



## NEWS RELEASE

### Winpak Reports 2020 First Quarter Results

**Winnipeg, Manitoba, May 5, 2020** - Winpak Ltd. (WPK) today reports consolidated results in US dollars for the first quarter of 2020, which ended on March 29, 2020.

	Quarter Ended	
	March 29 2020	March 31 2019
<i>(thousands of US dollars, except per share amounts)</i>		
Revenue	213,596	224,035
Net income	23,546	29,188
Income tax expense	8,605	10,535
Net finance income	(1,030)	(1,137)
Depreciation and amortization	10,835	10,158
EBITDA (1)	41,956	48,744
Net income attributable to equity holders of the Company	23,155	28,429
Net income attributable to non-controlling interests	391	759
Net income	23,546	29,188
Basic and diluted earnings per share (cents)	36	44

Winpak Ltd. manufactures and distributes high-quality packaging materials and related packaging machines. The Company's products are used primarily for the packaging of perishable foods, beverages and in healthcare applications.

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<sup>1</sup> EBITDA is not a recognized measure under International Financial Reporting Standards (IFRS). Management believes that in addition to net income, this measure provides useful supplemental information to investors including an indication of cash available for distribution prior to debt service, capital expenditures, payment of lease liabilities and income taxes. Investors should be cautioned, however, that this measure should not be construed as an alternative to net income, determined in accordance with IFRS, as an indicator of the Company's performance. The Company's method of calculating this measure may differ from other companies and, accordingly, the results may not be comparable.



## **Management's Discussion and Analysis**

(presented in US dollars)

Forward-looking statements: Certain statements made in the following Management's Discussion and Analysis contain forward-looking statements including, but not limited to, statements concerning possible or assumed future results of operations of the Company. Forward-looking statements represent the Company's intentions, plans, expectations and beliefs, and are not guarantees of future performance. Such forward-looking statements represent Wipak's current views based on information as at the date of this report. They involve risks, uncertainties and assumptions and the Company's actual results could differ, which in some cases may be material, from those anticipated in these forward-looking statements. Factors that could cause results to differ from those expected include, but are not limited to: the terms, availability and costs of acquiring raw materials and the ability to pass on price increases to customers; ability to negotiate contracts with new customers or renew existing customer contracts with less favorable terms; timely response to changes in customer product needs and market acceptance of our products; the potential loss of business or increased costs due to customer or vendor consolidation; competitive pressures, including new product development; industry capacity, and changes in competitors' pricing; ability to maintain or increase productivity levels; ability to contain or reduce costs; foreign currency exchange rate fluctuations; changes in governmental regulations, including environmental, health and safety; changes in Canadian and foreign income tax rates, income tax laws and regulations. In addition, factors arising as a result of the Coronavirus (COVID-19) global pandemic that could cause results to differ from those expected include, but are not limited to: potential government actions, changes in consumer behaviors and demand, changes in customer requirements, disruptions of the Company's suppliers and supply chain, availability of personnel and uncertainty about the extent and duration of the pandemic. Unless otherwise required by applicable securities law, Wipak disclaims any intention or obligation to publicly update or revise this information, whether as a result of new information, future events or otherwise. The Company cautions investors not to place undue reliance upon forward-looking statements.

### **Financial Performance**

Net income attributable to equity holders of the Company for the first quarter of 2020 of \$23.2 million or 36 cents in earnings per share (EPS) decreased by 18.6 percent from the \$28.4 million or 44 cents per share recorded in the corresponding quarter in 2019. Foreign exchange reduced EPS by 3.5 cents. Additionally, the lower sales volumes and the contraction in gross profit margins each caused EPS to decline by 2.5 cents. A lesser proportion of earnings attributable to non-controlling interests raised EPS by 0.5 cents.

### **Operating Segments and Product Groups**

The Company provides three distinct types of packaging technologies: a) flexible packaging, b) rigid packaging and flexible lidding and c) packaging machinery. Each is deemed to be a separate operating segment.

The flexible packaging segment includes the modified atmosphere packaging, specialty films and biaxially oriented nylon product groups. Modified atmosphere packaging extends the shelf life of perishable foods, while at the same time maintains or improves the quality of the product. The packaging is used for a wide range of markets and applications, including fresh and processed meats, poultry, cheese, medical device packaging, high performance pouch applications and high-barrier films for converting applications. Specialty films include a full line of barrier and non-barrier films which are ideal for converting applications such as printing, laminating and bag making, including shrink bags. Biaxially oriented nylon film is stretched by length and width to add stability for further conversion using printing, metalizing or laminating processes and is ideal for food packaging applications such as cheese, fluid and viscous liquids, and industrial applications such as book covers and balloons.

The rigid packaging and flexible lidding segment includes the rigid containers, lidding and specialized printed packaging product groups. Rigid containers include portion control and single-serve containers, as well as plastic sheet, custom and retort trays, which are used for applications such as food, pet food, beverage, dairy, industrial and healthcare. Lidding products are available in die-cut, daisy chain and rollstock formats and are used for applications such as food, dairy, beverage, industrial and healthcare. Specialized printed packaging provides packaging solutions to the pharmaceutical, healthcare, nutraceutical, cosmetic and personal care markets.

