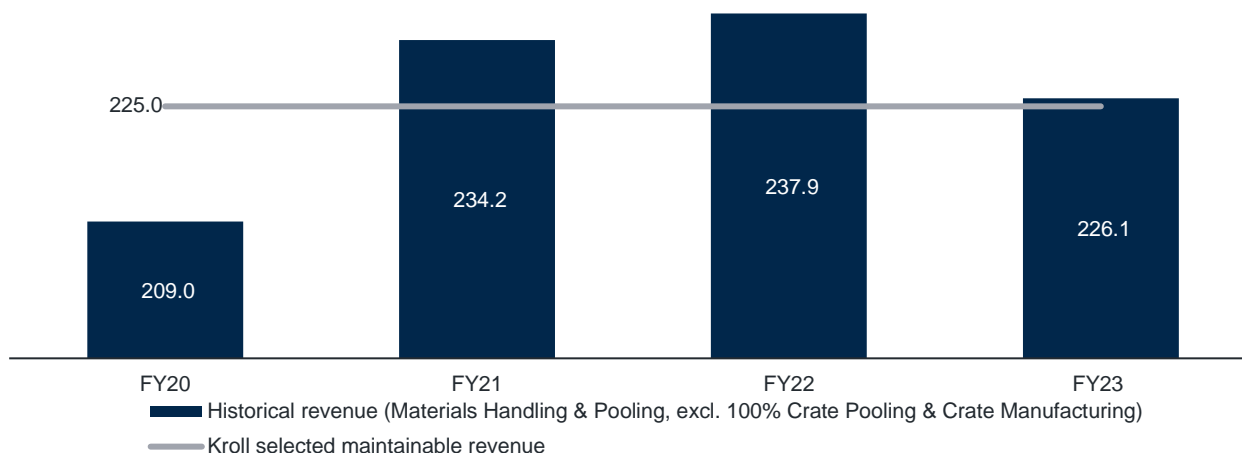
As brokers do not separately identify earnings from Crate Pooling & Crate Manufacturing in the broker forecast figures for Materials Handling & Pooling, Kroll is unable to present earnings for the remaining business of Materials Handling & Pooling in future years. Consequently, reliance has been placed on historical financial performance for the residual business. We have considered whether it is appropriate to apply any adjustments to the segment's residual historical earnings in order to provide an indication of maintainable earnings.

The selected maintainable earnings is based on an assessment of maintainable revenue and maintainable EBITDA margin.

**Maintainable revenue**

Kroll has selected a maintainable level of revenue of \$225.0 million. The following chart shows the revenue for Materials Handling & Pooling (excluding Crate Pooling and Crate Manufacturing) from FY20 to FY23 and Kroll's selected maintainable revenue.

**Materials Handling & Pooling (excl. Crate Pooling & Crate Manufacturing) Revenue (\$ Million)**



Source: Kroll analysis.

In relation to revenue we note the following:

- as noted in Section 8.3.3 of this report, revenue in FY23 declined by 17.0% in the Retail Accessories division driven by the slowdown in the clothing retail industry in 1H23 as retailers inventories were adjusted to pre-COVID-19 pandemic levels. Performance returned to prior comparative period levels in 2H23;
- brokers expect retail revenues to remain challenged due to softer global retail demand driven by increased global cost-of-living pressures;
- the residual segment has a greater exposure to risks associated with the TIC Retail Accessories division including more cyclical retail demand. In FY23, volume growth and cost recovery in the Reuse business (SULO, Braeside and VRM) were more than offset by lower volumes in TIC Retail Accessories. From FY24, TIC Retail Accessories are expected to represent a majority of revenue, with lower contributions from SULO, Braeside and VRM;
- in the absence of reliable revenue forecasts for Materials Handling & Pooling (excluding 100% of Crate Pooling & Crate Manufacturing), we consider FY23 to be the most relevant reference period for maintainable revenue; and
- further growth capital expenditure is required over the next three years to upgrade the segment's capacity to sustainable levels. The additional capital expenditure has been reflected separately in the valuation of Materials Handling & Pooling, refer to Section 9.4.4 of this report.

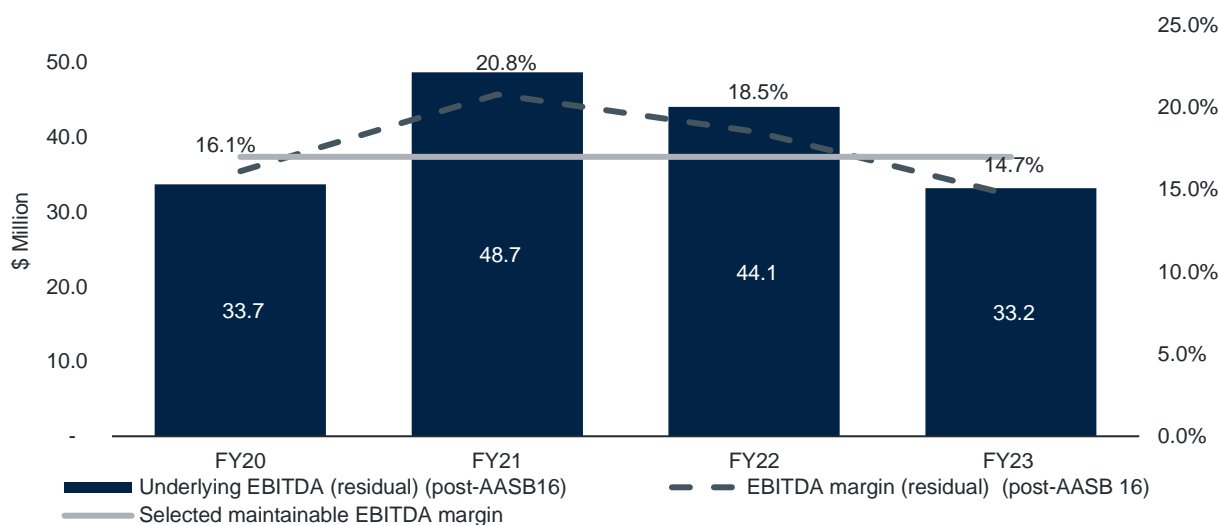
Having regard to the above factors, Kroll has selected maintainable revenue of \$225.0 million.

**Maintainable EBITDA margin**

A maintainable EBITDA margin was applied to the maintainable revenue to determine a maintainable EBITDA for Materials Handling & Pooling, excluding Crate Pooling & Crate Manufacturing.

The following chart shows the Underlying EBITDA and Underlying EBITDA margin from FY20 to FY23 and Kroll's selected EBITDA margin for Materials Handling & Pooling, excluding Crate Pooling & Crate Manufacturing.

### Materials Handling & Pooling Underlying EBITDA and Underlying EBITDA Margin



Source: Kroll analysis.

In relation to Underlying EBITDA and Underlying EBITDA margins, we note the following:

- the decline in earnings margin in FY23 was impacted by the softer global retail demand driven by inflationary pressures impacting consumer spending;
- from FY24, TIC Retail Accessories is expected to represent a majority of Underlying EBITDA, with lower contributions from SULO, Braeside and VRM. Of the four divisions, VRM generates the highest Underlying EBITDA margin;
- VRM has now been identified as non-core in the Target's Statement; and
- Pillar 1 transformation plan savings are not reflected in the historical figures. Inclusion of the Pillar 1 run-rate savings would lift the FY23 Underlying EBITDA margin to approximately 15.6%.

Having regard to these factors and allowing for further upside from transformation plan savings not reflected in the historical figures, Kroll has selected a maintainable EBITDA margin of 17.0%. This margin broadly aligns with the median margins since FY20 for Materials Handling & Pooling (excluding 100% of Crate Pooling and Crate Manufacturing).

On the basis of the preceding analysis the resulting future maintainable EBITDA for Materials Handling & Pooling excluding 100% of Crate Pooling & Crate Manufacturing is \$38.3 million. The remaining 50% retained by Pact in the Crate Pooling joint venture is valued separately in Section 9.7 of this report.

#### 9.4.3 Capitalisation multiples

In determining an appropriate range of capitalisation multiples to apply to Pact's Materials Handling & Pooling maintainable earnings (excluding 100% of Crate Pooling & Crate Manufacturing), we have considered the following:

- trading multiples of comparable listed peer companies. The multiples based on sharemarket prices, do not typically include a control premium;
- multiples implied by recent transactions involving global rigid packaging companies. The implied multiples based on transaction prices often include a control premium; and the specific attributes of Materials Handling & Pooling.

On balance, we consider that a multiple of 5.0 to 5.5 times FY23 or Last Twelve Months (**LTM**) EBITDA (excluding a control premium) is appropriate for Materials Handling & Pooling (excluding 100% of Crate Pooling & Crate Manufacturing).

#### Sharemarket evidence

There are few listed companies operating in materials handling & pooling. The primary comparable companies considered were Brambles Limited (**Brambles**) and Myers Industries, Inc (**Myers**). Brambles operates an international supply chain logistics company and its pooling operations use pallets, RPCs,

containers and reusable plastic containers. Myers is a producer of plastic products such as tanks for water, fuel and waste handling.

#### Pooling Sharemarket Evidence

Company Name	Country	Market capitalisation (\$ millions) <sup>1</sup>	Enterprise Value <sup>2</sup> / EBITDA <sup>3</sup>			
			FY	FY+1	FY+2	FY+3
Brambles Limited	Australia	19,895.8	10.7	10.0	9.1	9.8
Myers Industries, Inc. <sup>4</sup>	United States	1,027.2	7.0	6.4	n.a.	7.4

Source: S&P Capital IQ, Company announcements; Kroll analysis.

Notes:

1. Share price data as at 11 October 2023.
2. Enterprise value is calculated as market capitalisation plus net debt, minority interests, preference shares and leases.
3. EBITDA is presented on a post AASB16 equivalent basis.
4. Myers Industries, Inc. has a financial year end on 31 December 2022, FY+1 has been shifted to FY.

A summary table of trading multiples and company descriptions are set out in Appendix 5.

#### Transaction evidence

Kroll have considered the implied transaction EBITDA multiples of two acquisitions undertaken by Pact in Materials Handling & Pooling, and two external acquisitions of reusable packaging system manufacturers and RPC operators which provide a range of comparable multiples between 6.5 times and 10.1 times EBITDA, as shown in the following table.

#### Pooling Transaction Evidence

Announcement Date	Target	% acquired	Enterprise Value (100%) (\$ million) <sup>1</sup>	EBITDA	Enterprise Value / LTM EBITDA
16-Aug-23	Crate Pooling business of Pact	50.0	380.0	34.9	10.9
25-Feb-19	IFCO Systems B.V.	100.0	3,500.7	346.6	10.1
15-Aug-18	TIC	100.0	122.0 <sup>2</sup>	19.4	6.3
5-Jan-18	Schoeller Allibert Group B.V.	75.0	675.7	89.5	7.6

Source: S&P Capital IQ, Mergermarket, Company financial statements; Kroll analysis.

Notes:

1. Transactions in local-denominated currencies are converted at the exchange rate prevailing at the announcement date.
2. Excludes earn-out of \$30 million

The Crate Transaction announced in August 2023, reflects an implied FY23 EBITDA multiple of 10.8 times and is more relevant for the valuation of Pact's remaining 50% interest in Crate Pooling & Crate Manufacturing (refer to Section 9.7 of this report). Pact's acquisition of TIC (Retail Accessories) in 2018, however, at a multiple of 6.3 times LTM EBITDA, remains a useful benchmark for the TIC Retail Accessories, which as noted in Section 9.4.2. of this report, will represent approximately 67% of Materials Handling & Pooling revenue (excluding Crate Pooling & Crate Manufacturing) in FY24.

