



Pro-Pac Packaging Limited

ACN 112 971 874

Annual General Meeting

Monday 27th November 2017



PRO-PAC PACKAGING LIMITED

2017 ANNUAL GENERAL MEETING

EXECUTIVE CHAIRMAN'S ADDRESS

Good morning ladies and gentlemen,

Welcome to the 2017 annual general meeting of Pro-Pac Packaging Limited.

It is now 12.00 noon and as a quorum is present I now declare this meeting open.

My name is Ahmed Fahour and I am your chairman.

Here with me on the podium today are:

- ❖ Elliott Kaplan, Non-Executive Director
- ❖ Brandon Penn, Non-Executive Director
- ❖ Dr Gary Weiss, retiring Non-Executive Director
- ❖ Rupert Harrington, Non-Executive Director-elect
- ❖ Grant Harrod, Chief Executive Officer
- ❖ Mark Saus, Company Secretary

Financial performance

Your company underscored its resilience during the 2017 financial year by delivering a solid performance, notwithstanding some soft trading conditions. This was especially so in the first half when demand was weaker in the nutraceutical, red meat, beverage and retail markets, although better demand from the food and beverage sector drove improved momentum in the second half, allowing Pro-Pac to record full year revenue of \$229.2 million.

Underlying Profit Before Tax (PBT) was \$7.8 million, impacted by significant one-off costs including write-offs on discontinued products inventory, provision for expenses on a legal dispute, and due diligence costs.

Your Company's balance sheet remained solid with a low gearing ratio of 12.9% and net assets of \$113.7 million at 30 June. Dividends totalling 2.0 cents per share were paid during the year.



Notwithstanding the challenging market conditions in FY17, your company entered FY18 with a strong market position and a pipeline of growth opportunities.

We moved quickly to capitalise on one of these opportunities, and earlier this month completed the \$177.5 million acquisition of Integrated Packaging Group. This was funded by issuing \$60 million of Pro-Pac shares to the vendors, and A cash payment of \$117.5 million. The cash was provided by \$70 million of new debt and a 2-for-3 entitlement issue.

This is a genuinely transformational transaction, and we are very excited about where it is going to take us. For a start, it allows Pro-Pac to diversify its operations and enhance its growth prospects by creating a significantly larger organisation that has market leadership in primary (that is, trays and films), secondary (ie, shrink wrap) and tertiary (stretch wrap) industrial packaging solutions.

As previously announced, we have identified some \$2 million in cost synergies we expect to achieve during the current financial year are targeting 18% accretion in earnings per share based on a pro-forma FY18 net profit after tax of \$18.4 million.

Board and Management Changes

In April 2017, your Company announced the appointment of Grant Harrod as Chief Executive Officer. Grant has extensive listed company CEO experience with specific expertise in distribution services, commercial services and FMCG marketing, and was selected for the role following a comprehensive executive search after the retirement of Peter Sutton in July 2016.

During the search, company co-founder Mr Brandon Penn undertook the role of interim CEO. Brandon has since resumed his role as Non-Executive Director. On behalf of the Board and shareholders, I would like to thank Brandon for his leadership and service during the transition.

Following the extraordinary general meeting last month to approve the issue of shares to Advent as part consideration for IPG, your Board appointed me Executive Chairman to help support the integration phase. I am grateful to the Board for their confidence that Grant and myself, working collaboratively as executives, will strengthen the Company's capability to successfully achieve all strategic objectives following this transformational deal.

Subject to your approval when we arrive at the formal part of this meeting, Mr Rupert Harrington will join the Pro-Pac Board as a Non-Executive Director. Rupert is currently Executive Chairman of Advent Partners and is an experienced Non-Executive Director,



having served on more than 20 of Advent's investee companies whose operations included manufacturing, services, health, technology and other sectors.

Dr Gary Weiss, who has served as a Non-Executive Director of Pro-Pac since May 2012, announced in October that due to other board commitments he intended to retire as a director today by not offering himself for re-election. Gary is one of Australia's most experienced and respected directors and we have benefited enormously from his wise counsel and his invaluable advice and support on the Company's strategic direction. Please join me in thanking Gary for his service in the traditional manner [applaud].

Thank you. Your Board has also determined to seek an additional independent Non-Executive Director and has appointed executive search firm Egon Zehnder to assist in this process.

I would also like to welcome John Cerini [stand to be identified if present at the meeting] who has been appointed to lead Pro-Pac's Industrial & Flexibles Division. John is a very experienced packaging executive and was previously CEO of IPG.

Other Strategic Initiatives

As well as acquiring IPG, Pro-Pac is implementing a number of other strategic initiatives to support revenue growth and expand its product offering, particularly in its key growth markets of flexible and industrial packaging. The Company is also undertaking a digital transformation strategy to support its future growth platform by:

- ❖ launching an online sales strategy targeting SMEs;
- ❖ rolling out a national merchandising strategy to improve procurement efficiencies and inventory management;
- ❖ increasing focus into lucrative primary packaging market, via product and salesforce expansion; and,
- ❖ increasing scalability to support continued organic and acquisitive growth.

Investments made on your Company's digital platform will benefit Pro-Pac's customers, suppliers and employees. Once implemented, these initiatives are expected to increase volumes, improve margins and working capital efficiency.

Outlook

Your Board believes strongly in the future of flexible packaging. This is a key growth driver for Pro-Pac and by merging Pro-Pac and IPG, we look forward to supporting our customers,



our strengthened management team and our expanded employees in establishing a leadership position in this market in FY18 and beyond.