Packaging machinery includes a full line of horizontal fill/seal machines for preformed containers and vertical form/fill/seal pouch machines for pumpable liquid and semi-liquid products and certain dry products.

### **Revenue**

Revenue in the first quarter of 2020 of \$213.6 million was \$10.4 million or 4.7 percent below the initial quarter of 2019. Normalizing for the revenue stemming from the acquisition of Control Group in 2019, volumes contracted by 5.6 percent from the prior year comparable quarter. The flexible packaging operating segment experienced volume growth of 3 percent in the quarter. The modified atmosphere packaging product group benefitted from elevated order levels with respect to retail food customers towards the end of the quarter, which eclipsed the diminished order levels from customers that serve the restaurant and food service industries. Additionally, growth within the Mexican market contributed to the positive result. Volumes within the rigid packaging and flexible lidding operating segment receded by 12 percent in the quarter after adjusting for the Control Group acquisition. The significant downturn in rigid container volumes reflected the reduced participation in supplying the specialty beverage business with the new recyclable polypropylene cup. Conversely, the modest growth in lidding product group volumes was due to gains in specialty beverage lidding. For the packaging machinery operating segment, volumes retreated by over 40 percent, a consequence of the exceptionally high number of machines that were shipped during the first quarter of 2019. However, the



machinery sales backlog is very strong, which will favorably influence revenue for the balance of the year. Selling price and mix changes had an unfavorable impact of 1.9 percent on first quarter revenue while the effect of foreign exchange on revenue was negligible.

### Gross Profit Margins

Gross profit margins in the current quarter of 30.0 percent dropped by 0.9 percentage points from the 2019 first quarter result of 30.9 percent. Lower sales volumes led to heightened manufacturing costs per unit of production due to lower equipment utilization, generating a reduction in gross profit margins. This was partially mitigated by raw material costs declining to a greater extent than the related selling price adjustments. This expansion in margins resulted from the timing of selling price pass-through adjustments to customers on formal price indexing programs.

The raw material purchase price index dropped by 2.0 percent compared to the fourth quarter of 2019. In the past 12 months, the decrease in the index was more pronounced at 8.9 percent. During the first quarter, polypropylene resin prices fell by 13 percent while all other major raw materials were relatively unchanged.

### Expenses and Other

In the first quarter of 2020, operating expenses, exclusive of foreign exchange and the acquisition of Control Group, receded at a similar rate relative to the contraction in sales volumes, thereby having an insignificant impact on EPS. Foreign exchange subtracted 3.5 cents from EPS in the quarter due to the negative translation differences recorded on the revaluation of monetary assets and liabilities denominated in both Canadian dollars and Mexican pesos. The magnitude of income attributable to non-controlling interests elevated EPS by 0.5 cents.

### Capital Resources, Cash Flow and Liquidity

The Company's cash and cash equivalents balance ended the first quarter at \$417.4 million, an increase of \$20.2 million from the end of the prior year. Winpak continued to generate solid cash flow from operating activities before changes in working capital of \$42.5 million. Cash was consumed by net working capital additions of \$6.8 million. Trade payables and other liabilities declined by \$7.2 million, reflecting the timing of supplier payments. In addition, cash was utilized for income tax payments of \$7.3 million, plant and equipment expenditures of \$6.4 million, dividend payments of \$1.5 million, employee defined benefit plan contributions of \$1.3 million and other items totaling \$0.1 million while net finance income provided cash of \$1.1 million.

### Summary of Quarterly Results

	Thousands of US dollars, except per share amounts (US cents)							
	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018
Revenue	213,596	217,456	212,734	219,618	224,035	222,138	220,647	225,191
Net income attributable to equity holders of the Company	23,155	26,679	28,578	31,086	28,429	26,683	27,835	28,042
EPS	36	41	44	48	44	41	43	43

The Company initially applied IFRS 16 "Leases" at December 31, 2018. Under the transition method chosen by the Company, comparative information has not been restated.

### Looking Forward

Winpak, along with all businesses throughout the world, is closely monitoring the Coronavirus (COVID-19) pandemic with the utmost importance and fully embraces its corporate responsibility to undertake every necessary measure to help limit the impact of COVID-19. This includes the health and safety of our employees, families and communities and our customers and suppliers. The Company's facilities are classified as being an essential provider of packaging materials and machinery for the food, beverage and healthcare industries. Our customers depend on us to continuously supply packaging materials and machinery to support their respective supply chains and Winpak will endeavour to do its best to satisfy these critical needs.

Commencing in the middle of March, customer order volumes have changed in earnest reflecting the pronounced shift in consumer behavior with elevated buying at the retail level due to pantry loading and increased at-home food consumption. However, the demand for products in the restaurant and food service industry has deteriorated considerably. The flexible packaging segment has experienced a sizeable increase in orders within the protein and cheese markets. Several of our customers' protein plants have been shut down, for up to two weeks, due to COVID-19 cases within their operations which may negatively affect their future order levels. This segment has had a notable softening in order activity in the food service and non-food retail markets. The lidding product group has had a moderate uptick in volumes within the specialty beverage, food rollstock and case ready meat categories with other die-cut lidding remaining steady. Rigid container products have realized moderate expansion in fresh meat trays along with newly awarded pet food retort tray business scaling-up in the second quarter. However, sizeable volume reductions have been evident in single-serve rigid containers for the food service sector. Unrelated to the effects



