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 third quarter of 2020 of $26.7 million or 41 cents in earnings per share (EPS) decreased by $1.9 million or 3 cents per share from the comparable 2019 quarter. Overall, lower sales volumes caused EPS to decline by 1.0 cent. Of this amount, it is estimated that COVID-19 accounted for a decrease of 1.5 cents, whereas non-COVID-19 related sales volume growth raised EPS by 0.5 cents. Additionally, the reduction in gross profit margins dampened EPS by 1.0 cent. Furthermore, net finance expense (income) and income taxes subtracted 1.5 cents and 1.0 cent from EPS, respectively. Conversely, foreign exchange augmented EPS by 1.5 cents.

For the nine months ended September 27, 2020, net income attributable to equity holders of the Company was $79.1 million or $1.22 per share, a decline of 10.2 percent from the corresponding 2019 result of $88.1 million or $1.36 per share. Weaker sales volumes lowered EPS by 5.0 cents, of which 2.5 cents is estimated to be attributed to COVID-19. The narrowing of gross profit margins led to a contraction in EPS of 5.5 cents. In addition, the significant reduction in net finance income negatively effected EPS by 3.0 cents. The unfavorable impact of foreign exchange and income taxes on EPS amounted to 1.5 cents and 1.0 cent, respectively. Operating expenses and net income attributable to non-controlling interests had a positive influence with both items enhancing EPS by 1.0 cent each.

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

The impact of COVID-19 has differed amongst the Company's product groups. It is estimated that COVID-19 reduced third quarter sales volumes between 3.0 to 4.0 percent and lowered year-to-date sales volumes between 1.5 to 2.5 percent. Sales activity with respect to customers that serve the restaurant and food service industries recovered slightly but continued to be muted during the third quarter due to the reopening restrictions instituted across North America. In contrast, with respect to our customers that service the retail food industries, overall volumes were elevated due in part to pantry stocking, which began to show signs of softening in the latter part of the third quarter.

Revenue in the third quarter of 2020 was $210.6 million, $2.1 million or 1.0 percent less than the third quarter of 2019. Normalizing for the acquisition of Control Group in October 2019, volumes contracted by 2.0 percent. The flexible packaging operating segment attained volume growth of 1 percent. Modified atmosphere packaging volumes advanced significantly due to the overall enhanced demand for retail meat and cheese products, non-COVID-19 related market share gains, and the inroads made within the Mexican market. Conversely, biaxially oriented nylon and specialty films volumes decreased markedly as several major customers in food services, non-food retail and medical products were negatively impacted by COVID-19. Volumes within the rigid packaging and flexible lidding operating segment declined by 6 percent after adjusting for the Control Group acquisition. Rigid container volumes decreased substantially due to the lower market share retained with respect to specialty beverages following the major customer's transition to a new recyclable cup. Additionally, the gradual and limited reopening of the restaurant industry weakened the demand for condiment and creamer containers. For the lidding product group, volumes were relatively flat. Within the packaging machinery operating segment, robust volume growth of 13 percent was experienced in relation to the third quarter of 2019. Selling price and mix changes lowered revenue by 1.5 percent. Foreign exchange had virtually no effect on revenue.

For the first nine months of 2020, revenue declined by $16.0 million from the $656.4 million recorded in the corresponding prior year period. Volumes, in total, were 3.7 percent lower after adjusting for the incremental volume from the Control Group acquisition. The flexible packaging operating segment realized modest volume growth of 2 percent. For the modified atmosphere packaging product group, solid volume growth reflected expansion within the Mexican market and elevated demand with respect to certain customers that service the retail meat and cheese markets. Biaxially oriented nylon volumes decreased significantly as a number of key customers were negatively impacted by COVID-19. Within the rigid packaging and flexible lidding operating segment, volumes contracted by 9 percent after adjusting for the acquisition of Control Group. The pronounced decline in rigid container volumes was mainly a consequence of the reduced level of involvement in supplying the specialty beverage business with the new recyclable polypropylene cup. The muted demand within the restaurant industry for condiment and creamer containers, in both the second and third quarters of 2020, played a large role as well. The lidding product group volumes increased slightly due to gains achieved with respect to specialty beverage and dessert lidding. Due to the exceptionally high number of machines shipped in the first three quarters of the prior year, the packaging machinery operating segment's volumes dropped by 14 percent. The current machinery sales order backlog is healthy, which should positively influence revenue in the final quarter of 2020. Compared to 2019, selling price and mix changes decreased revenue by 1.2 percent. Foreign exchange had a minor unfavorable effect on revenue.

