

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")

## **UNAUDITED INTERIM RESULTS AND CASH DIVIDEND DECLARATION FOR THE SIX MONTHS ENDED 30 JUNE 2023**

### **HIGHLIGHTS FROM CONTINUING OPERATIONS**

- *Operating profit increased by 37% to R531 million (June 2022: R387 million)*
- *Strategic growth projects contributed positively to results*
- *Headline earnings per share up 33% to 188 cents (June 2022: 142 cents)*
- *Return on Capital Employed (ROCE) improved to 18.7% (June 2022: 18.0%)*
- *Interim dividend declared of 45 cents per share (June 2022: 40 cents per share)*
- *Implementation of strategic projects on track*

### **COMMENTARY FROM CONTINUING OPERATIONS**

#### **OVERVIEW**

Mpact reported a strong performance for the six months ended 30 June 2023 with operating profit increasing by 37% to R530.7 million when compared to the prior period.

Bruce Strong, Mpact Chief Executive Officer, said: "It's been a very pleasing performance despite the tough economic conditions. Our revenues, profits and interim dividend are all up, which validates our investment thesis, and our prudent growth strategy. All operations reported improved performances, underpinned by our successful investments in both new capacity and alternative power and water supplies, which have increased our operational resilience. Executing on our value-enhancing strategy, and deliberately pursuing innovation, has enabled the Group's expansion into new, higher-margin product areas domestically and for the offshore market. We have strategically positioned Mpact and our products to capitalise on the global push towards a circular economy. Our unwavering commitment to closing the loop in paper and packaging places us at the forefront of this transformative movement and is improving profitability while giving the Group a sustainable growth trajectory."

While inflation has reduced from the high levels of last year, costs still remain elevated. Towards the end of the period, there was some relief in the cost of some plastic polymers, recovered paper and pulp, which partially offset the increases in other costs, such as electricity, coal, fuel, and certain imported raw materials that were affected by the weaker rand. The significant global supply chain constraints that hindered the sourcing of raw materials last year, have now improved.

Load shedding has increased considerably compared to the first half of last year. As previously advised, Mpact's paper mills and most converting operations have demand curtailment agreements with Eskom rather than being subject to load shedding schedules. The required curtailment is linked to load

shedding stages implemented by Eskom, but thanks to our installed solar generation capacity and process designs we have been able to respond to the curtailment requirements up to stage 6 load shedding without materially reducing production. Some converting operations remain affected by load shedding and still need to amend production schedules. To mitigate these effects, where feasible, generators are used to meet customer requirements.

New solar generation installations totalling 6.7 Megawatts peak (MWp) at our Springs mill and Castlevue factory are on schedule to be completed during the second half of this year. They will bring the Group's solar capacity to approximately 16.1 MWp.

Mpact Operations (Pty) Ltd, the Group's main trading entity in South Africa, retained its Level 1 B-BBEE status.

## **FINANCIAL REVIEW**

Group revenue for the six months increased by 8.7% to R6.2 billion compared to the prior period, despite sales volumes decreasing by 10.2%.

Operating profit (EBIT) increased by 37.1% to R530.7 million (June 2022: R387.1 million) mainly due to an improvement in profitability of the Plastics business, higher selling prices in the Paper business implemented in October 2022, and the benefits of recently completed investment projects.

### **Paper business**

Revenue of R5.3 billion was 7.2% higher than the same prior period (June 2022: R4.9 billion), due to higher selling prices which were partly offset by lower sales volumes in both paper manufacturing and converting.

Paper manufacturing sales volumes decreased, due to subdued consumer demand and to the late arrival of imports of containerboard and cartonboard ordered by customers last year when there were global shortages. The slowdown in containerboard sales and high customer inventories necessitated production downtime at the containerboard mills to avoid unnecessarily locking up cash in working capital. As such, the Mkhondo and Felixton Mills took commercial downtime amounting to approximately 13% of their capacity during the period.

