

Investor Presentation

# HY 2020 RESULTS

28<sup>th</sup> AUGUST 2020

# HY 2020: AGENDA

**Clear focus on four key areas identified to support the business through impact of Covid-19 pandemic ('the pandemic' from hereon in)**

- Group summary – Paul Forman
- Safeguarding our people – Paul Forman
- Supporting our customers – Paul Forman
- Managing our cashflow – Lily Liu
- Building for the future – Paul Forman

# HY 2020: SUMMARY

## **Resilient performance through HY with improving revenue and order trends across all three global divisions in Q2**

- Trading trends in all three divisions improving through Q2
  - Pandemic had significant impact on underlying markets in which Components operates, but revenue and order intake trend improved through Q2
  - Resilient performance in Packaging division with new business secured during H1 and the division delivered growth in May and June
  - Filters division made strong progress on game changers with commencement of new outsourcing contracts in Q2 helping to return division to growth in June
- High level of engagement and resilience in the Essentra Family has helped maintain operational performance and support our customers throughout HY 2020
- All 71 manufacturing and warehouse facilities are fully operational.
- Strong liquidity position maintained throughout H1 (and improved since pandemic began)

**Strength of our three distinct business models clearly demonstrated in the HY, with all three global divisions well placed to capitalise on growth opportunities**

# HY 2020: OUTLOOK

## **Resilience of portfolio continues to be demonstrated**

- H1 2020: LFL revenue decline of only 8.5% with operating margin maintained at 6.5%; each month in Q2 remained profitable and cash generative
- To continue focus on four pillars with an increased emphasis on 'Building for the Future'
- Components - continue to improve on LFL trends moving through H2
- Packaging - some recent softness seen in certain end markets owing to a supply chain adjustment resulting from reduction in prescriptions and surgeries through lockdown periods, broadly flat in Q3 with growth expected in Q4
- Filters - continuation of year-on-year (YOY) growth, driven in part by outsourcing contract volume
- Continue to invest in forward looking initiatives and other growth opportunities
- HY 2020 interim dividend cancelled, Board will keep under review the possibility of a resumption of dividends for FY 2020
- FY 2020 adjusted operating profit is expected to be within current analyst range barring a major second wave to the pandemic

# HY 2020 SAFEGUARDING OUR PEOPLE

**Paul Forman – Chief Executive**

# HY 2020: SAFEGUARDING OUR COLLEAGUES' WELLBEING

The physical, emotional and financial wellbeing of our people continues to be at the forefront of our planning, as the pandemic and future of our working places emerge

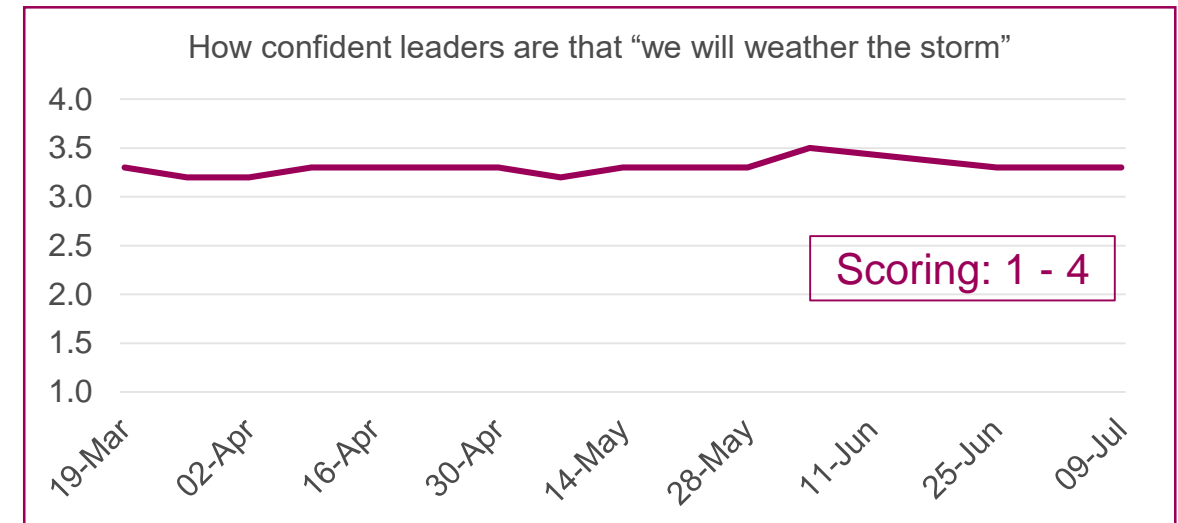
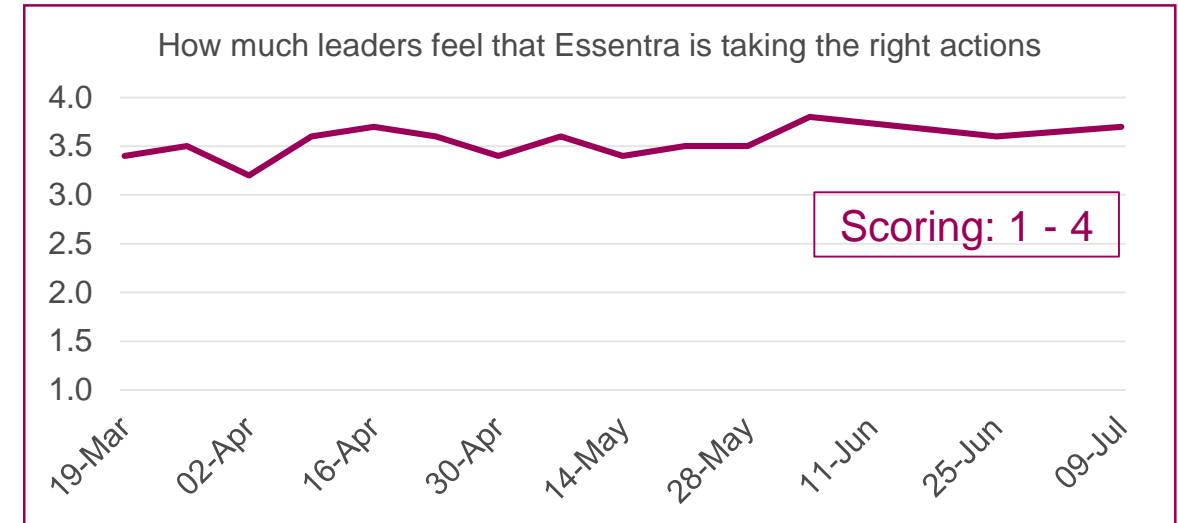
PHYSICAL	EMOTIONAL	FINANCIAL
<ul style="list-style-type: none"><li>• Strict hygiene and protective safety measures across all of our 71 manufacturing and distribution sites</li><li>• Continue to see a decline in the number of employees absent from work for COVID-19 related reasons</li></ul>	<ul style="list-style-type: none"><li>• Globally employees have been given access to support networks and alternative working arrangements</li><li>• Critical factory and warehouse employees in some high risk countries have been provided with alternative housing</li></ul>	<ul style="list-style-type: none"><li>• Senior leadership voluntary pay reduction to help others in Essentra family</li><li>• Guaranteed 80% salary for all staff through to end of September</li><li>• Not utilising any support from UK government through job retention scheme</li></ul>

Everyone in the Essentra family has gone above and beyond, during these challenging and unprecedented times – THANK YOU