Gross Profit Margins

Gross profit margins for the third quarter fell by 0.2 percentage points to 31.3 percent of revenue from the 31.5 percent recorded in the same quarter in 2019. The reduction in sales volumes, most notably within the rigid container product group, led to higher relative production costs, causing a contraction in gross profit margins. This decrease was substantially offset by raw material costs declining to a much larger extent than the corresponding selling price adjustments. The typical delayed timing of selling price pass-through adjustments to customers on formal price indexing programs led to this disparity.

For the first nine months of 2020, gross profit margins reached a level of 31.0 percent of revenue, falling short of the 31.6 percent realized in the corresponding 2019 year-to-date period. The reduction in sales volumes, in combination with the expansion in fixed manufacturing costs, compressed gross profit margins by 2.4 percentage points. Conversely, the degree to which the decline in raw material costs outpaced the corresponding selling price adjustments augmented gross profit margins by 1.8 percentage points.

The raw material purchase price index increased by 1.5 percent compared to the second quarter of 2020. In relation to a year earlier, the index has decreased by 8.8 percent. During the third quarter, polypropylene and polyethylene resin costs were significantly higher, rising by 22 percent and 9 percent respectively. In contrast, all other raw materials experienced modest reductions.

Expenses and Other

Operating expenses, adjusted for foreign exchange and the Control Group acquisition, in the third quarter of 2020 receded at a similar rate relative to the decline in sales volumes, thereby have an insignificant impact on EPS. Foreign exchange added 1.5 cents to EPS in the quarter due to the favorable translation differences recorded on the revaluation of monetary assets and liabilities denominated in Canadian dollars. In contrast, the much lower rate of interest applied to cash and cash equivalent amounts led to a contraction in EPS of 1.5 cents. The effective income tax rate increased by nearly two percentage points, lowering EPS by 1.0 cent.

On a year-to-date basis, operating expenses, exclusive of foreign exchange and the acquisition of Control Group, decreased at a rate of 4.6 percent in relation to the drop in sales volumes, generating an increase in EPS of 1.0 cent. Travel related spending was significantly curtailed due to the pandemic. As a result of the unfavorable translation differences recorded on the revaluation of monetary assets and liabilities denominated in Canadian dollars and Mexican pesos, foreign exchange subtracted 1.5 cents from EPS. In addition, net finance income dampened EPS by 3.0 cents and was the outcome of the substantial decline in the rate of interest earned on the Company's cash and cash equivalent amounts. A small increase in the income tax rate lowered EPS by 1.0 cent. Conversely, a lower proportion of earnings attributable to non-controlling interests added 1.0 cent to EPS.

Capital Resources, Cash Flow and Liquidity

The Company's cash and cash equivalents balance ended the third quarter of 2020 at $486.0 million, an increase of $30.3 million from the end of the previous quarter. Winpak continued to generate robust cash flows from operating activities before changes in working capital of $49.3 million. Working capital provided cash of $7.0 million. Trade and other receivables declined by $7.1 million, reflecting the change in revenue relative to the second quarter as well as certain customers' payment terms returning to normal after being temporarily extended earlier in 2020 due to COVID-19 factors. Cash was utilized for plant and equipment additions of $14.3 million, income tax payments of $9.9 million, dividend payments of $1.4 million and other items totaling $0.4 million.

For the first nine months of 2020, the cash and cash equivalents balance rose by $88.8 million from the start of the year. Cash flows generated from operating activities were solid at $143.8 million. Working capital generated $8.7 million in cash. Trade and other receivables decreased by $11.2 million due to a combination of the timing of customer receipts and the collection of value added taxes owing from government authorities in relation to recent capital expansion projects. Other uses of cash included: plant and equipment additions of $31.5 million, income tax payments of $27.1 million, dividend payments of $4.3 million and other items amounting to $2.1 million. Net finance income provided cash of $1.3 million.

Summary of Quarterly Results

	Thousands of US dollars, except per share amounts (US cents)							
	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018
Revenue	210,605	216,201	213,596	217,456	212,734	219,618	224,035	222,138
Net income attributable to equity holders of the Company	26,684	29,226	23,155	26,679	28,578	31,086	28,429	26,683
EPS	41	45	36	41	44	48	44	41

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

The Company continues to monitor the ongoing effects of the Coronavirus (COVID-19) pandemic on businesses throughout the world with specific attention being given to the current level of elevated cases in North America. The loosening of restrictions and reopening activities across North America has resulted in an escalation of COVID-19 infections and an apparent second wave. Winpak is regarded as an essential supplier of packaging materials and machinery for our customers in the food, beverage and healthcare industries. The Company remains steadfast in its efforts to minimize the effects of COVID-19 and continues to be diligent in ensuring that all the necessary health and safety precautions are continuously updated and maintained at all of our production facilities to protect our highly committed employees and their families. During the pandemic, Winpak has managed to keep all its plants operational with a limited number of COVID-19 incidents. Businesses across the globe will be dealing with the enduring effects of the pandemic for the foreseeable future which makes it a challenge to predict with certainty its ongoing effects on the Company's business and financial results.

