Company: **Pact Group Holdings Ltd**

Conference Title: **Pact Group FY21 Full Year Results Mod**

Moderator: **Anita James**

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Operator: Good day, ladies and gentlemen, and welcome to the Pact Group Full Year 2021 Full Year Results. Kindly be informed that there will be a Q&A session at the end of the presentation. For those who have questions, please dial into the audio to be able to ask questions. Today's conference is being recorded. At this time, I would like to turn the conference over to Sanjay Dayal, the Chief Executive Officer. Please go ahead, sir.

Sanjay Dayal: Good morning, everyone, and welcome to Pact Group Fy21 Full Year Results briefing. I'm Sanjay Dayal, the Chief Executive Officer of Pact Group. I'm joined today by Paul Washer, our Chief Financial Officer. Today, I'll share with you the highlights of our results, our progress on safety and our segment performance before handing to Paul to take you through the group financials. I will then return to talk to you about our near-term strategic priorities. We'll be pleased to take questions at the close of the presentation.

Turning to Slide five and our results headline. In FY21, we delivered pleasing improvements in key metrics. Underlying NPAT for the year was $94 million, up 28%. Underlying EBIT increased 10% to $183 million. Our EBIT margins improved up, 1.2 points to 10.4%, gearing improved to 2.4 times. The board determined to pay a final dividend of 6 cents, franked to 65%, lifting total dividends for the year to 11 cents.

We have delivered solid organic growth in key segments with growth in closures and reuse services particularly pleasing. Our margins improved. Sharply rising raw material input costs later in the period we're well managed. We have continued to manage our balance sheet with discipline. Cash flow was strong and gearing has improved and is comfortably within our targeted

range. These results have been delivered against a backdrop of continued operational challenges and market disruption arising from Covid-19. I'm very proud of how well the company continues to respond to these challenges and the demonstrated resilience of our portfolio.

Moving to Slide six. I just wanted to take a pause here and reflect on our journey over the last 18 months. Our results for this year reflect the great progress we are making in transforming Pact as we drive towards our strategic vision. Through our strategy, we have redefined Pact. Today we are a sustainable packaging solutions provider firmly recognised by industry, our customers and government as leaders in the space. We are differentiated through our circular economy credentials with deep experience and capability in packaging, recycling and reuse solutions. As plastics sustainability transforms our industry, our unique and integrated capability provides a significant value creation opportunity. We have disciplined financial management and ambitious targets for shareholder value creation. Our results are illustrating the good work that we are doing. We have set aspirational sustainability objectives and the initiatives needed to deliver these are well underway. Delivery of these objectives will directly support our customers in meeting their own agenda. Our strategy has provided us clarity in vision and a pathway to deliver significant long-term value for all stakeholders. This was my ambition when we undertook our strategy review eighteen months ago, and I'm really excited and proud of the progress that we are making.

Moving to safety on slide seven. The LTIFR for FY21 was 4.2, up on 4.0 in the prior year. Whilst this rate has increased, I have been pleased with the reduction in the severity of incidents supported by continued focus on improving safety culture and processes. I'm committed to ensuring this continues. Covid-19 continues to present challenges. While these challenges have been particularly severe in our Asian business, it has been a constant threat to all our operations throughout the period. I've been really pleased with the way all our employees have come together to help manage the health and business risks associated with Covid-19. Strict health and safety protocols, strong teamwork and vigilant management and compliance have protected

our sites and our people. There have been no material impact to our operations during the period. Vaccination remains a key priority, and in areas where vaccines are not funded, the company is providing funding support to protect our people.

Slide nine. In the next few slides, I will take you through our segment results and highlight the importance of strategy to our financial performance. Firstly, Packaging and Sustainability. Here we saw a pleasing 15% growth in EBIT. We delivered strong volume growth in closures underpinned by the consolidation of our digital platform in Asia. This is a particularly pleasing result, given the continuing challenges arising from Covid-19 in the region. In Australia and New Zealand, we benefitted from stronger demand in agricultural and industrial sectors. Our newly acquired business, Flight Plastics, has been fully integrated and performed to expectation. Our access to recycling materials coupled with our manufacturing, technical and innovation expertise has been a key differentiator in the market and has driven topline benefits with several new contract wins in this period. Margins were improved up 1.3% to 9.2%. Raw material input cost increases later in the period were well managed.