External transactions considered include the acquisition of IFCO Systems B.V. (**IFCO**) in 2019 at a multiple of 10.1 times LTM EBITDA and the acquisition of Schoeller Allibert Group B.V. (**Schoeller**) in 2018 for an implied multiple of 7.6 times LTM EBITDA. IFCO is the leading global provider of reusable packaging solutions for fresh foods and at the time of the acquisition, the company operated a pool of over 290 million RPCs globally. Schoeller is one of Europe's largest manufacturers of returnable plastic packaging systems, serving a diversified, long term customer base and holding a strong competitive position in key markets.

At the time of the Schoeller acquisition in 2018, the returnable packaging industry had a positive outlook, with growth forecasted off the back of an increasing focus on sustainability, waste reduction, e-commerce and logistics automation. The transaction also provided Brookfield with the opportunity to expand its customer base across segments and geographies.

A summary table of the implied EBITDA multiples and descriptions for the comparable transactions are set out in Appendix 5.

## Capitalisation multiples summary

In forming our view as to the value of Materials Handling & Pooling excluding Crate Pooling & Crate Manufacturing with reference to observed comparable companies and transaction, we have considered a series of factors. A summary of the main items we have considered is as follows:

- there are no listed companies or external transactions that are directly comparable with Materials Handling & Pooling excluding 100% of Crate Pooling & Crate Manufacturing, i.e. the TIC Retail Accessories, SULO, Braeside, and VRM divisions;
- Materials Handling & Pooling is also significantly smaller than Brambles, Myers, IFCO and Schoeller, servicing a smaller geographical area with a smaller customer base, suggesting that a lower multiple is appropriate. Brambles for instance operates across 60 countries and recorded revenue for FY23 of \$9.1 billion, compared to Pact's Materials Handling & Pooling revenue for FY23 of \$226.1 million. While Myers is closer in size to Materials Handling & Pooling than Brambles, it is still substantially larger;
- as noted in Section 9.4.2 of this report, the Underlying EBITDA margins estimated for the residual business excluding Crate Pooling & Crate Manufacturing, are lower than the segment margins including Crate Pooling and Crate Manufacturing. The margins are also lower than Brambles current and forecast EBITDA margins (refer Appendix 5). As such, the residual Materials Handling & Pooling segment may not attract EBITDA multiples as high as those observed for Brambles and IFCO;
- as noted in Section 9.4.2 of this report, TIC Retail Accessories will represent approximately 61% of segment EBITDA in FY24, suggesting that a multiple around 6.3 times, in line with Pact's acquisition of TIC Retail Accessories may be appropriate for the broader segment;
- the greater weighting of TIC Retail Accessories exposes the segment to more cyclical retail demand. Earnings margins may continue to be impacted by softer global demand driven by inflationary pressures impacting consumer spending; and
- each of the TIC Retail Accessories, IFCO and Schoeller transactions were undertaken prior to the COVID-19 pandemic, when the returnable packaging industry had a positive outlook as noted earlier. We note however that the Crate Transaction negotiated in 2023 does not appear to have been negatively impacted; and
- the transaction multiples likely include a premium for control and synergies which are not applicable in valuing Materials Handling & Pooling on a minority basis.

On the basis of the preceding analysis, we consider a capitalisation multiple (minority basis) of 5.0 to 5.5 times FY23/LTM EBITDA to be appropriate.

### 9.4.4 Present value of capital expenditure to achieve maintainable earnings

The level of maintainable earnings and capitalisation multiple applied in Sections 9.4.2 and 9.4.3 of this report reflect Materials Handling & Pooling (excluding 100% of Crate Pooling and Crate Manufacturing) once at a maintainable level of operations. As such, the additional capital investment required to reach that level must be taken into account.

Kroll has estimated the present value of the capital expenditure required to achieve maintainable earnings by discounting back the planned growth capital expenditure over the next three years at the market cost of debt. The present value is estimated to be \$5.5 million.

## 9.5 Valuation of Contract Manufacturing

### 9.5.1 Summary of value

Kroll has assessed the value of Contract Manufacturing using a market approach having regard to capitalisation of multiples for selected listed contract manufacturing companies, and transactions involving contract manufacturing companies. This assessment also requires consideration of an appropriate level of maintainable earnings (refer to Section 9.5.2 of this report) and an appropriate capitalisation multiple (refer to Section 9.5.3 of this report). Kroll has also deducted future capital expenditure required to achieve the maintainable level of earnings (refer to Section 9.5.4 of this report).

Utilising a capitalisation of earnings methodology, Kroll has determined the value of the Contract Manufacturing operating business (on a post-AASB 16 basis) to be in the range of \$112.8 million to \$127.2 million. The results of this assessment are presented as follows.

### Value of Contract Manufacturing Operating Business – Capitalisation of EBITDA (\$ million)

	Section Reference	Valuation Range	
		Low	High
Maintainable revenue	9.4.2	380.0	380.0
Maintainable EBITDA margin	9.4.2	7.6%	7.6%
<b>Maintainable EBITDA</b>	9.4.2	<b>28.9</b>	<b>28.9</b>
Capitalisation multiple	9.4.3	4.0	4.5
<b>Value of Contract Manufacturing (minority basis)</b>		<b>115.5</b>	<b>130.0</b>
Present value of capital expenditure to reach maintainable earnings	9.4.4	(2.7)	(2.7)
<b>Value of Contract Manufacturing (minority basis)</b>		<b>112.8</b>	<b>127.2</b>

Source: Kroll analysis.

#### 9.5.2 Maintainable earnings

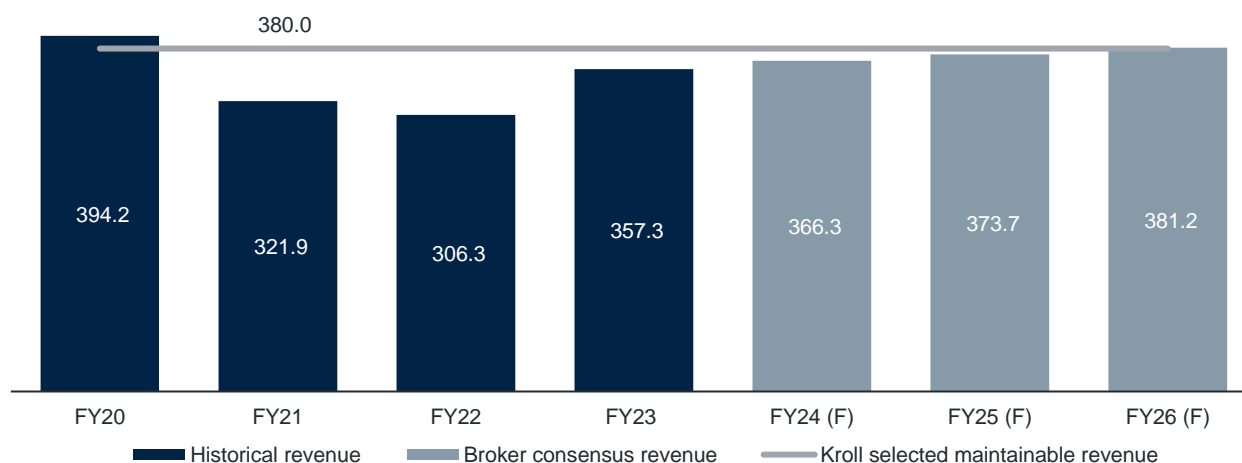
In order to assess a maintainable EBITDA for Contract Manufacturing, we have considered the segment's historical financial performance, internal budget data, Pact's 1Q24 market conditions and trading updates, broker consensus forecasts for FY24, FY25 and FY26, and transformation plan savings to date. We have also considered whether it is appropriate to apply any adjustments to these earnings in order to provide an indication of maintainable earnings.

The selected maintainable earnings is based on an assessment of maintainable revenue and maintainable EBITDA margin.

#### Maintainable revenue

Kroll has selected a maintainable level of revenue of \$380.0 million. The following chart shows the reported revenue for Contract Manufacturing from FY20 to FY23 and broker consensus from FY24 to FY26, relative to Kroll's selected maintainable revenue.

#### Contract Manufacturing Revenue



Source: Kroll analysis.

In relation to Contract Manufacturing revenue we note the following:

- Contract Manufacturing revenue growth fluctuated during and after the peak of the COVID-19 pandemic driven by the demand for hygiene products. FY21 revenue was also impacted by disruption of operations due to the automotive factory fire. The recent turnaround in performance has been driven by increases in customer volumes and contract re-pricing improving the pass-through of costs. FY23 performance exceeded broker expectations;
- the new Horsley Park facility with a state-of-the-art filling line is forecast to be fully operational in FY24, and is expected to enable faster production for Household and Laundry care products. Broker

forecasts for FY24 do not reflect the quarter period delay in development of the Horsley Park facility. Consequently, greater reliance has been placed on broker forecast revenue for FY25 and FY26; and

- further growth capital expenditure is required over the next three years to upgrade the segment's capacity to sustainable levels, therefore we consider FY26 to be the most relevant reference period for maintainable revenue.

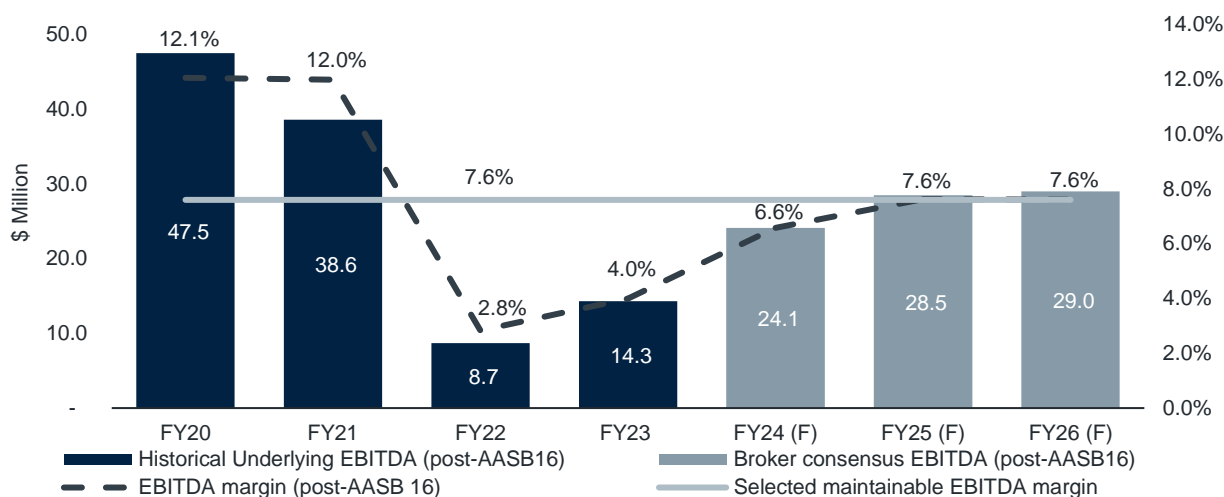
Having regard to the above factors, Kroll has selected maintainable revenue of \$380.0 million which aligns with FY25 and FY26 broker consensus revenue.

### Maintainable EBITDA margin

A maintainable EBITDA margin was applied to the maintainable revenue to determine a maintainable EBITDA. In line with maintainable revenue, we consider FY26 to be the most relevant reference period to assess the maintainable EBITDA margin. For Contract Manufacturing, Kroll selected a maintainable EBITDA margin of 7.6%.