of COVID-19, rigid containers had a substantial contraction in volumes as a result of the diminished supply position with the new recyclable specialty beverage polypropylene cup which is expected to continue into the future. The packaging machinery segment has a healthy machine order backlog which should keep it operating at capacity for the remainder of 2020. For the near term, plant operations are being closely monitored to ensure everything possible is being done to provide a safe work place for our dedicated employees and where possible, production will be distributed amongst Winpak facilities to manage capacity and fulfill customer orders. To date, the raw material supply chain has remained relatively resilient which has enabled our plants to continue operating. The dramatic collapse in world oil prices, from over supply and weakened demand due to the pandemic, has lowered certain raw material resin costs. The costs for the Company's three primary resins are forecasted to decline in the second quarter and then possibly move upwards in the second half of 2020. Presently, the magnitude of the potential reductions in these resin costs is difficult to ascertain. In the short term, these decreases would be a catalyst for enhanced gross profit margins. The decline in resin costs will lower customer selling prices in the next six months as 66 percent of the Company's revenues are indexed albeit with a three to four-month time lag. Should the current weakness in the Canadian dollar persist, the effect will be to reduce revenues but increase net income, as Canadian dollar denominated costs exceed revenues in that currency. However, for 2020, the positive effect on net income would be minimal due to foreign exchange hedges in place. The recent reductions in North American interest rates will negatively affect finance income for the balance of the year.

Capital spending was relatively light in the first quarter, due mainly to timing of supplier payments, and expenditures are forecasted to be in the range of \$50 to \$60 million for the year. Given the pandemic, there is a degree of uncertainty as to the timing of completing certain projects due to potential procurement delays with equipment suppliers in North America and Europe. At the Winnipeg, Manitoba modified atmosphere packaging plant, expenditures are focused on adding cast co-extrusion capacity, including upgrades and modifications to existing lines, which will enhance the Company's capabilities and product portfolio with a new generation of recyclable/reusable high-barrier thermoformable films. The new biaxially oriented polyamide (BOPA) line and building expansion in Winnipeg, Manitoba is progressing with commercial start-up planned for the second quarter of 2021. Other notable capital projects include: additional converting capacity at the Norwood, New Jersey plant and relocation of the packaging machinery operations from San Bernardino to Rialto, California, occupying a new, considerably expanded leased facility. Due to COVID-19, the Company will take a pause in actively pursuing potential acquisition opportunities and will focus its efforts on being an essential supplier of packaging materials to our customers. Winpak has a solid balance sheet with significant cash resources on hand, unused credit facilities comprised of unsecured operating lines of \$38 million and strong cash flows from operations to enable the Company to function effectively during the COVID-19 pandemic.

### Controls and Procedures

#### Disclosure Controls

Management is responsible for establishing and maintaining disclosure controls and procedures in order to provide reasonable assurance that material information relating to the Company is made known to them in a timely manner and that information required to be disclosed is reported within time periods prescribed by applicable securities legislation. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based on management's evaluation of the design of the Company's disclosure controls and procedures, the Company's Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures are designed as of March 29, 2020 to provide reasonable assurance that the information being disclosed is recorded, summarized and reported as required.

#### Internal Controls Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Internal control systems, no matter how well designed, have inherent limitations and therefore can only provide reasonable assurance as to the effectiveness of internal controls over financial reporting, including the possibility of human error and the circumvention or overriding of the controls and procedures. Management used the Internal Control – Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO 2013) as the control framework in designing its internal controls over financial reporting. Based on management's design of the Company's internal controls over financial reporting, the Company's Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures are designed as of March 29, 2020 to provide reasonable assurance that the financial information being reported is materially accurate. During the first quarter ended March 29, 2020, there have been no changes to the design of the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.



**Winpak Ltd.**  
**Interim Condensed Consolidated Financial Statements**  
**First Quarter Ended: March 29, 2020**

These interim condensed consolidated financial statements have not been audited or reviewed by the Company's independent external auditors, KPMG LLP.



**Winpak Ltd.**  
**Condensed Consolidated Balance Sheets**  
*(thousands of US dollars) (unaudited)*

	Note	March 29 2020	December 29 2019
<b>Assets</b>			
<b>Current assets:</b>			
Cash and cash equivalents		417,385	397,159
Trade and other receivables	12	141,467	141,855
Income taxes receivable		6,009	1,253
Inventories	6	127,109	130,467
Prepaid expenses		4,859	2,715
Derivative financial instruments		-	527
		<u>696,829</u>	<u>673,976</u>
<b>Non-current assets:</b>			
Property, plant and equipment	7	482,593	489,267
Intangible assets		36,937	37,326
Employee benefit plan assets		11,176	11,131
Deferred tax assets		667	688
		<u>531,373</u>	<u>538,412</u>
<b>Total assets</b>		<u>1,228,202</u>	<u>1,212,388</u>
<b>Equity and Liabilities</b>			
<b>Current liabilities:</b>			
Trade payables and other liabilities		56,832	64,134
Contract liabilities		2,489	3,715
Provisions		149	149
Income taxes payable		283	3,529
Derivative financial instruments		1,697	8
		<u>61,450</u>	<u>71,535</u>
<b>Non-current liabilities:</b>			
Employee benefit plan liabilities		11,878	11,411
Deferred income		13,883	14,237
Provisions and other long-term liabilities		4,590	4,839
Deferred tax liabilities		50,110	44,604
		<u>80,461</u>	<u>75,091</u>
<b>Total liabilities</b>		<u>141,911</u>	<u>146,626</u>
<b>Equity:</b>			
Share capital		29,195	29,195
Reserves		(1,243)	380
Retained earnings		1,026,963	1,005,202
<b>Total equity attributable to equity holders of the Company</b>		<u>1,054,915</u>	<u>1,034,777</u>
<b>Non-controlling interests</b>		<u>31,376</u>	<u>30,985</u>
<b>Total equity</b>		<u>1,086,291</u>	<u>1,065,762</u>
<b>Total equity and liabilities</b>		<u>1,228,202</u>	<u>1,212,388</u>