Moving to Slide 10, our Materials Handling and Pooling segment. Here we saw EBIT growth of 23% driven by strong organic growth. USA reuse services performed above expectation, whilst in Australia we saw a rebound in demand for hanger reuse services. Penetration of pooling in the fresh produce sector increased. Margins were strong at 15.8%. We remain very optimistic of our growth opportunities in this segment. In crate pooling, we expect to deliver double digit annual growth on average over the strategy period through increased penetration in the fresh produce sector and diversification of pooling into new categories such as protein. We are also investing in smart packing solutions that can improve efficiency and reduce waste. In reuse services, we are expanding our facilities in Bangladesh, which will enable growth, and this remains a focus for us.

Moving ahead to Slide 11 and our Contract Manufacturing segment. Normalised demand in the hygiene category delivered lower earnings, cycling out Covid-19 related demand in the prior

period. Demand for nutraceutical products in the health and wellness sector was improved, and we benefited from continued improvement in platform efficiency. In the period, we were impacted by a factory fire at a plant supplying into the automotive sector. The plant generated annual sales of approximately $10 million and EBIT of $1 million. No employees were injured, however, all assets have been written off. Underlying adjustments in the period includes $6.7 million for costs associated with the fire, mostly for site clean-up. Insurance processes are ongoing.

Finally, a word on the sale process for Contract Manufacturing. This process is ongoing, with Covid-19 lockdowns in Sydney slowing progress. As I said, at the half year, we have a value hurdle that must be met, and if divestment cannot realise this expectation, we will retain the business in our portfolio. We will keep you informed of progress.

I will now hand over to Paul to run through the group financials and balance sheet metrics. I will then return to talk to you about our strategic priorities and outlook. Paul.

Paul Washer: Thank you, Sanjay. And good morning, everyone. It is very pleasing to present the solid financial results in my first reporting period with Pact. To recap on the highlights. Underlying EBIT was up 10%. Underlying EBIT margins improved to 10.4%. Underlying net profit after tax improved 28% to $94 million. Free cash flow was up 44% to $104 million and gearing reduced to 2.4 times. Reported net profit after tax was down 1% to $88 million, with reported earnings per share slightly down on last year at 25.4 cents per share. The lower reported results are due to the movement in underlying adjustments after tax. This year, underlying adjustments after tax was a net expense of $6 million. This compared to a net gain of $15.6 million in the prior period, including a $23 million gain relating to finalisation of deferred consideration for the TIC acquisition. Details of underlying adjustments can be found in the appendix to this presentation. Group revenue of $1.8 billion was down 3% on the prior period due to lower hygiene sales and Contract Manufacturing, foreign exchange impacts and the pass through of lower raw material input costs for the majority of the year.

Turning now to Group EBIT on Slide 14. Underlying EBIT of $183 million was up 10%. A great result delivered through solid organic earnings growth and disciplined margin management. As previously noted, lower volumes in Contract Manufacturing hygiene sales were more than offset by solid organic earnings growth across both the Packaging and Sustainability and the Materials Handling and Pooling segments. Disciplined pricing and cost efficiencies improved margins by $10 million. Rising raw material costs later in the period were well managed. Foreign exchange adversely impacted our translated earnings by $6 million. Overall, a very pleasing result.

Turning now to our balance sheet on Slide 15. We are particularly pleased with the strength of the balance sheet. We have reduced net debt by $29 million, and gearing was improved to 2.4 times, well within our targeted range of less than three times. We have undrawn debt capacity of over 300 million. We are looking to further improve liquidity with planning underway to extend the maturity of our commitments and widen our lender base.

Turning now to cash management on Slide 16. We have delivered pleasing operating cash flows and have managed our working capital very closely. Operating cash was up 10% to $303 million, and cash flow conversion was very strong at 96%. A great result.

Turning now to Slide 17 and our approach to capital allocations. This framework guides our capital decisions, ensuring we maintain a strong balance sheet and continually focus on improved capital returns. Our framework prioritises spend on sustenance capital. We have set ourselves a benchmark of annualised spend to be 70% of depreciation. Over the near term, this will be important in rebuilding the competitiveness and efficiency of our packaging platform, a key strategic priority for the Group. Our growth spend will be prioritised based on return on invested capital returns, with a hurdle of 15% implemented. And we are targeting a dividend payout ratio of more than 40% of underlying net profit after tax. We are targeting Group return on invested capital of 13.5% by 2025. In the period, we delivered return on invested capital of 11.8%, an

improvement on the 10.6% in the prior period, and total dividends of 11 cents per share. Capital expenditure was slightly up on the prior year, but below expected levels due to delays in sourcing equipment. We expect to increase spending in the financial year 2022 as we catch up with an estimated spend of $100 million.

