Orora delivers solid earnings growth for the half year

13 February 2019

RESULTS HIGHLIGHTS
Results highlights for the half year ended 31 December 2018

• Net profit after tax (NPAT) was $113.7M, up 7.6% on the prior corresponding period (pcp). There were no significant items in the period
• Earnings per share (EPS) was 9.4 cents per share (cps), up 6.8% on pcp
• Sales revenue was up 9.9% to $2,305.5M
• EBIT was $175.1M, up 5.9% on pcp
• Interim ordinary dividend is 6.5 cps – 50.0% franked (includes benefit of distributing surplus franking credits) and 50.0% sourced from the conduit foreign income account, up 8.3% on pcp
• Operating cash flow was $132.2M, $23.7M below pcp
• Return on average funds employed was 14.3% up from 13.9% at pcp
• Net debt at 31 December was $872M, up from $667M at June 2018 and $657M at pcp, the increase reflecting the acquisitions of Bronco Packaging (Bronco) and Pollock Packaging (Pollock) in North America
• Leverage was 1.8 times, up from 1.5 times at June 2018 and December 2017

Orora Limited (ASX:ORA) has announced solid profit growth for the half year ended 31 December 2018 with NPAT up 7.6% to $113.7 million, EBIT 5.9% higher to $175.1 million and EPS up 6.8% to 9.4 cents per share.

Commenting on Orora’s performance, Managing Director and CEO, Nigel Garrard, said: “Orora has announced another solid result, with the Group delivering profit and EPS growth in line with expectations, despite challenging economic and market conditions across the Group’s core trading regions.”

“The Australasian Fibre Packaging and Beverage businesses have continued to demonstrate their quality and resilience, with benefits from recent organic growth and innovation investments, combined with an ongoing focus on improving manufacturing and operating efficiency, helping the businesses to offset input cost pressures and deliver profit growth. The combined constant currency earnings of the North American Orora Packaging Solutions (OPS) and Orora Visual businesses were marginally lower with both businesses encountering margin and cost pressures in generally tough market conditions. On a positive note, the roll out of the ERP system was completed with the important optimisation phase now ahead.

“Orora has continued to execute its stated strategy of disciplined return driven allocation of growth capital, with the acquisition of Bronco (effective 1 September) and Pollock (effective 1 December). These acquisitions expand Orora’s exposure to the large and growing Texas market and increase the capability and scale of the business.

“In Australasia, further capital was invested in the ongoing asset refresh program in Fibre as well as a number of other customer driven initiatives and warehouse expansions at the Glass site in Gawler. The two state-of-the-art digital printers located in Australia and North America were successfully commissioned in the period and are delivering enhanced speed, quality and flexibility to customers.

“Importantly, Orora’s strong cash flow capability, combined with the strength of its balance sheet, continues to provide Orora with capacity and flexibility to invest with discipline in innovation as well as organic and new growth opportunities that deliver sustainable value creation for shareholders,” Mr Garrard said.

1 All amounts are in Australian dollars (AUD) unless expressly stated otherwise. Comparisons refer to prior corresponding period (underlying results for the 6 months ended 31 December 2017). For more information, please refer to the Investor Results Release lodged with the Australian Securities Exchange or available at www.ororagroup.com
Operational performance

Orora Australasia delivered EBIT of $127.6 million for the period, a 5.4% increase on the pcp. Sales revenue was 4.4% higher to $1,087.9 million. Both Australasian business groups - Fibre Packaging and Beverage - delivered earnings growth despite flat market conditions and higher input costs.

Fibre Packaging earnings continued to benefit from improved reliability and production performance at B9, sales growth in targeted market segments, benefits from recent capital investments (including asset refresh) and the continued focus on manufacturing and operating efficiencies. Earnings growth in the Beverage business was driven by higher Can volumes, favourable product mix in both Cans and Glass and continued improvement in operating efficiencies across the Beverage business.

Orora North America EBIT was 6.5% higher to $64.2 million and sales revenue was 15.4% higher to $1,217.6 million versus the pcp. In local currency terms, EBIT declined 1.1% to US$46.5 million and sales revenue grew 7.2% to US$881.5 million compared to the pcp.

Orora Packaging Solutions delivered organic sales growth as a result of the continued focus on higher growth market segments, offset by expected lower revenues following the exit of some short-term business in the Manufacturing division in the financial year ended 30 June 2018. The performance of Orora Visual continues to steadily improve with new customer wins helping to offset the reset following the loss of business (mainly due to bankruptcy) in the prior year.

Growth and Innovation

During the period, approximately $215 million was invested in acquisitions, organic capital projects and innovation to drive sustainable growth.

This included the following:
- ~$110 million to acquire Pollock, a market leading provider of packaging and facility supplies, headquartered in Texas;
- ~$33 million to acquire Texas based packaging distributor, Bronco;
- ~$57 million to support asset replacement, upgrades and debottlenecking in the Australasian business group including commissioning the secondary water treatment plant at Botany and the new can line in New Zealand; and
- ~$18 million in North America to upgrade manufacturing assets and ensure uniformity of capability in the OV national network.

Innovation update:
- The $75 million Orora Global Innovation Initiative continues its focus on bringing new, innovative, customer-led product solutions to life, as well as a number of initiatives aimed at improving productivity in the plants. To date, ~$53 million has been committed to the Global Innovation Initiative across the Group, with the remaining amount expected to be invested over the coming two to three years. An emerging opportunity relates to the increasing emphasis on more sustainable packaging. As showcased at the Orora Innovation Expo in May 2018, Orora is working on developing and trialling, including in-market, a number of initiatives, especially in fibre based fresh produce packaging solutions.

Outlook

Orora expects to continue to drive organic growth, integrate recent North American acquisitions and invest in innovation and growth during FY19, with constant currency earnings expected to be higher than reported in FY18, subject to global economic conditions.

MEDIA CALL: Orora is hosting a media call at 9.15 (AEST) today.

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