See accompanying notes to condensed consolidated financial statements.



**Winpak Ltd.**

**Condensed Consolidated Statements of Income**

(thousands of US dollars, except per share amounts) (unaudited)

	Note	Quarter Ended	
		March 29 2020	March 31 2019
Revenue	4	213,596	224,035
Cost of sales		(149,427)	(154,905)
Gross profit		64,169	69,130
Sales, marketing and distribution expenses		(17,701)	(17,689)
General and administrative expenses		(8,093)	(8,634)
Research and technical expenses		(4,053)	(4,077)
Pre-production expenses		(178)	-
Other expenses	5	(3,023)	(144)
<b>Income from operations</b>		31,121	38,586
Finance income		1,659	2,106
Finance expense		(629)	(969)
Income before income taxes		32,151	39,723
Income tax expense		(8,605)	(10,535)
<b>Net income for the period</b>		23,546	29,188
<b>Attributable to:</b>			
Equity holders of the Company		23,155	28,429
Non-controlling interests		391	759
		23,546	29,188
<b>Basic and diluted earnings per share - cents</b>	10	36	44

**Condensed Consolidated Statements of Comprehensive Income**

(thousands of US dollars) (unaudited)

	Note	Quarter Ended	
		March 29 2020	March 31 2019
<b>Net income for the period</b>		23,546	29,188
<u>Items that will not be reclassified to the statements of income:</u>			
Cash flow hedge gains recognized		-	459
Cash flow hedge losses transferred to property, plant and equipment		-	95
Income tax effect		-	-
		-	554
<u>Items that are or may be reclassified subsequently to the statements of income:</u>			
Cash flow hedge (losses) gains recognized		(2,143)	691
Cash flow hedge (gains) losses transferred to the statements of income	5	(73)	546
Income tax effect		593	(331)
		(1,623)	906
<b>Other comprehensive (loss) income for the period - net of income tax</b>		(1,623)	1,460
<b>Comprehensive income for the period</b>		21,923	30,648
<b>Attributable to:</b>			
Equity holders of the Company		21,532	29,889
Non-controlling interests		391	759
		21,923	30,648

See accompanying notes to condensed consolidated financial statements.



Winpak Ltd.  
**Condensed Consolidated Statements of Changes in Equity**  
*(thousands of US dollars) (unaudited)*

	Attributable to equity holders of the Company						
	Note	Share capital	Reserves	Retained earnings	Total	Non-controlling interests	Total equity
<b>Balance at December 31, 2018</b>		29,195	(2,264)	893,279	920,210	27,693	947,903
<b>Comprehensive income for the period</b>							
Cash flow hedge gains, net of tax		-	965	-	965	-	965
Cash flow hedge losses transferred to the statements of income, net of tax		-	400	-	400	-	400
Cash flow hedge losses transferred to property, plant and equipment		-	95	-	95	-	95
<b>Other comprehensive income</b>		-	1,460	-	1,460	-	1,460
<b>Net income for the period</b>		-	-	28,429	28,429	759	29,188
<b>Comprehensive income for the period</b>		-	1,460	28,429	29,889	759	30,648
<b>Dividends</b>	9	-	-	(1,460)	(1,460)	-	(1,460)
<b>Balance at March 31, 2019</b>		29,195	(804)	920,248	948,639	28,452	977,091
<b>Balance at December 30, 2019</b>		29,195	380	1,005,202	1,034,777	30,985	1,065,762
<b>Comprehensive (loss) income for the period</b>							
Cash flow hedge losses, net of tax		-	(1,570)	-	(1,570)	-	(1,570)
Cash flow hedge gains transferred to the statements of income, net of tax		-	(53)	-	(53)	-	(53)
<b>Other comprehensive loss</b>		-	(1,623)	-	(1,623)	-	(1,623)
<b>Net income for the period</b>		-	-	23,155	23,155	391	23,546
<b>Comprehensive (loss) income for the period</b>		-	(1,623)	23,155	21,532	391	21,923
<b>Dividends</b>	9	-	-	(1,394)	(1,394)	-	(1,394)
<b>Balance at March 29, 2020</b>		29,195	(1,243)	1,026,963	1,054,915	31,376	1,086,291

See accompanying notes to condensed consolidated financial statements.



Winpak Ltd.