# HY 2020: SAFEGUARDING OUR PEOPLE

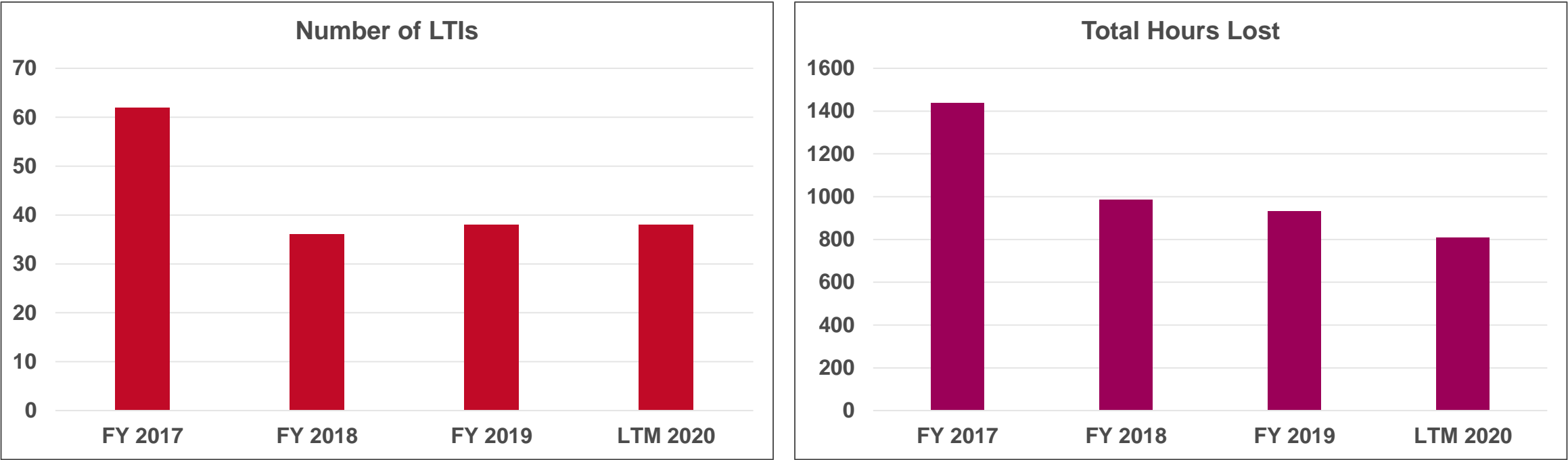
## Consistently high levels of confidence and support from Essentra's top c.100 global leaders

- Weekly CEO video message to all employees
- Video messages from certain PLC board members
- Weekly leadership calls
- Dedicated Covid-19 resources available on internal intranet
- Employee support networks established including mental and emotional wellbeing groups
- Building for the future leadership discussions including specific sessions on key regions



# HY 2020: SAFEGUARDING OUR PEOPLE

## Our HSE (Lost Time Incidents and Total Hours Lost)



NOTES:  
Data covers sites owned by Essentra as at 31 December 2019 (2017 and 2018 figures restated accordingly).  
LTM data reflects figures for 12 month period ended 30 June 2020



# HY 2020: SUPPORTING OUR COMMUNITIES

**Not only proud to be serving critical industries involved in the fight against COVID-19 but also innovating to support the wider community**

At our Packaging site in Barcelona, a Cutting Manager - with the full support of the site head - worked out a way to use our cut and crease equipment to make Perspex visors. The team then distributed these to local health workers who were in need of protective equipment



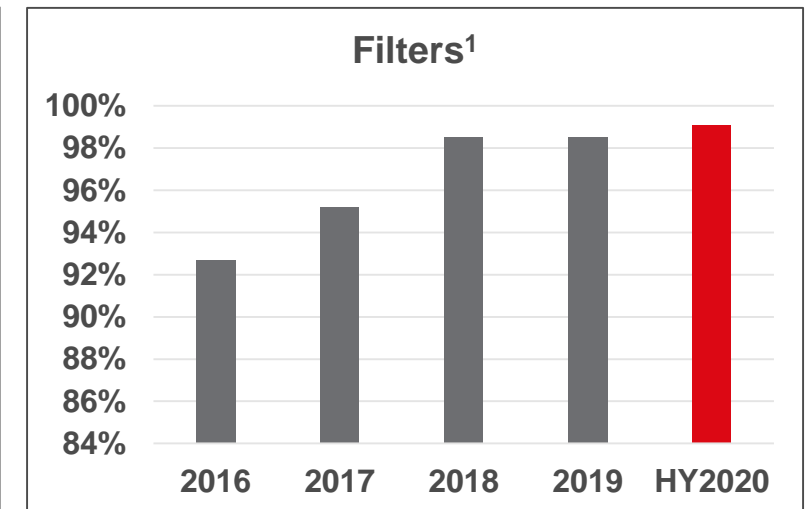
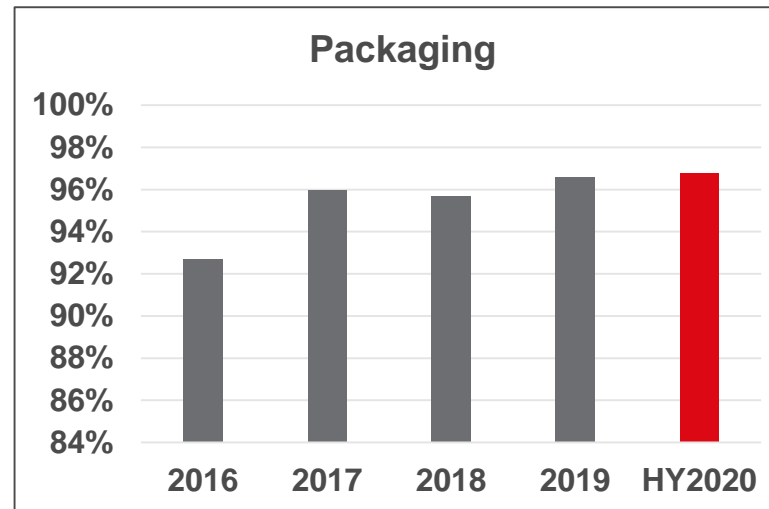
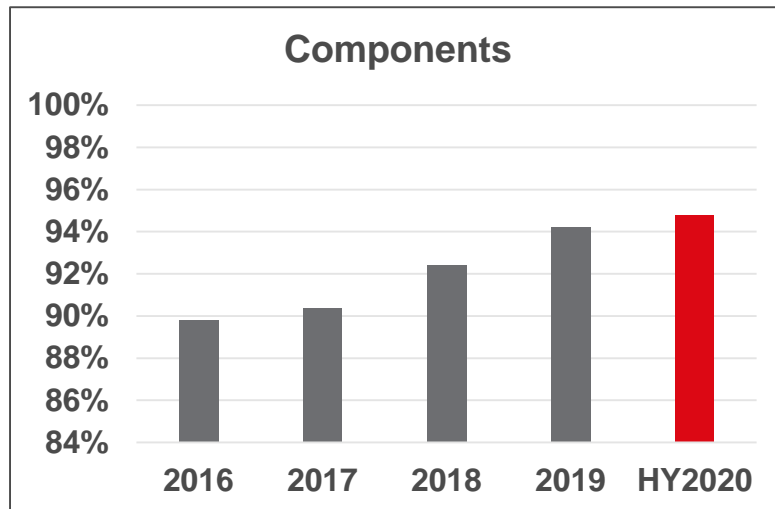
## HY 2020 SUPPORTING OUR CUSTOMERS

**Paul Forman – Chief Executive**

# HY 2020: SUPPORTING OUR CUSTOMERS

## World class operational metrics maintained despite pandemic

- Operational performance maintained across all three divisions throughout HY, all of our 71 manufacturing and distribution sites have been fully operational since May
- Across all divisions we have strived to support our customers, with numerous examples of Essentra going above and beyond in order to meet or exceed our customers' expectations
- Operational metrics remained stable despite challenging conditions, with OTIF improved in all divisions