The following chart shows Contract Manufacturing's Underlying EBITDA and Underlying EBITDA margin from FY20 to FY26 and Kroll's selected maintainable EBITDA margin.

### Contract Manufacturing Underlying EBITDA and Underlying EBITDA margin



Source: Kroll analysis.

In relation to Underlying EBITDA and Underlying EBITDA margin, we note the following:

- Contract Manufacturing's EBITDA margin is impacted by the ability to pass through costs. The decline in margin in FY22 was impacted by rapid cost inflation;
- improved volumes and cost recovery through contract repricing in FY23 exceeded broker expectations, and both brokers lifted their outlook for Contract Manufacturing for FY24 to FY26;
- the broker consensus figures for Contract Manufacturing reflect the forecasts of only the one broker that provided forecasts by segment, and therefore have been considered with caution;
- Pillar 1 transformation plan cost savings are expected to be relatively immaterial for Contract Manufacturing; and
- Pact has indicated a target Underlying EBIT for Contract Manufacturing of \$15 million by FY26, which equates to an EBITDA margin of approximately 7.5% and reflects the full year contribution of the new Horsley Park facility as well as the expected transformation plan cost savings.

Having regard to these factors, Kroll has selected a maintainable EBITDA margin of 7.6% which aligns with Pact's target Underlying EBIT for Contract Manufacturing, and the broker forecast for FY25 and FY26.

On the basis of the preceding analysis, the resulting future maintainable EBITDA for Contract Manufacturing is \$28.9 million.

### 9.5.3 Capitalisation multiples

In determining an appropriate range of capitalisation multiples to apply to Contract Manufacturing maintainable earnings, we have considered the following:

- trading multiples of comparable listed peer companies. The multiples based on sharemarket prices, do not typically include a control premium;
- multiples implied by recent transactions involving global rigid packaging companies. The implied multiples based on transaction prices often include a control premium; and the specific attributes of Contract Manufacturing.

On balance, we consider that a multiple of 4.0 to 4.5 times FY26 or FY+3 EBITDA (excluding a control premium) is appropriate for Contract Manufacturing.

#### Sharemarket evidence

There are few listed companies operating in contract manufacturing. The primary comparable considered was McBride, Plc (**McBride**) which manufactures and sells private label products to retailers and brand owners in Europe and Australasia, providing solutions in the personal care, hygiene, and homecare sectors. As at 11 October 2023 had a market capitalisation of \$113.6 million and was trading at a multiple of 4.5 times FY+3 EBITDA.

A summary table of McBride's trading multiples is provided in the following table.

#### Contract Manufacturing Sharemarket Evidence

Company name	Market capitalisation (\$ millions) <sup>1</sup>	Enterprise Value <sup>2</sup> / EBITDA <sup>3</sup>			
		FY	FY+1	FY+2	FY+3
McBride plc	113.6	7.0	4.6	4.5	4.5

Source: S&P Capital IQ, Company announcements; Kroll analysis.

Notes:

- Share price data as at 11 October 2023.
- Enterprise value is calculated as market capitalisation plus net debt, minority interests, preference shares and leases.
- EBITDA is presented on a post AASB-16 equivalent basis.

Further detail regarding McBride is set out in Appendix 5.

#### Transaction evidence

The most recent comparable contract manufacturing transactions for which sufficient financial and transactional data is publicly available are the three prior acquisitions undertaken by Pact between 2015 and 2017 when establishing Contract Manufacturing. All three of the Jalco Group, APM and Pascoe's Group acquisitions were undertaken at an implied EBITDA multiple of 6.5 times.

As noted in Section 8.1.1 of this report, Jalco Group is a supplier of outsourced manufacturing and filling in the non-food FMCG sector; APM is a provider of manufacturing and packaging services for nutraceuticals; and Pascoe's Group is a manufacturer of aerosol and liquid based consumer products within the household and industrial chemicals category. Pact continues to use the three brand names in Contract Manufacturing.

A summary of the implied EBITDA multiples is provided in the following table.

#### Contract Manufacturing Transaction Evidence

Announcement Date	Target	Acquirer	% acquired	Enterprise Value (100%) (\$ million)	EBITDA	Enterprise Value/ LTM EBITDA
22-Feb-17	Pascoe's	Pact	100.0	51.8	8.0	6.5
5-Sep-16	APM	Pact	100.0	90.0	13.8	6.5
17-Jun-15	Jalco	Pact	100.0	80.0	12.3	6.5

Source: S&P Capital IQ, Mergermarket, Company financial statements; Kroll analysis.

Descriptions for the comparable transactions are set out in Appendix 5.



### Capitalisation multiples summary

In forming our view as to the value of Contract Manufacturing with reference to observed comparable companies and prior transactions, we have considered the following factors:

- whilst McBride has similar contract manufacturing operations to Pact, key points of difference include underlying market exposure, size and margins:
  - McBride has a higher exposure to household cleaning, whereas Pact Contract Manufacturing services a broader portfolio of products;
  - McBride generated significantly more revenue in FY23 (\$1.7 billion) relative to Pact's Contract Manufacturing which generated \$357.3 million;
  - as detailed in Appendix 5, McBride has, and is forecast to have, EBITDA margins between 3.6% and 5.2%, which are lower than the range for Contract Manufacturing of 4.0% to 7.6%;
  - Pact's Contract Manufacturing generates slightly higher margins from a more diversified portfolio of products. On balance, this would suggest a similar trading multiple in the range of 4.7 to 4.8 times may be appropriate for Contract Manufacturing;
- with regard to Contract Manufacturing's implied entry multiples of 6.5 times:
  - earnings margins have deteriorated since acquisition. In FY18, the Contract Manufacturing EBITDA margin was 10.4%,<sup>62</sup> and whilst margins lifted to 12.1% during the COVID-19 pandemic, the long term maintainable EBITDA margin target for Contract Manufacturing is approximately 7.5%, as noted in Section 9.5.2 of this report. This may suggest a lower multiple may now apply to Contract Manufacturing;
  - additionally, the sale process for Contract Manufacturing between 2020 to 2021 was unsuccessful and the Target's Statement notes a potential capital loss upon the sale of Contract Manufacturing; and
  - Pact has, however, invested in a new facility at Horsley Park that has a state-of-the-art filling line which is expected to enable faster production for Household and Laundry care products. As at the date of this report the facility is fully contracted. Although a majority of capital expenditure has already been spent, there remains ramp-up risk in bringing the plant to full capacity.

On this basis of the preceding analysis, and taking into account the ramp-up risk, we consider a capitalisation multiple (minority basis) of 4.0 times to 4.5 times FY26 EBITDA to be appropriate.

#### 9.5.4 Present value of capital expenditure to achieve maintainable earnings

The level of maintainable earnings and capitalisation multiple applied in Sections 9.5.2 and 9.5.3 of this report reflect Contract Manufacturing in FY26 when Horsley Park is fully operational. As such, the additional capital investment required to reach that level must be taken into account.

Kroll has estimated the present value of the capital expenditure required to achieve maintainable earnings by discounting back the planned growth capital expenditure over the next three years at the market cost of debt. The present value is estimated to be \$2.7 million.

#### 9.6 Synergies

As discussed in Section 9.2.3 of this report, there are a number of potential strategic acquirers of Pact other than Kin Group, including other rigid packaging suppliers such as Mauser, Berry and Alpla. These acquirers would likely consider that an acquisition of Pact, at this point in time, could provide considerable strategic value for the following reasons:

- as a means of immediate customer acquisition through established strategic partnerships;
- procurement and internal sourcing synergies;
- the ability to leverage existing technologies and potentially enabling research and development synergies; and
- generating savings in marketing costs and general corporate overhead and facility rationalisation synergies.

<sup>62</sup> Pact FY19 Annual Report, page 21.

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Consequently, we consider that a substantial control premium could reasonably be expected to be paid by a hypothetical acquirer.

Kroll has undertaken various enquiries in relation to the potential direct and indirect cost savings or revenue benefits that might be available to a pool of purchasers. In this regard, Kroll has held discussions with Pact management in regarding to potential synergies, and considered observed run-rate synergies of comparable transactions to provide a benchmark estimate.

The run-rate synergies observed for the following packaging transactions range between 1.2% and 9.5% of revenue as summarised in the table.

#### Packaging Transaction Synergies

Date announced	Acquirer	Target	Synergies as a % of revenue
<b>Plastic Packaging</b>			
1-Nov-22	Sealed Air	Liqui Box	8.3%
1-Feb-22	SIG Group	Scholle IPN	3.6%
20-Sep-21	Silgan	Gateway	1.3%
27-Jan-20	Silgan	Albea (Dispensing)	5.1%
8-Mar-19	Berry	RPC	3.1%
20-Dec-18	Grief Packaging LLC	Caraustar Industries, Inc	3.2%
6-Aug-18	Amcor	Bemis	4.5% <sup>1</sup>
28-Jan-18	WestRock Company	KapStone Paper and Packaging Corporation	6.0%
14-Nov-17	Pact	CSI Asia + Graham China	1.5%
24-Oct-17	Graphic Packaging International, Inc.	North America Consumer Packaging Business from International Paper company (NYSE:EIP)	1.7%
23-Jan-17	Silgan	WestRock (Calmar)	2.7%
23-Jan-17	WestRock Company	Multi Packaging Solutions International Limited	5.1%
2-Sep-16	Amcor	Sonoco (Plastics)	9.5%
18-Apr-16	Amcor	Alusa S.A	6.7%
<b>Australia Packaging</b>			
5-Sep-23	Orora	Saverglass	1.2%

Source: Kroll analysis.

Note 1: The Investor Presentation for the Amcor/Bemis transaction dated 6 August 2018 noted US\$150 million in estimated costs to implement the cost synergies benefits (3.8% of revenue).

Synergies anticipated for transactions involving companies with limited overlapping geographical footprints (i.e. Orora/Saverglass & Pact/CSI Asia + Graham) are at the lower end of the range. We consider synergies of 1.5% of FY24 broker consensus revenue, net of dis-synergies, to be a reasonable approximation for an acquisition of Pact by a strategic acquirer assuming no geographical overlap. After adjusting for a risk weighting of 90% (to reflect that the risk that the expected synergies may not be achieved, they may take longer to achieve or implementation costs may be greater than anticipated), then capitalising the synergies at a multiple of 4.5 to 5.0 (excluding a control premium), and deducting one-off implementation costs (assumed to be one times run rate synergies consistent with industry rules of thumb), we estimate synergies for Pact to be in the range of \$80.4 million and \$92.3 million.

#### 9.7 Crate Pooling and Crate Manufacturing joint venture

The most reliable evidence as to the value of a business or asset is the price at which that business or asset has been bought and sold in an arm's length transaction. ASIC's RG 111.86 (e) indicates that it is appropriate for an expert to consider using as a methodology "any recent genuine offers received by the target for the entire business, or any business units or assets as a basis for valuation of those business units or assets."

In the case of Pact, the Crate Transaction represents an arm's length transaction and provides evidence as to the value of the Pact's remaining 50% interest in Crate Pooling and Crate Manufacturing. The Crate Transaction occurred at an equity value of \$118.5 million and, therefore, Pact's remaining 50% interest in

the joint venture has been valued at \$118.5 million. The value includes contingent consideration, noting that Pact management has a reasonable expectation that the requisite hurdle will be met.