**Condensed Consolidated Statements of Cash Flows**

(thousands of US dollars) (unaudited)

	Quarter Ended		
	March 29	March 31	
	Note	2020	2019
<b>Cash provided by (used in):</b>			
<b>Operating activities:</b>			
Net income for the period		23,546	29,188
Items not involving cash:			
Depreciation		10,802	10,418
Amortization - deferred income		(388)	(372)
Amortization - intangible assets		421	112
Employee defined benefit plan expenses		915	856
Net finance income		(1,030)	(1,137)
Income tax expense		8,605	10,535
Other		(341)	(739)
Cash flow from operating activities before the following		42,530	48,861
Change in working capital:			
Trade and other receivables		388	(1,810)
Inventories		3,358	3,619
Prepaid expenses		(2,144)	(1,213)
Trade payables and other liabilities		(7,151)	(1,324)
Contract liabilities		(1,226)	(1,958)
Employee defined benefit plan contributions		(1,299)	(1,984)
Income tax paid		(7,292)	(8,251)
Interest received		1,549	2,132
Interest paid		(477)	(889)
Net cash from operating activities		28,236	37,183
<b>Investing activities:</b>			
Acquisition of property, plant and equipment - net		(6,387)	(17,315)
Acquisition of intangible assets		(31)	(18)
		(6,418)	(17,333)
<b>Financing activities:</b>			
Payment of lease liabilities		(101)	(104)
Dividends paid	9	(1,491)	(1,429)
		(1,592)	(1,533)
<b>Change in cash and cash equivalents</b>		20,226	18,317
<b>Cash and cash equivalents, beginning of period</b>		397,159	344,322
<b>Cash and cash equivalents, end of period</b>		417,385	362,639

See accompanying notes to condensed consolidated financial statements.

## 1. General

Winpak Ltd. is incorporated under the Canada Business Corporations Act. The Company manufactures and distributes high-quality packaging materials and related packaging machines. The Company's products are used primarily for the packaging of perishable foods, beverages and in healthcare applications. The address of the Company's registered office is 100 Saulteaux Crescent, Winnipeg, Manitoba, Canada R3J 3T3.

## 2. Basis of Presentation

The unaudited interim condensed consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS). The unaudited interim condensed consolidated financial statements are in compliance with IAS 34. Accordingly, certain information and note disclosures normally included in annual consolidated financial statements prepared in accordance with IFRS as issued by the International Accounting Standards Board (IASB) have been omitted or condensed. These unaudited interim condensed consolidated financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 29, 2019, which are included in the Company's 2019 Annual Report.

The fiscal year of the Company ends on the last Sunday of the calendar year. As a result, the Company's fiscal year is usually 52 weeks in duration, but includes a 53<sup>rd</sup> week every five to six years. The 2020 and 2019 fiscal years are both comprised of 52 weeks and each quarter of 2020 and 2019 are comprised of 13 weeks.

The unaudited interim condensed consolidated financial statements were approved by the Audit Committee on behalf of the Board of Directors on May 5, 2020.

## 3. Segment Reporting

### **Operating segments and product groups**

The Company provides three distinct types of packaging technologies: a) flexible packaging, b) rigid packaging and flexible lidding and c) packaging machinery. Each is deemed to be a separate operating segment.

The flexible packaging segment includes the modified atmosphere packaging, specialty films and biaxially oriented nylon product groups. Modified atmosphere packaging extends the shelf life of perishable foods, while at the same time maintains or improves the quality of the product. The packaging is used for a wide range of markets and applications, including fresh and processed meats, poultry, cheese, medical device packaging, high performance pouch applications and high-barrier films for converting applications. Specialty films include a full line of barrier and non-barrier films which are ideal for converting applications such as printing, laminating and bag making, including shrink bags. Biaxially oriented nylon film is stretched by length and width to add stability for further conversion using printing, metalizing or laminating processes and is ideal for food packaging applications such as cheese, fluid and viscous liquids, and industrial applications such as book covers and balloons.

The rigid packaging and flexible lidding segment includes the rigid containers, lidding and specialized printed packaging product groups. Rigid containers include portion control and single-serve containers, as well as plastic sheet, custom and retort trays, which are used for applications such as food, pet food, beverage, dairy, industrial and healthcare. Lidding products are available in die-cut, daisy chain and rollstock formats and are used for applications such as food, dairy, beverage, industrial and healthcare. Specialized printed packaging provides packaging solutions to the pharmaceutical, healthcare, nutraceutical, cosmetic and personal care markets.

Packaging machinery includes a full line of horizontal fill/seal machines for preformed containers and vertical form/fill/seal pouch machines for pumpable liquid and semi-liquid products and certain dry products.

Due to similar economic characteristics, including long-term sales volume growth and long-term average gross profit margins, and having similar products, production processes, types of customers and distribution methods, the flexible packaging and rigid packaging and flexible lidding operating segments have been aggregated as one reportable segment. In addition, the packaging machinery operating segment has been aggregated with these two segments as the segment's revenue and assets represents less than 3 percent of total Company revenue and assets.

