

Mpact Limited
(Incorporated in the Republic of South Africa)
(Company registration number 2004/025229/06)
Income tax number: 9003862175
JSE Share Code: MPT JSE ISIN: ZAE 000156501
("Mpact" or "the Group" or "the Company")

SHORT-FORM PRELIMINARY SUMMARISED CONSOLIDATED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

SALIENT FEATURES FROM CONTINUING OPERATIONS

- Resilient performance and response to Covid-19 lockdown
- Cash generated from operations of R1.9 billion, highest on record (2019: R986 million)
- Net debt down 38.6% to R1.4 billion (2019: R2.3 billion)
- Gearing improved to 26.6% (2019: 38.2%)
- Underlying earnings per share up 4.6% to 201 cents (2019: 192 cents)
- Share buy-back returned R345 million to shareholders (by end Jan 2021)
- Mpact Operations maintained its Level 1 B-BBEE rating

Bruce Strong, Mpact Chief Executive Officer said: "Mpact delivered a solid performance in a challenging year. The effective response to Covid-19 at all our operations was exceptional, demonstrating the depth of good management, the effectiveness of our safety systems, and the support of our customers, suppliers, and employees.

By implementing our proven strategy of securing leading market positions and focussing on customers and performance we also delivered a strong financial performance with record cash flows from operations of R1.9 billion and a reduction in net debt to R1.4 billion. Underlying earnings per share for the year increased 4.6% to 201 cents while the successful repurchase of 14.5% of the company's issued shares returned R345 million to shareholders.

Innovation remains a cornerstone of our business. In 2020 we continued to develop new ways to meet our customers' packaging needs with award-winning innovations that help improve their operations while contributing to the circular economy.

Last year the pandemic highlighted risks in the global supply chain and resulted in many customers now preferring local suppliers. As the post-pandemic economy recovers and localisation trends accelerate, Mpact will work closely with our customers and develop new markets for our innovative products. Our responsible approach to managing costs, creating value for shareholders, disciplined capital investment, and a strategic commitment to sustainability will ensure our business remains resilient while being well positioned for growth."

CONTINUING OPERATIONS

OVERVIEW

Despite the challenging operating environment over the past year, Mpact ended the 2020 financial year in a solid position, supported by our focus on strategy delivery and a strengthened balance sheet.

Mpact benefited from a strong recovery in the second half of the financial year as the Covid-19 related restrictions began to ease, and the oversupply of recycled containerboard reduced. The company achieved record cash flow from operations of R1.9 billion and a reduction in net debt to R1.4 billion (December 2019: R2.3 billion). Underlying earnings per share for the year increased 4.6% to 201 cents, and the successful share repurchase of 14.5% of the company's issued shares returned R345 million to shareholders between September 2020 and the end of January 2021.

The Group's response to the challenges presented by Covid-19 was swift and effective, and fully supported by our employees, suppliers and customers and allowed us to reduce costs and conserve cash. To ensure the safety of our work force, various Covid-19 protocols were implemented, including social distancing measures, the provision of sanitizer and vitamins to staff and their families, and working with our primary healthcare providers to educate employees. We also continued to make a tangible difference in our communities, with Mpact Recycling repurposing some of its collection fleet during the initial lockdown stages to deliver meals, vouchers, face shields and other supplies to many waste reclaimers who were then unable to work.

Our strategy remains consistent and is based on three core pillars: leading market positions, customer focus and a focus on performance.

Despite the prevailing trading conditions, we have remained anchored in our purpose of providing our customers with innovative and sustainable packaging and giving effect to the circular economy through our integrated business model with state-of-the-art investments in recycling and packaging technologies.

Responding to customer needs, we successfully launched the new Freshpact brand of paper based fresh produce punnets which were enthusiastically adopted by consumers. Our product excellence was again recognised with Mpact winning nine IPSA Gold Pack awards including three for Covid-19 specific product innovations.

