

Pro-Pac Packaging had its AGM today <https://www.ppgaust.com.au/investor-relations/announcements>. The usual self-congratulatory remarks were made by the Company's executives. In terms of useful information for shareholders, I came away with the following:

1. The new management team has managed to constrain borrowings while pursuing organic growth and consolidating its operations. These costs were in excess of \$20M in 2021 but net debt increased only \$6M.
2. The Company is becoming more efficient and profitable but it won't be apparent yet. The PBT for 1H22 will be about the same as 2H21 (\$7.1M).
3. Factors detracting from profit for this period were freight costs, input costs (resin), site closures from Covid and power outages in Victoria, and increased labour costs.

Management has articulated the following objectives for 2022:

1. improve profitability through higher margin products (flexibles) and technologies
2. continue to improve operational efficiencies
3. invest more in R&D innovations, particularly w.r.t. plastics recycling
4. focus more on sustainability

I am most sceptical of this last of objective. As I noted in my analysis of the Company <https://strawman.com/reports/PPG/all>, there is a growing tide of public opinion against the perceived environmental damage from plastics. This is particularly so in the younger generation. Many of them see plastics as an extension of the fossil fuel debacle. In other words, a wasteful and harmful man-made product causing air, land and marine damage. The plastic packaging industry has a public image problem. Ironically, flexible plastics cause less environmental damage in production than many other packaging materials such as glass and metal. They make food and pharmaceuticals easier to transport and they have aesthetic and preservation benefits that make them clearly superior to the alternatives. If companies like Pro-Pac can ally themselves with the environmental activists by creating incentives to recycle their own products, they can distinguish themselves in the eyes of the public and in the opinion of their clients like Arnotts or Snack Brands. This would be a coup for these consumer food brands who are desperate to show off their environmental credentials.

I posed a question to the Board:

'how does the Company plan to comply with the 2025 APCO targets of eliminating single-use non-reusable plastics and where will it source its 50% recycled content?'

Unfortunately, I wasn't able to attend the meeting today so I don't know the answer.

I think the Company is showing good financial discipline and is pursuing the right objectives in terms of efficiency, curtailment of borrowings and improvement in profitability. It is also striving to become best-in-class in terms of technology and has recently commissioned a 7 layer extruder and laminator, new HD extruder and blow moulding machines. The factors impacting

the profitability in this half are cyclical and will affect many manufacturers. They don't influence my perspective on this Company and I believe that this will be reflected in the results for next year.

I remain concerned about its commitment to driving sustainability incentives. This is essential avoid a growing public image problem which may constrain the market for their products. These public concerns cannot be assuaged by forming an 'ESG Committee' or revising the Company's sustainability charter or by limply following the APCO guidelines.

Lastly, the Company approved a 10:1 share consolidation, citing that the current share price (18c) does not fairly value the Company. I admit that I cannot really understand the reasoning behind dressing up the share price. Perhaps they want to compare themselves to the big players in the market (Amcor \$16.40, Pact Group \$3.02). Either way, I think they should forget about appearances and let their fundamentals speak for themselves.

On a fundamental level, I believe the Company will achieve EPS of 2.5-3c in the next 18-24 months, giving it a value of \$0.3-\$0.36. or \$3.00-\$3.60 after consolidation.

Disc: I hold shares of PPG