In Paper Converting, both agricultural and industrial sales volumes were down compared to the prior period. In the agricultural sector, good growth in citrus, avocado, tomato, and banana packaging volumes was offset by declines in grapes, pome fruit and stone fruit which were affected by adverse weather in the Western and Eastern Cape growing areas in late 2022. Industrial sector volumes declined due to subdued consumer demand and the negative effects of load shedding.

Despite this, the business performed well with operating profit up 19.8% to R548.3 million as a result of higher selling prices and a recovery from the impact of the 2022 floods in KwaZulu-Natal (KZN). While there were no insurance proceeds received in the current period, the prior period included insurance proceeds of R47 million.

During July, the Springs Mill experienced 18 days of production downtime due to supply interruptions of water and electricity from the City of Ekurhuleni, which have since been resolved.

## **Plastics business**

Revenue in the Plastics business of R992.5 million increased by 17% (June 2022: R848.6 million) with operating profit increasing to R63.2 million (June 2022: R3.5 million). This was on the back of recent investments in the Bins & Crates business and the consolidation of the Preforms & Closures sites in 2022. This strong performance was achieved despite lower volumes in FMCG, and Preform & Closures businesses due to lower consumer demand as the financial health of the consumer continues to deteriorate.

Insurance proceeds of R6.5 million associated with the KZN floods were recognised in June 2023. In the prior comparable period, R11.6 million was incurred for asset impairments and other costs relating to the floods.

## **Net finance costs**

Net finance costs increased to R131.7 million (June 2022: R81.8 million) due to higher average net debt and interest rates compared to the comparable prior period.

## **Earnings per share**

Headline earnings per share increased 32.5% to 188.2 cents (June 2022: 142.0 cents), while basic earnings per share increased 37.3% to 190.7 cents (June 2022: 138.9 cents).

## **Net debt**

Net debt increased to R2,640 million (December 2022: R2,327 million) with strong cash generation from operations offset by outflows of R843 million for capital investments, in line with the Group's strategy.

## **DISCONTINUED OPERATIONS**

As previously advised, Mpact's Board will sell its Plastics' Trays & Films business, Versapak, as a going concern. Versapak currently forms part of the Plastics Division of Mpact Operations. Mpact's Group results include separate disclosures in the financial statements for discontinued operations and assets and liabilities held-for-sale. As at 30 June 2023, the sale of Versapak was still in progress.

For the six months ended 30 June 2023, Versapak reported revenue of R545 million (June 2022: R510 million), and net earnings of R34 million (June 2022: R28 million), which equates to basic earnings per share of 23.4 cents (June 2022: 19.3 cents). In December 2022, a decision was taken to exclude Versapak's trade receivables, cash balances and trade payables from the assets and liabilities held-for-sale in order to reduce the complexity of a transaction. This has resulted in Versapak's net asset held-for-sale decreasing to R173 million (June 2022: R337 million).

## **OUTLOOK**

Globally, the supply chain constraints that affected our business during 2022 have improved, and we expect the related cost inflation to continue declining. However, in South Africa, input costs are likely to remain elevated with consumer demand expected to be muted due to factors such as Eskom load shedding and the weakening of the rand compared to 2022. These factors could, in turn, affect demand for some of our products and put pressure on margins.

Despite the challenges, our strategy of investing in innovative, higher-margin, and sustainable products is expected to consistently yield tangible benefits for the business, leading to improved returns for our shareholders. We have strategically targeted sectors that are projected to grow in the foreseeable future, and these sectors are also somewhat insulated from South African consumer spending patterns. Some of our key areas of focus include fruit exports, convenience shopping, recycling, and waste management.

For the rest of this financial year, the Plastics business is expected to benefit further from recent investments in the Bins & Crates business, and continued portfolio optimisation and cost improvement initiatives.

