

12 February 2020

Orora announces challenging first half result

RESULTS OVERVIEW – CONTINUING OPERATIONS¹

Operating results for the half year ended 31 December 2019²

- Statutory net profit after tax (NPAT) was \$76.6M, down 13.3% on the prior corresponding period (pcp)
- Statutory earnings per share (EPS) was 6.4 cents per share (cps), down 11.1% on pcp
- Sales revenue was up 13.3% on pcp to \$1,835.2M
- EBIT was \$133.1M, down 4.1% on pcp
- Operating cash flow was \$127.2M, \$12.5M below pcp
- Return on average funds employed was 19.2% down from 21.9% at pcp

Group Metrics

- Interim ordinary dividend is 6.5 cps – 30% franked and 70% sourced from the conduit foreign income account, in line with pcp.
- Net debt at 31 December was \$996M, up from \$872M at pcp
- Leverage was 2.3 times, up from 1.9 times at June 2019 and 1.8 times at December 2018

Orora Limited (ASX:ORA) has announced financial results for the half year ended 31 December 2019. Good progress is being made to complete the sale of the Australasian Fibre Business and to address the ongoing challenges faced by the North American businesses.

Commenting on his first results, Orora Managing Director and CEO, Brian Lowe, said: “A challenging first half for the Group, with subdued economic conditions across Orora’s geographies impacting earnings. While we were pleased to deliver a positive first half in Australasia, North America earnings were lower compared to the prior corresponding period, reflecting continued tough trading conditions in that region.”

“In Australasia, Orora’s market leading Beverage business continued its track record of earnings growth. The earnings improvement was driven by a solid performance in Cans with volume growth in craft beer and a continuing switch by consumers toward can formats, which was largely offset by higher input costs and adverse mix in the Glass business. Volumes in Glass were in line with the prior period.

“In North America, constant currency earnings were lower, with the subdued trading conditions experienced in FY19 continuing into FY20. In response, a comprehensive improvement program has been implemented in Orora Packaging

¹Orora Australasia (comprising the Beverage business group with contributions from the Glass, Cans and Closures divisions) and Orora North America (comprising the Orora Packaging Solutions (OPS) and Orora Visual (OV) business groups).

²The following notes apply to this release: 1. Orora has initially applied AASB 16 Leases using the modified retrospective approach. Under this method, the comparative information has not been restated. 2. On 10 October 2019, Orora entered into a binding agreement to sell its Australasian Fibre business (Fibre) to a wholly owned subsidiary of Nippon Paper Industries Co., Limited (Nippon) for an enterprise value of \$1,720.0M. The completion of the sale is expected to occur during the March quarter. As a result the Fibre business has been treated as a discontinued operation in the first half FY20 financial statements (treated as held for sale).

Solutions (OPS) to drive efficiency, volume and margin growth and reset the cost base to align with prevailing market conditions. These initiatives are showing early, positive signs, with OPS profit margins improving compared to the second half of FY19. In Orora Visual (OV), where an improvement program is also underway, it was a difficult trading period due to a number of factors including customer deferral/removal of summer campaigns and softness in some key market segments.

“Orora’s strong cash flow capability, combined with the strength of its balance sheet, continues to provide the Company with capacity and flexibility to invest in innovation as well as organic and new growth opportunities that deliver long term, sustainable value.

“In this regard and with the sale of the Australasian Fibre business now being close to completion, Orora has commenced a review of the strategy for the continuing businesses, including assessing growth options to leverage existing competitive positions and points of difference in key market segments. It is important that Orora takes this opportunity to assess and shape the strategic path ahead for the Company.

“As previously announced, post completion of the sale of the Australasian Fibre business, Orora intends to return approximately \$1.2 billion to shareholders and is currently working with the regulatory body to ensure the most efficient return of funds to shareholders. Options include a cash return, comprising part capital return and a partially franked special dividend, and an on-market share buyback. Further details regarding the timing and nature of the capital management initiatives will be provided in due course,” Brian said.

Operational performance – continuing operations

Orora Australasia (comprising the Beverage business group with contributions from the Glass, Cans and Closures divisions), delivered EBIT of \$82.6 million for the period, a 1.8% increase on the pcp. Sales revenue was 2.4% higher to \$412.2 million.

Orora North America (comprising the Orora Packaging Solutions (OPS) and Orora Visual (OV) business groups) delivered EBIT of \$50.5 million, down 12.5% compared to pcp. Sales revenue was 16.9% higher to \$1,423.0 million, primarily driven by contributions from the Pollock acquisition and the effects of a weaker Australian dollar. In local currency terms, EBIT declined 17.2% to US\$34.6 million. Sales revenue grew 10.5%, to US\$974.1 million compared to the pcp.

Growth and innovation update

During the period, more than \$60.0 million was invested to support organic capital projects and innovation. This included the following:

- investment in a new Digital Proofing Printer in Cans to support prototype designs and short-run campaigns;
- new customer and consumer engagement capability in Orora Visual to enhance the value proposition and improve efficiency in the interaction with customers;
- final spend on the \$35.0 million warehouse project at Gawler glass plant in South Australia which was completed in December 2019; and
- preparatory spend at the Glass plant to support the scheduled rebuild of the ‘G2’ furnace and forming line upgrade in the second half of FY20. The total cost of the rebuild and line upgrade is ~\$60 million.

Discontinuing operations

On 10 October 2019, Orora entered into a binding agreement to sell its Australasian Fibre business (Fibre) to a wholly owned subsidiary of Nippon Paper Industries Co., Limited (Nippon) for an enterprise value of \$1,720.0M. The completion of the sale is expected to occur during the March quarter, subject to the completion of customary conditions, including regulatory approvals. The Fibre business delivered EBIT of \$33.7M and has been treated as a discontinued operation / asset held for sale in the December half year financial report.

Chairman and Board succession

As separately announced, Orora's inaugural Chairman, Mr Chris Roberts, has retired from the Board, effective today. In line with continual Board renewal, which included the appointment of Mr Tom Gorman in September 2019, Mr John Pizzey will also retire from the Board, effective from 31 May 2020.

Mr Roberts will be succeeded as Chairman by Mr Rob Sindel, who joined the Board in March 2019, following an extensive career in executive management, most recently as Managing Director and CEO of CSR Limited.

Outlook

Consistent with the outlook previously provided at the AGM in October 2019, Orora expects challenging market conditions to persist for the remainder of FY20. These factors, coupled with the financial impact of the G2 rebuild in H2 and time for the North American improvement initiatives to be fully realised, are expected to result in reported operating EBIT for the continuing operations being lower in FY20. Orora will continue to invest in efficiency, growth and innovation, as well as integrate recent acquisitions and finalise the sale of the Fibre business.

Authorised for release to the ASX by Orora's Company Secretary, Ann Stubbings.

MEDIA CALL: Orora is hosting a media call at 9:30AM (AEST) today.

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