The Company operates principally in Canada and the United States. See note 4 for a breakdown of revenue by operating and geographic segment. The following summary presents property, plant and equipment and intangible assets information by geographic segment:

	March 29 2020	December 29 2019
United States	260,863	264,639
Canada	239,098	242,296
Mexico	19,569	19,658
	<u>519,530</u>	<u>526,593</u>



**Notes to Condensed Consolidated Financial Statements**  
For the periods ended March 29, 2020 and March 31, 2019  
(thousands of US dollars, unless otherwise indicated) (Unaudited)

**4. Revenue**

Most of the Company's contracts have a single performance obligation as the promise to transfer the individual goods. Revenue for each of the three operating segments is recognized at a point in time when the customer obtains control of a product, which typically takes place when legal title and physical possession of the product is transferred to the customer. These conditions are usually fulfilled upon shipment, however, in some instances, upon delivery. Invoices are generated when control has transferred and are usually payable within 30 to 60 days.

**Disaggregation of Revenue**

	Quarter Ended	
	March 29 2020	March 31 2019
<b>Operating segment</b>		
Flexible packaging	112,132	111,532
Rigid packaging and flexible lidding	96,053	104,297
Packaging machinery	5,411	8,206
	213,596	224,035
<b>Geographic segment</b>		
United States	171,149	187,877
Canada	27,612	24,983
Mexico and other	14,835	11,175
	213,596	224,035

The Company's products are primarily used for the packaging of perishable foods and beverages, which accounted for more than 90 percent of sales during both the first quarter of 2020 and 2019. Other markets include medical, pharmaceutical, personal care, industrial, and other consumer goods.

**5. Other Expenses**

	Quarter Ended	
	March 29 2020	March 31 2019
<b>Amounts shown on a net basis</b>		
Foreign exchange (losses) gains	(3,096)	402
Cash flow hedge gains (losses) transferred from other comprehensive income	73	(546)
	(3,023)	(144)

**6. Inventories**

	March 29 2020	December 29 2019
Raw materials	31,506	32,741
Work-in-process	26,537	25,281
Finished goods	56,998	60,532
Spare parts	12,068	11,913
	127,109	130,467

During the first quarter of 2020, the Company recorded, within cost of sales, inventory write-downs for slow-moving and obsolete inventory of \$2,836 (2019 - \$2,472) and reversals of previously written-down items of \$1,657 (2019 - \$1,543).

## 7. Property, Plant and Equipment

At March 29, 2020, the Company has commitments to purchase plant and equipment of \$30,319 (December 29, 2019 - \$29,741). No impairment losses or impairment reversals were recognized in the first quarter of 2020 or 2019.

## 8. Leases

### Extension Options

Some leases of office and manufacturing facilities contain extension options exercisable by the Company up to one year before the end of the non-cancellable contract period. Where practicable, the Company seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Company and not by the lessors. The Company assesses at lease commencement whether it is reasonably certain to exercise the extension options. The Company reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant change in circumstances within its control. At March 29, 2020, potential future lease payments not included in lease liabilities totalled \$4,682 on a discounted basis.

### Future lease commitment

As at March 29, 2020 the Company had committed to a lease which had not yet commenced. The total future cash outflow for this lease is \$8,732 on a discounted basis.

## 9. Dividends

During the first quarter of 2020, dividends in Canadian dollars of 3 cents per common share were declared (2019 - 3 cents).

## 10. Earnings Per Share

	Quarter Ended	
	March 29 2020	March 31 2019
Net income attributable to equity holders of the Company	23,155	28,429
Weighted average shares outstanding (000's)	65,000	65,000
Basic and diluted earnings per share - cents	36	44

## 11. Financial Instruments

The Company measures assets and liabilities under the following fair value hierarchy in accordance with IFRS. The inputs used for fair value measurements, including their classification within the required three levels of the fair value hierarchy that prioritizes the inputs used for fair value measurement, are as follows:

Level 1 - unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 - inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 - inputs that are not based on observable market data.

The fair value of cash and cash equivalents, trade and other receivables, including trade and other receivables subject to factoring arrangements and classified as measured at fair value through other comprehensive income (FVOCI), trade payables and other liabilities approximate their carrying value because of the short-term maturity of these instruments. The fair value of foreign currency forward contracts, designated as cash flow hedges, has been determined by valuing those contracts to market against prevailing forward foreign exchange rates as at the reporting date.

The following table presents the classification of financial instruments within the fair value hierarchy:

Financial Assets (Liabilities)	Level 1	Level 2	Level 3	Total
<u>At March 29, 2020</u>				
Foreign currency forward contracts - net	-	(1,697)	-	(1,697)
<u>At December 29, 2019</u>				
Foreign currency forward contracts - net	-	519	-	519

When the Company has a legally enforceable right to set off supplier rebates receivable against supplier trade payables and intends to settle the amount on a net basis or simultaneously, the balance is presented as an offset within 'Trade payables and other liabilities' on the consolidated balance sheet. At March 29, 2020, the supplier rebate receivable balance that was offset was \$3,547 (December 29, 2019 - \$4,036).

## 12. Financial Risk Management

In the normal course of business, the Company has risk exposures consisting primarily of foreign exchange risk, interest rate risk, commodity price risk, liquidity risk, and credit risk. The Company manages its risks and risk exposures through a combination of derivative financial instruments, insurance, a system of internal and disclosure controls and sound business practices. The Company does not purchase any derivative financial instruments for speculative purposes.

Financial risk management is primarily the responsibility of the Company's corporate finance function. Significant risks are regularly monitored and actions are taken, when appropriate, according to the Company's approved policies, established for that purpose. In addition, as required, these risks are reviewed with the Company's Board of Directors.

