WINPAK

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 Winpak'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, Winpak 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 fourth quarter of 2022 amounted to $31.2 million or 48 cents in earnings per share (EPS), surpassing the 2021 corresponding result of $30.0 million or 46 cents per share by 4.0 percent. The improvement in gross profit was the main factor and positively impacted EPS by 6.0 cents. Net finance income and foreign exchange added 2.5 cents and 1.5 cents, respectively, to EPS. The level of net income attributable to non-controlling interests augmented EPS by a further 1.0 cent. Conversely, operating expenses lessened EPS by 7.0 cents. In addition, lower sales volumes caused EPS to decline by 2.0 cents.

For the year ended December 25, 2022, net income attributable to equity holders of the Company of $128.3 million or $1.97 per share, representing the highest level in Winpak's history, advanced from the prior year's income of $103.8 million or $1.60 per share by 23.6 percent. Gross profit propelled EPS forward by 62.5 cents. Net finance income elevated EPS by 3.0 cents and the level of net income attributable to non-controlling interests raised EPS by an additional 4.0 cents. Modestly higher sales volumes benefitted EPS by 1.0 cent. Operating expenses had the opposite effect, dampening EPS by 26.5 cents. Foreign exchange and income taxes each lowered EPS by 3.5 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, pet food, 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 fourth quarter of 2022 was $292.4 million, surpassing the prior year level of $279.1 million by 4.8 percent. Volumes contracted by 4.3 percent. The flexible packaging operating segment recorded a reduction in volumes of 1 percent. The modified atmosphere packaging product group realized modest volume growth following the healthy demand for retail meat and cheese products. For the biaxially oriented nylon product group, volumes declined sharply as most customers unwound the exceptional inventory levels that were previously established to combat the unstable supply chain environment. Within the rigid packaging and flexible lidding operating segment, volumes retreated by 7 percent. Rigid container volumes decreased by 10 percent due to lower condiment container activity, which was exceptionally strong in the fourth quarter of 2021. For the lidding product group, the availability of labor continued to constrain manufacturing output and volumes declined by 5 percent as a result. Packaging machinery volumes declined in the quarter as customers temporarily scaled back on capital purchases with the uncertainty prevailing in the current economic environment. Selling price and mix changes had a notable positive effect on revenue of 9.8 percent, which was largely due to the magnitude of raw material pass-through adjustments to customer selling prices. Foreign exchange had a minor negative influence on revenue.

For 2022, revenue reached an all-time high of $1,181.1 million, growing by 17.9 percent from the 2021 level of $1,002.0 million. Volumes were virtually unchanged, advancing by 0.6 percent. Within the flexible packaging operating segment, volume gains amounted to 4 percent. Growth for the modified atmosphere packaging product group reached 11 percent, fueled by the frozen food packaging business as well as heightened demand for protein and cheese packaging, particularly for customers that supply retail food industries. Conversely, specialty film volumes retreated because of customer loss and the strategic exit from certain low-margin business. Biaxially oriented nylon volumes fell significantly as several key customers altered their order patterns in response to the excess inventory they had accumulated in the prior year as a means to counteract the severe supply chain challenges. The rigid packaging and flexible lidding operating segment volumes receded by 3 percent. For the rigid container product group, lower condiment and specialty beverage shipments caused volumes to decline by 5 percent. The lidding product group experienced a shortage of manufacturing labor throughout 2022, limiting productive capacity. Additionally, severe aluminum foil procurement obstacles prevailed during the first quarter of 2022. Consequently, volumes contracted by 3 percent. Stemming from the nutraceutical packaging business secured during 2021, sizeable volume growth was generated by the specialized printed packaging group. Packaging machinery volumes were essentially equal to the prior year. Selling price and mix changes had a large favorable effect on revenue of 17.6 percent as the substantial overall rise in raw material and other costs over the past 18 months generated much higher selling prices to customers. Foreign exchange had virtually no effect on revenue.

Gross Profit Margins

Gross profit margins of 27.2 percent of revenue in the fourth quarter of 2022 fell slightly from the 27.6 percent recorded in the same quarter of 2021. In dollar terms, gross profit improved by 3.4 percent from the fourth quarter of 2021 even though sales volumes contracted over the same time horizon. Accordingly, EPS was augmented by 6.0 cents. The magnitude of selling price increases significantly outpaced the corresponding rise in raw material costs. This divergence elevated EPS by 18.5 cents. This was a function of both sales mix and the sequence of inflationary selling price adjustments that have been implemented over the past 15 months. In terms of operating leverage, manufacturing costs increased by more than 10 percent while sales volumes narrowed, lowering EPS by 12.5 cents.

For the current year, gross profit margins of 28.1 percent of revenue exceeded the 2021 level of 27.4 percent. More importantly, gross profit surged by 20.9 percent from $274.4 million to $331.8 million over the same time period while sales volumes expanded by only 0.6 percent. A sizeable increase in EPS of 62.5 cents took place as a result. Selling prices rose to a much larger extent than raw material costs, which included significant aluminum foil transportation costs, raising EPS by 94.0 cents. During 2021, on account of the inherent delay prescribed within formal customer price indexing programs, raw material costs escalated much greater than the related selling price adjustments. The opposite dynamic took place in 2022. Additionally, since the final quarter of 2021, a series of inflationary selling price increases have been enacted to combat the growth in operating expenses. Compared to 2021, the rate of acceleration of fixed manufacturing overheads exceeded the muted rate of sales volume growth, tempering EPS by 31.5 cents.