We note that the implied Underlying EBITDA multiple for the Crate Transaction of 10.8 times (on a control basis) broadly aligns with the Brambles FY23 trading multiple of 10.8 times (on a minority basis, but a much larger company), as discussed in Section 9.4.3 of this report.

## 9.8 Other associates and joint ventures

In order to determine the fair value of Pact's investment in other associates and joint ventures (**JV's**), we have considered their materiality and stage of development. Pact has an equity interest in eight JV's (as presented in Section 8.4). Pact's investments in the JV's are carried at cost plus post-acquisition changes in its share of the JV's net assets. In the case of six of the eight JV's, Pact's carrying value in each is less than \$10 million, which we consider not material. On this basis, and given that, according to management, there have been no impairment triggers across the JV's, we consider that the carrying value of these six non-material JV's as at 30 June 2023 is a reasonable representation of their fair value.

The carrying value of Pact's investment in CPAP is \$13.4 million. While this amount is considered material, we believe the carrying value is a reasonable representation of fair value, given that it includes the Altona and Albury plants which are new or in testing phases, and represents the recent investment in these ventures. Pact's interests in the JV's valued at their carrying value are summarised below;

### Pact's interests in the JV's at carrying values as at 30 June 2023 (\$ Million)

Entity	Percentage Holding (%)	Carrying Value 30 June 2023
Spraypac Products (NZ) Limited	50.0%	0.7
Weener Plastop Asia, Inc.	50.0%	1.6
PT Weener Plastop Indonesia Inc	50.0%	3.5
Australian Recycled Plastic Pty Ltd	50.8%	4.0
Circular Plastics Australia (PET) Holdings Pty Ltd (CPAP)	33.3%	13.4
Circular Plastic Australia Pty Ltd (CPA)	50.0%	7.7
Circular Plastics Australia (LDPE) Pty Ltd	33.3%	-
<b>Total</b>		<b>30.9</b>

Source: FY23 Consolidated Financial Report Note 3.3.

In addition to the above interests, Pact also has a 50.0% interest in Gempack, which was carried at \$15.9 million at 30 June 2023. We have crosschecked its book value by comparing the forecast EBITDA multiple implied by the carrying value, to multiples of comparable companies. For this purpose we have considered the following factors:

- the nature of the business. Gempack was established in 2008 in Rayong, Thailand. The business struggled to achieve profitability until Weener Plastik Beteiligungs GmbH purchased 50.0% in 2015 and contributed capital for investment into new equipment as well as contracts with companies. The business manufactures plastic jars and bottles for the personal care, food and beverage and home care markets; and
- recent and expected financial performance. As of May 2023, two new production lines were commissioned. Management expects significant savings in 2024 and increased financial performance compared to FY23 given Gempack will be able to produce components for its products instead of importing them, which was the prior practice. During FY21 and FY22 freight costs increased due the COVID-19 pandemic, which were not able to be recovered and impacted profitability.

To compare the EBITDA multiples implied by the carrying value of Gempack, we undertook the following:

- we based the analysis on FY24(F) EBITDA rather than on FY23 EBITDA, given the recent commissioning of the two new production lines. We consider that FY24(F) EBITDA is more representative of future maintainable earnings;
- we derived an enterprise value for Gempack as at 30 June 2023 and 31 August 2024 based on its net assets, adding its lease liabilities and deducting cash and cash equivalents; and
- based on the FY24(F) EBITDA and the enterprise values as at 30 June 2023 and 31 August 2023 we obtained an implied multiples range of 3.3 times to 3.4 times. This range is below the median of the

comparable companies. We note however that Gempack is a much smaller company and is privately owned by Pact and Weener Plastik Beteiligungs GmbH. Should one of the JV partners seek to divest its interest, it is likely that a potential acquirer would apply a significant discount for lack of marketability which would reflect the difficulty, time and costs involved in selling a privately held interest, relative to a publicly traded security.

On this basis we believe the net assets of Gempack and, therefore, the carrying value of Pact's 50.0% interest as at 30 June 2023 are a reasonable approximation of fair value.

### JV's summary

On the basis of the preceding analysis, we consider that carrying value of the JV's of \$46.8 million as at 30 June 2023 is a reasonable approximation of their fair value.

### 9.9 Other assets and liabilities

Surplus assets and liabilities are those assets and liabilities not required to sustain the adopted level of maintainable earnings. As at 31 August 2023, Pact had \$0.5 million of surplus liabilities comprised of restructuring provisions.

Whilst there may be capital gains tax offsets available from future transaction activity, for instance if Contract Manufacturing is sold at below its tax cost base, the potential value and ability to use them as at the date of this report is uncertain. In any event, it is unlikely that an acquirer would attribute significant value to them.

### 9.10 Adjusted net borrowings

In order to arrive at the value of equity, it is necessary to deduct the net borrowings from the unlevered value of Pact. Kroll has assessed Pact's net debt position for the purpose of this valuation to be \$1,024.6 million. This amount is based on Pact's cash balance, net interest rate derivatives and lease liabilities (excluding those attributable to Crate Pooling and Crate Manufacturing) as at 31 August 2023, the estimated net cash proceeds from the Crate Transaction and Kroll's assessment of a normalised level of borrowings for Pact which takes into consideration Pact's seasonal working capital requirements (refer to Section 8.4.1 of this report).

#### Pact's Adjusted Net Borrowings (\$ millions)

	Value
Cash and cash equivalents (as at 31 August 2023)	83.5
Net interest rate derivatives (as at 31 August 2023)	3.4
Net cash proceeds from Crate Transaction <sup>1</sup>	160.0
Normalised level of borrowings	(768.5)
Lease liabilities (excluding Crate Pooling and Crate Manufacturing) (as at 31 August 2023)	(503.0)
<b>Adjusted net borrowings (as at 31 August 2023)</b>	<b>(1,024.6)</b>

Source: Kroll analysis.

Note 1: Excludes contingent payments, duties, taxes and other transaction related costs.

### 9.11 Valuation cross-check

#### 9.11.1 Pact implied multiples

As a cross check, Kroll has compared the implied multiples of Pact's FY23 Underlying EBITDA (100% control) to the multiples of EBITDA observed in recent packaging transactions.

**Pact Implied Multiples (100% Control) (\$ Million unless Otherwise Stated)**

	Section reference	Parameter	Low	High
<b>Value of Pact's operating business (ex Crate Pooling)</b>	<b>9.1</b>		<b>1,225.9</b>	<b>1,379.7</b>
100% of Crate Pooling & Crate Manufacturing operating business <sup>1</sup>	9.7		405.0	405.0
<b>Value of Pact's operating business (post AASB-16)</b>			<b>1,630.9</b>	<b>1,784.7</b>
Lease liabilities as at 31 August 2023	9.10		(503.0)	(503.0)
<b>Value of Pact's operating business (pre AASB-16)</b>			<b>1,127.9</b>	<b>1,281.7</b>
Multiple of FY23 Underlying EBITDA (post AASB 16) (times) <sup>2</sup>	8.3.1	275.2	5.9	6.5
Multiple of FY23 Underlying EBITDA (pre AASB 16) (times) <sup>3</sup>	8.3.1	190.8	5.9	6.7

Source: Kroll analysis.

Notes:

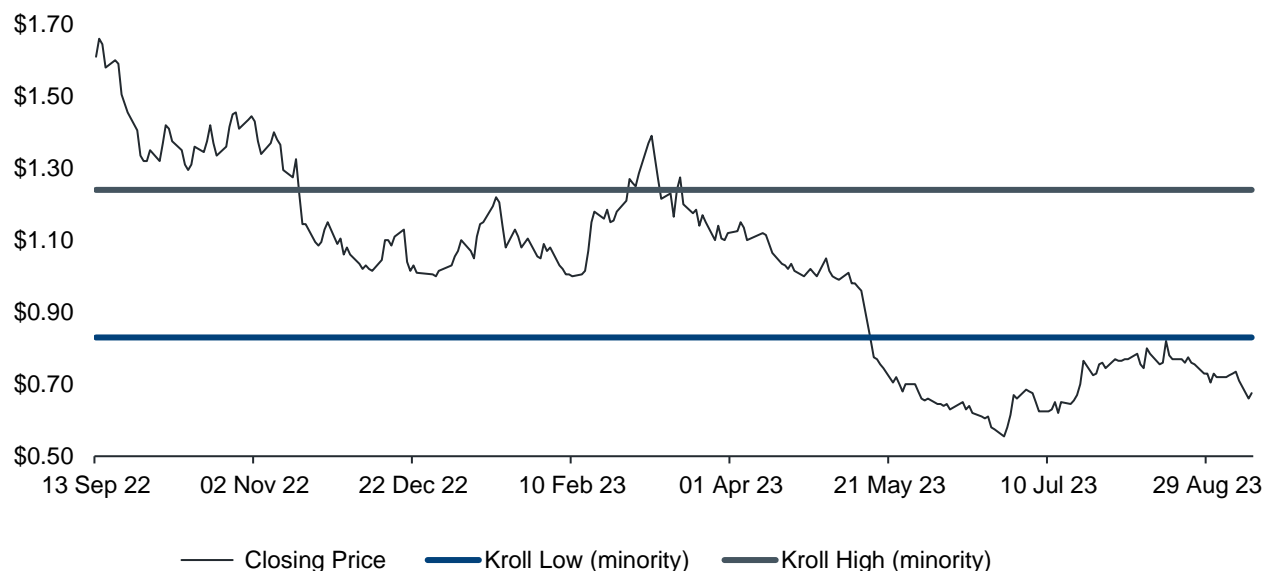
1. Grossed up for debt and lease liabilities.
2. Calculated as FY23 Underlying EBITDA (post AASB 16) of \$277.0 million (refer to Section 8.3.1 of this report), less \$1.8 million income from associates, which are valued separately.
3. Calculated as FY23 Underlying EBITDA (post AASB 16) of \$277.0 million (refer to Section 8.3.1 of this report), less \$84.4 million of lease expenses, less \$1.8 million of income from associates, which are valued separately.

The range of implied multiples of 5.9 to 6.5 times FY23 Underlying EBITDA (post AASB 16) is consistent with the low end of the observed historical EBITDA multiples for the selected packaging transactions, however, we do not consider this to be unreasonable as the lower multiples allow for the additional risk of Pact achieving earnings and strategic targets.

### 9.11.2 Comparison to recent share trading

As an additional cross-check, Kroll has compared the value range of a Pact Share on a minority interest basis with trading in Pact Shares up until 12 September 2023, the last trading day before the announcement of the Offer. Synergies represent a significant portion of value (\$0.23 to \$0.27 per share). Excluding the synergies, Kroll's value of a Pact Share on a minority interest basis is in the range of \$0.83 to \$1.24 per share.<sup>63</sup>

#### Comparison of Kroll's Value of a Pact Share (Minority Basis) with Recent Share Trading



Source: Capital IQ and Kroll analysis.

Kroll's valuation range (on a minority basis) is consistent with most trading in Pact Shares from November 2022 to May 2023, although it is higher than trading since May 2023. This is reasonable since:

- Kroll's valuation includes the positive impact of information which has been disclosed in the Target's Statement, but which was not publicly disclosed as at 12 September 2023, including the \$20 million in annualised cost restructuring and profit improvement outlined in Pillar 1 of the transformation plan, the

financial impact of the Crate Transaction as outlined in Pillar 2 as well as Pact management's observation that market conditions have stabilised; and

- the Pact share price was potentially depressed in the lead up to the announcement of the Offer as a result of investor concern regarding Pact's ability to execute on its strategy, failure to sell Contract Manufacturing, absence of a dividend and its elevated gearing levels with the market potentially pricing in a dilutive equity raising in order to reduce leverage.