I will now invite Grant to talk to you now about the “new” Pro-Pac Group.

CHIEF EXECUTIVE OFFICER’S ADDRESS

Good afternoon.

It’s my great pleasure to address you today for the first time as your CEO and to provide you with an update on your Company.

The past year, as you have heard from the Chairman, was a solid one. The coming year is one of great promise. We completed the acquisition of Integrated Packaging Group (IPG) earlier this month, and we have now established a clear platform for growth into the industrial and flexible packaging sector, with a complementary suite of manufacturing solutions and extensive national distribution network.

While our immediate priority is the smooth integration of IPG, we also continue to investigate several other exciting opportunities for further growth and expansion, which I will cover later.

Combining IPG’s strength in manufacturing with Pro-Pac’s sourcing and distribution expertise, we have the opportunity to establish market leadership in both the flexible and industrial packaging sectors. Where flexible packaging includes; shrink & stretch wrap, silage film, protective films, thermos-form food trays, specialty engineered films, plus bags, liners & covers.

There is a unique complementarity with Pro Pac and IPG that between them have over 60 years of operating history.

Pro-Pac is now emerging as a world class packaging manufacturer and distributor with no geographic constraints. We are increasing our offerings in highly resilient key markets such as fresh food, agriculture and horticultural packaging, all of which require local processing.

As you heard from the Chairman, Pro-Pac’s new flexible arm, along with its current industrial and rigid businesses is capable of supplying the full spectrum of primary, secondary and tertiary packaging categories.

Primary packaging is in direct contact with the product, an example being the fresh food trays Pro-Pac currently supplies to chicken and meat processors. It is also a highly defensive category as the customer’s production processes are typically aligned to the packaging. Secondary packaging is where a number of products are packaged together, such as a six pack of beer. As consumer behaviour shifts more towards ‘buy-for-today’ increasing the demand for unitization of products, we expect both primary and secondary packaging to



continue growing in excess of GDP. Finally, the tertiary packaging category includes products such as stretch wrap, strapping, corner boards, etc, supports the bulk transportation and warehousing of products, by helping customers secure and efficiently manage the movement of product.

The breadth of Pro-Pac's products and services now enables it to provide a full end-to-end packaging service, across flexible, industrial and rigid packaging products, including some which are disrupting traditional packaging categories, such as shrink-wrapping being used to replace traditional cardboard retail carry cartons in the beverage industry, saving the brewer significant cost, whilst providing a more secure and better retail presentation.

According to IBISWorld, the Australian packaging industry has been growing at around 2.5 per cent a year for the last five years, and IBISWorld is forecasting 2.7 per cent growth for the 2017-18 financial year. Within the greater packaging industry, the flexibles segment is growing even faster at around 4% a year, benefitting from more favourable and resilient consumer trends, including unitization and a focus on product freshness. Flexible packaging is best placed to capitalize on these trends given its ability to both unitize and protect products, especially helping to retain product quality over a longer period, via its barrier capabilities around moisture and atmospheric control.

A key growth market for flexible packaging is in the agricultural and horticultural markets. Whilst these markets can sometimes be prone to cyclicity due to external factors, the long term prospects are very compelling given they require a significant amount of local processing and packaging. As an example, the use of atmosphere controlled flexible packaging in the fresh produce sector, significantly extends product shelf life helping reduce wastage and increasing yields for producers and retailers.

IPG's Agricultural division is a world leader in the development, manufacture and supply of integrated wrapping, baling, storage and silage inoculant solutions, servicing the grain, hay, grass and cotton markets, both domestically and internationally. Wrapping produce in flexible packaging at harvesting helps retain product quality and allows storage in-field reducing logistics costs, plus gives growers the flexibility of when to sell their produce.

Pro Pac's Industrial Division has been involved in the supply of flexible packaging for some time, based on organic growth and past acquisitions. Today, Pro-Pac is a major supplier of flexible food trays used in the fresh protein sector, and is a significant supplier of flexible films across secondary and tertiary packaging requirements. The acquisition of IPG further compliments this already evolving category for the company.

Sustained growth in the flexibles market will be one of the primary driver of Pro-Pac's overall growth. As outlined, flexibles as a segment is exhibiting faster growth than GDP and the overall packaging sector.

The integration of IPG into Pro-Pac is underway, with our respective teams working closely to facilitate the rationalisation, consolidation and optimisation of the two businesses. We are on track to deliver the \$2m in annualised synergies for FY18 as already announced.



The industrial and rigid businesses are seeing trading in line with expectation and have a strong pipeline of new business opportunities. With their engineering innovation capability, IPG are developing a number of new exciting product opportunities, which are currently in commercial trials and expected to generate significant sales opportunities in the coming months.

There exist further opportunities for us to expand beyond our organic growth. Notwithstanding our size and market-leading share, the soft flexibles and industrial packaging market remains fragmented with many small to mid-sized operators. We are monitoring several companies whose businesses may be of interest to us. They may operate businesses that are complementary to ours, service customers that we do not, operate in regional geographies where we are not in currently, or they could simply provide easy-to-achieve manufacturing and distribution synergies.

With our new growth strategy we have a very exciting future and I look forward to updating you all as we progress on this exciting journey.

On that note, I would like to close by thanking all of our staff and management for their efforts, and our shareholders for your support.

I will now hand back to the Chairman.

Ends