During the third quarter, the North American business landscape dealt with the removal of shelter-in-place orders and varied stages of reopenings which resulted in fluctuating customer order levels amongst the operating segments. The flexible packaging segment experienced elevated buying by consumers at the retail level from pantry stocking, however, as the third quarter progressed, consumers started to slowly taper this behavior and our customers began to drawdown their inventories, resulting in softer order volumes in the cheese and protein markets. Due to the diverse levels of reopening activities, this segment experienced a modest recovery in both food service and non-food retail markets. The demand for single-serve products in the rigid packaging and flexible lidding segment catering to the food service industry started to rebound, however, volumes appear to have levelled off for the time being. Aside from the pandemic, rigid containers continued to have a notable reduction in volumes due to the reduced contractual position with the recyclable specialty beverage polypropylene cup. The specialty beverage cup business should no longer be a headwind to Winpak's volumes going forward on comparison to prior year quarterly time periods. The lidding product group experienced slight volume gains with the specialty beverage die-cut lids. The packaging machinery segment remains very dynamic with a strong machine order backlog which will keep it busy entering 2021. Despite COVID-19, Winpak's sales funnel remains very active with several new business opportunities being secured with new and existing customers amongst the Company's product groups. This new business generation is expected to commence in the fourth quarter of 2020, with new product launches for a retort pet food tray and dessert custom container offerings, and continue through 2021 when other awarded business, including spouted pouches, are transitioned over to Winpak. Throughout the pandemic, the raw material supply chain has remained resilient with minimal disruptions, enabling the plants to remain fully operational. Raw material resin prices for polyethylene and polypropylene increased considerably during the third quarter and in the initial stages of the fourth quarter. These increased costs were the result of resin suppliers curtailing production levels during the third quarter along with unexpected disruptions in resin supply caused by plant closures from the hurricanes in the gulf coast of the United States. These higher resin prices will elevate costs of goods sold in the next six months and put downward pressure on gross profit margins from those realized in the first nine months of 2020. The elevated resin costs will result in modest increases in selling prices to customers due to the pass-through of higher raw material costs as 65 percent of Winpak's revenues are indexed albeit with a three to four-month time lag. Current market expectations are for slight increases in the Company's primary resin prices during the fourth quarter with some potential cost reductions in the first half of 2021. The current level of the Canadian dollar versus the US dollar should remain relatively stable for the balance of 2020. As a result, the effect from foreign exchange on future net income should be minimal. Finance income earned on cash and cash equivalent amounts will be negligible due to the nominal North American interest rates.

Capital expenditures began to pick-up during the third quarter with spending anticipated to finish the year in the range of $45 to $50 million. The pandemic has produced some delays with certain capital projects due to setbacks with supplier equipment deliveries and installations, creating some uncertainty as to their scheduled completion. The Winnipeg, Manitoba modified atmosphere packaging plant is in the midst of completing several important projects including: incremental capacity with a new cast co-extrusion line, new conversion competencies for resealable lidding and spouted pouches along with the retrofitting of two cast co-extrusion lines, which will promote the Company's technical capabilities to produce the next generation of sustainable product offerings with reusable/recyclable high-barrier thermoformable films. The biaxially oriented polyamide (BOPA) line and building expansion in Winnipeg, Manitoba continues to progress with commercialization of the line anticipated to begin by the third quarter of 2021. The packaging machinery facility relocation to Rialto, California and enhanced slitting capabilities at the Norwood, New Jersey site are scheduled to be completed in the first quarter of 2021. The Company will continue to invest capital in organic growth opportunities including new technologies, processes and material sciences which broaden its sustainable product platform with recycle-ready/reusable products. During the third quarter, potential acquisition opportunities slowly started to resurface after pausing earlier in the year when COVID-19 commenced. The Company will remain diligent and evaluate acquisition candidates that align strategically with Winpak's core competencies in sophisticated high-barrier packaging for food, beverage and healthcare applications. The Company continues to produce solid and consistent cash flows from operations with considerable cash resources on hand which has enabled Winpak to operate effectively during the 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 September 27, 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 September 27, 2020 to provide reasonable assurance that the financial information being reported is materially accurate. During the third quarter ended September 27, 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.