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## Appendix 1 – Kroll disclosures

### Qualifications

The individuals with overall responsibility for preparing this report on behalf of Kroll are Ian Jedlin and Celeste Oakley. Ian is an Associate and Accredited Business Valuation Specialist of the Institute of Chartered Accountants Australia and New Zealand and holds a Master of Commerce. He is also the Vice Chair the Standards Review Board of the International Valuation Standards Council. Celeste holds a Bachelor of Economics, a Bachelor of Laws and a CFA designation. Both Ian and Celeste have extensive experience in the provision of corporate financial advice, including specific advice on valuations, mergers and acquisitions, as well as the preparation of independent expert reports.

### Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than as an expression of Kroll's opinion as to whether the Offer is in the best interests of Pact. Kroll expressly disclaims any liability to any Pact Shareholder who relies or purports to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose whatsoever.

Other than this report, Kroll has had no involvement in the preparation of the Target Statement or any other document prepared in respect of the Offer. As such, Kroll takes no responsibility for the content of the Target's Statement as a whole or other documents prepared in respect of the Offer (other than this report).

### Independence

Kroll considers itself to be independent in accordance with the requirements of Regulatory Guide 112 issued by ASIC on 30 March 2011. In considering independence, it is noted that Kroll does not have, and has not had within the previous two years, any business or professional relationship with Pact or Kin Group or any financial or other interest that could reasonably be regarded as capable of affecting our ability to provide an unbiased opinion in relation to Pact. Kroll's only role with respect to the Offer has been the preparation of this report.

Kroll will receive a fixed fee of \$275,000 (excluding GST and out of pocket expenses) for the preparation of this report. This fee is not contingent on the conclusions reached or the outcome of the Offer. Kroll will receive no other benefit for the preparation of this report.

### Declarations

Pact has provided an indemnity to us for any claims arising out of any misstatement or omission in any material or information provided to us in the preparation of this report.

During the course of this engagement, Kroll provided draft copies of this report to management of Pact for comment as to factual accuracy, as opposed to opinions, which are the responsibility of Kroll alone. Changes made to this report as a result of those reviews have not altered the methodology or opinions of Kroll as stated in this report.

The engagement has been conducted in accordance with professional standard APES 225 "Valuation Services" issued by the Accounting Professional & Ethical Standards Board (**APESB**).

Kroll is authorised by Millinium Capital Managers Limited, Australian Financial Services License no. 284336, to provide the following financial services as their Corporate Authorised Representative:

- provide financial product advice in respect of the following classes of financial products:
- interests in managed investment schemes including investor directed portfolio services; and
- securities;

with respect to retail clients and wholesale clients.

### Consents

Kroll consents to the inclusion of this report in the form and context in which it is included in the Target's Statement to be issued to Pact Shareholders. Neither the whole nor any part of this report or its attachments or any reference thereto may be included or attached to any other document without the prior written consent of Kroll as to the form and context in which it appears.

Kroll consents to:

- a) be named in its capacity as the independent expert appointed by the board of directors of Pact in the Target's Statement; and
- b) the inclusion in the Target's Statement of:
  - i. this report, in the form and context in which it is included in the Target's Statement; and
  - ii. all references to this report, and statements extracted from or based on this report, in the form and context in which each such reference and statement is included in the Target's Statement.

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## Appendix 2 – Limitations and reliance on information

### Limitations and reliance on information

Kroll's opinion is based on prevailing economic, market, business and other conditions at the date of this report. However, the factors impacting these conditions continue to evolve and can change over relatively short periods of time. The impact of any subsequent changes in these conditions on the global economy and financial markets generally, and the assets being valued specifically, could impact upon value in the future, either positively or negatively. We note that we have not undertaken to update our report for events or circumstances arising after the date of this report other than those of a material nature which would impact upon our opinion.

Our report is also based on financial and other information provided by Pact and its advisers. Pact has been responsible for ensuring that information provided by it and its representatives is not false or misleading or incomplete. Pact has represented in writing to Kroll that to its knowledge, the information provided is complete and not incorrect or misleading in any material respect. Complete information is deemed to be information which at the time of completing this report should have been made available to Kroll and would have reasonably been expected to have been made available to Kroll to enable us to form our opinion. We have no reason to believe that any material facts have been withheld from us.

In forming our opinion, we have relied upon the truth, accuracy and completeness of any information provided or made available to us without independently verifying such information. Nothing in this report should be taken to imply that Kroll has in any way carried out an audit of the books of account or other records of Pact for the purposes of this report. It is understood that the accounting information that was provided was prepared in accordance with generally accepted accounting principles including the Australian equivalents to International Financial Reporting Standards, as applicable.

In addition, we have also had discussions with Pact in relation to the nature of the business operations, specific risks and opportunities, historical results of Pact and prospects for the foreseeable future of Pact. This type of information has been evaluated through analysis, inquiry and review to the extent considered necessary or practical as part of the information used in forming our opinion is comprised of the opinions and judgements of management. Kroll does not warrant that its procedures and inquiries have identified all matters that a more extensive analysis might disclose as they did not include verification work nor an audit or review engagement in accordance with standards issued by the Auditing and Assurance Standards Board or equivalent body.

An important part of the information used in forming an opinion of the kind expressed in this report is comprised of the opinions and judgement of management. This type of information was also evaluated through analysis, inquiry and review to the extent practical. Such information is often not capable of external verification or validation.

The statements and opinions included in this report are given in good faith and in the belief that such statements and opinions are not false or misleading.

### Disclosure of information

In preparing this report, Kroll has had access to all financial information considered necessary in order to provide the required opinion. Pact has requested Kroll limit the disclosure of certain information relating to Pact. This request has been made on the basis of the commercially sensitive and confidential nature of the operational and financial information of the operating entities comprising Pact. As such the information in this report, unless otherwise indicated, has been limited to the type of information that is regularly placed into the public domain by Pact.

### Sources of information

In preparing this report we have been provided with and considered the following sources of information:

#### *Publicly available information*

- Target's Statement;
- Bidder's Statement;
- results presentations and annual reports for Pact from FY14 to FY22;
- consolidated financial report for FY23

- ASX announcements, press releases, media and analyst presentations and other public filings by Pact including information available on its website;
- recent press articles regarding Pact;
- Various industry reports; The Future of Global Packaging to 2026, David Platt, 2021, Sustainability in Packaging: Global regulatory development across 30 countries, February 2022, McKinsey & Company, Flexible Packing, Leading the Way in Innovation, FPA, 2023, Smart Packaging: Definition and Benefits, ImpacX, the internet of packaging company, Pallet Pooling Market by Structural Design, Material Composite, End-Use & Region, July 2022, Future Market Insights & Data Bridge Market Research, March 2023;
- information sourced from S&P Capital IQ;

*Non-public information*

- Pact Board papers and other internal briefing papers prepared by Pact; and
- other confidential documents, presentations and workpapers.

In addition, we have had discussions with, and obtained information from, senior management of Pact.

### Appendix 3 – Broker consensus

As far as Kroll is aware, Pact is followed by three brokers. One of the brokers is a financial advisors to the Offer and has therefore been excluded from our analysis. Of the remaining brokers, two published reports following the release of Pact’s FY23 financial results on 16 August 2023.

A summary of the most recent broker forecasts for Pact following the release of Pact’s FY23 financial results on 16 August 2023 is provided as follows.

#### Pact Broker Forecast Underlying Revenue, Underlying Profit and Underlying EBIT (\$ millions)

Date of report	Underlying revenue				Underlying EBITDA				Underlying EBIT			
	FY23	FY24	FY25	FY26	FY23	FY24	FY25	FY26	FY23	FY24	FY25	FY26
Broker 1 17-Aug-23	1,948.6	1,866.1	1,809.3	1,820.4	277.0	281.1	273.5	268.5	145.3	148.7	148.8	143.3
Broker 2 16-Aug-23	1,948.6	1,903.9	1,953.5	2,004.3	277.0	292.8	300.6	314.2	145.3	158.6	165.3	177.5
<b>Low</b>	<b>1,948.6</b>	<b>1,866.1</b>	<b>1,809.3</b>	<b>1,820.4</b>	<b>277.0</b>	<b>281.1</b>	<b>273.5</b>	<b>268.5</b>	<b>145.3</b>	<b>148.7</b>	<b>148.8</b>	<b>143.3</b>
<b>High</b>	<b>1,948.6</b>	<b>1,903.9</b>	<b>1,953.5</b>	<b>2,004.3</b>	<b>277.0</b>	<b>292.8</b>	<b>300.6</b>	<b>314.2</b>	<b>145.3</b>	<b>158.6</b>	<b>165.3</b>	<b>177.5</b>
<b>Median</b>	<b>1,948.6</b>	<b>1,885.0</b>	<b>1,881.4</b>	<b>1,912.4</b>	<b>277.0</b>	<b>287.0</b>	<b>287.1</b>	<b>291.4</b>	<b>145.3</b>	<b>153.7</b>	<b>157.1</b>	<b>160.4</b>
<b>Mean</b>	<b>1,948.6</b>	<b>1,885.0</b>	<b>1,881.4</b>	<b>1,912.4</b>	<b>277.0</b>	<b>287.0</b>	<b>287.1</b>	<b>291.4</b>	<b>145.3</b>	<b>153.7</b>	<b>157.1</b>	<b>160.4</b>

#### Pact Broker Forecast Underlying NPAT (\$ millions), Underlying EPS and DPS

Date of report	Underlying NPAT				Underlying EPS (cents)				DPS (cents)			
	FY23	FY24	FY25	FY26	FY23	FY24	FY25	FY26	FY23	FY24	FY25	FY26
Broker 1 17-Aug-23	44.9	52.7	56.8	55.3	13.0	15.0	16.1	15.5	0.0	2.1	7.6	9.2
Broker 2 16-Aug-23	44.9	63.0	69.0	78.2	13.0	18.3	20.1	22.7	0.0	5.5	9.5	10.0
<b>Low</b>	<b>44.9</b>	<b>52.7</b>	<b>56.8</b>	<b>55.3</b>	<b>13.0</b>	<b>15.0</b>	<b>16.1</b>	<b>15.5</b>	<b>0.0</b>	<b>2.1</b>	<b>7.6</b>	<b>9.2</b>
<b>High</b>	<b>44.9</b>	<b>63.0</b>	<b>69.0</b>	<b>78.2</b>	<b>13.0</b>	<b>18.3</b>	<b>20.1</b>	<b>22.7</b>	<b>0.0</b>	<b>5.5</b>	<b>9.5</b>	<b>10.0</b>
<b>Median</b>	<b>44.9</b>	<b>57.9</b>	<b>62.9</b>	<b>66.8</b>	<b>13.0</b>	<b>16.7</b>	<b>18.1</b>	<b>19.1</b>	<b>0.0</b>	<b>3.8</b>	<b>8.6</b>	<b>9.6</b>
<b>Mean</b>	<b>44.9</b>	<b>57.9</b>	<b>62.9</b>	<b>66.8</b>	<b>13.0</b>	<b>16.7</b>	<b>18.1</b>	<b>19.1</b>	<b>0.0</b>	<b>3.8</b>	<b>8.6</b>	<b>9.6</b>

Source: Broker reports, Kroll analysis

**Pact Broker Forecast Underlying Revenue and Underlying EBITDA, by segment (\$ millions)**

Segment		Underlying revenue				Underlying EBITDA			
		FY23	FY24	FY25	FY26	FY23	FY24	FY25	FY26
Broker 1	Packaging & Sustainability	1,282.1	1,256.2	1,272.0	1,275.8	188.8	199.6	206.3	201.6
	Materials Handling & Pooling	346.7	272.0	191.2	191.2	74.0	57.4	38.7	37.9
	Contract Manufacturing	357.3	366.3	373.7	381.2	14.3	24.1	28.5	29.0
	Eliminations	(37.5)	(28.4)	(27.6)	(27.7)	-	-	-	-
<b>Total</b>		<b>1,948.6</b>	<b>1866.1</b>	<b>1809.3</b>	<b>1820.4</b>	<b>277.0</b>	<b>281.1</b>	<b>273.5</b>	<b>268.5</b>

Source: Broker reports, Kroll analysis

Note 1: Only one broker has provided Underlying revenue and EBITDA by segment. Underlying EBIT was not provided by any of the broker.