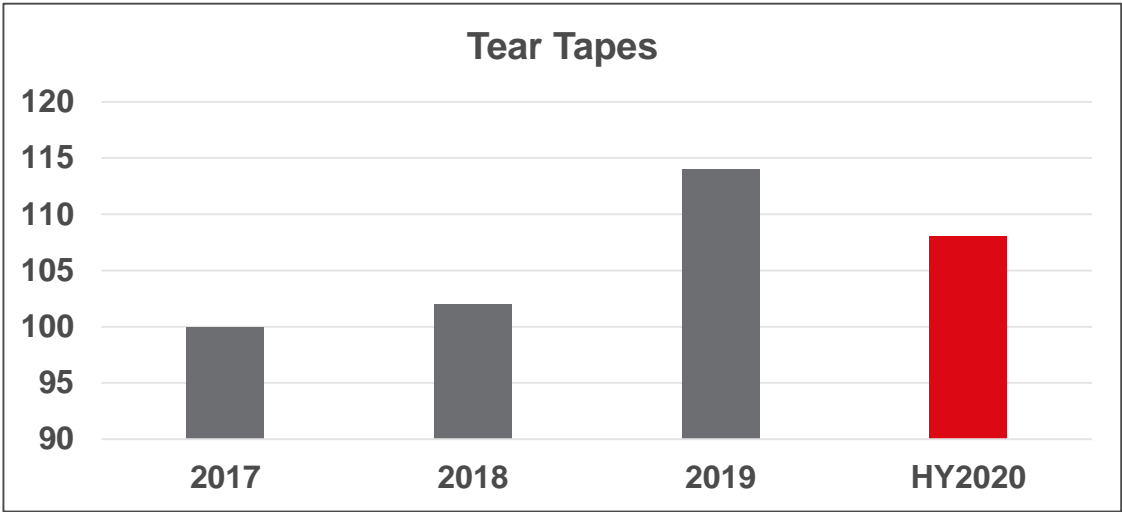
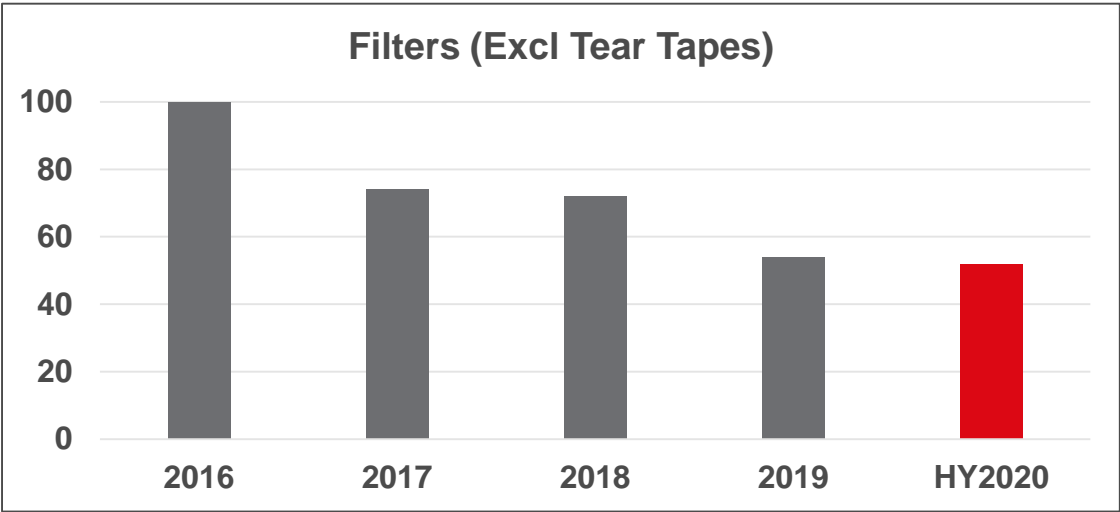
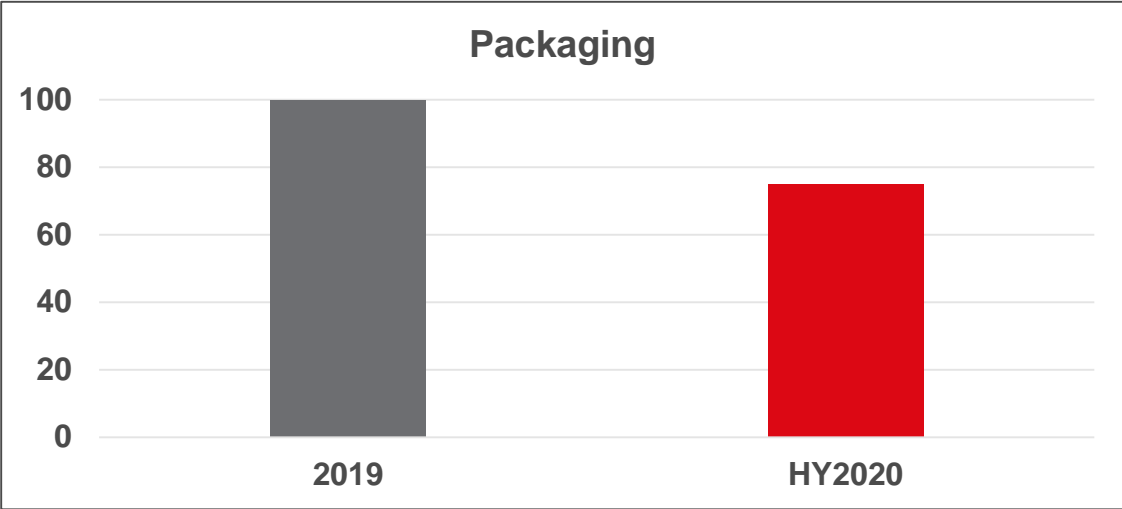
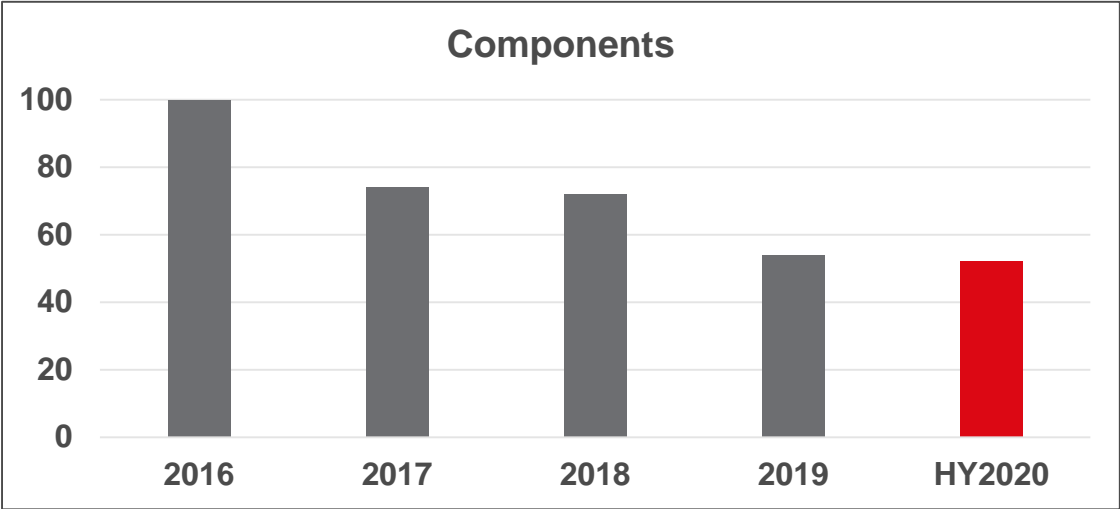


NOTES:

1 – Filters excludes Tear Tapes, OTIF for this business in HY 2020 was 99.4% (2019 98.5%)

# HY 2020: SUPPORTING OUR CUSTOMERS

World class operational metrics maintained despite pandemic – Quality Incident Rate (base year = 100)



*Note: Packaging definition changed to be more stringent in 2020 – 2018 & earlier years not on comparable basis*

# HY 2020: SUPPORTING OUR CUSTOMERS

Excellent levels of customer service and support have given rise to commercial opportunities

## Customer testimonials

- Components: Penlon: *“In a race against time, Essentra Components gave us a seamless, hassle-free experience. Their wide range of products, expertise and ability to meet our tight deadlines made them an easy choice to support our challenging project”*
- Packaging: global vision care provider : *“I know this request was a complex challenge from all angles and wanted to thank each and every one of you involved! Thanks again for all your hard work/effort!”*. Pharma outsourcing company *“we can learn some lessons on project management and delivery from Essentra”*
- Filters: MNC: *“Fantastic job during 2<sup>nd</sup> quarter 2020. This is about as good as it gets!”*. MNC: *“Essentra’s ‘can-do’ attitude recognised” and “excellent support and communication in regard to supply of tapes”*