That concludes my comments on the financials. I will now hand back to Sanjay.

Sanjay Dayal: Thank you, Paul. Our strategy is redefining the company. Presented here is a strategy on a page giving a clear summary of our aspiration and targets, our key priorities, the enablers required to win and our values. Our strategy aligns our special capabilities in packaging, reuse and recycling to industry needs. Delivery of strategy represents a significant value creation opportunity for the company, in addition to enabling us to deliver our own sustainability aspirations.

Turning now to Slide 20, the circular economy transition. I've spoken previously about the importance of the ecosystem that is needed to support an effective circular economy, the need for strong government, industry and customer collaboration. Consumers are increasingly demanding more sustainable packaging, with education, media and labeling changing packaging choices that they make. Brand owners and retailers are responding, setting ambitious sustainability targets, and governments are implementing policy and legislation that is creating an urgency for change and are incentivising investment to support it. Pact is uniquely positioned to accelerate change with capability across the value chain, which enables us to deliver industry solutions that others cannot. It has been 18 months since we launched our strategy, and my confidence that it provides us the opportunity to deliver significant long-term value has only grown.

Moving ahead to Slide 21. Our strategy is supported by detailed plans and initiatives. Our key initiatives for the near-term are listed here. I will provide more detail about these on the following slides.

Moving ahead to Slide 22, delivering margin growth in Australian packaging. We are targeting to return margins in our Australian packaging business to global industry standard by 2025. Attainment of this target represent a significant value creation opportunity. We are focused on four key levers to drive margin improvement. Firstly, strategy. We have completed work on detail segment strategies identifying several compelling opportunities to deliver value and growth using a circular economy credentials as a key differentiator.

Secondly, operational performance. We are investing to upgrade our platforms. These are improving our competitiveness, including capability to support recycled content solutions. We are also investing in automation and efficiency. Our safety, quality and delivery metrics are improving.

Thirdly, procurement and supply chain. We are investing in best practice supply chain capability to drive supply chain efficiencies. We are further centralising management of spend and targeting a step change improvement in key categories. This is being supported by investment in centralised procurement systems.

And finally, people. Our people are critical to enhancing performance. Across Pact, we are transforming. We are driving the organisation to be much more customer-focused not only through behaviour and practice, but also through organisational structure, accountability and incentive programs. We are investing in leadership and capability development and we are thinking differently, acting faster to improve performance and drive operational change. This includes transforming our functional teams to deliver standardisation, improve data analytics and operational excellence. We have already made good progress over the last year, and I remain confident these levers will continue to drive further improvement.

Moving to Slide 23, lead plastic recycling. Plastic recycling continues to be an exciting and rapidly evolving part of our strategy. We are building a network of recycling infrastructure in Australia through innovative industry solutions. We are collaborating with recognised industry participants to gain access to important waste streams needed for recycling and to secure offtake of recycled products. Our recycling and manufacturing capability enables us to deliver change that others cannot. Last year we acquired Flight Plastics in New Zealand, giving us access to packaging with up to 100% recycled content in the fresh food segment. We are well progressed in building a first new PET recycling plant in Albury in partnership with Cleanaway and Asahi. This will be operational by December this year, providing 20,000 tons of recycled materials to be reused in beverage and food packaging. Last month we announced a further partnership with Cleanaway, through which we will build a new plastic recycling plant in Laverton, Victoria. This plant will produce 20,000 tonnes of recycled plastic for use in beverage, dairy and other grocery categories. And on Monday this week, we announced a partnership with Cleanaway, Asahi and Coca-Cola Euro Pacific Partners that will jointly develop another 20,000 tonne PET recycling facility in Australia. The combination of these arrangements provides Pact a strong advantage and positions us enviably as our industry transforms. I'm extremely proud of our leadership, innovation, collaboration and visionary approach in this important area of growth.