## Appendix 4 – Valuation methodologies

The most reliable evidence as to the value of a business or asset is the price at which that business or asset has been bought and sold in an arm's length transaction.

In the absence of direct market evidence, an estimate of value is provided using methodologies that rely on other sources of evidence. Consistent with International Valuation Standards, valuation methodologies applicable to assets or businesses can be categorised under three approaches: market approach, income approach and cost approach.

These approaches have application in different circumstances. The decision as to which approach to adopt will depend on various factors including the availability and quality of information, the maturity of the business and the actual practice adopted by purchasers of the type of asset or business involved.

### Market approach

The market approach is based on comparing the asset or business to identical or comparable assets or businesses for which there is available price information. It is commonly adopted where:

- the asset or business or similar assets or businesses are actively publicly traded (**market comparable methodology**);
- there are frequent and/or observable transactions in comparable assets or businesses (**comparable transactions methodology**); and
- there is substantial operating history and a consistent earnings trend.

The market comparable methodology indicates the value of a business by comparing it to publicly traded companies in similar lines of business. An analysis of the trading multiples of comparable companies yields insight into investor perceptions and, therefore, the value of the subject company. The multiples are evaluated and compared based on the relative growth potential and risk profile of the subject company vis-a-vis the publicly traded comparable companies. The multiples derived for comparable quoted companies are generally based on security prices reflective of the trades of small parcels of securities. As such, multiples are generally reflective of the prices at which portfolio interests change hands.

The comparable transaction methodology indicates value based on exchange prices in actual transactions. This process essentially involves the comparison and correlation of the subject company with other similar businesses recently sold or currently offered for sale. Considerations such as timeframe of transaction, premiums, and conditions of sale are analysed, and the observed transaction multiples are subjectively adjusted to indicate a value for the subject company.

A key step in both methods is determining the appropriate unit of comparison. In a business valuation common units of comparison include, revenue, EBITDA, EBIT, net profit after tax and book values. The choice will typically depend on the industry and characteristics of the subject asset.

Rule-of-thumb valuation benchmarks are sometimes considered to be an application of the market approach. They generally should not be given substantial weight unless market participants place particular reliance on them.

### Income approach

Under an income approach the value of an asset is determined by converting future cash flows to a current value. It is commonly adopted when:

- the income producing ability is the critical element affecting value from a market participant perspective;
- future cash flows can be estimated on a reasonable basis; and
- there is not a substantial operating history or there is a variable pattern of cash flow, or the asset has a finite life.

The most common methodology adopted is the discounted cash flow (**DCF**) methodology. It has a strong theoretical basis and benefits by explicitly estimating future cash flows, allowing it to be used in a variety of circumstances, whether that be a start-up or an established business. It also allows for various scenarios and/or sensitivities to be modelled. Under a DCF methodology, forecast cash flows are discounted back to the valuation date resulting in a present value for the asset. Where there is an explicit forecast period a

terminal value will typically be included, representing the value of the asset at the end of this period, which is also discounted back to the valuation date to give an overall value for the business. The rate at which the future cash flows are discounted (the discount rate) should reflect not only the time value of money, but also the risk associated with the asset or business' future operations. Whilst discount rates are generally determined from observable data, substantial judgement is required in their determination. Further, the cash flows themselves also require considerable judgement in their preparation, placing significant importance on the quality of the underlying cash flow forecasts and the determination of an appropriate discount rate in order for a DCF methodology to produce a sensible valuation figure.

DCF's can also be extremely sensitive to what may be considered small changes in various assumptions and the longer the forecast period the more difficult it is in general to forecast cash flows with sufficient reliability. As such, it is important to adequately understand the basis and risks associated with the various assumptions used to derive the cash flow forecasts and recognise the impact it can have on resulting values including the value range. Notwithstanding, DCF methodologies are widely used and benefit from the rigour associated with the preparation of future cash flows.

### **Cost approach**

Under a cost approach the value of an asset is determined having regard to the cost to replace or reproduce the asset. The most common methodologies include:

- the replacement cost;
- the reproduction cost method; and
- the summation method.

A cost based approach is most appropriate for businesses where the value lies in the underlying assets and not the ongoing operations of the business (e.g. real estate holding companies).

A premium is added, if appropriate, to the marked-to-market net asset value, reflecting the profitability, market position and the overall attractiveness of the business. The net asset value, including any premium, can be matched to the 'book' net asset value, to give a price to net assets, which can then be compared to that of similar transactions or quoted companies.

A net asset approach is also useful as a cross-check to assess the relative riskiness of the business (e.g. through measures such as levels of tangible asset backing).

## Appendix 5 – Market evidence

### Comparable companies

The following table sets out the trading multiples and financial information for the selected comparable companies to Pact.

### Comparable Company EBITDA Margins

Company Name	Type	Country	Market capitalisation (\$ millions) <sup>1</sup>	Enterprise value (\$ millions) <sup>2</sup>	EBITDA <sup>3</sup> margins			
					FY	FY+1	FY+2	FY+3
<b>Packaging</b>								
Ball Corporation <sup>4, 5</sup>	Metal Packaging	United States	22,602.2	27,949.5	14.7%	14.7%	14.8%	15.2%
Amtcor plc	Mixed Packaging	Switzerland	19,875.3	30,272.3	14.6%	13.9%	14.2%	14.0%
Crown Holdings, Inc. <sup>4</sup>	Metal Packaging	United States	15,661.1	27,196.5	15.3%	15.8%	16.0%	15.4%
AptarGroup, Inc. <sup>4</sup>	Rigid Packaging	United States	13,251.6	14,961.5	19.5%	20.2%	20.1%	0.0%
Berry Global Group, Inc. <sup>4</sup>	Mixed Packaging	United States	10,730.8	25,295.6	16.1%	16.6%	16.8%	16.8%
Silgan Holdings Inc. <sup>4</sup>	Rigid Packaging	United States	7,170.6	13,294.7	14.4%	15.1%	15.3%	14.7%
Sealed Air Corporation <sup>4</sup>	Flexible Packaging	United States	6,976.5	14,434.4	20.0%	20.7%	21.3%	21.3%
SCG Packaging Public Company Limited <sup>4</sup>	Mixed Packaging	Thailand	6,494.9	7,237.7	13.6%	14.0%	14.3%	n.a.
Orora Limited <sup>6</sup>	Mixed Packaging	Australia	3,708.1	5,585.1	13.5%	14.0%	15.5%	15.5%
TriMas Corporation <sup>4</sup>	Mixed Packaging	United States	1,576.1	2,248.4	18.2%	18.5%	n.a.	n.a.
Pro-Pac Packaging Limited	Mixed Packaging	Australia	48.1	90.2	2.6%	0.0%	0.0%	0.1%
<b>Contract Manufacturing</b>								
McBride plc	Contract Manufacturing	United Kingdom	113.6	433.7	3.6%	5.3%	5.3%	5.2%
<b>Pooling</b>								
Brambles Limited	Pooling	Australia	19,895.8	23,743.2	33.5%	21.3%	21.5%	22.6%
Myers Industries, Inc. <sup>4</sup>	Pooling	United States	1,027.2	1,160.0	12.3%	12.8%	n.a.	n.a.

Source: S&P Capital IQ, Bloomberg, Refinitiv, Company financial statements; Kroll analysis. n.a. is not available.

Notes:

1. Share price data as at 11 October 2023.
2. Enterprise value is calculated as market capitalisation plus net debt, minority interests, preference shares and leases.
3. EBITDA is presented on a post AASB 16 basis. For companies that report in US GAAP, lease expense is added back to EBITDA.
4. For companies whose financial year end is on 31 December 2022 and 2 October 2022, FY+1 has been shifted to FY.
5. Ball Corporation's enterprise value was adjusted for the cash received from the sale of its Aerospace unit for US\$5.5 billion on 17 August 2023.
6. Orora Limited EBITDA forecast figures are based on broker consensus post Saverglass transaction (synergies included).

## Comparable Company EBITDA Multiples

Company Name	Type	Country	Market capitalisation (\$ millions) <sup>1</sup>	Enterprise value (\$ millions) <sup>2</sup>	EBITDA multiples <sup>3</sup>			
					FY	FY+1	FY+2	FY+3
<b>Packaging</b>								
Ball Corporation <sup>4,5</sup>	Metal Packaging	United States	22,602.2	27,949.5	8.3	8.0	7.6	7.4
Amtcor plc	Mixed Packaging	Switzerland	19,875.3	30,272.3	9.1	9.7	9.3	9.0
Crown Holdings, Inc. <sup>4</sup>	Metal Packaging	United States	15,661.1	27,196.5	9.2	8.5	8.2	8.2
AptarGroup, Inc. <sup>4</sup>	Rigid Packaging	United States	13,251.6	14,961.5	14.0	13.0	12.1	n.a.
Berry Global Group, Inc. <sup>4</sup>	Mixed Packaging	United States	10,730.8	25,295.6	7.9	7.6	7.4	7.4
Silgan Holdings Inc. <sup>4</sup>	Rigid Packaging	United States	7,170.6	13,294.7	9.5	8.8	8.5	8.5
Sealed Air Corporation <sup>4</sup>	Flexible Packaging	United States	6,976.5	14,434.4	8.4	7.9	7.4	7.1
SCG Packaging Public Company Limited <sup>4</sup>	Mixed Packaging	Thailand	6,494.9	7,237.7	8.7	7.8	7.2	7.1
Orora Limited <sup>6</sup>	Mixed Packaging	Australia	3,708.1	5,585.1	7.5	7.9	6.3	6.1
TriMas Corporation <sup>4</sup>	Mixed Packaging	United States	1,576.1	2,248.4	8.4	7.4	n.a.	n.a.
Pro-Pac Packaging Limited	Mixed Packaging	Australia	48.1	90.2	10.4	n.a.	n.a.	nmf
<b>Contract Manufacturing</b>								
McBride plc	Contract Manufacturing	United Kingdom	113.6	433.7	7.0	4.6	4.5	4.5
<b>Pooling</b>								
Brambles Limited	Pooling	Australia	19,895.8	23,743.2	10.7	10.0	9.1	9.8
Myers Industries, Inc. <sup>4</sup>	Pooling	United States	1,027.2	1,160.0	7.0	6.4	n.a.	7.4

Source: S&P Capital IQ, Bloomberg, Refinitiv, Company financial statements; Kroll analysis. n.a. is not available.

Notes:

1. Share price data as at 11 October 2023.
2. Enterprise value is calculated as market capitalisation plus net debt, minority interests, preference shares and leases.
3. EBITDA is presented on a post AASB 16 basis. For companies that report in US GAAP, lease expense is added back to EBITDA.
4. For companies whose financial year end is on 31 December 2022 and 2 October 2022, FY+1 has been shifted to FY.
5. Ball Corporation's enterprise value was adjusted for the cash received from the sale of its Aerospace unit for US\$5.5 billion on 17 August 2023.
6. Orora Limited EBITDA forecast figures are based on broker consensus post Saverglass transaction (synergies included).



