

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 SUMMARISED CONSOLIDATED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2021

SALIENT FEATURES FROM CONTINUING OPERATIONS

- Strong financial performance and good progress on Group strategy implementation
- Revenue up 12.6% to R11.5 billion (2020: R10.3 billion)
- Underlying operating profit (EBIT) improved by 56.2% to R948 million (2020: R607 million)
- Underlying earnings per share (EPS) up 93.2% to 360 cents (2020: 186 cents)
- Share buy-back returned R257 million to shareholders (2020: returned R88 million)
- Final dividend declared of 50 cents per share (cps), returning a further R74 million to shareholders (2020: nil cents per share)
- Return on capital employed (ROCE) increased to 17.8% (2020: 11.4%)
- Mpact Operations retained its Level 1 B-BBEE rating

Bruce Strong, Mpact Chief Executive Officer said: "Mpact delivered a pleasing performance in 2021, successfully navigating the challenging business environment. Group revenue from continuing operations increased by 13% when compared to the prior year to R11.5 billion. Underlying EBIT from continuing operations increased by 56% to R948 million and underlying earnings per share increased by 93% to 360 cents. Return on capital employed increased to 17.8%.

The Paper business benefited from improved domestic demand and favourable product mix. Higher average selling prices were partly offset by significant increases in raw material costs, most notably in pulp and recovered paper.

The Plastics business showed good growth across most sectors and improved profitability despite delays in increasing selling prices to recover higher polymer costs.

Strong added: "Mpact has once again shown tremendous resilience, firmly anchored in our purpose of providing our customers with innovative sustainable packaging, giving effect to the circular economy through our integrated business model and making a difference in the communities where we operate.

Good progress was made in implementing the Group strategy through a combination of investments and portfolio optimisation. Several projects were successfully completed during the year and the Board approved over R700 million in new capital investments to support growth and innovation, improve margins, and ensure the resilience and sustainability of our operations. These projects include new facilities, new technology, plant, equipment and solar power to improve efficiencies and expand our capacity to meet growing customer demand. "

Innovation is a cornerstone of Mpact's business and our investments in research and development allow us to identify new ways to meet customers' packaging needs, improve their offerings and contribute to the circular economy. Our efforts in this regard were once again recognised through a number of awards. Mpact received seven product design awards at the 2021 IPSA Gold Pack Awards, including the prestigious Gold Pack trophy recognising PETzorb as the overall winner. A further two awards were also received from the South African Plastics Recycling Organisation.

CONTINUING OPERATIONS

OVERVIEW

Customer demand was robust across most product categories and margins improved due to increased sales volumes, better operational efficiencies and a favourable mix, which offset the significant increase in the cost of inputs.

During 2021, unprecedented supply chain constraints globally and across all sectors affected the availability and cost of most raw materials, with recovered paper, plastic polymers, electricity and several process chemicals escalating well above inflation. The supply chain challenges led to increased demand from customers for locally produced products, from which Mpact benefited. Thanks to the

foresight and ingenuity of Mpact's management, there were no significant interruptions to operations, although customer demand exceeded capacity in certain businesses.

Decisive action was taken by management and staff of operations affected by the regional unrest in July 2021. There were no injuries to employees nor any damages to Mpact's assets attributable to the unrest. All of the KwaZulu-Natal operations were closed for up to 8 days which resulted in lost gross profit of approximately R20 million due to reduced production and sales.

We are particularly grateful for the ongoing commitment of our staff. Covid-19 protocols are well entrenched and enthusiastically adopted by all employees, which limited the impact of the third and fourth Covid-19 waves on our business. Employees have been encouraged to get vaccinated through awareness campaigns, time off, providing transport to vaccination sites in some instances as well as inviting the Department of Health to vaccinate on site in others.

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 2021 increased by 12.6% to R11.5 billion (2020: R10.3 billion) as a result of an 8.8% increase in sales volumes and a 3.8% increase in the average price. Gross profit increased by 13.5% compared to the prior year with the gross profit margin increasing to 36.9%.

Underlying EBIT increased by 56.2% to R948 million (2020: R607 million) due to higher gross profit, well contained controllable fixed costs and a lower depreciation charge.

Underlying earnings per share increased by 93.2% to 359.6 cents (2020: 186.1 cents) due to strong earnings growth and the reduced number of shares in issue following the share buy-back in 2021. ROCE improved to 17.8% (2020: 11.4%).

Paper business

Segment revenue increased by 12.2% compared to the prior year to R9.7 billion. External sales volumes increased by 8.7% and the average price increased 3.5%.