### **Foreign Exchange Risk**

Translation differences arise when foreign currency monetary assets and liabilities are translated at foreign exchange rates that change over time. These foreign exchange gains and losses are recorded in other expenses. As a result of the Company's CDN dollar net asset monetary position as at March 29, 2020, a one-cent change in the period-end foreign exchange rate from 0.7150 to 0.7050 (CDN to US dollars) would have decreased net income by \$209 for the first quarter of 2020. Conversely, a one-cent change in the period-end foreign exchange rate from 0.7150 to 0.7250 (CDN to US dollars) would have increased net income by \$209 for the first quarter of 2020.

The Company's Foreign Exchange Policy requires that between 50 and 80 percent of the Company's net requirement of CDN dollars for the ensuing 9 to 15 months will be hedged at all times with a combination of cash and cash equivalents and forward or zero-cost option foreign currency contracts. The Company may also enter into forward foreign currency contracts when equipment purchases and special dividend payments will be settled in foreign currencies. Transactions are only conducted with certain approved Schedule 1 Canadian financial institutions. All foreign currency contracts are designated as cash flow hedges of the highly probable CDN dollar expenditures. These derivatives meet the hedge effectiveness criteria as a result of the following factors:

- a) An economic relationship exists between the hedged item and the hedging instrument as notional amounts match and both the hedged item and hedging instrument fair values move in response to the same risk - foreign exchange rates. There are no significant reasons or causes for the designated hedged item and hedging instrument to be mismatched since the hedging instrument matures during the same month as the expected hedged expenditures are incurred. The correlation between the foreign exchange rate of the hedged item and the hedging instrument should be highly correlated and closely aligned as the maturity and the notional amount are the same.
- b) The hedge ratio is one to one for this hedging relationship as the hedged item is foreign currency risk that is hedged with a foreign currency hedging instrument.
- c) Credit risk is not material in the fair value of the hedging instrument.

The Company has identified two sources of potential ineffectiveness: a) the timing of cash flow differences between the expenditure and the related derivative and b) the inclusion of credit risk in the fair value of the derivative not replicated in the hedged item. The Company expects the impact of these sources of hedge ineffectiveness to be minimal. The timing of hedge settlements and incurred expenditures are closely aligned as they are expected to occur within 30 days of each other. Credit risk is not a material component of the fair value of the Company's hedging instruments as all counterparties are Schedule 1 Canadian financial institutions, which are highly rated.

Certain foreign currency contracts matured during the first quarter of 2020 and the Company realized pre-tax foreign exchange gains of \$73. Of these foreign exchange differences, gains of \$73 were recorded in other expenses and \$0 was recorded in property, plant and equipment. During the first quarter of 2019 the Company realized pre-tax foreign exchange losses of \$641. Of these foreign exchange differences, losses of \$546 were recorded in other expenses and losses of \$95 were recorded in property, plant and equipment.

As at March 29, 2020, the Company had US to CDN dollar foreign currency forward contracts outstanding with a notional amount of US \$39.0 million at an average exchange rate of 1.3322 maturing between April 2020 and March 2021. The fair value of these financial instruments was negative \$1,697 US and the corresponding unrealized loss has been recorded in other comprehensive income. The Company did not recognize any ineffectiveness on the hedging instruments in the first quarter of 2020 or 2019.

### **Interest Rate Risk**

The Company's interest rate risk arises from interest rate fluctuations on the finance income that it earns on its cash invested in money market accounts and short-term deposits. The Company developed and implemented an investment policy, which was approved by the Company's Board of Directors, with the primary objective to preserve capital, minimize risk and provide liquidity. Regarding the March 29, 2020 cash and cash equivalents balance of \$417.4 million, a 1.0 percent increase/decrease in interest rate fluctuations would increase/decrease income before income taxes by \$4,174 annually.

**Commodity Price Risk**

The Company's manufacturing costs are affected by the price of raw materials, namely petroleum-based and natural gas-based plastic resins and aluminum. In order to manage its risk, the Company has entered into selling price-indexing programs with certain customers. Changes in raw material prices for these customers are reflected in selling price adjustments but there is a slight time lag. For the quarter ended March 29, 2020, 66 percent of revenue was generated from customers with selling price-indexing programs. For all other customers, the Company's preferred practice is to match raw material cost changes with selling price adjustments, albeit with a slight time lag. This matching is not always possible, as customers react to selling price pressures related to raw material cost fluctuations according to conditions pertaining to their markets.

**Liquidity Risk**

Liquidity risk is the risk that the Company would not be able to meet its financial obligations as they come due. Management believes that the liquidity risk is low due to the strong financial condition of the Company. This risk assessment is based on the following: (a) cash and cash equivalents amounts of \$417.4 million, (b) no outstanding bank loans, (c) unused credit facilities comprised of unsecured operating lines of \$38 million, (d) the ability to obtain term-loan financing to fund an acquisition, if needed, (e) an informal investment grade credit rating and (f) the Company's ability to generate positive cash flows from ongoing operations. Management believes that the Company's cash flows are more than sufficient to cover its operating costs, working capital requirements, capital expenditures, payment of lease liabilities and dividend payments in the next twelve months. The Company's trade payables and other liabilities and derivative financial instrument liabilities are all due within twelve months.

