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 fourth quarter of 2023 amounted to $34.8 million or 54 cents in earnings per share (EPS), surpassing the 2022 corresponding result of $31.2 million or 48 cents per share by 11.6 percent. Net finance income and foreign exchange elevated EPS by 5.5 cents and 1.5 cents, respectively. Gross profit augmented EPS by 1.0 cent. Conversely, weaker sales volumes and higher operating expenses each led to a contraction in EPS of 0.5 cents. Furthermore, the level of net income attributable to non-controlling interests subtracted 1.0 cent from EPS.

For the year ended December 31, 2023, net income attributable to equity holders of the Company of $148.1 million or $2.28 per share, representing the highest level in Winpak's history, advanced from the prior year's income of $128.3 million or $1.97 per share by 15.4 percent. Net finance income raised EPS by 19.5 cents. Gross profit and foreign exchange were also influential, enhancing EPS by 10.0 cents and 8.0 cents, respectively. Income taxes benefitted EPS by 1.5 cents. The level of net income attributable to non-controlling interests added 0.5 cents to EPS. Operating expenses reduced EPS by 4.5 cents. The drop in sales volumes lowered EPS by an additional 4.0 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 consisted 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 1.5 percent to 2023 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 fourth quarter of 2023 was $275.6 million, $16.7 million or 5.7 percent less than the fourth quarter of 2022. Volumes receded by 1.5 percent when compared to the final quarter of 2022. No volume growth was realized for the flexible packaging operating segment. For the modified atmosphere packaging product group, modest volume growth of 2 percent was attained. The product group had realized sizeable volume contractions in each of the previous two quarters. A recovery in protein application activity was experienced. Specialty films volumes retreated largely because of customer loss. For the biaxially oriented nylon product group, volumes rebounded, approaching historically normal levels. Comparatively, in the fourth quarter of 2022, a sharp drop in volumes was realized 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 dropped by 8 percent. For the lidding product group, extended unplanned downtime on a major piece of equipment due to a fire caused volumes to contract by 25 percent. The machinery has since been fully restored. Stemming from higher specialty beverage container shipments, the rigid container product group experienced an 8 percent improvement in volumes. Packaging machinery volumes more than doubled as an unusually low number of machines were delivered to customers in the fourth quarter of 2022. Selling price and mix changes had a negative effect on revenue of $12.0 million and foreign exchange lowered revenue by $0.3 million.

For 2023, revenue of $1,141.4 million decreased by 3.4 percent from the 2022 level of $1,181.1 million. Volumes contracted by 1.9 percent. After accounting for the additional week in the first quarter of 2023, volumes were 3.4 percent lower. For most of 2023, inflation had a large impact on consumer demand, stifling the Company's growth aspirations, the extent of which varied amongst the Company's product groups. Customer destocking also played a key role, especially during the first half of the year. Within the flexible packaging operating segment, volumes declined at the rate of 4 percent. For the modified atmosphere packaging product group, the muted consumer demand was especially influential. Much lower order levels for meat protein applications were only partially offset by the inroads made at cheese accounts. As a result, volumes fell by 1 percent. Specialty film volumes decreased by 17 percent due to the targeted exit from low-margin business as well as 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 13 percent. Volumes for the rigid packaging and flexible lidding operating segment were 2 percent lower. Lidding product group volumes decreased by 5 percent due to the drop in specialty beverage, retort pet food and rollstock order activity. Rigid container volumes were virtually unchanged as the drop in condiment and creamer container shipments was offset by enhanced retort pet food container activity. Healthy volume growth of 15 percent for the specialized printed packaging product group was fuelled by pharmaceutical business gains. Due to much higher replacement part sales, the packaging machinery operating segment's volumes strengthened by 11 percent. Selling price and mix changes had an unfavorable impact on revenue of 1.0 percent. Foreign exchange had a minor negative effect on revenue.

Gross Profit Margins

Gross profit margins in the current quarter of 28.8 percent of revenue ascended by 1.6 percentage points from the 2022 fourth quarter result of 27.2 percent of revenue. The magnitude of raw material cost savings significantly outpaced the corresponding reduction in selling prices. The favorable differential enhanced EPS by 9.0 cents. With respect to operating leverage, manufacturing costs expanded while sales volumes retreated, tempering EPS by 8.0 cents. The Company's cost structure was adversely affected by the inflationary environment, especially personnel and consumable expenses.