## Business wins

- Components
  - Growth in medical devices product category including supply to VentilatorChallengeUK project and for manufacture of respirators in the US
- Packaging
  - \$5m USD annualised business wins in US packaging
  - Contract won to supply full packaging suite for a COVID-19 anti-viral medicine
- Filters
  - Business continuity outsourcing volume gains with MNCs
  - Proprietary filters used to successfully launch a new product in the Indonesian market in Q2

# COMPONENTS

**HY 2020 revenue: £129.7m, LFL -12.8%, OM 18.4%**



German warehouse, operations expected to commence at end of Q3

- Continued rollout of new website, benefit of improved digital proposition has been seen during H1 through increased traffic. First stages of cross sell functionality have gone live on the website, and further developments are in progress
- BPR project ongoing with site roll-out expected to commence in Spain in Q1 2021, following on from the successful go-live for Finance and Procurement processes in our main HQ entities
- Construction of German warehouse project completed with operations expected to commence at the end of Q3, this will provide further mitigation against any Brexit supply chain risk
- Successful integration of Innovative Components continued
- Division has played a key role in supporting the fight against Covid-19 through the supply of products used in the manufacture of goods within medical devices and PPE categories



# PACKAGING

**HY 2020 revenue: £185.3m, LFL -3.0%, OM 2.6%**



Capital investment made to increase production capacity

- Division delivered YOY growth in May & June
- Pharma demand has remained robust throughout HY, market in the beauty segment has been challenging
- Commercial and operational capabilities demonstrated that have been key in securing \$5m new business wins during H1 in the US
- Capital investment is being made to increase production capacity in Ireland and Italy to support further growth opportunities
- Successful integration of Nekicesa with business performance continuing to exceed plan expectations
- Agility of the business in supporting our customers' needs has been paramount in enhancing already strong relationships

# FILTERS

**HY 2020 revenue: £133.4m, LFL -11.2%, OM 8.1%**



New equipment fully operational in Hungary to support outsourcing contract volume

- Division returned to YOY growth in June, with underlying demand robust throughout the HY with extended site shutdowns experienced due to government enforced lockdowns in India and Paraguay
  - Measures taken to minimise impact on production capability of any further site shutdowns leveraging global manufacturing footprint
- Game changers progressing well:
  - Production commenced in Hungary of previously announced outsourcing contract wins, first products shipped in May with full production expected to be reached in Q3
  - Progress of China JV has been somewhat disrupted by pandemic-induced travel restrictions, production is now expected to commence Q2 2021
  - Innovation capability continues to deliver commercialised products with strong pipeline of further projects maintained with focus on NGP and sustainable/biodegradable product categories
- Integration of Tapes business into Filters division completed with full alignment of management and operational structure in Q1



## HY 2020 MANAGING OUR CASH FLOW

**Lily Liu – Chief Financial Officer**

# HY 2020: MANAGING OUR CASHFLOW

**Proactive and responsible actions taken have ensured that strong liquidity position has been maintained and improved**

- Underlying liquidity<sup>1</sup> maintained at or above £229m throughout and was £261m at the HY
- No furlough support taken from UK government
- Operating cash conversion of 76%
- Increase in NWC during period driven by the socially responsible attitude taken towards supplier payments and BCP related build of inventory
  - Strong performance of cash collections with no debt collection issues experienced
- Net debt to EBITDA ratio increased to 2.5x, 2.3x for banking covenant purpose<sup>2</sup>
- Update on sanctions compliance:
  - Settlement reached on US government investigation and DPA signed with \$666k fine paid
  - We have co-operated extensively with OFAC in the resolution of our voluntary disclosure on certain historical sanctions transactions, we do not anticipate any significant enforcement action being taken by OFAC
  - We continue to embed the compliance transformation programme

1 – Underlying liquidity is cash on hand + undrawn available facilities less JV partner share of cash balances

2 – Calculated as: Net Debt excluding IFRS 16 plus JV partner share of cash / EBITDA excluding IFRS 16 adjusted to include FY impact of acquired businesses

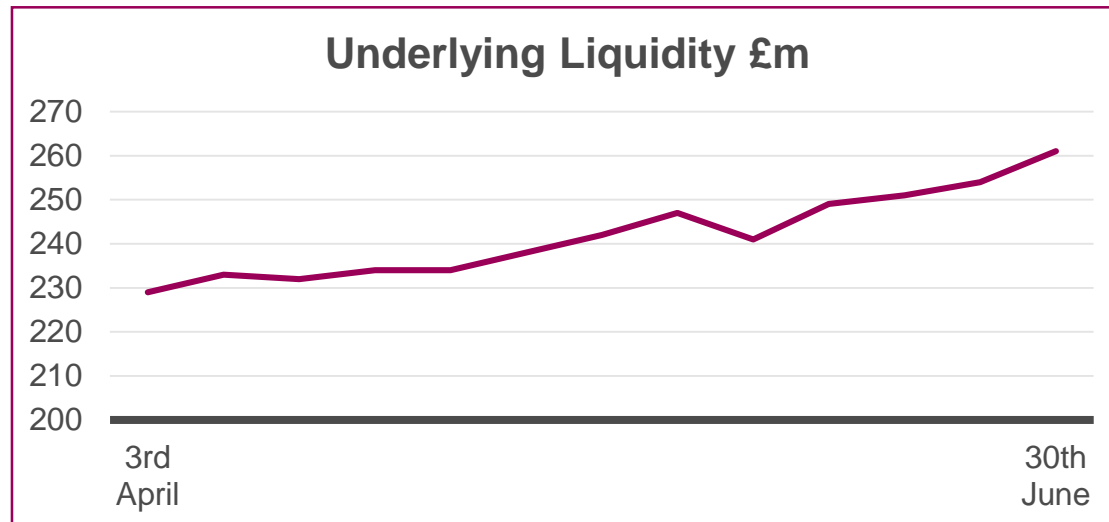
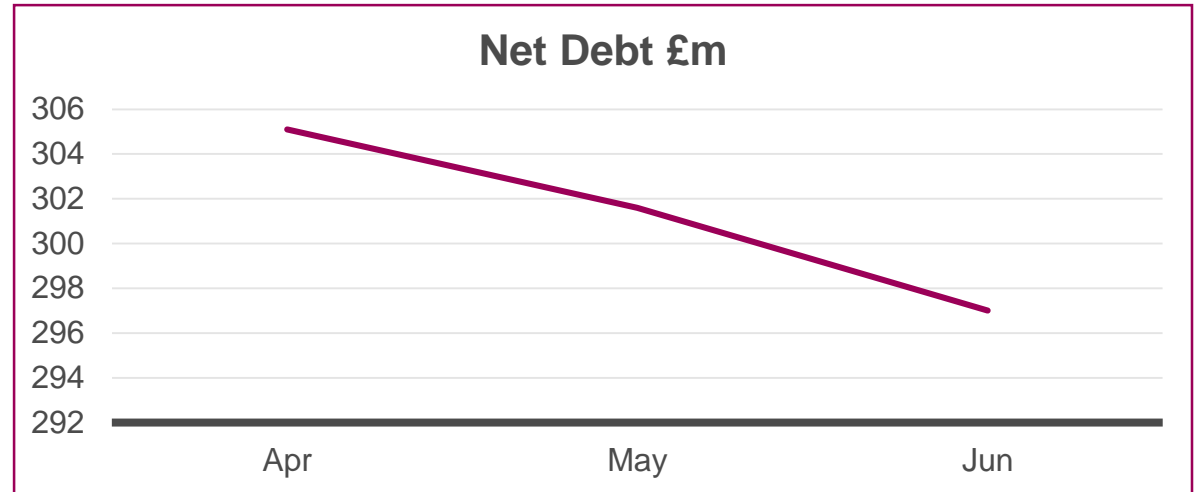
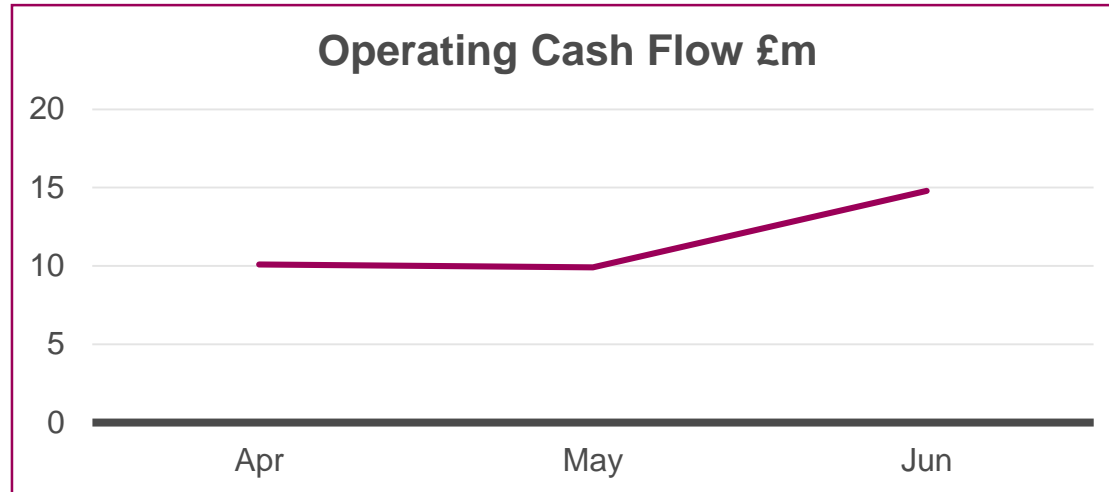
# HY 2020: MANAGING OUR CASHFLOW