Moving ahead to Slide 24. We are investing in end-to-end organisation capability to support our customers transition to recycled content solutions. Most of our customers have set ambitious sustainability objectives for 2025 for increased use of recycled content in plastic packaging. These objectives align with Australia’s national packaging targets that require a minimum of 20% recycled content in all plastic packaging. For PET products, it is 30%. This is a significant step change from where the industry is today. Customers are increasingly recognising the need to develop strategic partnerships to gain access to recycled materials and meet the technical challenge of transition. Pact is well positioned to be the partner of choice in this area. Our investment in recycling infrastructure is establishing an important advantage in access to recycled materials. In addition, we are investing in manufacturing, technical and innovation capability that

will support the transition to recycled content packaging. Our capability here is industry-leading and differentiates us in a rapidly changing market. Our circular economy credentials have already underpinned several new contracts in the packaging and infrastructure sectors.

Moving ahead to Slide 25. With delivery of strategy in other areas now gaining momentum, our focus is turning to the opportunities we have to accelerate growth in our Asian region. Our closures and Asian packaging business is sizeable. It generates over $280 million in revenue. We have centralized management under the leadership of an experienced team based in Asia. We operate in nine countries with over 20 sites and a thousand employees. We have regional scale with deep category expertise and special technical capability that provides a competitive advantage in the region. We are well-positioned to grow. The performance of our closures and Asian business this year has given us confidence that our opportunities are significant.

Turning now to Slide 26 to summarise. As I said, I'm really pleased with the progress we have made over the last 18 months in transforming Pact. We have delivered improvements in key metrics and maintained strong cash generation. Our balance sheet strength has improved and gearing is comfortably within targeted levels. ROIC is improving. We are targeting top quartile shareholder returns by 2025. Our progress so far gives me confidence that we can achieve this. Our strategic positioning and continued progress on improving business fundamentals will ensure our success. I'm looking forward to sharing further progress with you.

Finally, our outlook for FY22 on Slide 28. We expect further progress in the delivery of strategy and earnings resilience in FY22. In our first quarter, demand is expected to be generally in line with recent trends, though margins will be impacted by higher raw material and international freight costs. Covid-19 continues to create market uncertainty. An update on trading will be provided at the AGM on 17th November 2021.

That concludes today's presentation. We will now take questions.

Operator: Thank you. Ladies and gentlemen, if you would like to ask a question, please, signal by pressing star one on your telephone keypad. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. A voice prompt on the phone line will indicate when your line is open. Please state your name and company at the turn before posing a question. Again, press star one to ask the question. We'll now take our first question from John Purtell of Macquarie. Your line is open. Please go ahead.

John: Good morning. Just had a few questions, please. Thanks for the presentation. Just in terms of the targets for margins in Australian packaging to get sort of global standard. Sanjay, can you clarify that that's sort of within the packaging and sustainability business specifically? Obviously, margins are higher in the materials handling area.

Sanjay Dayal: Yes, John. Hi there. Yes, that's primarily – if you look at the margins in our packaging and sustainability segment, the Asian margins and the New Zealand margins are already close to industry standard. It's really the Australian one I wanted to emphasise, which we are going to lift and bring to benchmark standards.

John: Within that Packaging & Sustainability business?

Sanjay Dayal: That's correct.

John: Thank you. Just a second one. In terms of your outlook statement, you, obviously, haven't given sort of discreet guidance for the full year. I know you didn't last year either, but then any sort of commentary around that. And also, in terms of the high costs that you called out for the first quarter, are you able to quantify the earnings impact from that?

Sanjay Dayal: Yeah, I might just give a few comments and Paul might then give some more details. The first point there, John, is that we have already signaled that the volumes, and in terms of demand, it will remain good and resilient. That's what we are seeing in the market. I think the other point I wanted to make was also that some increases in cost, which we got in the last quarter of the FY21, we have been able to manage that quite well. So that gives me further confidence about that. But what I really wanted to signal out here is the volatility, particularly in international freight, ports and things like that, and, of course, other raw materials. And we are working pretty hard to make sure that whatever impacts we have we are able to recover it from the market. And as I said before, we've managed to do quite well in the last quarter of FY21. But I just wanted to figure that out. And that's the reason for that comment, that there is quite a bit of volatility there. I think the other point I wanted to make was that this is really around the first quarter. As we have said in the AGM, we will give an update. So, I just wanted to make sure that for the next quarter this volatility is signaled and we will – and that the market is aware of those challenges.

