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. 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 third quarter of 2023 of $34.0 million or 52 cents in earnings per share (EPS) increased by $4.4 million or 7 cents per share from the comparable 2022 quarter. Net finance income raised EPS by 5.5 cents. Gross profit and foreign exchange were also influential, elevating EPS by 4.0 cents and 2.0 cents, respectively. Weaker sales volumes had the opposite effect, lowering EPS by 3.0 cents. Operating expenses dampened EPS by 1.5 cents.

For the nine months ended October 1, 2023, net income attributable to equity holders of the Company advanced by 16.7 percent to $113.3 million or $1.74 per share from the corresponding 2022 result of $97.1 million or $1.49 per share. The improvement in gross profit was a key factor, augmenting EPS by 9.0 cents. Net finance income and foreign exchange bolstered EPS by 14.0 cents and 7.0 cents, respectively. The level of net income attributable to non-controlling interests and income taxes each added 1.5 cents to EPS. The drop in sales volumes subtracted 3.5 cents from EPS. Operating expenses reduced EPS by a further 4.5 cents.

The fiscal year of the Company ends on the last Sunday of the calendar year and is usually 52 weeks in duration. However, the 2023 fiscal year consists of 53 weeks, with the first quarter comprising 14 weeks, one more week than the prior year. The additional week included in the 2023 first quarter was essentially the last week of the 2022 calendar year which contained several statutory holidays. Consequently, it is estimated that this additional week contributed 2 percent to 2023 year-to-date sales volumes and net income results.

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 third quarter of 2023 was $273.8 million, falling short of the prior year comparable level of $302.5 million by 9.5 percent. Volumes contracted by 6.0 percent. Consistent with the experience of the second quarter, consumer demand was constrained, stifling the Company's growth aspirations. Within the flexible packaging operating segment, volumes declined at the rate of 8 percent. For the modified atmosphere packaging product group, much lower order levels for protein applications were only partially offset by the inroads made at cheese accounts. Specialty film volumes decreased by 19 percent due to customer loss. As a result of tempered demand from core accounts, in addition to customers securing secondary sources of supply, biaxially oriented nylon product group volumes contracted by 16 percent. Volumes for the rigid packaging and flexible lidding operating segment fell by 2 percent. Rigid container volumes were virtually unchanged as the drop in specialty beverage container shipments was offset by enhanced retort pet food container activity. Lidding product group volumes decreased by 5 percent due to the moderate drop in specialty beverage orders, a function of the major customer working through excess inventories. Attributed to the higher cost of capital and economic uncertainty, several packaging machinery customers have delayed order placement and volumes declined by 19 percent as a result. Selling price and mix changes had an unfavorable impact on revenue of 3.2 percent. Foreign exchange had a minor negative effect on revenue.

For the first nine months of 2023, revenue decreased by $23.0 million from the $888.8 million recorded in the corresponding prior year period. Volumes receded by 2.1 percent. When normalizing for the additional week in the first quarter of 2023, volumes were 4 percent lower. The flexible packaging operating segment recorded a reduction in volumes of 6 percent. Modified atmosphere packaging product group volumes fell by 2 percent as demand for protein and healthcare applications tapered off significantly. For the biaxially oriented nylon product group, volumes declined by more than 20 percent because of customer inventory destocking and losing sole supplier status at key accounts. Stemming from customer loss, specialty film volumes retreated by 17 percent. Within the rigid packaging and flexible lidding operating segment, volumes were essentially equivalent to the prior year. Healthy volume growth of 21 percent for the specialized printed packaging product group was facilitated by pharmaceutical business gains. Lidding product group volumes advanced by 1 percent. The stabilization of the aluminum foil supply contributed favorably to volume growth, however, this was substantially nullified by the performance of the specialty beverage product line. This same product line similarly influenced rigid container volumes, which decreased by 3 percent. With the sharp drop off in new machinery orders placed in the current year, packaging machinery volumes dropped by 8 percent. Selling price and mix changes had a positive effect on revenue of $0.6 million whereas foreign exchange lowered revenue by $5.0 million.