**Resilient performance through HY with improving revenue and order trends across all three global divisions in Q2**

- HY 2020 results impacted by pandemic:
  - Like-for-like (LFL) decline of 8.5%
  - Adjusted operating profit down 40.0% to £29.0m; adjusted operating margin -300bps to 6.5% (at constant FX)
    - -37.9%, adjusting for acquisitions and disposals
  - Reported operating profit £15.6m versus £60.1m in HY 2019 (prior year figure included gains of £19.5m made on business disposals)
  - Adjusted basic EPS lower by 48.5% (at constant FX) at 6.2p
    - Within the comparative 1.7p relates to PPT, Extrusion, Speciality Tapes and Card Solutions
    - Reported basic EPS of 2.3p compares to 11.6p in HY 2019

# HY 2020: MANAGING OUR CASHFLOW

**Business generated positive operating cashflow throughout Q2 ensuring a reduced net debt and increased underlying liquidity over the period**



- Temporary 20% reduction in salary for board members and 10% for senior management
- Annual merit pay increases cancelled
- All travel and entertaining suspended
- Tight control over all discretionary costs
- Reduction in Capex spend
- Selectively invest in supporting growth

# INCOME STATEMENT<sup>1</sup>

**Like-for-like revenue declined 8.5%; 300bps margin contraction**

	HY 2020	HY 2019	Growth	
	£m	£m	Actual FX	Constant FX
Revenue	448.4	506.6	-11.5%	-11.7%
Operating profit <sup>2</sup>	29.0	48.3	-40.0%	-40.0%
<i>Operating margin<sup>2</sup></i>	<i>6.5%</i>	<i>9.5%</i>	<i>-300bps</i>	<i>-300bps</i>
Profit before tax <sup>2</sup>	21.3	41.3	-48.4%	-48.5%
Earnings <sup>2</sup>	16.3	31.4	-48.1%	-48.5%
Earnings per share <sup>2</sup>	6.2p	12.0p	-48.3%	-48.5%

<sup>1</sup> Continuing operations

<sup>2</sup> Adjusted to exclude intangible amortisation and exceptional operating items

## REVENUE BY DIVISION

	HY 2020	HY growth
	£m	Constant FX
<b>Components</b>	<b>129.7</b>	<b>-10.2%</b>
<i>Components like-for-like<sup>1</sup></i>		<i>-12.8%</i>
<b>Packaging</b>	<b>185.3</b>	<b>3.9%</b>
<i>Packaging like-for-like<sup>2</sup></i>		<i>-3.0%</i>
<b>Filters (Incl TT)</b>	<b>133.4</b>	<b>-11.2%</b>
<b>Specialist Components</b>	<b>-</b>	<b>-100%</b>
Eliminations	-	
<b>Group</b>	<b>448.4</b>	<b>-11.7%</b>
<b><i>Group – like-for-like<sup>3</sup></i></b>		<b><i>-8.5%</i></b>

<sup>1</sup> At constant exchange rates, adjusted for the acquisition of Innovative Components

<sup>2</sup> At constant exchange rates, adjusted for the acquisition of Nekicesa

<sup>3</sup> At constant exchange rates, adjusted for the acquisitions of Innovative Components and Nekicesa along with the disposals of Pipe Protection Technologies, Extrusion, Speciality Tapes and Card Solutions

# OPERATING PROFIT<sup>1</sup> BY DIVISION

	<b>HY 2020</b>	<b>Growth</b>	<b>Margin</b>
	<b>£m</b>	<b>Constant FX</b>	<b>HY 2020</b>
Components	23.9	-26.4%	18.4%
Packaging	4.9	-38.7%	2.6%
Filters	10.8	-34.9%	8.1%
Specialist Components	-	-100%	-
Central Services	(10.6)	-	-
<b>Group</b>	<b>29.0</b>	<b>-40.0%</b>	<b>6.5%</b>
Group – like-for-like <sup>2</sup>		-37.9%	

<sup>1</sup> Adjusted to exclude intangible amortization on acquired assets and exceptional operating items

<sup>2</sup> Adjusted for the acquisitions of Innovative Components and Nekicesa plus disposals of Pipe Protection Technologies, Extrusion, Speciality Tapes and Card Solutions businesses.

## INCOME STATEMENT (CONT.)

	HY 2020	Growth	
	£m	Actual FX	Constant FX
Operating profit <sup>1</sup>	29.0	-40.0%	-40.0%
Net finance charge	(7.7)		
<b>Profit before tax<sup>1</sup></b>	<b>21.3</b>	<b>-48.4%</b>	<b>-48.5%</b>
Taxation <sup>1</sup>	(4.1)		
<i>Underlying tax rate</i>	19.2%		
<b>Net income<sup>1</sup></b>	<b>17.2</b>	<b>-48.0%</b>	<b>-48.4%</b>
Minority interests	(0.9)		
Earnings <sup>1</sup>	16.3	-48.1%	-48.5%
EPS <sup>1</sup>	6.2p	-48.3%	-48.5%
EPS – diluted <sup>1</sup>	6.2p	-47.9%	-48.8%

<sup>1</sup> Adjusted to exclude intangible amortisation of £10.9m and an exceptional pre-tax charge of £2.5m along with associated tax impact