For the current year, gross profit margins of 29.3 percent of revenue exceeded the 2022 level of 28.1 percent. Accordingly, EPS climbed by 10.0 cents. Raw material costs decreased by 9.6 percent while selling prices only declined by 1.0 percent, leading to an advancement in EPS of 47.0 cents. A portion of these savings are automatically passed along to customers covered by formal price indexing arrangements. However, this follows a contractual delay, generating a temporary uplift in gross profit margins. Additionally, exceptional expenses incurred to expedite aluminum foil were embedded within the 2022 raw material costs. The impact of inflation on manufacturing costs, most notably personnel and consumable expenses, was sizeable. Concurrently, diminished output levels raised the effective cost of production, and in total, these variables lowered EPS by 37.0 cents.

The raw material purchase price index dropped by 2 percent compared to the third quarter of 2023. Over the past year, the index has declined by 14 percent. During the fourth quarter, nylon resin and aluminum foil each realized decreases ranging between 8 and 11 percent. Conversely, polypropylene resin experienced an increase of 6 percent.

Expenses and Other

Operating expenses in the fourth quarter of 2023, exclusive of foreign exchange, were virtually unchanged relative to the reduction in sales volumes of 1.5 percent, thereby subtracting 0.5 cents from EPS. Inflationary pressures raised employee compensation expenses. In contrast, freight and distribution costs, which were heightened in the prior year, normalized in the current year. Foreign exchange had a positive effect on EPS of 1.5 cents largely due to the favorable translation differences recorded on the revaluation of monetary assets and liabilities. Net finance income added 5.5 cents to EPS as the cash invested in short-term deposits and money market accounts was at a much higher level and earning markedly higher rates of interest than a year earlier. A greater proportion of earnings attributable to non-controlling interests lowered EPS by 1.0 cent.

For the 2023 fiscal year, operating expenses, adjusted for foreign exchange, increased at a rate of 0.9 percent compared to the drop in sales volumes of 1.9 percent, having a negative impact on EPS of 4.5 cents. As a consequence of the inflationary environment, personnel costs advanced to an extent well above historical norms. This was partially offset by the notable drop in freight and distribution costs. In addition, significant pre-production costs were incurred during 2022 to commercialize the new biaxially oriented polyamide (BOPA) line. Foreign exchange contributed 8.0 cents to EPS. The favorable translation differences recorded on the revaluation of monetary assets and liabilities denominated in Canadian dollars was in contrast to the unfavorable translation differences recorded in 2022. Furthermore, the 4.2 percent depreciation in the average exchange rate of the Canadian dollar in relation to the US dollar was a positive influence. Due to the substantial increase in the Company's cash and cash equivalents throughout 2023 and the interest rates applied thereon, net finance income boosted EPS by 19.5 cents. The effective income tax rate was marginally lower in 2023, providing 1.5 cents to EPS. Lastly, the level of net income attributable to non-controlling interests enhanced EPS by 0.5 cents.

Capital Resources, Cash Flow and Liquidity

The Company's cash and cash equivalents balance ended the current year at $541.9 million, an increase of $28.8 million from the end of the third quarter. Winpak continued to generate strong cash flows from operating activities before changes in working capital of $52.8 million. Working capital provided another $10.8 million in cash. The Company continued to successfully draw down raw materials and finished goods inventories that had accumulated during 2022 at a magnitude of $22.0 million. Trade and other receivables advanced by $18.0 million as the balance pertaining to extended term trade receivables that will be sold without recourse to financial institutions in exchange for cash increased. Cash was utilized for property, plant and equipment additions of $24.2 million, income tax payments of $13.7 million, dividend payment to non-controlling interests in a subsidiary of $1.9 million, dividend payments to equity holders of the Company of $1.4 million and other items totaling $0.4 million while net finance income generated cash of $6.8 million.