Paul, you want to add anything else on that?

Paul Washer: Yeah, just reiterating Sanjay's point. I mean, we're not, as Sanjay said, we do see the demand still there and it's still going. So, we're not expecting, especially in Q1, the margins to deteriorate. But the key is we need to continue as we have in the second half of the year, to continue to manage the discussions with especially our customers about what is actually happening in the market. So, we just have to keep that conversation alive and that's what we will do. But it's more that we still are expecting the margins to continue in the first quarter, but we just don't know the uncertainty looking further out.

John: Thank you. And just a final question, sort of related, if you're able to comment on what impact lockdowns are having. Obviously, this time a year ago we saw a positive impact in terms of hand sanitisers demand for Contract Manufacturing and some negative impacts elsewhere, what are you seeing at present?

Sanjay Dayal: So there has been – in terms of demand, there was a surge which we got last year. Some of that surge is no longer there, particularly in the hand sanitiser market. But overall, the base demand continues to be resilient and we are being able to manage the whole covid situation quite well. As I mentioned, we've not had any loss of production because of that. It has not impacted our profitability at all. So that's overall, we have been able to manage that well. But the sudden surges that we had last year, I'm not expecting those to be back again.

John: Thank you.

Sanjay Dayal: Thanks, John.

Operator: Thank you. Once again, ladies and gentlemen, if you would like to ask a question, please, press star one on the telephone keypad. We'll take our next question at the tone, please state your name and company before posing a question. Your line is open. Please go ahead.

Bradley: Hi, this is Bradley Beckett from Credit Suisse. Congrats on a really strong result. Two questions from me. Firstly, can you add some colour on the major drivers for packaging margin improvement that you saw in this result specifically?

Sanjay Dayal: Sure. We have a very strong efficiency program and a very strong program in trying to get suitable pricing from the market. So, on both ends of the margin, so to say, trying to manage the cost well, as well as managing whatever cost increases we get in terms of resin and others. We are very proactive. We have our discussions with our customers proactively as we see the trends in the market. And about 65% of our volumes in the packaging segment already has got some rises and falls in it. So that we are able to pass on. But even for the balance part, which is not – doesn't have a firm rise and fall clause, conversation with customers with quality service – I think the point I just want to make, if the customer is happy with you – and I think that's been quite a

significant improvement in Pact, which I'm very pleased with in terms of quality. I think about a year back I called out that we had issues with quality and in terms of service, and DIFOT. All that has dramatically improved a lot over the last year. And that has been mostly because of the people, but also because of the investment that we have done in that. So, the customer conversation on pricing works well if the customer is happy, and we are proactively doing that. So that's one aspect of it.

And the other, as I said, efficiency. Efficiency improvements are in two parts. One is in terms of investments and rationalising and managing our cost base better. So, standardisation has been one of the themes that I have been driving very hard because Pact has come out of acquisitions, as you know, over the years. That's its history. So, rationalising and taking cost out and trying to do in one Pact way has been really, really beneficial in terms of bringing bring costs down. So that's been one. And the other, of course, is the supply chain, which I had also called out during my speech, which is really that we are now introduced a common category system of buying across the company. And we have introduced new IT systems technology for our buying – to improve our buying practices. So, this is all still a work in progress, which is why I feel that the margin improvement will actually continue. And, as I said on both ends, both with the customer as well as in our internal efficiency, that journey is on and I feel pretty good about it. Last quarter in particular, there has been quite a bit of increase in raw material prices, as you know, but we have been able to manage it quite well. So that gives me the confidence that going forward this will be a positive theme for us.

Bradley: Okay, thank you for that. Second question. Dividend payout ratio came in 40% this financial year, historically around 75%. When do you expect to return to a bit more of a normalised payout?

Paul Washer: I respond to that Sanjay. I mean, as part of our strategy, we have said that we would pay underlying EBIT – sorry, underlying NPAT at 40%. It'll be up to the board ultimately as to whether

they want to change that dividend target. But that's what we're doing in terms of our strategy for 2025. That's what we're looking to do over that period of time.

Bradley: Okay. Thank you.

Operator: Thank you. Once again, ladies and gentlemen, if you would like to ask a question, please press star one on your telephone keypad. Thank you. I see there are none in queue. Ladies and gentlemen, that concludes today's call. Thank you for your participation. Stay safe. You may now disconnect.