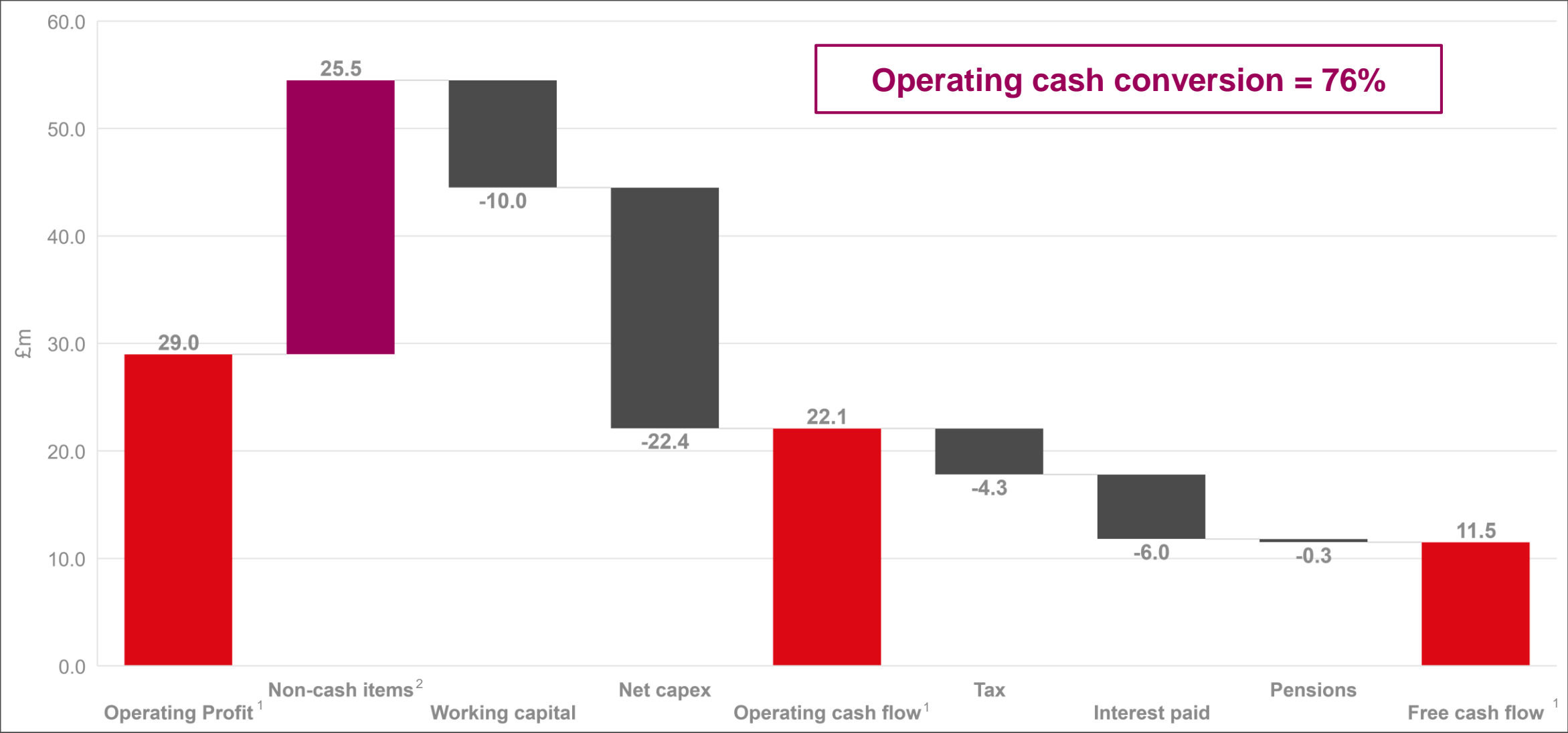


## EXCEPTIONAL ITEMS

	£m
External professional costs associated with certain corporate development activities which are still in progress <sup>1</sup>	3.5
Release of excess provision net of external advisory costs in relation to review of compliance of certain group companies' export activities with US laws	(1.2)
Other	0.2
<b>Total exceptional charge</b>	<b>2.5</b>

<sup>1</sup> £0.3m gain relating to a VAT refund on the costs of a previous business disposal netted off against this line

# CASH FLOW



<sup>1</sup> Adjusted to exclude intangible amortisation and exceptional and other adjusting items

<sup>2</sup> Being depreciation of £19.8m, right-of-use asset depreciation of £6.2m and Share Option Expense / Other Movements of -£0.5m

# NET DEBT RECONCILIATION

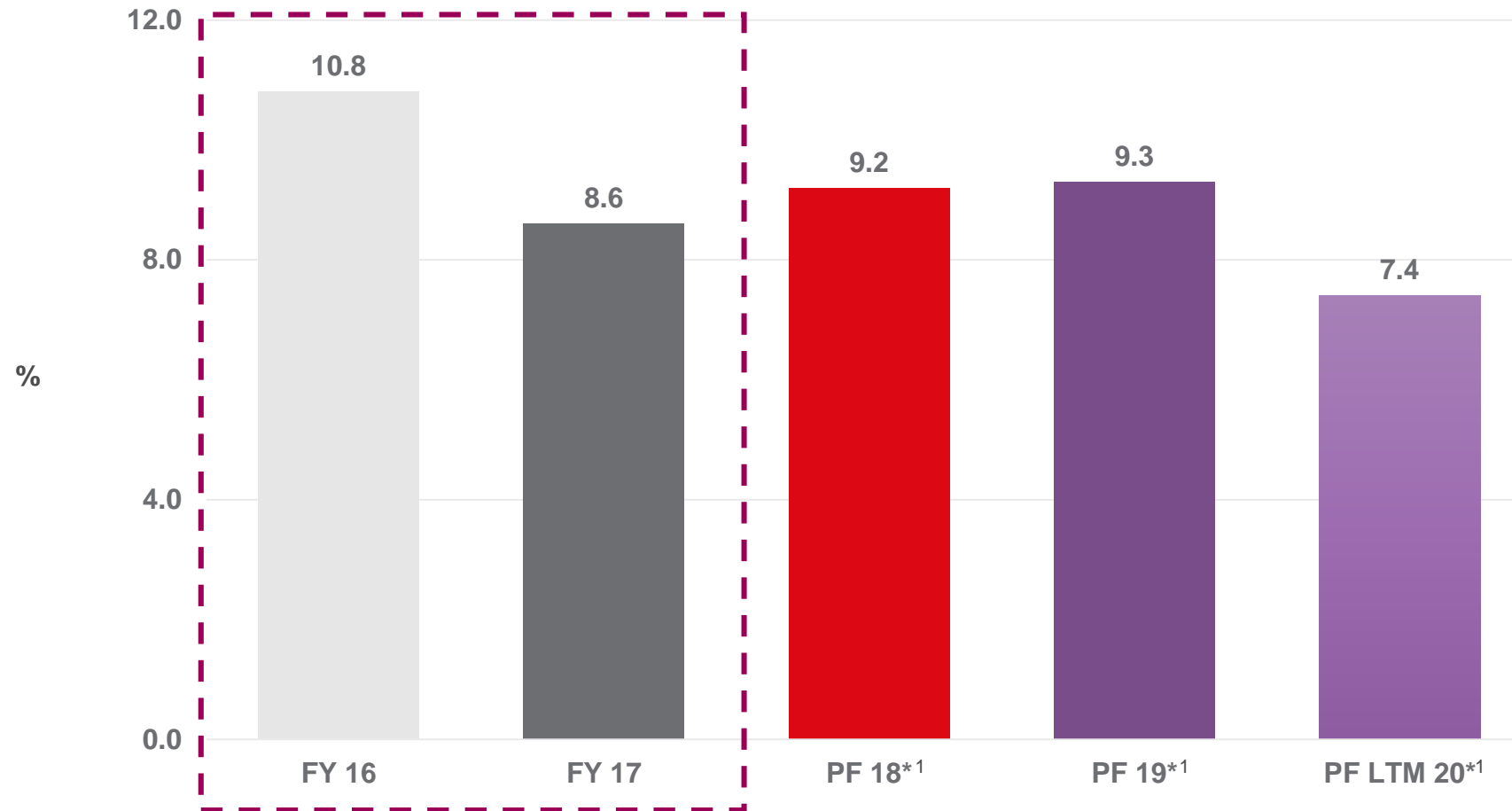
**Free cash flow offset by FX and increased lease liabilities. Closing Net Debt / EBITDA 2.5x**

	£m
As at 1 January 2020	284.4
FX	12.5
As at 30 June 2020	297.0
<b>Change in net debt after FX</b>	<b>0.1</b>
Of which:	
Dividends	-
Free cash flow	(11.5)
Exceptional & other adjusting items (net of exceptional PPE disposal proceeds)	2.2
Acquisitions & disposals	(0.2)
Lease liability movements	12.5
Shares issued in Joint Venture	(2.9)
	<b>0.1</b>

NOTE:  
Negative numbers denote a cash inflow, positive numbers a cash outflow

# RETURN ON INVESTED CAPITAL

## Decline in LTM ROIC driven by impact of Covid-19



1 – Proforma 2018, 2019 and LTM 2020 are adjusted to remove impact of businesses disposed during 2019 (PPT, Extrusion, Speciality Tapes and Card Solutions) with a further adjustment made in 2019 and LTM 2020 to gross up trading for Packaging acquisition to reflect full year of trade to align with value of capital employed included in the ROIC calculation