Gross Profit Margins

Gross profit margins in the third quarter climbed by 2.3 percentage points to 29.2 percent of revenue from the 26.9 percent recorded in the same quarter of 2022. Material costs, which in the prior year included the remaining aluminum foil air freight transportation expenses, declined by a much larger extent than the corresponding selling prices, generating an increase in EPS of 12.0 cents. The impact of inflation on manufacturing costs and the unfavorable operating leverage arising from weaker sales volumes was substantial, lowering EPS by 8.0 cents.

For the first nine months of 2023, gross profit margins were 29.4 percent of revenue, expanding by 1.0 percentage point from the 28.4 percent of revenue achieved during the 2022 year-to-date comparative period. Raw material costs dropped by 8.0 percent whereas selling prices were virtually unchanged, generating an uplift in EPS of 38.0 cents. The pass-through of these savings onto customers governed by formal price indexing arrangements follows a contractual delay, temporarily benefitting the Company. Also noteworthy were the substantial non-recurring expenses incurred in the prior year to expedite the delivery of aluminum foil to the lidding plant in Montreal. Although the rate of inflation has moderated in recent months, the cumulative effect on the Company's cost structure was considerable. Simultaneously, the effective cost of production was hampered by diminished output levels, and on a combined basis, these factors lowered EPS by 29.0 cents.

The raw material purchase price index decreased by 6 percent compared to the second quarter of 2023. In relation to a year earlier, the index has fallen by 21 percent. During the third quarter, polypropylene and nylon resin prices each realized declines ranging between 10 and 14 percent while other resins and aluminum foil experienced more modest reductions.

Expenses and Other

Operating expenses in the third quarter of 2023, adjusted for foreign exchange, declined at a rate that was approximately half of the corresponding deceleration in sales volumes and as such, lowered EPS by 1.5 cents. As a consequence of the inflationary environment, personnel costs advanced at a rate well above historical norms. This was partially offset by the notable drop in freight and pre-production expenses. Foreign exchange added 2.0 cents to EPS mainly on account of the diminished level of unfavorable translation differences recorded on the revaluation of monetary assets and liabilities denominated in Canadian dollars relative to the third quarter of 2022. Due to the substantial increase in the interest rates applied to the Company's cash and cash equivalents, net finance income boosted EPS by 5.5 cents.

On a year-to-date basis, operating expenses, exclusive of foreign exchange, advanced at a rate of 1.2 percent in comparison to the 2.1 percent reduction in sales volumes, thereby having an unfavorable impact on EPS of 4.5 cents. Inflationary forces raised employee compensation expenses. In contrast, freight expenses, which were heightened in the prior year, normalized in the current year. Additionally, significant pre-production costs were incurred during 2022 to commercialize a biaxially oriented polyamide (BOPA) line. Foreign exchange had a positive effect on EPS of 7.0 cents due to favorable translation differences recorded on the revaluation of monetary assets and liabilities in comparison to unfavorable translation differences recorded in 2022. Furthermore, the Company benefitted from the weakened value of the Canadian dollar that was employed to translate transactions in that currency into US dollars. Net finance income added 14.0 cents to EPS as the cash invested in short-term deposits and money market accounts was at much higher rates of interest than a year earlier. The effective income tax rate decreased by 0.5 percentage points in 2023, enhancing EPS by 1.5 cents. A smaller proportion of earnings attributable to non-controlling interests raised EPS by 1.5 cents.

Capital Resources, Cash Flow and Liquidity

The Company's cash and cash equivalents balance ended the third quarter of 2023 at $513.0 million, an increase of $58.3 million from the end of the second quarter. Winpak continued to generate strong cash flows from operating activities before changes in working capital of $53.3 million. Working capital generated another $36.4 million in cash. The $26.0 million decrease in inventories was impacted by the systematic unwinding of raw materials and finished goods that had accumulated during 2022. Trade and other receivables declined by $9.0 million, reflecting the lower revenue level relative to the preceding quarter. Other cash outflows included: $22.9 million in property, plant and equipment additions, income tax payments of $10.4 million, employee defined benefit plan contributions of $1.5 million, dividend payments of $1.5 million and other items amounting to $0.3 million. Net finance income provided cash of $5.2 million.