The raw material purchase price index declined by 9 percent from the third quarter of 2022. Since the start of 2022, the index receded by 5 percent. During the fourth quarter, polypropylene resin experienced a considerable decrease of 27 percent. Additionally, aluminum foil and nylon and polyethylene resins each realized decreases ranging between 8 and 10 percent.

Expenses and Other

Operating expenses in the fourth quarter of 2022, adjusted for foreign exchange, expanded by 13.9 percent relative to the drop in sales volumes and consequently, lowered EPS by 7.0 cents. Personnel costs, as well as freight and distribution expenses, were the leading factors. Also influential were the significant, non-recurring credit loss recoveries on trade and other receivables recorded in the fourth quarter of 2021. Foreign exchange benefitted EPS by 1.5 cents in the quarter with the overriding component being the weakened value of the Canadian dollar that was employed to translate transactions in that currency into US dollars. The cash invested in money market accounts and short-term deposits was at much higher rates of interest in the quarter. Thus, net finance income elevated EPS by 2.5 cents. The proportion of net earnings attributable to non-controlling interests added 1.0 cent to EPS.

For the 2022 fiscal year, operating expenses, adjusted for foreign exchange, advanced at a rate of 18.2 percent in comparison to the 0.6 percent expansion in sales volumes, subtracting 26.5 cents from EPS. Heightened freight and distribution costs, in combination with higher personnel and expected credit loss expenses, were the key variables leading to the rise in operating expenses. Furthermore, pre-production costs, which related mainly to the commercialization of the new biaxially oriented polyamide (BOPA) line, were significant. Overall, foreign exchange reduced EPS by 3.5 cents. Significantly higher negative translation differences were recorded on the revaluation of Canadian dollar monetary assets and liabilities in the current year. Additionally, losses were realized on foreign exchange contracts in 2022 in contrast to the gains that were recorded in 2021. These occurrences were only partially mitigated by the Company's Canadian dollar transactions being translated at a more advantageous average exchange rate in 2022. The effective income tax rate advanced by 1.4 percentage points, subtracting 3.5 cents from EPS. Due to the substantial increase in the rates of interest earned on the Company's cash and cash equivalent amounts throughout 2022, net finance income boosted EPS by 3.0 cents. Lastly, the level of net income attributable to non-controlling interests enhanced EPS by 4.0 cents.

Capital Resources, Cash Flow and Liquidity

The Company's cash and cash equivalents balance ended the current year at $398.7 million, an increase of $21.5 million from the end of the third quarter. Winpak continued to generate strong cash flows from operating activities before changes in working capital of $52.4 million. Cash was consumed by net working capital additions of $8.3 million. Inventories grew by $7.4 million as sales volumes did not reach the anticipated level. Trade payables declined by $7.9 million, reflecting the timing of supplier payments. Cash was utilized for plant and equipment additions of $13.8 million, income tax payments of $8.6 million, dividend payments of $1.4 million and other items totaling $0.5 million while net finance income provided cash of $1.7 million.

For the year, the cash and cash equivalents balance ascended by $21.2 million, led by the exceptional cash flow generated from operating activities before changes in working capital of $221.2 million. The net investment in working capital amounted to $116.4 million. Inventory balances climbed by $101.1 million mainly as a result of the substantial increase in aluminum foil inventories and to a lesser extent, due to the offering of customer inventory programs to help mitigate the unprecedented supply chain challenges. Trade and other receivables expanded by $26.2 million following the growth in revenue in the final quarter of the year relative to the fourth quarter of 2021. Largely due to higher inventory balances, trade payables and other liabilities advanced by $10.6 million. Property, plant and equipment additions were $49.1 million. The Company acquired land and building adjacent to the Winnipeg, Manitoba modified atmosphere packaging facility to accommodate future expansion endeavors and to reduce the reliance on outside warehousing. Furthermore, new conversion capacity was added to the modified atmosphere packaging plant and the next phase of the injection molded container initiative at the Sauk Village, Illinois rigid container site commenced. Other uses of cash included: income tax payments of $26.8 million, dividend payments of $6.0 million and other items amounting to $3.2 million. Net finance income produced incremental cash of $1.5 million.

Summary of Quarterly Results

Thousands of US dollars, except per share amounts (US cents)

	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021
Revenue	292,365	302,532	310,254	275,982	279,053	254,166	243,969	224,806
Net income attributable to equity holders of the Company	31,235	29,567	33,671	33,870	30,031	20,762	28,520	24,495
EPS	48	45	52	52	46	32	44	38

Looking Forward

Winpak is currently well positioned to build upon the record-setting revenue and profitability levels achieved in 2022 in both the upcoming year and over the long-term.