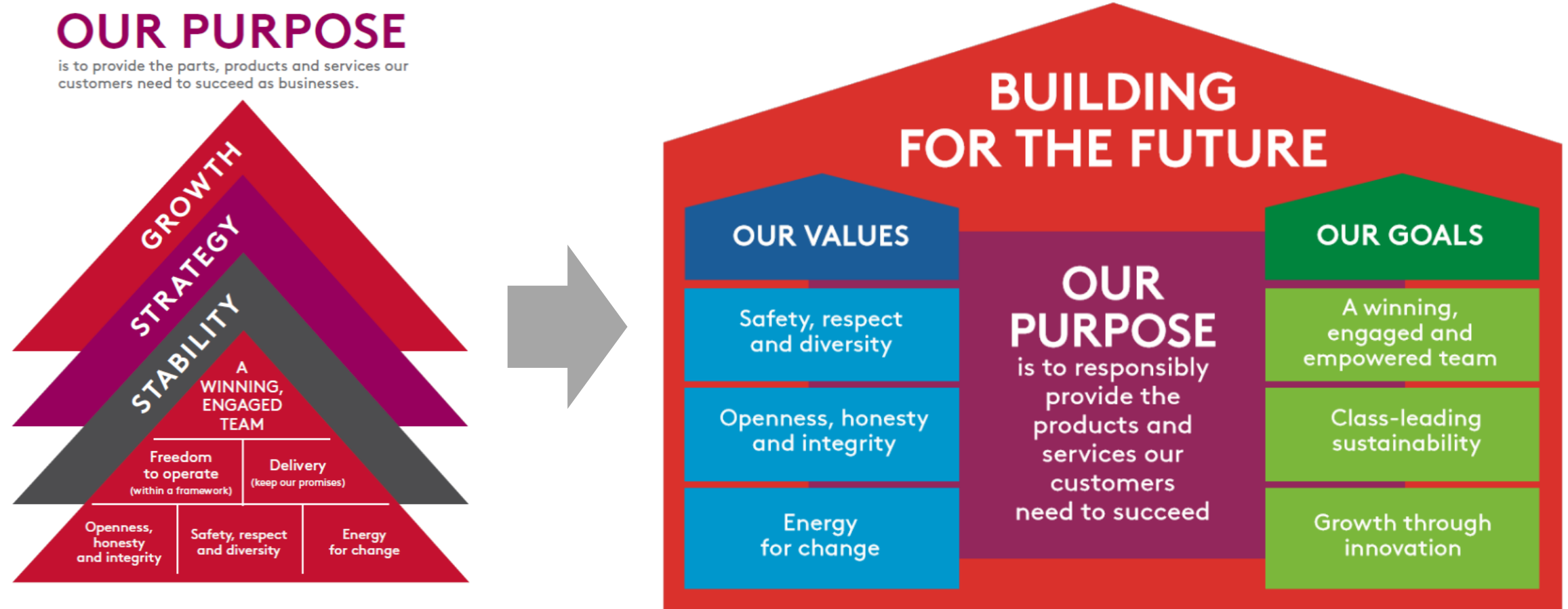
\* After applying IFRS 16

# BUILDING FOR THE FUTURE

**Paul Forman – Chief Executive**

# HY 2020: BUILDING FOR THE FUTURE

We have engaged our leadership team to develop a new purpose and set of values that reflect the changing landscape



# Essentra's Sustainability Journey

## What are we doing?

### Revised Purpose, Values & Goals



### Four Sustainability Themes

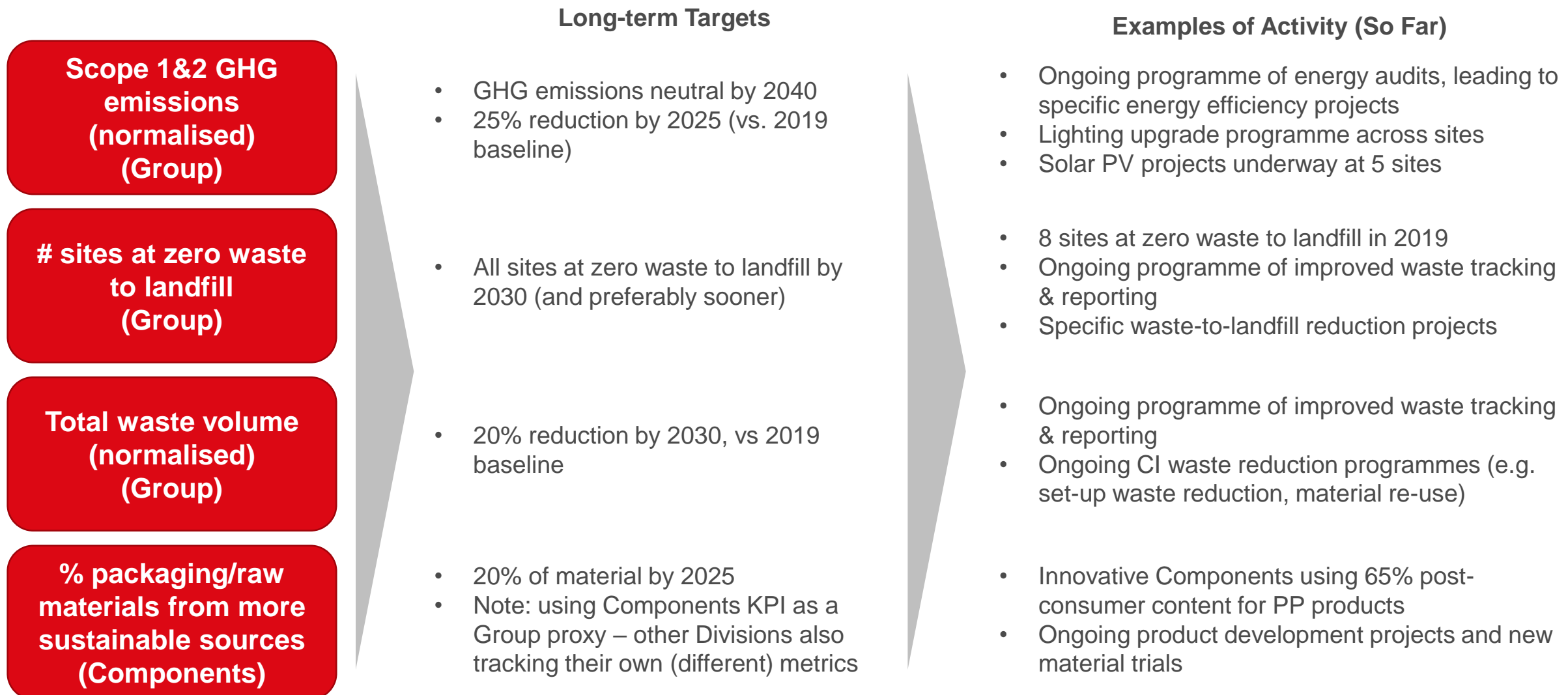


### Comments

- Sustainability both an opportunity and a challenge for Essentra
- Developing new, more sustainable materials & products for our customers
- Setting stretching new targets, but already making progress – absolute GHG emissions reduced by 5-6% in both 2017-2018 and 2018-2019
- Keeping our people safe, both physically and emotionally, throughout Covid
- Board Sustainability Committee now well established

# New Environmental KPIs and Targets

## New Environmental KPIs and targets – over and above existing safety-related KPIs





# Responsible Resource Usage

## Divisions developing new, more sustainable products

### Components

- Trials progressing well to incorporate recycled content in some LDPE products
- Working with several customers to incorporate recycled content and biodegradable additives

### Packaging

- Working with customers to substitute plastic with paper-based designs
- Collaborating with customers to reduce material usage & waste
- Trialling higher PCR content materials and designs that facilitate consumer recycling

### Filters

- Supplier collaboration projects ongoing, investigating alternative fibre materials
- More sustainable products under development, using a range of biodegradable materials
- Supastrip PCR tape launched June 2020 – 70% PCR content; first to market