The good performance in the first half continued in the second half with strong local containerboard and cartonboard demand. In addition, the paper converting division benefited from the recovery in the industrial and quick service restaurant sectors as well as the growth from new products sales.

Underlying EBIT for the Paper business increased by 51.5% to R875 million (2020: R578 million) due to a favourable product mix with low margin rolled pulp not being produced or sold in 2021 (2020 rolled pulp sales: 20 806 tons) and improved operational efficiencies. Higher raw material costs during the year were partially recovered through paper selling price increases in the last quarter of 2021 and we expect to realise the full margin benefit in 2022.

A second interim insurance payment of R25 million relating to the Springs Mill electricity supply interruption in 2020 was approved by insurers and included in the results as sundry income. It is anticipated that a final settlement amount of approximately R45 million will be included in the 2022 results.

The Baywhite distribution agreement expired on 31 December 2021 after having been extended beyond its initial term by seven years. In 2021, Mpact's external revenue attributable to the agreement was R867 million with a profit margin of approximately 2.5%.

Plastics business

Revenue in the Plastics business was up 14.2% to R1.9 billion (2020: R1.6 billion) due to good demand in Bins and Crates and a recovery of volumes in Preforms and Closures, offset by lower demand in FMCG. Overall, volumes increased by 9.5% with price and mix up 4.7%.

Underlying EBIT increased by 33.7% to R200 million due to good growth across most sectors and a lower depreciation charge, partially offset by delays in increasing selling prices to recover higher polymer costs. The underlying operating margin improved to 10.7% (2020: 9.2%)

Net finance costs

Net finance costs decreased by 17.7% to R139.5 million (2020: R169.5 million) due mainly to lower average net debt.

Tax

The effective tax rate before special items of 28.5% (2020:19.4%) approximates the South African corporate income tax rate of 28%. The prior year's low effective tax rate was as a result of the S12I and S12L capital investment and energy efficiency incentives not repeated in the current year.

Earnings per share

Headline earnings per share (HEPS) increased 89% to 343.2 cents (2020: 181.6 cents) while underlying basic earnings per share (EPS) improved 93.2% to 359.6 cents (2020: 186.1 cents).

The weighted average number of shares used in the calculation of EPS, HEPS and underlying EPS for the year ended 31 December 2021 was 147,264,489 compared to 169,322,144 for the prior year.

Net debt

Net debt increased to R1.8 billion at 31 December 2021 (2020: R1.4 billion) mainly due to a cash outflow in respect of the share buy-back undertaken in January 2021 as well as investments made in capital projects.

As at 31 December 2021, Mpact had approximately R3 billion of committed debt facilities of which R900 million (R200 million drawn and R700 million undrawn) will expire in August 2022. We have therefore commenced engagements with the lenders on these facilities.

DISCONTINUED OPERATION

Following a strategic review, Mpact's Board has decided to sell its plastic trays and films business, Mpact Versapak, as a going concern. Versapak, which currently forms part of the Plastics Division of Mpact, is a leading producer of plastic trays and film with a well-established brand, blue-chip customers and a solid asset base. The reason for this decision is that Versapak's products are not fully aligned with Mpact's strategy.

Mpact Versapak is disclosed separately in the Annual Financial Statements for the year ended 31 December 2021, with the assets and liabilities being reported as "held for sale" and the Income Statement reported as a "discontinued operation".

The decision to sell Versapak does not affect any other Mpact Plastics businesses being FMCG, Plastic Containers and Preforms and Closures.

The Company is currently in the early stages of engagement with potential buyers for the business. It is anticipated that the sale could take several months to complete.

For the year ended 31 December 2021, Versapak reported revenue of R920 million (2020: R839 million), and net earnings of R2 million (2020: R15 million), which equates to basic EPS of 1.5 cents (2020: 9.0 cents). Versapak's net asset value as at 31 December 2021 was R301 million (2020: R217 million).

OUTLOOK

Mpact is expected to continue to benefit from the strong global containerboard and cartonboard market as well as increased demand for locally-produced products. In addition, the annual paper selling price increase realised at the end of 2021 will assist the Group in recovering increases in raw material costs. However, the ongoing effects of Covid-19 and the general tightening on monetary policy could negatively affect consumer spending while the pressure on input costs is likely to remain.

The upward inflationary pressure arising from global supply chain disruptions, exacerbated by the current Ukrainian crisis, are expected to continue for the foreseeable future. The Group has implemented measures to mitigate against the effects and exploit any opportunities that may arise from the disruptions. Nevertheless, the impact on the availability and cost of raw materials remains uncertain.