For the first nine months of 2023, the cash and cash equivalents balance increased by $114.3 million. Cash flows generated from operating activities before changes in working capital were solid at $175.2 million. The net investment in working capital decreased by $35.9 million. The sizeable $46.4 million reduction in inventories arose due to the reversal of the strategic accumulation of raw materials in 2022 to combat supply chain challenges, especially with aluminum foil. Lower sales volumes and raw material prices also contributed to the contraction. In addition, trade and other receivables fell by $14.7 million due to the lower level of revenue in the current quarter compared to the final quarter of 2022. Stemming from the magnitude of raw material purchases, trade payables and other liabilities decreased by $18.0 million. Cash was utilized for income tax payments of $56.8 million, property, plant and equipment additions of $44.5 million, dividend payments of $4.3 million, employee defined benefit plan contributions of $2.3 million and other items totaling $1.2 million. Net finance income produced incremental cash of $12.3 million.

Summary of Quarterly Results

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

	Q3 2023	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021
Revenue	273,790	287,464	304,516	292,365	302,532	310,254	275,982	279,053
Net income attributable to equity holders of the Company	33,991	40,006	39,287	31,235	29,567	33,671	33,870	30,031
EPS	52	62	60	48	45	52	52	46

Looking Forward

Although profitability reached an all-time high for the first three quarters of 2023, Winpak is cautiously optimistic about the outlook for the balance of 2023 and the upcoming year. Overall, inflation has remained elevated for a longer period of time than was anticipated a year ago. This has eroded consumer demand and dampened projections for the North American economy, which is still at risk for a recession. Additionally, the effect of the developing crisis in the Middle East, especially with respect to oil prices, is unclear at the present time.

It is expected that weakened consumer demand will continue to be impactful in the upcoming quarter and at least the first half of 2024. However, it is anticipated that this headwind will be less severe than was experienced in the two most recent quarters. The Company's growth strategy is focused on new product launches, new customer onboarding and customer contract renewals, especially within the rigid container, flexible lidding and modified atmosphere packaging product groups. Based on the preceding factors, the Company is projecting sales volume growth in the range of 0 to 2 percent for the final quarter of 2023.

Current market expectations are for raw material costs to be stable in the fourth quarter of 2023 and then advance moderately throughout 2024. The reduction in raw material costs over the past six months will benefit margins in the next two quarters until they are fully passed through to customer selling prices. With higher than normal unsold capacity in the product markets that the Company participates, pricing pressure has intensified. Overall, gross profit margins in the fourth quarter of 2023 should be slightly higher than the immediately preceding quarter.

Capital expenditures for 2023 are forecast to be in the range of $65 to $70 million. During the third quarter, the Company dedicated significant resources to the multi-year expansion project at the Winnipeg, Manitoba modified atmosphere packaging facility. As the largest capital project in Winpak's history, it will establish the foundation for sizeable volume growth and the development of sustainable packaging solutions. More immediately, a new cast co-extrusion line is scheduled for start-up in early 2024 at the same facility, targeting additional growth in the dairy market. Furthermore, the Company is currently evaluating a potential building expansion at one of its key manufacturing sites. Concurrently, Winpak will continue to assess prospective acquisition opportunities that align strategically with the Company's core strengths in sophisticated high-barrier packaging for food, medical and pharmaceutical applications that provide long-term shareholder value.

Accounting Changes - Accounting Standards Implemented in 2023

(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 were implemented with retrospective application, effective December 26, 2022. The amendments had no impact on the Company's unaudited interim condensed consolidated financial statements.

Accounting Changes - Future Changes to Accounting Standards

(a) 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 October 1, 2023 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") 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 October 1, 2023 to provide reasonable assurance that the financial information being reported is materially accurate. During the third quarter ended October 1, 2023, 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.