## Packaging

### *Ball Corporation*

Ball Corporation supplies aluminium packaging products to the beverage, personal care and household products industries in the United States, Brazil and internationally. Ball Corporation's primary products are aluminium beverage containers, which are used by carbonated soft drink, beer and other beverage producers. Until recently, Ball Corporation also operated an Aerospace business unit which specialised in spacecraft sensors and instruments. This segment was sold for US\$5.6 billion to BAE Systems on 17 August 2023.

### *Amcor plc*

Amcor plc is headquartered in Switzerland, developing, and producing rigid and flexible packaging products internationally. Amcor's flexible packaging products are used by end-users in the food and beverage, medical and pharmaceutical and personal care sectors. The rigid packaging products are used by end-users predominantly in the food and beverage sectors.

### *Crown Holdings, Inc.*

Crown Holdings, Inc (**Crown Holdings**) supply rigid packaging products to international end-users in the food and beverage, consumer and industrial sectors. Their products include recyclable aluminium beverage cans and ends, glass bottles, steel crowns and aluminium caps. Industrial products include protective solutions, automation products and equipment & tools. Crown Holdings is listed on the New York Stock Exchange and is based in Pennsylvania.

### *AptarGroup, Inc.*

Aptar Group, Inc, designs and manufactures drug delivery, consumer products dispensing and other packaging solutions for the pharmaceutical, personal and home care, and food and beverage end-user markets. Its products include pumps, closures, aerosol valves, accessories and sealing solutions. The company primarily sells its products and services through its own sales force into Asia, Europe, United States and North America.

### *Berry Global Group, Inc.*

Berry Global produces flexible and rigid packaging products in the consumer and industrial end markets across the United States, Canada, Europe and internationally. Berry Global consumer packaging products include dispensing systems, pharmaceutical devices and packaging and bottles and canisters.

### *Silgan Holdings Inc.*

Silgan Holdings Inc. (**Silgan**) manufactures and sells rigid packaging solutions for consumer goods predominately in the United States and internationally. Primary products include dispensing products, specialty closures, metal containers and customer containers. Products are used across the pharmaceutical, personal care and healthcare and food and beverage markets.

### *SCG Packaging Public Company Limited*

SCG operates as a packaging company primarily in Thailand, Indonesia, Vietnam, China and the Philippines. The company predominately produces and sells corrugated containers, retail display packaging, and flexible and rigid packaging. The company also offers food safety and eco-friendly packaging products. SCG offers services around designing of packaging and marketing integration.

### *Sealed Air Corporation*

Sealed Air Corporation provides packaging solutions in the Americas, Europe, the Middle East, Africa, Asia, Australia, and New Zealand. Its products are used in the food and beverage markets and are integrated packaging materials and automation equipment solutions to provide food safety, shelf-life extension, food waste reduction, automate processes, and optimize total cost for food processors in the fresh red meat, smoked and processed meats, poultry and seafood. Sealed Air Corporation also specialises in protective packaging.

### *Orora Limited*

Orora offer packaging products and services to the grocery and fast moving consumer goods and industrial markets in Australia, New Zealand, the United States and Internationally. Products include glass bottles,

aluminium cans, tabs and ends/closures. Orora also purchases, warehouses, sells and delivers a range of packaging materials and equipment. The company is headquartered in Australia.

#### *TriMas Corporation*

TriMas Corporation (**Trimas**) engages in Packaging, Aerospace and Specialty Products. The Packaging segment of operations specialises in dispensing products such as foaming and sanitizing pumps, polymeric and steel caps and closures. The aerospace segment provides fasteners, collars and bolts. The company sells its products through direct sales force, third party agents and distributors internationally.

#### *Pro-Pac Packaging*

Pro-Pac manufactures and distributes flexible packaging products in Australia and New Zealand. Its flexible products include shrink wraps, bags, carriers and other lidding/films. It also offers cartons and protective packaging. Pro-Pac products include end-user markets ranging from primary produce, food and food processing, agricultural, industrial, and commercial markets.

### **Contract Manufacturing**

#### *McBride plc*

McBride plc manufactures and sells private label household and personal care products to retailers and brand owners in Europe, Australia, Asia-Pacific and internationally. Their products include laundry detergents, dishwasher liquids, surface cleaners, as well as bleach. The personal care segment includes hair & skin care products. The company was founded and is based in the United Kingdom.

### **Pooling**

#### *Brambles Limited*

Brambles operates a supply chain logistics company, providing the use of unit load equipment and associated services internationally. Their pooling equipment includes pallets, crates, containers and reusable plastic containers. Their products are both reusable and single use. Brambles was founded in Australia in 1875 and is based in Sydney.

#### *Myers Industries, Inc.*

Myers Industries engages in material handling and distribution. The material handling segment manufacturer and market a variety plastic and metal products, which include plastic reusable material handling containers, small parts storage bins and plastic recreational vehicle tanks and parts. End-users for these products primarily include the industrial manufacturing and food processing markets. The distribution segment engages in the distribution of tools, equipment, and supplies for tires/wheels. Both segments operate domestically and internationally and serve a wide variety of specific markets.

## Comparable Transactions

The following table sets out the key comparable transactions.

Announcement Date	Target	Acquirer	% acquired	Implied Enterprise Value (100%) <sup>1</sup> (\$ million)	EBITDA	Enterprise Value / LTM EBITDA
<b>Rigid Packaging</b>						
8 December 2020	Guala Closures SpA	Investindustrial VII, L.P.	96.13	1,730.4	184.0	9.4
28 July 2020	IPL Plastics Inc.	Madison Dearborn Capital Partners <sup>2</sup>	100.0	986.3	128.1	7.7
6 March 2019	Plastics division of DS Smith Plc	Liqui-Box Corporation	100.0	841.6	85.0	9.9
11 November 2017	ShyaHsin Packaging (China) Co., Ltd	Blackstone Inc	100.0	1,395.1	138.4	10.1
11 April 2017	Consolidated Container Company LLC	Loews Corporation	100.0	1599.8	180.0 <sup>3</sup>	8.9
23 January 2017	WestRock Company (Specialty closures and dispensing systems business)	Silgan Holdings Inc.	100.0	1,354.9	163.2	8.3
<b>Australia Specific</b>						
15 July 2020	O-I Glass, Inc. (ANZ Business)	Visy Industries Australia Pty Ltd	100.0	733.0	124.0	5.9
11 September 2017	Integrated Packaging Group Pty Ltd	Pro-Pac Packaging Limited	100.0	177.5	18.1	9.8
11 January 2016	Colorpak Limited	Graphic Packaging International, Inc.	100.0	93.3	12.5	7.5
<b>Pooling</b>						
16 August 2023	Crate Pooling business of Pact Group	HRL Morrison & Co Limited; Morrison & Co Growth Infrastructure Fund	50.0	380.0	34.9	10.9
25 February 2019	IFCO Systems B.V.	Triton; Luxinva SA; Triton Fund V L.P.	100.0	3,500.7	346.6	10.1
15 August 2018	TIC (Retail Accessories) Pty Ltd	Pact Group Holdings Ltd	100.0	122.0 <sup>4</sup>	19.4	6.3
5 January 2018	Schoeller Allibert Group B.V.	Brookfield Business Partners L.P.	75.0	675.7	89.5	7.6
<b>Contract Manufacturing</b>						
22 February 2017	Pascoe's	Pact	100.0	51.8	8.0	6.5
5 September 2016	APM	Pact	100.0	90.0	13.8	6.5
17 June 2015	Jalco Group	Pact	100.0	80.0	12.3	6.5

Source: S&P Capital IQ, Mergermarket, Company financial statements; Kroll analysis.

Note:

1. Transactions in local-denominated currencies are converted at the exchange rate prevailing at the announcement date.
2. Includes Madison Dearborn Capital Partners VIII Executive-A2, L.P., Madison Dearborn Capital Partners VIII Executive-A, L.P., Madison Dearborn Capital Partners VIII-A, L.P., Madison Dearborn Capital Partners VIII-C, L.P. managed by Madison Dearborn Partners, LLC.
3. EBITDA has been converted using a USD/AUD exchange rate of 1.33. This is consistent with the exchange rate applied to the implied enterprise value.
4. Excludes earn-out of \$30 million.

## Rigid Packaging

*Guala Closures SpA/ Investindustrial VII, L.P.*

Guala Closures SpA (**Guala**), an Italy-based, worldwide leader in the production of non-refillable and aluminium beverage closures, was acquired by Investindustrial VII, L.P. (**Investindustrial**) at an implied multiple of 9.4 times LTM EBITDA. Guala boasts a strong global presence in over 100 countries and is regarded as the number one company in high value-added closures for spirits and wine.

*IPL Plastic Inc / Madison Dearborn Capital Partners*

IPL Plastic Inc (**IPL**) was acquired by Madison Dearborn Capital Partners (**Madison**) for an implied multiple of 7.7 times LTM EBITDA. IPL offers large format packaging and environmental solutions (LF&E), consumer packaging solutions (CPS) and returnable packaging solutions (RPS). Historically, the company's trading multiple had traded at a discount to its larger public company peers for a number of reasons, including the results of operations and performance.

*Liqui-Box Corporation/ Plastics division of DS Smith Plc*

Liqui-Box Corporation (**Liqui-Box**) purchased the Plastics division of DS Smith Plc (**DS Smith**) at a multiple of 9.9 times LTM EBITDA. The Plastics division comprises the plastics operations of DS Smith, including flexible plastics, rigid plastics and foam products. The acquisition was in-line with Liqui-Box's strategic initiative to become the leading innovator of sustainable flexible and rigid packaging solutions and also presented a strong synergistic fit, product portfolio and manufacturing footprint.

*ShyaHsin Packaging (China) Co., Ltd/ Blackstone Group LP*

ShyaHsin Packaging (China) Co., Ltd (**ShyaHsin**), a specialist in the production of cosmetic packaging containers, was acquired by Blackstone Group LP (**Blackstone**) for an implied enterprise value of \$1,395.1 million, representing a multiple of 10.1 times LTM EBITDA. The transaction was in line with Blackstone's establishment of a fund focused on healthcare and high-end manufacturing and services.

*Consolidated Container Company/ Loews Corporation*

Consolidated Container Company (nka: Altium Packaing, LLC) (**CCC**), a leading rigid packaging manufacturer, was purchased by Loews Corporation (**Loews**) at a multiple of 8.9 times LTM EBITDA. The acquisition provided a robust growth platform and was in line with Loews criteria to invest in a fragmented industry characterised by strong cash flows and low likelihood of major technological disruption. CCC offers a diversified business mix with long-standing customer relationships and has multiple manufacturing locations across North America.

*WestRock Company/ Silgan Holdings Inc.*

WestRock Company's (Specialty closures and dispensing systems business) (**WestRock**) specialty closures and dispensing systems business was acquired by Silgan Holdings Inc. (**Silgan**) at a multiple of 8.3 times LTM EBITDA. WestRock is a US-based manufacturer of packaging products, recycled paperboard, containerboard, bleached paperboard and merchandising displays. The acquisition provided Silgan with the opportunity to expand its leadership position in the global closure market, enhanced the scope and breadth of its closure franchise by bringing-in the highly engineered dispensing systems category, enhance free cash flows, capitalise on cost synergies and establish a platform for incremental growth, further acquisitions and continued expansion. On top of this, it also provided the company with significant earnings and equity value creation through deleveraging.