For the year, the cash and cash equivalents balance climbed by $143.2 million, led by the exceptional cash flow generated from operating activities before changes in working capital of $228.0 million. The net investment in working capital decreased by $46.6 million. Inventory balances fell by $68.4 million mainly as a result of the substantial decrease in aluminum foil inventories and to a lesser extent, a partial reversal of the finished goods inventories that had accumulated during 2022. Largely due to diminished inventory balances, trade payables and other liabilities receded by $13.9 million. Property, plant and equipment additions were $68.7 million. Initial spending on the multi-year expansion project at the Winnipeg, Manitoba modified atmosphere packaging facility took place. Furthermore, significant progress with the injection molded container initiative at the Sauk Village, Illinois rigid container site was made. By the end of 2023, certain components with respect to the new cast co-extrusion line at the modified atmosphere packaging plant had been delivered. Other uses of cash included: income tax payments of $70.5 million, dividend payments to equity holders of the Company of $5.8 million and other items amounting to $5.4 million. Net finance income produced incremental cash of $19.0 million.

Summary of Quarterly Results

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

	Q4 2023	Q3 2023	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022
Revenue	275,637	273,790	287,464	304,516	292,365	302,532	310,254	275,982
Net income attributable to equity holders of the Company	34,846	33,991	40,006	39,287	31,235	29,567	33,671	33,870
EPS	54	52	62	60	48	45	52	52

Looking Forward

Entering 2024, the Company anticipates a positive shift to sales volume growth in contrast to the temporary downturn experienced in 2023. Enhanced sales volumes would, in turn, improve profitability.

Now that inflation is approaching targets established by central banks, it is forecast they will transition to a monetary easing phase in 2024. The magnitude and pace of interest rate adjustments is unclear at the present time. Accordingly, the impact on economic growth is also uncertain. Changes to interest rates will directly influence the scale of net finance income earned by the Company.

To achieve volume growth in the upcoming year, Winpak is focused on successfully launching new products and onboarding new customers. Equally important is negotiating contract renewals on favorable terms with existing accounts. These growth plans will be facilitated, in part, by the new productive capacity coming on stream within the modified atmosphere packaging and rigid container facilities. For at least the first half of 2024, it is projected that consumer demand will limit the Company's overall growth aspirations. Based on the preceding factors, the Company is projecting sales volume growth in the range of 2 to 4 percent for 2024.

From a raw material perspective, after realizing sizeable cost reductions in 2023, current market expectations are for raw material costs to escalate moderately throughout 2024. Competitive pressures for lower selling prices in the Company's product markets are expected to persist in 2024 and apply additional pressure on gross profit margins. Consistent with 2023, with the limited availability of labor resources, employee compensation rates will be adjusted tactically in order to recruit and retain employees, further compressing gross profit margins. Overall, gross profit margins in 2024 should be slightly lower than the level recorded in 2023.

Capital expenditures of approximately $110 to $120 million are forecast for 2024, the majority of which relates to the extensive expansion of the Winnipeg, Manitoba modified atmosphere packaging facility. The Company has entered into an agreement to acquire land and building within close proximity to the existing specialized printed packaging operation to accommodate future expansion capabilities. The acquisition is anticipated to close in the first quarter of 2024. Winpak is also poised to undertake a sizeable building expansion and acquire additional extrusion capacity at one of its main manufacturing sites.

Accounting Changes - Accounting Standards Implemented in 2023

(a) Disclosure of Accounting Policies:
In February 2021, the International Accounting Standards Board (IASB) issued "Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements)", which requires companies to disclose their material accounting policies rather than their significant accounting policies. The amendments were implemented, effective December 26, 2022. The amendments had no impact on the Company's unaudited interim condensed consolidated financial statements.

(b) 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.

(c) International Tax Reform - Pillar Two Model Rules:
In May 2023, the IASB issued "International Tax Reform - Pillar Two Model Rules (Amendments to IAS 12)". The amendments provide a temporary mandatory exception from deferred tax accounting for the top-up tax, which is effective immediately, and require new disclosures about the Pillar Two exposure. The amendments were implemented with retrospective application, effective May 23, 2023. The amendments had no impact on the Company's unaudited interim condensed consolidated financial statements as no new legislation to implement the top-up tax was enacted or substantively enacted as at December 25, 2022 in any jurisdiction in which the Company operates and no related deferred tax was recognized at that date.

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 December 31, 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 December 31, 2023 to provide reasonable assurance that the financial information being reported is materially accurate. During the fourth quarter ended December 31, 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.