Over and above our commitment to the circular economy, the Group has made excellent progress against our sustainability targets over the past five years. Against a 2012 baseline, all of the 2020 targets for water, energy and carbon emissions were met by the end of 2019, though the abnormal operating conditions experienced in 2020 due to the lockdown and electricity supply interruptions caused minor setbacks. For the five years ended 2020, Mpact exceeded its water usage target with a reduction of 23%. Energy consumption reduced by 13.7% while the group also achieved a reduction in scope 1 and 2 carbon emissions of 11.1%.

Several capital projects were successfully completed during the year and the Group acquired three more properties, two of which had previously been leased for Mpact's operations. Construction of Dalisu Holdings' R280 million sodium sulphate processing plant at Mpact's Piet Retief paper mill was completed in December. Dalisu Holdings is a black owned business in which Mpact has a minority shareholding. The business has developed processes to convert by-products from the paper manufacturing business into commercial products, including dust suppressants.

Mpact Operations (Pty) Ltd, the Group's main South African operating entity, retained its level 1 B-BBEE rating.

GROUP FINANCIAL PERFORMANCE

Group revenue for the year ended 31 December 2020 of R11.1 billion was similar to the prior year, with a 3.5% increase in Plastics offset by a slight decline in Paper.

Gross profit decreased by 4.9% compared to the prior year to R4,007 million with the gross profit margin decreasing 1.8 percentage points to 36.1%.

The loss in gross profit directly attributable to the Covid-19 lockdowns is estimated to be R70 million for the full year.

During the year, the Springs paper mill lost more than 50 production days due to the catastrophic failure of a municipal sub-station in Ekurhuleni, which resulted in a loss of gross profit of approximately R91 million and other related direct costs of R9 million. An insurance claim has been submitted and an interim settlement of R35 million has been approved by the insurers. The proceeds, net of insurance deductibles, amounting to R25 million have been included in the results as sundry income. The balance of the claim has not yet been settled or accounted for. The Springs paper mill operation is currently stable.

The 1.8 percentage points decline in gross profit margin was mainly attributable to lower average recycled containerboard prices due to a higher proportion of export and rolled pulp sales. Although still down on the prior year, the gross profit margin improved in the second half as a result of increased demand for containerboard in the domestic market during the last quarter of the year, and some recovery in businesses that were affected by strict Covid-19 lockdowns during the first half.

Earnings before interest, tax, depreciation and amortisation (EBITDA) for the last quarter of the year was the highest on record, resulting in EBITDA for the full year of R1,170 million (December 2019: R1,374 million). Underlying earnings before interest and tax (EBIT) was R631 million (December 2019: R724 million).

Underlying earnings per share increased 4.6% to 201 cents (2019: 192 cents) and ROCE at 31 December 2020 was 11.4% (2019: 11.8%).

Paper business

Segment revenue of R8.7 billion was marginally lower when compared to the prior year. External sales volumes decreased by 3.3% with a decline in paper converting and recycling partly offset by an increase in containerboard exports. Demand for containerboard and cartonboard improved in the fourth quarter and remains strong.

Underlying operating profit for the Paper business declined to R578 million (2019: R716 million) due to lower containerboard margins, the electricity supply interruptions at the Springs paper mill and the effects of lockdown in the paper converting business.

Plastics business

Revenue in the Plastics converting business was up 3.5% to R2.5 billion (2019: R2.4 billion) due to increases in the Bins, Crates and FMCG businesses partially offset by declines in Preforms & Closures and Trays & Films. Overall volumes decreased 2.7% with average prices up 6.2% due primarily to product mix.

The Covid-19 lockdowns had mixed impact across this business segment with sectoral declines in some areas offset by robust growth in others. The performance in trays and films reflected a more profitable mix in line with the successful restructuring of the business during 2019.

Underlying operating profit increased 44% to R119 million (2019: R83 million) with most businesses reporting good improvements, especially in the second half of the year. Included in the result is a non-recurring inventory write-off of R29 million.