## Australia Specific

*O-I Glass, Inc/Visy Industries Australia Pty Ltd*

On 15 July 2020, Visy Industries Australia Pty Ltd (**Visy**) acquired O-I Glass, Inc. (**O-I**)'s Australasian glass bottle manufacturing business which included five manufacturing plants in Adelaide, Brisbane, Melbourne, Sydney and Auckland. O-I entered into a separate sale-leaseback agreement with Charter Hall for certain properties. This purchase was made at a multiple of 5.9 times EBITDA. This is towards the lower range of Australian packaging multiples and reflects a lower growth profile for glass packaging. There was large strategic benefit to this transaction, allowing Visy to become the primary Australian producer cartons, cans and glass bottles, it is likely some premium was associated with this benefit.

### *Integrated Packaging Group Pty Ltd/ Pro-Pac Packaging Limited*

On 11 September 2017, Pro-Pac Packaging Limited (**Pro-Pac**) merged with Integrated Packaging Group Ltd (**IPG**) in a \$177.5 million share sale, at a multiple of 9.8 times EBITDA. IPG specialised in flexible packaging and this high multiple reflects the high growth in the flexible packaging sector. This acquisition aligned with Pro-Pac's strategy at the time which was to become the flexible and industrial packaging manufacturer and distribution leader in Australia and New Zealand.

### *Colorpak Limited/ Graphic Packaging International, Inc.*

On 11 January 2016, Graphic Packaging International, Inc. (**GPI**) acquired Colorpak Limited (**Colorpak**) at an enterprise value of \$93.3 million and a corresponding multiple of 7.5 times EBITDA. Colorpak were a leading board packaging (cartons) supplier in Australia and New Zealand. This multiple is near median levels, reflecting the modest outlook for carton/board packaging sector and GPI increasing its presence in Australia and New Zealand packaging markets.

## **Pooling**

### *Pact Group Holdings Ltd/Morrison & Co.*

Pact announced the sale of 50% of its Crate Pooling and Crate Manufacturing business to Morrison & Co. (**Morrison**) at a multiple of 10.9 EBITDA. Pact has secured long term contracts with high profile companies such as Aldi and Woolworths. In regard to the Woolworths contract, the company plans to scale up usage from 50 million to 80 million crates a year by 2025. The deal is regarded as an attractive opportunity for Morrison and their clients to gain exposure to the circular economy and unlock economic value for investors.

### *IFCO Systems B.V./ Triton and Luxina SA*

IFCO Systems B.V. (**IFCO**) was acquired by Triton and Luxina SA (**Luxina**), a wholly-owned subsidiary of the Abu Dhabi Investment Authority (ADIA), at a multiple of 10.1 times LTM EBITDA. IFCO is the leading global provider of reusable packaging solutions for fresh foods. At the time of the acquisition, the company operated a pool of over 290 million Reusable Plastic Containers (RPCs) globally, which were used for over 1.3 billion shipments of fresh fruits and vegetables, meat, poultry, seafood, eggs, bread, and other items from suppliers to grocery retailers every year.

### *TIC (Retail Accessories) Pty Ltd/Pact Group Holdings Ltd*

TIC (Retail Accessories) Pty Ltd (**TIC**), a division of TIC Group and the leading provider of re-use services in Australia, was purchased by Pact at a multiple of 6.3 times LTM EBITDA. TIC is a closed loop plastic garment hanger and accessories re-use business with a client portfolio that extends to major retail brands and department stores in Australia, New Zealand, UK and USA. The acquisition added scale to Pact's portfolio, expanded the business' geographic reach and was strategically aligned to the company's commitment to provide sustainable packaging and supply chain solutions/

### *Brookfield Business Partners L.P./ Schoeller Allibert Group B.V*

Brookfield Business Partners L.P. (**Brookfield**) acquired a 75% controlling interest in Schoeller Allibert Group B.V (**Schoeller**), one of Europe's largest manufacturers of returnable plastic packaging systems, for an implied multiple of 7.6 times LTM EBITDA. Schoeller serves a diversified, long term customer base and holds a strong competitive position in key markets. At the time of the acquisition, the returnable packaging industry had a positive outlook, with growth forecasted off the back of an increasing focus on sustainability, waste reduction, e-commerce and logistics automation. The transaction also provided Brookfield with the opportunity to expand its customer base across segments and geographies.

## **Contract Manufacturing**

### *Australian Pharmaceutical Manufacturers Pty Ltd/Pact Group Holdings Ltd*

Australian Pharmaceutical Manufacturers Pty Ltd (**APM**), one of the largest providers of manufacturing and packaging services of nutraceuticals in Australia, was acquired by Pact at a multiple of 6.5 times LTM EBITDA. The company's product mix includes tablets, hard gels and powders. APM maintained long term relationships with leading participants in the health and wellness sector and were considered to be strongly aligned with its customer base. The acquisition extended Pact's service offering and was part of the strategy to expand in specialised co-manufacturing.

*Pascoe's Pty Ltd/Pact Group Holdings Ltd*

Pascoe's Pty Ltd (**Pascoe's**), a specialty contract manufacturer of household and industrial applications, was purchased by Pact at a multiple of 6.5 times LTM EBITDA. Importantly, at the time of the transaction, Pascoe's was one of Australia's largest manufacturers of aerosol and liquid based consumer products, with its product mix extending to cleaning, pesticides, air care and personal products. The company supplies major supermarkets and hardware stores in Australia. The transaction expanded Pact's investment in specialised contract manufacturing, provided access to a highly attractive segment in which Pascoe's had a leading position and enhanced the business' product and service portfolio by extending capabilities within liquids filling and aerosol based products.

*Jalco Group Pty Ltd Pty Ltd/Pact Group Holdings Ltd*

Jalco Group Pty Ltd (**Jalco**), an Australia-based provider of fast moving consumer goods (FMCG) contract manufacturing services, was acquired by Pact for a multiple of 6.5 times EBITDA. The acquisition of Jalco was a strategic fit for Pact, allowing the business to deepen existing FMCG customer relationships and providing opportunities to access new areas of growth by serving customers in outsourced contract manufacturing and packaging.

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# Part Two – Financial Services Guide

## What is an FSG?

This Financial Services Guide (“FSG”) is an important document that provides you with information to help you decide whether to use our financial services.

This FSG contains information on:

- who we are;
- who our authorised representatives are;
- how we can be contacted;
- certain financial services that we can offer you;
- how we, our authorised representatives and other parties involved in providing the financial services are paid in relation to the financial services we offer; and
- details of how you can make a complaint about us or the financial services we provide.

### *Who we are?*

Kroll Australia Pty Ltd (ACN 116 738 535), (“We”, “us” and “Kroll”) is authorised to provide retail financial services on behalf of Millinium Capital Managers Limited (ACN 111 283 357) (“Millinium”), Australian Financial Services License (“AFSL”) no. 284336, as a Corporate Authorised Representative (“CAR”). We have also appointed Mr. Ian Jedlin as an authorised representative to Millinium’s AFSL (our “Authorised Representative”). All authorised representatives of Kroll are authorised representatives of Millinium. We aim to provide quality financial products and services to investors. Kroll acts on its own behalf when providing financial services.

Kroll has been engaged by Pact Group Holdings Ltd (“Client”) to prepare an independent expert’s report (“Report”) in connection with the Offer. Pact will provide our Report to you.

### *Our details*

Kroll Australia Pty Ltd  
Level 32, 85 Castlereagh St  
SYDNEY  
NSW 2000  
www.kroll.com  
Ph: 02 8286 7200

### *Our Authorised Representative*

Ian Jedlin  
ASIC authorised representative: No. 000404117  
Level 32, 85 Castlereagh St, SYDNEY, NSW 2000

### *Authorised Financial Services*

Kroll is authorised by Millinium to provide the following financial services as their CAR:

- provide financial product advice in respect of the following classes of financial products:
- interests in managed investment schemes including investor directed portfolio services; and
- securities,
- with respect to retail clients and wholesale clients.

This FSG only relates to the provision of general advice by Kroll.

### *Personal Advice*

Neither we nor our authorised representatives can provide you with personal advice. Personal advice is advice that takes into account your objectives, financial situation and needs. Where you are referred to a financial planner for personal advice, they will make reasonable enquiries to understand your personal objectives, financial situation and needs. Their personal advice, and any relevant warnings, will be provided to you in their Statement of Advice (“SOA”).

### *Remuneration*

Kroll charges fees for preparing reports. These fees will usually be agreed with, and paid by, the Client. Fees are agreed on either a fixed fee or a time cost basis. In this instance, the Client has agreed to pay Kroll \$275,000 (excluding GST and out of pocket expenses) for preparing the Report. Kroll and its officers, representatives, related entities and associates (“Personnel”) will not receive any other fee or benefit in connection with the provision of the Report. All Personnel that provide general advice on our behalf in providing services are on contract to us and receive a salary or payments in accordance with their respective contracts. They may also receive a bonus, but it is not related to the general advice provided in the Report.

Kroll may provide professional services, including consultancy, business intelligence, transfer pricing and financial advisory services, to the person who engaged us and receive fees for those services Kroll and any of its associated entities may at any time provide professional services to financial product issuers in the ordinary course of business.

No individual involved in the preparation of this Report holds a substantial interest in, or is a substantial creditor of, the Client or has other material financial interests in the transaction.

#### *Complaint Redressal*

If you have a complaint, please let either Kroll or the Authorised Representative know. Formal complaints should be sent in writing to Complaints Officer, Kroll, Level 32, 85 Castlereagh St, SYDNEY, NSW 2000. If you have difficulty in putting your complaint in writing, please telephone the Complaints Officer on 02 8286 7227 and they will assist you in documenting your complaint. If the complaint cannot be settled in the first instance by Kroll, you should contact Millinium via the contact details set out below:

In writing:

Dispute Resolution Officer  
Millinium Capital Managers Limited  
GPO Box 615  
Sydney, NSW, 2000

When your complaint is received by Millinium it will be entered onto Millinium's complaints register. All details of the complaint will be sent to the Disputes Resolution Officer who will investigate the circumstances of the complaint. If the Disputes Resolution Officer is unable to reach a satisfactory resolution of the complaint within thirty (30) business days of receipt, you should contact Australian Financial Complaints Authority ("AFCA"). The details are:

In writing:

<https://www.afca.org.au/make-a-complaint>

Telephone

1300 56 55 62 (local call rate)

Email

[info@afca.org.au](mailto:info@afca.org.au)

Website

[www.afca.org.au](http://www.afca.org.au)

Please note that AFCA can currently only deal with claims for compensation up to \$1,085,000. Monetary limits and the AFCA terms of reference do change from time to time. Current details can be obtained from the AFCA website listed above.



# Corporate directory

## Registered and Principal Administrative Address

Pact Group Holdings Ltd  
Building 1, Level 5, 658 Church Street  
Cremorne, Victoria 3121, Australia  
Telephone: + 61 3 8825 4100  
ABN: 55 145 989 644

## Website Address

[pactgroup.com](http://pactgroup.com)

## Australian Securities Exchange (ASX) Listing

ASX code: PGH

## Financial Adviser

Flagstaff Partners  
Level 20, 101 Collins Street  
Melbourne, Victoria 3000, Australia

## Legal Adviser

Herbert Smith Freehills  
80 Collins Street  
Melbourne, Victoria 3000, Australia

## Share Registry

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