Central banks raised interest rates aggressively during 2022 and by the fourth quarter, the rate of inflation declined from the peak experienced earlier in the year. Throughout 2023, it is forecast that the rate of inflation will decline considerably. This expectation, in addition to the continued easing of global supply chain disruptions, the resilience of consumer consumption in the United States and the favorable shift in COVID-19 policies in China, has improved the economic outlook for the upcoming year in relation to projections made in the final two quarters of 2022.

As new production capacity becomes available in 2023, business gains will be sought by the modified atmosphere packaging, biaxially oriented nylon and rigid container product groups. Additionally, both the rigid container and flexible lidding product groups will benefit from gains in retort pet food and snack food activity. New nutraceutical and pharmaceutical business has been awarded to the specialized printed packaging product group. Overall, the challenges faced in 2022 regarding supply chain and availability of labor will persist again in 2023 but are expected to moderate. On the other hand, indications are that customers will continue to significantly reduce the abnormally high level of inventories that was built up in the preceding year, reducing demand for the Company's products. This headwind is projected to have a more profound influence on the first half of 2023. Taking the above factors into account, Winpak expects sales volume growth in 2023 to moderately outpace the 0.6 percent increase achieved in 2022.

After experiencing tremendous volatility in 2021, and to a lesser extent in 2022, current market views are for raw material costs to be relatively stable throughout the upcoming year in relation to the prices in effect at the start of 2023. Falling energy prices and weaker economic conditions are putting downward pressure on raw material costs. In response, suppliers have curtailed supply in order to maintain the current pricing levels to the extent possible. During the first half of 2023, Winpak should benefit from the notable drop in raw material costs that took place in the fourth quarter of 2022 as the pass-through of these declines to customers with selling price indexing agreements are estimated to be delayed by an average of four months. Although inflationary forces have begun to abate, the rate of inflation is still well above historical norms. In addition, the limited availability of labor resources will put further pressure on the Company's cost structure. Rising costs will likely dampen profitability as the ability to implement additional selling price increases will be limited given the large cumulative adjustments already put into effect over the past two years.

Capital spending for the upcoming year is anticipated to be significantly higher than the 2022 level and is forecast to be in the range of $80 to $90 million. Extensive pre-production activities relating to the installation of the new BOPA line in Winnipeg, Manitoba were undertaken during 2022 and it is currently projected that the line will be fully operational by the fourth quarter of 2023. In the second half of 2023, new co-extrusion modified atmosphere packaging and injection molded rigid container capacity will become available and contribute favorably to the Company's growth aspirations, including the strategy to enter adjacent product markets. At two of its main production facilities, Winpak is also poised to undertake sizeable building expansions and acquire additional extrusion capacity. As a complement to this robust, internal capital spending plan, acquisition candidates will be considered and evaluated when they align strategically with the Company's strengths in sophisticated packaging for food, beverage and healthcare applications and provide a satisfactory economic return for shareholders.

Accounting Changes - Accounting Standards Implemented in 2022

(a) Property, Plant and Equipment: Proceeds Before Intended Use

In May 2020, the IASB issued "Property, Plant and Equipment: Proceeds Before Intended Use (Amendments to IAS 16)", which prohibits deducting amounts received from selling items produced while preparing the asset for its intended use from the cost of property, plant and equipment. Instead, such sales proceeds and related costs will be recognized within the statement of income. The amendments were implemented with retrospective application, effective December 27, 2021. The amendments had no impact on the Company's unaudited interim condensed consolidated financial statements.

(b) Onerous Contracts - Cost of Fulfilling a Contract

In May 2020, the IASB issued "Onerous Contracts - Cost of Fulfilling a Contract (Amendments to IAS 37)", which specifies which costs a company includes when assessing whether a contract will be loss-making. The amendments were implemented, effective December 27, 2021. The amendments had no impact on the Company's unaudited interim condensed consolidated financial statements.

Accounting Changes - Future Changes to Accounting Standards

(a) Deferred Taxes Related to Assets and Liabilities Arising from a Single Transaction:

In May 2021, the IASB issued "Deferred Taxes Related to Assets and Liabilities Arising from a Single Transaction (Amendments to IAS 12)", which introduces an exception to the initial recognition exemption for deferred tax on transactions such as leases and decommissioning obligations. Applying this exception, a company does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences. The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and are to be applied retrospectively. The Company does not expect the amendments to have a significant impact on the consolidated financial statements when they are adopted in 2023.

(b) Lease Liability in a Sale and Leaseback:

In September 2022, the IASB issued "Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)", that requires a seller-lessee to subsequently measure lease liabilities arising from a leaseback in a way that it does not recognize any amount of the gain or loss that relates to the right of use it retains. The amendments are effective for annual reporting periods beginning on or after January 1, 2024 and are to be applied retrospectively. The Company does not expect the amendments to have a significant impact on the consolidated financial statements when they are adopted in 2024.

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 December 25, 2022 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 December 25, 2022 to provide reasonable assurance that the financial information being reported is materially accurate. During the fourth quarter ended December 25, 2022, 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.