The proposed sharp increase in electricity tariffs by Eskom, the ongoing instability of the national grid and the escalating price of fuel remain concerns in the coming year.

Despite these immediate challenges, the Group is working on the successful implementation of several approved projects and other growth opportunities totalling over R700 million to support customer focused growth, innovation and sustainability; and to build on the Group's integrated business model, which is uniquely focused on closing the loop in paper and plastic packaging, contributing to the circular economy, and benefiting society.

DIVIDENDS AND SHARES REPURCHASED

Shareholders are referred to the Company's announcement on SENS dated 27 January 2021, in which the Company gave notification that it had repurchased 15,413,152 shares representing 10% of Mpact's issued share capital at a cost of R257 million. The total number of shares in issue as at 31 December 2021 was 148,175,363 (2020: 164,639,292).

Mpact will continue to focus on creating value for shareholders over the long-term through prudent capital allocation in the context of growth opportunities; and cash returns to shareholders by dividends, share buybacks or a combination thereof.

Notwithstanding the significant return of cash to shareholders during the period through the successful share buy-back, the Board has resolved to declare a final gross cash dividend of 50 cents for the financial year ended 31 December 2021 (40 cents net of dividend withholding tax) per ordinary share (2020: nil per ordinary share). A dividend withholding tax of 20% will be applicable to all shareholders who are not exempt. The dividend has been declared from income reserves.

Salient dates for the cash dividend distribution

	2022
Publication of dividend declaration	Monday, 7 March
Last day of trade to receive a dividend	Tuesday, 29 March
Shares commence trading "ex" dividend	Wednesday, 30 March
Record date	Friday, 1 April
Payment date	Monday, 4 April

All times provided are South African local times. The above dates and times are subject to change. Any material change will be announced on the SENS.

Share certificates may not be dematerialised or re-materialised between Wednesday, 30 March 2022 and Friday, 1 April 2022, both days inclusive. Mpact's income tax reference number is 9003862175.

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.

BOARD CHANGES

Effective 30 November 2021, Mr. Andrew Murray Thompson resigned as an Independent Non-executive Director of Mpact, and as a member of the Audit and Risk Committee and member of the Social and Ethics Committee. The Board would like to thank him for his valuable contribution, dedication and commitment to the Company during his tenure.

Effective 27 January 2022, Mr Donald Gert Wilson has been appointed to Mpact's Board as an Independent Non-executive Director and as a member of Mpact's Audit and Risk Committee. The Board is very pleased to welcome him and looks forward to his contribution to the Company.

FINANCIAL SUMMARY FROM CONTINUING OPERATIONS

	Year ended 31 December	Year ended 31 December	
R'million	2021	2020	Change
Revenue	11 549	10 258	12.6%
Underlying operating profit ¹	948	607	56.2%

Underlying profit before tax ²	816	447	82.6%
Net debt	1 756	1 408	24.8%
ROCE	17.8%	11.4%	6.4
Total gross dividend per share (cents)	50	–	–
Basic EPS (cents)	351.5	179.6	95.7%
Basic underlying EPS (cents)	359.6	186.1	93.2%
Basic HEPS (cents)	343.2	181.6	89.0%

- (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 auditor. Any investment decision should be based on the full audited announcement which is available on our website: <https://www.mpact.co.za/investor-relations/financial-results/2021/FY2021.pdf>, and on <https://senspdf.jse.co.za/documents/2022/JSE/ISSE/MPT/FY2021.pdf>

Deloitte & Touche, the Group's independent auditor, has audited the Consolidated Annual Financial Statements (AFS) of Mpact Limited and has expressed an unmodified audit opinion on the AFS.

The auditor report (with Key Audit Matters) issued on the AFS and the actual AFS can be accessed at: <https://www.mpact.co.za/investor-relations/financial-results/2021/AFSFY2021.pdf>

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

AJ Phillips Chairman 7 March 2022	BW Strong Chief Executive Officer
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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 2021, Mpact employed 5,115 people (2020: 5,053 people) and had 47 operating sites, 22 of which are manufacturing operations, located in South Africa, Namibia and Mozambique. Sales in South Africa account for approximately 88% 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 and DG Wilson

Executive:

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

Company secretary:

DM Dickson

Registered office:

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Transfer secretaries:

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Auditors:
Deloitte & Touche
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(Private Bag X6, Gallo Manor, 2052)