



SMI Group¹ Announces Consolidated Results for Second Quarter of 2023

Lima, Peru, December 8th, 2023 – SMI Group (“The company”), the leading corporation in sustainable rigid packaging solutions in Hispanic America, with consolidated operations in Peru, Colombia, Ecuador, CA&C, Chile, Argentina, and Mexico; announces today consolidated results for the second quarter 2023 (“2Q 2023”).

In the second quarter of 2023, SMI Group exhibited a steadfast performance, upholding its long-standing track record of success. The company also remains proactive in capitalizing on advantageous market conditions, actively seeking organic growth opportunities and exploring new prospects with current and prospective clients. SMI Group maintains a strong commitment to becoming a frontrunner in sustainable and circular business models while also focusing on preserving and enhancing cost-saving initiatives to support continuous growth. As a result of these efforts, the company achieved steady outcomes in terms of EBITDA, cash flow, and leverage ratio.

Financial Highlights

2Q 2023 versus 2Q 2023

- **Containers² volume sold was 3,793 million units**, increasing by 476 million units YoY (+14.4%).
- **Closures volume sold was 4,643 million units**, increasing by 542 million units YoY (+13.2%).
- **Thermoforming volume sold was 411 million units**, increasing by 106 million units YoY (+34.7%).
- **Consolidated adjusted EBITDA reached ~US\$ 33.4 million**, decreasing ~US\$ 5.7 million compared to 2023 (-14.7%).
- **EBITDA Margin reached 14.5%**, reducing itself in -2.1pp compared to same period of 2023.

Financial Results³

The following table shows a summary of SMI Group’s consolidated financial results:

	Financial and operating results (US\$ 000)							
	2Q 2023	2Q 2022	% Var	Abs. Var	YTD 2023	YTD 2022	% Var	Abs. Var
Million units								
Containers	3,793	3,317	14.4%	476	7,376	6,654	10.8%	721
Closures	4,643	4,101	13.2%	542	9,178	8,207	11.8%	972
Thermoforming & Others	411	305	34.7%	106	729	554	31.5%	175
Total volume	8,847	7,723	14.6%	1,124	17,283	15,415	12.1%	1,868
Gross profit	32,772	40,319	-18.7%	(7,546)	63,858	90,784	-29.7%	(26,926)
Consolidated adjusted EBITDA	33,385	39,133	-14.7%	(5,748)	69,931	88,646	-21.1%	(18,715)
Gross margin	14.2%	17.1%	-2.8%		13.8%	18.7%	-4.9%	
Consolidated EBITDA margin	14.5%	16.6%	-2.1%		15.1%	18.2%	-3.2%	

¹ SMI Group considers NG Packaging & Recycling Corporation Holdings S.A (“SMI”) and NG Packaging & Recycling Corporation Holdings II S.A. (“Sinea”) aggregated financial information.

² Containers volume includes preforms and bottles.

³ Non audited figures.

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Consolidated Financial Results

1. Volumes sold

	Sales (million units)							
	2Q 2023	2Q 2022	% Var	Abs. Var	YTD 2023	YTD 2022	% Var	Abs. Var
Containers	3,793	3,317	14.4%	476	7,376	6,654	10.8%	721
Preforms	2,714	2,362	14.9%	353	5,218	4,718	10.6%	500
Bottles	1,079	955	12.9%	124	2,157	1,936	11.4%	221
Closures	4,643	4,101	13.2%	542	9,178	8,207	11.8%	972
Thermoforming & Others	411	305	34.7%	106	729	554	31.5%	175
Total volume	8,847	7,723	14.6%	1,124	17,283	15,415	12.1%	1,868

During the second quarter of 2023, SMI Group saw a substantial surge in its total volume, achieving 8,847 million units. This represents a double-digit growth of +14.6% YoY. This growth can be credited to three primary factors: (i) organic expansion, primarily within our existing customer base and the SMB (small and medium-sized businesses) and export market, (ii) the complete realization of projects that were launched last year, and (iii) the start of new projects across all our business divisions.

The containers business unit witnessed a significant volume increase of +14.4% compared to the second quarter of 2022. This performance was amplified by the successful execution of new contracted projects with our customers. Further, the export market, which represents ~5% of total containers' volume, exhibited a contraction of 20% YoY. This was mainly due to the stabilization of operations among local producers who cater to this demand. This trend is expected to be strongly corrected in the next periods and end-up with a full year volume at similar or above levels YoY.

