Blackwattle
Investment Partners

5th August 2024

Orora Limited Head Office
109 Burwood Road
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Australia

To Chairman Rob Sindel, Members of the Board, and CEO Brian Lowe

On behalf of Blackwattle Investment Partners Pty Ltd and our clients, we are writing to you as collective shareholders in Orora Limited (ORA).

Blackwattle Investment Partners is an Australian based investment manager built on the foundation of Quality, Alignment, and Trust. Our investment philosophy is to invest in high-quality companies with aligned management teams. We believe ORA fits this description and look to engage with the ORA Board to offer our opinion and assistance in bridging the valuation opportunity that has emerged and to restore the company to a position of strength.

In our previous role we managed significant equity portfolios on behalf of Aware Super. As part of that role, we engaged with many ASX listed companies as substantial shareholders. We observed that companies under external pressure who act early and decisively with the levers at their disposal, were far better off than those who let these issues mature. Whilst company insiders may understand the buffers and levers available, often announcing a capital allocation shift or a portfolio optimisation review affords the company the space and time to execute these changes without incremental undue pressure.

We have two key concerns to address:

1) **The weakening position of the company following significant underperformance of the share price and resulting disconnect to the intrinsic value of the company; and**

2) **Increasing pressure on the balance sheet risk given partial debt-funding of the Saverglass acquisition compounded by cyclical destocking pressure.**

The ORA share price has fallen 40% since the day before the announced acquisition of Saverglass in late August 2023, while the ASX200 has risen by 12%, leading to 52% underperformance in under a year.[1] In our opinion, this is due to the short-term dilution from the Saverglass acquisition coupled with the disappointment from 3 subsequent earnings downgrades due to cyclical pressures.

The recent earnings downgrades and continued softness in the shorter-term outlook for both Saverglass and the US Packaging Distribution business means gearing metrics are likely to remain above the target leverage range of 2.0-2.5x ND/EBITDA for the next 12-24 months.

We believe the current share price is trading significantly below the intrinsic value of the company[2] because of the market's concern that a highly dilutive equity raise is increasingly likely to de-gear the balance sheet.

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[1] Excluding dividends. ORA share price of $3.29 and ASX200 at 7115 points at the close of 25th August 2023. This compares to ORA share price of $1.99 and ASX200 at 7,943 points at the close of 2nd August 2024.

[2] ORA share price of $1.99 at close of 2nd August 2024 implies ~10x consensus FY26 PE, which compares to ORA's historical average PE of ~16x PE (Source: Refinitiv).

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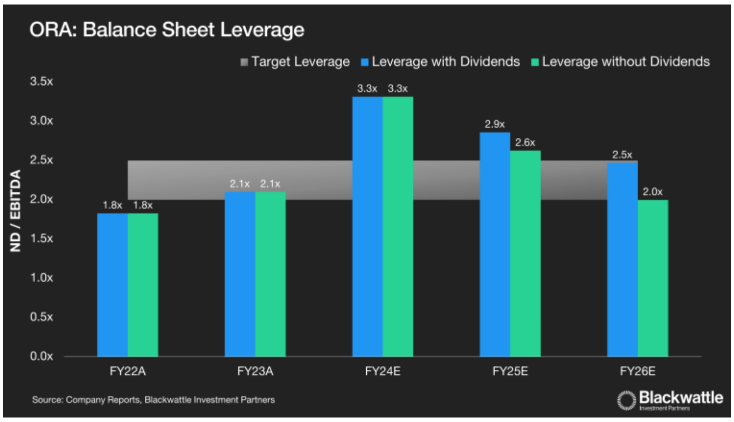
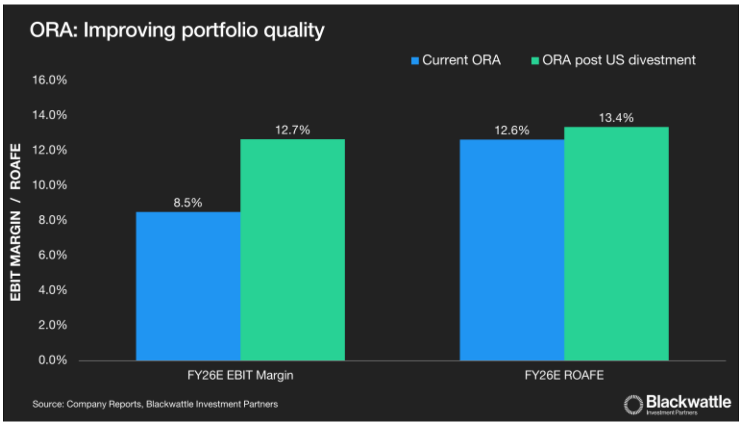
To this end, we strongly encourage the ORA board and management to use the following levers available to reduce balance sheet concerns, improve the overall quality of the business and bridge the valuation discount:

1) **Temporary cut to the dividend to reduce gearing**: ORA's current capital management framework is to target a 60-80% NPAT payout ratio for dividends. Given the short-term balance sheet pressure[3], cutting the dividend for FY25 and FY26 would enable ORA to rapidly de-gear towards their target gearing range. This would at least partially remove the perceived risk of a dilutive equity raise or forced asset sales to repair the balance sheet. We believe ORA investors will support this shift of reducing short-term unfranked capital returns to enhance the long-term value of the business.



2) **Optimise portfolio to higher-quality businesses**: We agree with management that the acquisition of Saverglass has its merits as a quality business. The combination of Saverglass and the Australian beverage packaging business transforms ORA into a global, high-quality, beverage focused manufacturing company. However, this leaves the US Packaging Distribution business as non-core, with a different business model, end-market, and minimal synergies to the group. The US business is the lowest quality and most cyclical part of the group. We believe an announcement to the market that ORA will consider divestment when cyclical pressures alleviate, would demonstrate management's ongoing capital optimisation focus. Divestiture would release substantial capital[4] for higher returning uses and should improve the market's perception of business quality.



3) **Shift capital allocation to regular on-market buybacks over unfranked dividends**: Post balance sheet repair from a temporary cut in dividend, we believe the most efficient method to return capital to shareholders is via on-market buybacks. ORA has no franking credit balance nor has

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[3] Blackwattle forecast ORA's FY24 gearing to be over 3x ND/EBITDA using 8 months of Saverglass EBITDA (since December 2023 financial close).

[4] Blackwattle value the US Packaging Distribution business at A$1.6-1.7b pre-tax, or ~7-8x pre-AASB16 FY24 EBITDA.

returned franking credits since 2020. Given its increasing share of ex-Australian earnings, ORA is unlikely to generate sufficient franking credits to support franked dividends. However, an on-market buyback is highly attractive given tax efficiency and the accretion to earnings per share creates longer-term value. James Hardie PLC (JHX) and Reliance Worldwide Ltd (RWC) are two ASX examples that have both successfully transitioned to prioritising on-market buybacks over unfranked dividends[5].

In conclusion, we urge the Board and management team to reassess capital allocation priorities, which should also promptly address the significant valuation discount, enabling the company to optimally execute its strategy.

Our experiences lead us to firmly believe in the power of companies publicly discussing the levers they have available to manage challenges. We see this as particularly pertinent for ORA at this current juncture. We look forward to engaging with you further to discuss these matters.

Yours sincerely,

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[5] JHX announcement 8th November 2022: "Management announces the replacement of our unfranked ordinary dividend with an on-market share buyback program". RWC announcement 19th February 2024: "Review of distribution policy setting undertaken due to reduced capacity to generate franking credits going forward… the distribution will comprise 50% of a cash dividend… 50% of an on-market share buyback".