Orora announces earnings up 28% and continues to invest for growth

15 August 2016

RESULT HIGHLIGHTS*

Statutory Results
- Net profit after tax (NPAT) up 28.3% to $168.6 million
- Earnings per share (EPS) up 29.4% to 14.1 cents
- Sales revenue up 13.0% to $3.8 billion
- Earnings before interest and tax (EBIT) up 24.6% to $280.5 million
- Final ordinary dividend of 5.0 cents per share, 30% franked. Total dividend is 9.5 cents, up 26.7% and represents a pay-out ratio of 67.4%
- Net debt $630 million, up from $607 million at 30 June 2015
- Leverage was 1.7 times, down from 1.9 times at 30 June 2015 and interest cover was 9.2 times, up from 8.5 times.

Underlying Earnings and cash flow (excluding profit/cash on sale of land at Petrie, Queensland)[1]
- Underlying EBIT was up 20.9% to $272.1 million
- Underlying NPAT was up 23.8% to $162.7 million
- Underlying EPS was up 24.8% to 13.6 cents
- Underlying operating cash flow was up 20% to $313.8 million

Orora Group Limited (ASX:ORA) today announced a strong result for the full-year ended 30 June 2016. Commenting on the Group’s performance, Orora’s Managing Director and CEO, Mr Nigel Garrard, said “The 2016 financial year saw a continuation of strong execution of the Orora Way operating model which delivered higher earnings and cash flows and increased returns. At the same time Orora has invested both organically and on acquisitions to generate future growth. This year’s result also benefited from the profit on sale of land at Petrie, Queensland.”

“Operationally the Group delivered underlying EBIT growth of 20.9% despite subdued economic conditions and some input cost headwinds in Australia. Higher earnings were driven by benefits from Group-wide business improvement and cost control programs, organic volume growth and initial contributions from acquisitions made in North America during the year.”

“Through continued financial discipline, Orora has successfully converted this earnings growth into cash flow, which further strengthened the balance sheet and enabled the Group to deliver a 24.8% increase in underlying EPS.”

“A final dividend of 5.0 cents per share, partially franked to 30%, has been declared. Combined with the interim dividend of 4.5 cents per share, total declared dividends increased to 9.5 cents, up 27% over the prior year. This represents a pay-out ratio of approximately 67% of NPAT, which is again at the top end of the indicated range and reflects the confidence the Board and Management have in the business.”

Operational performance
Orora Australasia delivered a 10.4% increase in EBIT to $200.4 million in flat market conditions, with underlying sales increasing 2.5%.

In the Beverage business, increased earnings were driven by improved operating efficiency across the Business Group, higher Glass volumes and the reversal of the adverse financial impact from the FY15 glass furnace rebuild. This was partially offset by the impact of rising energy and soda ash costs within the Glass business.

The Fibre Packaging business delivered increased sales driven by organic growth, improved Australasian agriculture volumes and higher sales to the grocery sector in Australia. Orora’s “go direct” channel transition in the Queensland fruit
and produce sector is progressing well with new depots already established in Bundaberg and Mareeba and a further site expected to open in Innisfail in late 2016. Incremental cost reduction and innovation benefits of $13.7 million were delivered at the B9 Recycled Paper Mill during the period, taking total cumulative benefits to $35.1 million.

Despite flat market conditions, Orora North America delivered a 20.2% increase in local currency EBIT to US$72.0 million on the back of a 6.0% increase in organic sales revenue, margin improvement initiatives and benefits from the recent acquisitions of Jakait and IntegraColor. Landsberg Packaging Solutions continued to execute on its market growth strategy through leveraging its product breadth, uniform service offering and national footprint to increase sales to existing customers and win market share, largely from independent players. The Manufacturing Division delivered increased earnings through higher volumes and improved efficiencies and cost control, despite continued margin pressure.

Innovation and growth

“Orora continues to make customer-focused capital and innovation investments to underpin future growth and has announced investments of approximately $225 million since listing in December 2013.” said Mr Garrard.

“The March 2016 acquisition of IntegraColor, a Texas-based provider of Point of Purchase (POP) retail display solutions, establishes a new earnings stream in North America. The acquisition moves Orora North America further up the value chain, closer to the brand owner and provides a platform for future bolt-on acquisitions in the POP sector. The integration is on track and the business is performing in line with expectations.”

“In terms of organic growth, with the Glass business seeing increased demand in customer wine volumes led by the impact of the lower Australian dollar, in February 2016 Orora announced a $42.0 million investment to increase the forming line capacity by 60 million bottles. This additional volume is import replacement and underpinned by existing customer demand. This project will be completed progressively during FY17.”

“Orora is also currently commissioning the new $20.0 million state of the art dairy sack line at Keon Park, Victoria, with the new line expected to be fully operational in the second quarter of FY17.”

“Since launching the $45 million Orora Global Innovation Initiative in July 2015, approximately $20 million has been committed to projects across the Group focused on delivering new innovative customer led product solutions, modernising equipment, improving processes and productivity.”

“Some specific examples include, a digital printer which is to be installed in the Australian Fibre Packaging division in late 2016 to step change Orora’s product offering and customer value proposition. This follows the new Glass bottle sleeving line that was successfully commissioned in Gawler during July 2016, which is a further example of Orora’s willingness to invest and support its future growth and that of its customers.”

“In addition to targeting profitable organic and market share growth, Orora continues to actively pursue acquisition opportunities in preferred markets to enhance its geographic footprint and customised product capability.”

Outlook

“It is expected the Group will continue to drive organic growth and invest in innovation and growth during FY17, with earnings expected to be higher than reported in FY16, subject to global economic conditions” Mr Garrard said.

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*All amounts in Australian dollars (AUD) unless expressly stated otherwise. Comparisons refer to prior corresponding period (12 months ended 30 June 2015). For more information, please refer to the Investor Results Release lodged with the Australian Securities Exchange or available at www.ororagroup.com.  
(1) Underlying earnings and cash flow excludes the FY16 gain from sale of land at Petrie, Queensland (representing $6.4 million EBIT and $5.9 million NPAT) and initial proceeds of $20 million respectively.*