Moreover, in closures business unit, the volume increased +13.2% YoY, primarily driven by the full-year effect of the new operation in Mexico through long-term contracts with major bottlers and new blue-chip clients across other regions as well. All this, while continuing the development of specialties SKUs and consolidation in the SMB an export market.

Regarding our thermoforming business unit, the volume increased +34.7% vs 2Q22, this was enhanced by the introduction of new products for the food service industry, as well as client consolidation within the dairy and agro industries, further reinforcing the robust potential of this unit.

Finally, the diverse range of offerings in SMI Group's well-rounded portfolio, catering to various end-markets, coupled with the strengthening of the SMB market, instills confidence for further growth in the upcoming future.

2. Gross Profit

Gross profit reached ~US\$32.8 million in 2Q23 which represented a decrease of ~US\$7.4 million compared to same period in 2022 (-18.7% YoY). Gross margins reduced from 17.1% in 2Q 2022 to 14.2% in 2Q23.

Although there was a rise in volume and the achievement of profitable new projects with improved margins, as well as the enhancement of operational efficiencies, the main factor affecting gross profit was:

- Changes in the product mix resulted from the expansion of closures and thermoforming units, which yield lower profit margins, and a return to a pre-pandemic demand pattern characterized by smaller formats with reduced margins within the containers business division.
- Operations in Mexico and Thermoforming, still in the ramp-up phase, have margins to improve once they reach full capacity.
- The new recycling operations are still in their early stages, and at this initial phase, they are primarily focused on the collection stage and setting up operations. Full potential should be reached by the end of the year.

- The comparable period had still exceptional margins due to our capacity to seize the SMB and export market during the containers' crisis, leveraged on our unique value proposition, scale and logistics efficacy.

Further, as part of our business model, gross margins were affected by an increase in resin price (+13% in 2Q 2023 vs 2Q 2022) which, although is fully passed through to our customers, increases our revenue base. However, this does not affect our gross profit in absolute terms.

3. Operating Profit

a. Administrative expenses (US\$ 000):

	Administrative Expenses (US\$ 000)							
	2Q 2023	2Q 2022	% Var	Abs. Var	YTD 2023	YTD 2022	% Var	Abs. Var
Personnel Expenses	3,582	2,860	25.3%	722	6,923	5,892	17.5%	1,032
Third - party services	2,029	2,062	-1.6%	(34)	4,162	3,759	10.7%	403
Travel & business expenses	182	243	-25.0%	(61)	326	353	-7.5%	(26)
Other	1,360	1,175	15.7%	184	2,648	2,369	11.8%	279
Depreciation & Amortization	2,597	2,535	2.4%	62	4,732	6,029	-21.5%	(1,297)
Total	9,750	8,876	9.9%	874	18,792	18,402	2.1%	390

In the second quarter 2023, administrative expenses increased in US\$ ~0.9 million compared to 2Q22 (+9.9% YoY). These expenditures represented 4.2% of the total revenues in 2Q23, vs. 3.8% for the same comparable period in the previous year.

The main increases were in (i) personnel expenses due to the increase in corporate overhead in current and new support areas. This is to better serve the growing operation and achieve high process standards. (ii) one-off expenses in legal and tax services, and management consulting. Further, we continue to implement saving policies and efficiencies in other to keep this spending on track.

b. Selling and distribution expenses (US\$ 000):

	Selling Expenses (US\$ 000)							
	2Q 2023	2Q 2022	% Var	Abs. Var	YTD 2023	YTD 2022	% Var	Abs. Var
Personnel Expenses	2,319	1,698	36.6%	621	4,214	3,546	18.8%	668
Third - party services	5,109	4,128	23.8%	981	9,216	7,655	20.4%	1,561
Travel & business expenses	159	152	4.8%	7	298	266	12.2%	32
Other	683	745	-8.3%	(62)	1,288	1,269	1.5%	19
Depreciation & Amortization	1,270	833	52.4%	437	2,466	1,664	48.2%	803
Total	9,540	7,556	26.3%	1,984	17,483	14,399	21.4%	3,084

Selling and distribution expenses increased in ~US\$ 1.9 million in 2Q23 compared to 2Q22 (+26.3% YoY). This increase is mainly due to (i) logistic and transportation cost overruns due to a rise in export volumes and (ii) surge in third-party services to assist the increment in volume such as third-party warehouses.