# BUILDING FOR THE FUTURE – BPR UPDATE

**BPR Programme has ‘gone live’ in head office for Finance & Procurement, Components planned in 2021**

## Process Transformation to Create New Capabilities & Benefits

### Rationale

- **Addressing critical issues** with current systems:
  - system obsolescence
  - improved financial controls
- **Enabling future business models:**
  - Enable strategy, including Components ‘Hassle Free’ customer model
  - Ease of integration of acquired businesses
- **Direct financial benefits:**
  - Reduced business interruption
  - SG&A efficiency
  - Improved inventory management
- **Enabled financial benefits:**
  - Improved asset utilisation
  - Improved working capital management
  - More efficient operations



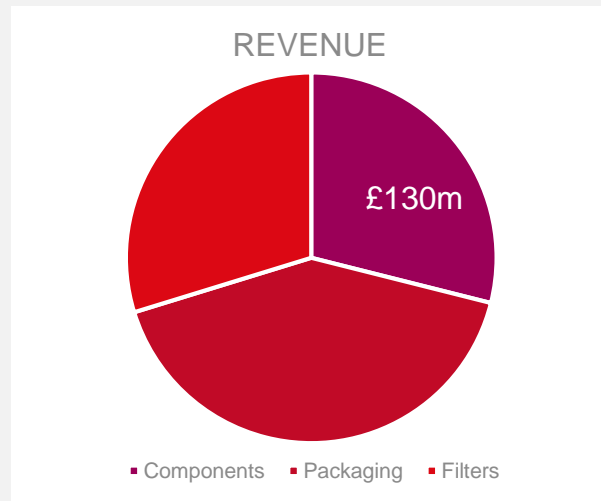
### Key Activities

- Finance and Procurement processes have recently ‘gone live’ for main headquarters’ entities
- Scoping, Analysis and Design phases complete for Components
- Components rollout planned for Europe starting H1 2021
- Exploring options for rollout to Components Americas and prep. work for Packaging Division in H2 2021

# COMPONENTS – DIVISIONAL PRIORITIES

## COMPONENTS

A global market-leading manufacturer and distributor of a comprehensive range of components, used in diverse industrial applications and end-markets



HY'20 OPERATING PROFIT: £24M

HY'20 OPERATING MARGIN: 18.4%

## Trading Outlook

- Continued steady recovery through H2
- Operating margins remaining resilient and improving from Q2
- PMI data suggests gradual recovery

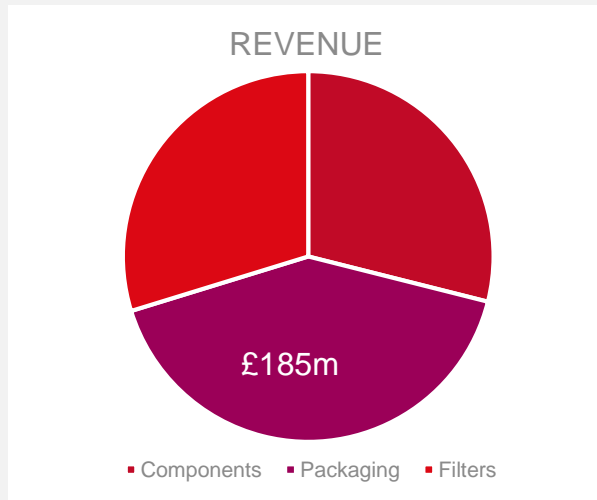
## Key Strategic Priorities

- Accelerate digitalisation of the business
- Execution of automated German Hub warehouse
- Progress BPR project
- Continued review of organic and inorganic growth opportunities
- Expand sustainable product offer

# PACKAGING – DIVISIONAL PRIORITIES

## PACKAGING

Multi-continental supplier of a full range of secondary packaging to the pharmaceutical, personal care and beauty sectors



HY'20 OPERATING PROFIT: £5M

HY'20 OPERATING MARGIN: 2.6%

## Trading Outlook

- Continued YOY revenue growth in H2 2020
- Laying the foundation for 200bps operating margin improvement in 2021; margin growth expected for H2 2020 versus H2 2019
- Nekicesa post acquisition has been trading for 11 months and has met or exceeded acquisition case in every month

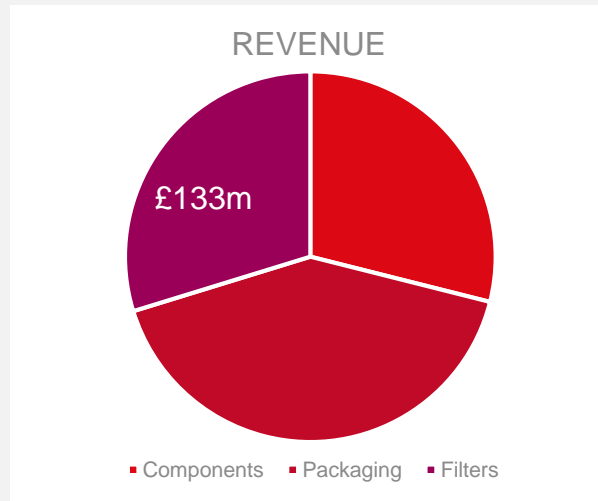
## Key Strategic Priorities

- Value-enhancing services to improve beyond industry average margin
- Development of increased range of sustainable products
- Potential for further supply chain optimisation
- Retain and enhance operational agility to support customers international requirements
- Continued focus on organic and inorganic growth opportunities

# FILTERS – DIVISIONAL PRIORITIES

## FILTERS

The only global independent provider of filters and related solutions to the tobacco industry



HY'20 OPERATING PROFIT: £11M

HY'20 OPERATING MARGIN: 8.1%

## Trading Outlook

- Continued YOY revenue growth expected in H2 2020
- Underlying demand remaining stable
- Further progress on game changers – China JV, outsourcing and NGP

## Key Strategic Priorities

- Environmental friendly product development opportunity including development of biodegradable products
- Tapes growth in both consumer and tobacco markets
- Commence production of China JV, enabling the doubling of our addressable market
- Continue to identify and secure new outsourcing opportunities
- Further develop NGP product offering

# HY 2020: OUTLOOK

## **Resilience of portfolio continues to be demonstrated**

- H1 2020: LFL revenue decline of only 8.5% with operating margin maintained at 6.5%; each month in Q2 remained profitable and cash generative
- To continue focus on four pillars with an increased emphasis on 'Building for the Future'
- Components - continue to improve on LFL trends moving through H2
- Packaging - some recent softness seen in certain end markets owing to a supply chain adjustment resulting from reduction in prescriptions and surgeries through lockdown periods, broadly flat in Q3 with growth expected in Q4
- Filters - continuation of year-on-year (YOY) growth, driven in part by outsourcing contract volume
- Continue to invest in forward looking initiatives and other growth opportunities
- HY 2020 interim dividend cancelled, Board will keep under review the possibility of a resumption of dividends for FY 2020
- FY 2020 adjusted operating profit is expected to be within current analyst range barring a major second wave to the pandemic

Q&A

# APPENDICES



# INCOME STATEMENT

## Reported basis

	HY 2020	Growth	
	£m	Actual FX	Constant FX
Adjusted operating profit	29.0	-40.0%	-40.0%
Intangible amortisation	(10.9)		
Exceptional operating items	(2.5)		
<b>Reported operating profit</b>	<b>15.6</b>	<b>-74.0%</b>	<b>-73.5%</b>
Net finance charge	(7.7)		
<b>Profit before tax</b>	<b>7.9</b>	<b>-85.1%</b>	<b>-84.8%</b>
Taxation	(0.9)		
<i>Underlying tax rate</i>	19.2%		
<b>Net income</b>	<b>7.0</b>	<b>-78.3%</b>	<b>-77.0%</b>
EPS	2.3p	-80.2%	-78.9%
EPS - diluted	2.3p	-80.0%	-79.6%

# EXCHANGE RATES

Six months ended 30 June 2020	Average	Closing
US\$/£	1.27	1.23
Euro €/£	1.14	1.10
Impact of a one cent reduction in rate		Op. profit (£m)
US\$/£		0.1
Euro €/£		0.2
Six months ended 30 June 2019	Average	Closing
US\$/£	1.29	1.27
Euro €/£	1.14	1.12

# DISCLAIMER

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Investor Presentation

# HY 2020 RESULTS

28<sup>th</sup> AUGUST 2020