The Paper business' profitability during the second half of the year will be affected by planned downtime at the Felixton Mill and the Mbombela paper converting plant for the implementation of capital projects, which will benefit the business in future. The Felixton Mill upgrade project is aimed at increasing the production of quality lightweight recycled containerboard by an additional 16,000 tonnes per annum and is expected to be commissioned by the end of September. The Mbombela paper converting project, which is scheduled to be completed by the end of December, entails equipment upgrades to meet the growing needs of our fruit customers in the region, who are expanding.

Our management team is dedicated to executing our value-enhancing strategy, designed to optimise our business portfolio and drive both organic and inorganic growth. We will continue to focus on the management of costs and working capital, including through carefully calibrated commercial downtime if and when necessary.

## **BOARD CHANGES**

Ms Neo Phakama Dongwana retired by rotation at the Annual General Meeting of Mpact on 1 June 2023. The Board would like to thank Neo for her valuable contribution, dedication, and commitment to Mpact during her tenure.

## **DIVIDENDS**

The Board has resolved to declare an interim gross cash dividend of 45 cents for the six months ended 30 June 2023 (36 cents net of dividend withholding tax) per ordinary share (June 2022: 40 cents 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.

The Company's total number of issued ordinary shares at the date of this announcement is 149,453,688. Mpact's income tax reference number is 9003862175.

## **Salient dates for the cash dividend distribution**

<b>Event</b>	<b>2023</b>
Publication of dividend declaration	Thursday, 3 August
Last day of trade to receive a dividend	Tuesday, 29 August

Shares commence trading “ex” dividend	Wednesday, 30 August
Record date	Friday, 1 September
Payment date	Monday, 4 September

All times provided are South African local time.

Share certificates may not be dematerialised or re-materialised between Wednesday, 30 August 2023 and Friday, 1 September 2023, both days inclusive.

### Financial summary from continuing operations

R'million	Six months ended 30 June 2023	Six months ended 30 June 2022	Change
Revenue	6,240	5,743	8.7%
Operating profit	531	387	37.1%
Profit before tax	409	311	31.4%
Net debt	2,640	2,206	19.7%
Return of capital employed (%)	18.7	18.0	0.7
Interim gross dividend per share (cents)	45.0	40.0	12.5%
Basic earnings per share (cents)	190.7	138.9	37.3%
Basic headline earnings per share (cents)	188.2	142.0	32.5%

This short-form announcement is the responsibility of the Directors and is only a summary of the information contained in the full unaudited announcement. Any investment decision should be based on the full unaudited announcement which is available on our website <https://www.mpact.co.za/investor-relations/financial-results/2023/HY2023.pdf>, and on <https://senspdf.jse.co.za/documents/2023/JSE/ISSE/MPT/HY2023.pdf>

The financial information on which the outlook statement is based has not been reviewed and reported on by Mpact’s external auditors.

The full unaudited announcement is also available at Mpact’s registered office at no charge during office hours and may be requested by emailing: [DDickson@Mpact.co.za](mailto:DDickson@Mpact.co.za).

**AJ Phillips**

**Chairman**

**3 August 2023**

**BW Strong**

**Chief Executive Officer**

## **COMPANY PROFILE**

Mpact is the largest paper and plastics packaging and recycling business in 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 30 June 2023, Mpact employed 5,194 people (June 2022: 5,106 people) and had 42 operating sites, 24 of which are manufacturing operations, located in South Africa, Namibia and Mozambique. Sales in South Africa account for approximately 91% of Mpact's total revenue for the current period while the balance was predominantly to customers in the rest of Africa.

## **DIRECTORS**

Independent Non-Executive:

AJ Phillips (Chairman), PCS Luthuli, M Makanjee, TDA Ross, DG Wilson and ABA Conrad

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

## **Transfer secretaries:**

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

## **Sponsors:**

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

## **Auditors:**

PricewaterhouseCoopers Inc. (PWC)  
4 Lisbon Lane, Waterfall City, Jukskei View, 2090  
(Private Bag X36, Sunninghill, 2157)