Net finance costs

Net finance costs of R169.3 million (2019: R245.3 million) decreased by 31% when compared to the prior year mainly due to lower interest rates and lower average net debt.

Tax

The effective tax rate before special items was 18.4% (2019: 25.7%). The low effective tax rate was as a result of the S12I and S12L capital investment and energy efficiency incentives.

Earnings per share

Headline earnings per share increased 5.5% to 196.1 cents (2019: 185.8 cents) while underlying basic earnings per share increased 4.6% to 200.6 cents (2019: 191.8 cents).

The weighted average number of shares used in the calculation of EPS, HEPS and underlying EPS for the year ended 31 December 2020 was 169,322,144 compared to 171,030,378 for the prior year. The total number of shares in issue at the date of this announcement is 148,175,363.

Net debt

Mpact generated cash flow from operations of R1.9 billion (2019: R986 million), which resulted in net debt decreasing to R1.4 billion at 31 December 2020 (2019: R2.3 billion). As a result, gearing declined to 26.6% compared to 38.2% at 31 December 2019.

DISCONTINUED OPERATION

On 14 November 2019, Mpact discontinued its PET recycling operation, Mpact Polymers, which was previously included in the Plastics reporting segment. In December 2019, Mpact Polymers commenced voluntary business rescue proceedings and was deconsolidated from the Group. Its profit and loss statement for the prior year was disclosed separately as a discontinued operation.

The net effect of the deconsolidation was that the Group's balance sheet as at 31 December 2019 does not reflect any assets and liabilities attributable to Mpact Polymers. The basic and headline loss per share attributable to Mpact Polymers as a discontinued operation for the year ended 31 December 2019, were 37.1 cents and 36.7

cents, respectively.

OUTLOOK

Mpact has had a positive start to the 2021 financial year and is well positioned despite a weak economy. There are indications of good fruit crops and a gradual recovery in the FMCG and Quick Service Restaurant sectors. Mpact is also expected to benefit from an improved global outlook for containerboard and cartonboard.

Working capital management will remain a key focus area, but it is anticipated that working capital levels will increase in the current period to ensure continuity of supply.

Mpact's integrated business model continues to be uniquely focused on closing the loop in paper and plastic packaging, contributing to the circular economy, and benefiting all stakeholders. The Group's focus on innovation and sustainability provides our customers with packaging solutions that ensure product quality whilst reducing the environmental impact.

The Group has a robust strategy and substantial financial capacity, as well as an experienced management team to navigate and prosper in the current volatile trading environment.

DIVIDENDS AND SHARES REPURCHASED

The Company received 99.9% support for the decision to buy back shares at the special general meeting held on 11 December 2020. During the period September 2020 to January 2021, Mpact repurchased 25,129,154 of its shares at an average purchase price of R13.71 per share, which equates to a 38% discount to the Group's net asset value per share as at 31 December 2020 and at a greater discount to its intrinsic value. The total cash outflow for the shares repurchased was R345 million, of which R87.5 million relates to the year ended 31 December 2020.

The total number of shares in issue as at 31 December 2020 was 164,639,292 (2019: 173,304,517). The total number of shares in issue at the date of this announcement is 148,175,363.

The Board reviews capital allocation for the Group on an ongoing basis. Given the discount of Mpact's share price to intrinsic value, the Board's view is that the substantial share repurchase programme enhances value creation for shareholders over a cash dividend.

The Board has therefore resolved not to declare a dividend for the financial year ended 31 December 2020.

The Board will continue to focus on driving long term value for shareholders. This is done through prudent capital allocation in the context of growth opportunities, which do exist, and cash returns to shareholders by dividends, share buybacks or a combination thereof.

CHANGE IN GROUP COMPANY SECRETARY

Ms DM Dickson was appointed as Group Company Secretary with effect from 1 May 2020.