We continue to implement various effective efficiency initiatives aimed at sustaining our SG&A costs at favorable levels while enhancing our volume metrics.

4. Financial income and expense

	Net Financial Expenses (US\$ 000)							
	2Q 2023	2Q 2022	% Var	Abs. Var	YTD 2023	YTD 2022	% Var	Abs. Var
Financial Expenses	(12,029)	(6,573)	83.0%	(5,456)	(21,306)	(12,186)	74.8%	(9,120)
Financial Income	427	74	478.1%	353	1,244	366	240.1%	878
Net financial expenses	(11,601)	(6,499)	78.5%	(5,103)	(20,062)	(11,820)	69.7%	(8,242)

Net financial expenses increased in US\$ 5.1 million in 2Q23 compared to 2Q22, mainly related to new short-term debt acquired to upfront transitory working capital needs.

5. EBITDA Reconciliation

Consolidated adjusted EBITDA (US\$ 000's)

	EBITDA reconciliation (US\$ 000)							
	2Q 2023	2Q 2022	% Var	Abs. Var	YTD 2023	YTD 2022	% Var	Abs. Var
Operating profit	15,728	25,483	-38.3%	(9,755)	37,717	60,509	-37.7%	(22,793)
+ Depreciation & Amortization	15,810	12,935	22.2%	2,875	29,508	26,756	10.3%	2,752
Adjustments to EBITDA:								
Advisory services	173	709			461	1,328		
Integration / new operations	234	-			440	-		
Cost overruns by Covid19	-	-			-	-		
Non-core asset loss	-	-			-	-		
Other	1,440	6			1,805	53		
Total Adjustments	1,847	715			2,707	1,381		
Adjusted EBITDA	33,385	39,133	-14.7%	(5,748)	69,931	88,646	-21.1%	(18,715)
Adjusted EBITDA Margin	14.5%	16.6%			15.1%	18.2%		

Consolidated adjusted EBITDA was ~US\$ 33.4mm in 2Q23, compared to ~US\$ 39.1 million in 2Q22 (-14.7% YoY). The main factors that explain these results were:

- (i) The increase in volume is fueled by substantial organic growth resulting from the sector's resilient fundamentals, combined with the full-year impact of projects initiated in 2022.
- (ii) New projects featuring enhanced profitability, such as non-carbonated beverage packaging and specialized caps, are backed by our diverse portfolio tailored to various end-market sectors.
- (iii) Our program focused on operational efficiencies and initiatives to reduce costs continues to create fresh sources of efficiency while also safeguarding those already established.
- (iv) Margins were additionally impacted by (i) shifts in the product mix, with an increase in non-container units that operate at lower margins, and (ii) within the containers business unit, the resurgence in demand followed a pre-pandemic pattern favoring smaller formats, also resulting in reduced margins.
- (v) In the comparable period, we attained impressive profit margins by skillfully seizing the containers' crisis as an opportunity to capture the SMB and export market. This accomplishment was achievable by leveraging our distinctive value proposition, scale, and efficient logistics capabilities.
- (vi) Operations in Mexico and Thermoforming continue to exhibit lower margins as they are currently in the process of ramping up.
- (vii) The new recycling operations still in their early stages are primarily focused on the collection stage and are incurring in high start costs.

6. Cash flows, and balance sheet, as of June 2023

Cash flows (US\$ 000's)

	Cash Flow (US\$ 000)
	For the 6 months ended June 30
	YTD 2023
Operating profit	37,717
Depreciation & Amortization	29,508
Tax income, exchange rate, deferred tax, and others	(8,394)
Changes in WK accounts	(17,867)
Operational cash flow	40,963
Purchase of PP&E and intangibles	(30,652)
Other investments	0
Investment cash flow	(30,652)
Net financial expenses	(14,709)
Net debt change	(956)
Dividend payment	0
Financial Cash Flow	(15,665)
BoP Cash	45,808
Increase / Decrease in Cash	(5,354)
EoP Cash	40,454

Net cash flows provided by operating activities

As of June 2023, net operating cash flow of ~US\$ 40.9 million. This was mainly explained by:

- i) Working Capital requirements:
 - a. Volume sold recovery and growth in all business units
 - b. New contracted volumes in thermoforming business unit
 - c. Increase of payments due to temporary bulk purchase of raw materials made last year during the logistic crisis
 - d. Increase in needs for our recycling platform and start of operations

Net cash flows provided by (used in) investing activities

As of June 2023, Capex was US\$30.7 million. This disbursement was mostly related to (i) increase of our recycling capabilities in Peru and Colombia, and its expansion to Ecuador and CA&C, which is aligned with our strategic business plan (ii) carry-overs from previous years (iii) specific capex to satisfy new contracted projects and expansion ones.