**Credit Risk**

The Company is exposed to credit risk from its cash and cash equivalents held with banks and financial institutions, derivative financial instruments (foreign currency forward contracts), as well as credit exposure to customers, including outstanding trade and other receivable balances.

The following table details the maximum exposure to the Company's counterparty credit risk which represents the carrying value of the financial asset:

	March 29 2020	December 29 2019
Cash and cash equivalents	417,385	397,159
Trade and other receivables	141,467	141,855
Foreign currency forward contracts	-	527
	558,852	539,541

Credit risk on cash and cash equivalents and other financial instruments arises in the event of non-performance by the counterparties when the Company is entitled to receive payment from the counterparty who fails to perform. The Company has established an investment policy to manage its cash. The policy requires that the Company manage its risk by investing its excess cash on hand on a short-term basis, up to a maximum of six months, with several financial institutions and/or governmental bodies that must be rated 'AA' or higher for CDN financial institutions and 'A-1' or higher for US financial institutions by recognized international credit rating agencies or insured 100 percent by the US government or a 'AAA' rated CDN federal or provincial government. The Company manages its counterparty risk on its financial instruments by only dealing with Schedule 1 Canadian financial institutions.

In the normal course of business, the Company is exposed to credit risk on its trade and other receivables from customers. To mitigate such risk, the Company performs ongoing customer credit evaluations and assesses their credit quality by taking into account their financial position, past experience and other pertinent factors. Management regularly monitors customer credit limits, performs credit reviews and, in certain cases insures trade and other receivables against credit losses.

During the first quarter of 2020, the Company incurred costs on the sale of trade receivables of \$497 (2019 - \$1,229). Of these costs, \$421 was recorded in finance expense (2019 - \$881) and \$76 was recorded in general and administrative expenses (2019 - \$348).

As at March 29, 2020, the Company believes that the credit risk for trade and other receivables is mitigated due to the following: a) a broad customer base which is dispersed across varying market sectors and geographic locations, b) 97 percent of the gross trade and other receivables balance is within 30 days of the agreed upon payment terms with customers, c) the sale of certain extended term trade receivables without recourse to a third party and d) 35 percent of the trade and other receivables balance is insured against credit losses. The Company's exposure to the ten largest customer balances, on aggregate, accounted for 38 percent of the total trade and other receivables balance.

The carrying amount of trade and other receivables is reduced through the use of an allowance for expected credit losses and the amount of the loss is recognized in the statement of income within general and administrative expenses. When a receivable balance is considered uncollectible, it is written off against the allowance for expected credit losses. Subsequent recoveries of amounts previously written off are credited against general and administrative expenses in the statement of income. During the first quarter of 2020, the Company recorded impairment losses on trade and other receivables of \$176 (2019 - \$76).



**Notes to Condensed Consolidated Financial Statements**  
For the periods ended March 29, 2020 and March 31, 2019  
*(thousands of US dollars, unless otherwise indicated) (Unaudited)*

The following table sets out the aging details of the Company's trade and other receivables balances outstanding based on when the receivable was due and payable and related allowance for expected credit losses:

	March 29 2020	December 29 2019
Current (not past due)	122,331	119,227
1 - 30 days past due	16,067	19,840
31 - 60 days past due	1,953	2,364
More than 60 days past due	2,648	1,822
	<u>142,999</u>	<u>143,253</u>
Less: Allowance for expected credit losses	<u>(1,532)</u>	<u>(1,398)</u>
Total trade and other receivables, net	<u>141,467</u>	<u>141,855</u>

### 13. Seasonality

The Company experiences seasonal variation in revenue, with revenue typically being the highest in the second and fourth quarters, and lowest in the first quarter.

### 14. Subsequent Event

In March 2020, the World Health Organization declared a global pandemic known as Coronavirus (COVID-19). The extent of the pandemic's effect on the Company's operational and financial performance will depend on future developments, including the extent and duration of the pandemic, both of which are uncertain and difficult to predict considering the rapidly evolving landscape. As a result, it is not currently possible to ascertain the overall financial impact on the Company's business. Winpak has a solid balance sheet with significant cash resources on hand, unused credit facilities comprised of unsecured operating lines of \$38 million and strong cash flows from operations to enable the Company to function effectively during the COVID-19 pandemic.

All Winpak facilities in North America are now under some level of health state of emergency, or shelter-in-place order restricting business activities, movement of people, size of groups and instituting mandatory quarantine for travelers. Wherever a shelter-in-place order or state of emergency has been declared, local and federal authorities have identified under specific acts, which essential industries may remain open and active until further notice. In all affected jurisdictions, Winpak is classified as an essential provider of packaging materials and machinery to the food and healthcare industries, and is being actively urged by its customers to provide uninterrupted supply of quality packaging materials and machinery to maintain their essential supply chains. At the present time, all Winpak production sites are operational and working with the complete support of equally determined suppliers and logistics companies servicing customers who face similar challenges to stay in operation and supply our communities with food and healthcare supplies. With the tremendous support and dedication of all stakeholders, the Company spares no effort to strengthen a safe workplace in all production facilities as well as curb the spread of the virus through a comprehensive and as we learn, expanding list of counter safety measures. All sites have meticulously reviewed and updated their disaster mitigation and recovery plans for readiness in the face of a possible contamination.