Financial summary from continuing operations

	Year ended 31 December 2020	Year ended 31 December 2019	Change %
R'million			
Revenue	11,097	11,076	0.2%
Underlying operating profit(1)	631	724	(12.8%)
Underlying profit before tax(2)	472	495	(4.7%)
Net debt	1,408	2,292	(38.6%)
Return of capital employed (%)	11.4	11.8	(0.4)
Total gross dividend per share (cents)	-	60	(100%)
Basic earnings per share (cents)	188.6	(443.7)	>100%
Basic underlying earnings per share (cents)	200.6	191.8	4.6%
Basic headline earnings per share (cents)	196.1	185.8	5.5%

(1) Underlying operating profit is the Group operating profit before special items.

(2) Underlying profit before tax is the Group profit before tax and before special items.

The Group presents certain measures of financial performance, position or cash flows that are not defined or specified according to International Financial Reporting Standards (IFRS). These items are referred to as special items and are defined in the Group accounting policies included in the full audited consolidated annual financial statements.

This short-form announcement is the responsibility of the directors and is only a summary of the information in the full audited announcement and does not contain full or complete details. This short-form announcement has not been reviewed or audited by the Company's external auditors. Any investment decision should be based on the full audited announcement which is available on our website <https://www.mpact.co.za/investors-relations/financial-results/2021/FY2020.pdf>, and on <https://senspdf.jse.co.za/documents/2021/JSE/ISSE/MPT/FY2020.pdf>

Deloitte & Touche, the Group's independent auditor, has audited the consolidated annual financial statements of Mpact Limited and has expressed an unmodified audit opinion on the consolidated annual financial statements.

The auditor report (with Key Audit Matters) issued on the Consolidated Annual Financial Statements ('AFS') and the actual Consolidated Annual Financial Statements can be accessed at: <https://www.mpact.co.za/investor-relations/financial-results/2021/AFSFY2020.pdf>

The full audited announcement is also available at our registered offices at no charge during office hours.

AJ Phillips
Chairman
5 March 2021

BW Strong
Chief Executive Officer

COMPANY PROFILE

Mpact is the largest paper and plastics packaging and recycling business in Southern Africa with customers

that include packaging converters, fruit producers and FMCG companies. Mpact's integrated business model is uniquely focused on closing the loop in plastic and paper packaging through recycling and beneficiation of recyclables.

As at 31 December 2020, Mpact employed 5,053 people (2019: 5,142 people) and had 39 operating sites, 20 of which are manufacturing operations, located in South Africa, Namibia and Mozambique. Sales in South Africa account for approximately 87% of Mpact's total revenue for the current year while the balance was predominantly to customers in the rest of Africa.

DIRECTORS

Independent Non-Executive:

AJ Phillips (Chairman), NP Dongwana, NB Langa-Royds, PCS Luthuli, M Makanjee, TDA Ross, AM Thompson

Executive:

BW Strong (Chief Executive Officer), BDV Clark (Chief Financial Officer)

Company secretary:

DM Dickson

Registered office:

4th Floor, No.3 Melrose Boulevard, Melrose Arch, 2196
(Postnet Suite #179, Private Bag X1, Melrose Arch, 2076)

Transfer secretaries:

Computershare Investor Services Proprietary Limited
Rosebank Towers, 15 Bierman Avenue, Rosebank, 2196
(Private Bag x9000, Saxonworld, 2132)

Mpact appointed Computershare with effect from 1 December 2020. Computershare replaced Link Market Services

Sponsors:

The Standard Bank of South Africa Limited
30 Baker Street
Rosebank
2196
(PO Box 61344, Marshalltown, 2107)

Mpact appointed The Standard Bank of South Africa as the JSE Limited sponsor to Mpact, with effect from 1 October 2020. Standard Bank replaced Rand Merchant Bank

Auditors:

Deloitte & Touche
5 Magwa Crescent, Waterfall City, Waterfall, 1685
(Private Bag X6, Gallo Manor, 2052)