This represents a slight increment by +3% compared to same period in 2022 mainly related to the first item listed. Capex continues to be closely managed, with a focus on prioritizing projects that offer higher returns and shorter payback periods. As a result, substantial profits are anticipated from these targeted investments.

	CAPEX (US\$ 000)
	YTD 2023
Peru	10.8
Other Andean Region	9.7
CA&C	6.3
Mexico	3.2
Others	0.6
Total	30.7

Net cash flows provided by (used in) financing activities

Cash outflows were mainly related to (i) bond coupons and (ii) interests of other obligations. This resulted in a negative financial cash flow of ~US\$ 15.7 million.



Balance Sheet

As of June 2023, SMI Group's total assets were US\$ 1,126 million, and more than December 2022 (US\$ +0.2 million) mainly by:

- (i) Current assets increased to US\$ 460 million (US\$ +148 million) mainly explained by an increase in inventories.

Total liabilities were US\$ 947 million, and less than December 2022 (US\$ -141 million).

Consolidated Statement of financial position

As of June 30th, 2023 and 2022

	Balance sheet (US\$ 000)	
	As of June 30, 2023	As of December 31, 2022
Assets		
Current assets		
Cash and banks	40,454	45,808
Trade accounts receivable, net	188,118	196,470
Inventories, net	149,473	288,918
Prepaid taxes and expenses	81,888	76,900
Other financial assets	-	-
	459,934	608,096
Assets		
Non - current assets		
Deferred income tax assets, net	-	-
Inventories, net	1,278	1,278
Taxes and prepaid expenses	3,176	3,116
Right-of-use asset, net	18,351	16,615
Property, machinery and equipment, net	518,906	489,324
Intangible assets and other	124,566	126,437
	666,276	636,770
Total assets	1,126,210	1,244,866
Liabilities and equity		
Current liabilities		
Trade accounts payable	365,700	509,031
Other accounts payable	26,536	20,731
Provisions	5,872	5,872
Operating lease liability	9,296	5,288
Current portion of long-term debt	1,671	74,666
Other financial liabilities	-	-
	409,075	615,588
Liabilities and equity		
Non - current liability		
Long-term debt	512,427	440,389
Other accounts payable	1,748	1,560
Operating lease liability	9,548	11,225
Deferred income tax liability	14,212	19,377
	537,935	472,550
Total liabilities	947,010	1,088,138
Equity		
Capital issued	159,000	159,000
Capital surplus	1,424	1,424
Other capital reserves	3,682	2,440
Retained earnings	15,094	(6,136)
Non-controlling interest	-	-
Total equity	179,200	156,728
Total liabilities and equity	1,126,210	1,244,866

Consolidated income statements

For the three-month period ended June 30th, 2023 and 2022

	Financial Results (US\$ 000)			
	2Q 2023	2Q 2022	YTD 2023	YTD 2022
Revenue	230,548	236,280	463,347	485,916
Cost of sales	(197,776)	(195,961)	(399,489)	(395,132)
Gross profit	32,772	40,319	63,858	90,784
	14.2%	17.1%	13.8%	18.7%
Administrative expenses	(9,750)	(8,876)	(18,792)	(18,402)
Selling expenses	(9,540)	(7,556)	(17,483)	(14,399)
Other, net	2,246	1,596	10,133	2,526
Operating profit	15,728	25,483	37,717	60,509
Financial income	427	74	1,244	366
Financial expense	(12,029)	(6,573)	(21,306)	(12,186)
Exchange difference, net	5,635	(4,080)	7,702	(1,384)
Profit before income tax	9,761	14,905	25,357	47,305
Income tax expense	(835)	(1,597)	(2,884)	(7,947)
Legal reserve	-	-	-	-
Net profit	8,927	13,308	22,473	39,357