Pro-Pac Packaging Limited

ACN: 112 971 874

Annual General Meeting

Wednesday 25th November 2015

Chairman's Address

Good afternoon and welcome to Pro-Pac's 2015 Annual General Meeting. Thank you for your attendance. My name is Ahmed Fahour and I am a Director of Pro-Pac and your current Chairman. I would like to introduce the other members of the Board, Elliott Kaplan, Dr Gary Weiss and Brandon Penn. Our CEO, Peter Sutton and CFO and Company Secretary, Mark Saus are in attendance and also present is our auditor, Vikas Gupta from UHY Haines Norton. The highlight of the year was revenue growth of 12% ($25 million) by comparison with the prior year. The Company completed only one small acquisition in the year and therefore the revenue growth was primarily achieved through the successful implementation of sales and business development strategies. This achievement is particularly pleasing in the context of weak economic growth and very competitive markets.

Profit before income tax, relocation and business combination costs increased by 12% to $ 9.9 million by comparison with the prior year. However, one-off costs of approximately $1.5 million were incurred to restructure the existing business and integrate the Nelson Joyce acquisition which resulted in profit after tax increasing by only 1% to $5.8 million. Many of the products sold by Pro-Pac are imported from overseas and the declining value of the Australian dollar resulted in significant cost increases for these products. It is estimated that the total cost impost to Pro-Pac was $6 million by comparison with the prior year. It is a credit to our management and sales staff that the majority of this cost was recovered in very competitive market conditions.

The Company continues to look for attractive acquisitions that are accretive and meet return on investment hurdles. The Board expects further value-adding acquisitions to be completed in the coming year. Opportunities also exist to continue to lower the Company's cost base and grow sales with new and existing customers.

Despite the challenging business conditions the Board remains confident in the Company's ability to continue to grow both sales and profit and when considered in conjunction with a strong balance sheet and solid cash flows the Board decided to increase the final dividend to one and half cents per share for the second half .

This, combined with the interim dividend, resulted in shareholders receiving a total dividend of two and half cents per share fully franked for the financial year. I draw the shareholders attention to the trading update provided this morning which underpins our decision to increase the dividend. Our objective is to drive for shareholder value creation as we improve the underlying profitability of PPG.

In May 2015 Brandon Penn retired from his role as CEO of the Company. Brandon served as CEO for over five years and during that time the Company grew three fold in the packaging and distribution industry in Australia. On behalf of the Board I want to thank Brandon for his significant contribution to the Company over many years. Brandon remains a Director and a substantial shareholder of the Company. In August 2014 the Board appointed Peter Sutton as COO. Peter has extensive senior management experience in the packaging industry and in May 2015 Peter assumed the role of CEO.

Finally, I would like to thank my fellow Directors and the management team which are focused on looking after our employees and customers and together continuing to grow a successful packaging and distribution company in Australia that creates shared value.

On that note, I will hand over to Peter Sutton, our and CEO, who will present a more detailed review of the 2015 financial year and provide an update on trading conditions and strategies going forward.

Ends

CEO's Address

2015 Financial Year Review

Good afternoon. I'm pleased to be here today at my first AGM as CEO. As you are probably aware I assumed the role of CEO in May this year after joining the company in August 2014. One of my first impressions of Pro-Pac was its dynamic culture and orientation towards growth. This is very much the legacy of my predecessor Brandon Penn who served as CEO for over seven years. I'm pleased to say that this culture continued to serve the company well in FY15 with revenue growing 12% by comparison with the prior year. With only one midsized acquisition in the year, most of our sales growth came from new business development and using our sales and distribution network to grow the sales of businesses we acquired in prior years. We are particularly pleased with this sales growth when considered in the context of a low growth economy, and a very competitive market place.

Unfortunately the strong sales growth was not translated into profit with profit after tax increasing by only 1% to $5.8 million. This was primarily due to one-off costs associated with the relocation of two business units and the acquisition of Nelson Joyce. Profit was also adversely impacted by the sharp reduction in the AUD relative to the USD. This significantly increased the cost of the goods we import from overseas which in turn put pressure on our margins. Pleasingly most of the foreign exchange impact on our cost of goods was passed onto the market through price increases.

Trading and Operational Update

Trading conditions remain challenging with only modest growth occurring in many of the markets we serve. However there are exceptions to this with strong growth being experienced for food packaging supplied to the meat and poultry sector, rigid plastics to the pharmaceutical and Healthcare sectors and a variety of products supplied to a major retailer. The market remains very competitive in this low growth environment with all competitors chasing additional volume and customers seeking cost outs. This situation is made more challenging by the ongoing fall in the value of the AUD which continues to increase our cost of goods sold.

However, I'm pleased to advise that despite these factors our sales to the end of October are ahead of the same time last year by 4% and we are maintaining our margins through price increases. This combined with group wide cost reductions has the company's unaudited profit before tax 39% ahead of the same time last year. Of course the half year result will be dependent on trading in the critical months of November and December which represent the peak of the busy season for our business.

At this point I would like to acknowledge that over the past few years the company's profit and ROCE have not matched the robust top line growth. There are a number of reasons for this including the cost of integrating a large number of acquisitions, the falling AUD, and competitive pressure. Since becoming CEO I have made a point of communicating with the management team the need to maintain our growth orientation but to focus on profitable growth, cost reduction and return on funds employed. We are now exerting more control over prices and margins quoted by our sales teams, optimising head count, reducing our logistics costs, carefully scrutinising capital expenditure and placing more controls on working capital. Our strategy continues to evolve. Packaging distribution remains at the core of what we do but we continue to look for opportunities to invest in small, efficient manufacturing businesses that complement our product range and will benefit from access to our national sales and distribution network. We also continue to shift our sales mix away from industrial packaging to higher growth, higher margin sectors in particular food and healthcare.

Finally, I would like to thank Brandon Penn for the smooth handover earlier this year, the Board for their support and our roughly 500 employees who come to work and make it happen every day.

Ends