

# **MANAGEMENT'S DISCUSSION AND ANALYSIS**

## **First Quarters Ended March 31, 2016 and 2015**

This Management's Discussion and Analysis of the financial condition and results of operations ("MD&A") of CCL Industries Inc. ("CCL" or the "Company") relates to the first quarters ended March 31, 2016 and 2015. The information in this interim MD&A is current to May 5, 2016, and should be read in conjunction with the Company's March 31, 2016, unaudited first quarter consolidated condensed interim financial statements released on May 5, 2016, and the 2015 Annual MD&A document and consolidated financial statements, which form part of the CCL Industries Inc. 2015 Annual Report, dated February 25, 2016.

### **Basis of Presentation**

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and unless otherwise noted, both the financial statements and this interim MD&A are expressed in Canadian dollars as the reporting currency. The major measurement currencies of CCL's operations are the Canadian dollar, U.S. dollar, euro, Argentine peso, Australian dollar, Brazilian real, Chilean peso, Chinese renminbi, Danish krone, Japanese yen, Mexican peso, Polish zloty, Russian rouble, Singaporean dollar, South African rand, Swiss franc, Thai baht, U.K. pound sterling and Vietnamese dong. All per Class B non-voting share ("Class B share") amounts in this document are expressed on an undiluted basis, unless otherwise indicated. CCL's Audit Committee and its Board of Directors have reviewed this interim MD&A to ensure consistency with the approved strategy of the Company and the financial results of the Company.

### **Cautionary Statement Regarding Forward-Looking Statements**

This MD&A contains forward-looking information and forward-looking statements, as defined under applicable securities laws, (hereinafter collectively referred to as "forward-looking statements") that involve a number of risks and uncertainties. Forward-looking statements include all statements that are predictive in nature or depend on future events or conditions. Forward-looking statements are typically identified by the words "believes," "expects," "anticipates," "estimates," "intends," "plans" or similar expressions. Statements regarding the operations, business, financial condition, priorities, ongoing objectives, strategies and outlook of the Company, other than statements of historical fact, are forward-looking statements. Specifically, this MD&A contains forward-looking statements regarding the anticipated growth in sales, income and profitability of the Company's segments; the Company's anticipated improvement in market share; the Company's capital spending levels and planned capital expenditures in 2016; the adequacy of the Company's financial liquidity; earnings per share and EBITDA growth rates; the Company's effective tax rate; the Company's ongoing business strategy; and the Company's expectations regarding general business and economic conditions.

Forward-looking statements are not guarantees of future performance. They involve known and unknown risks and uncertainties relating to future events and conditions including, but not limited to, the uncertainty of the recovery from the global financial crisis and its impact on the world economy and capital markets; the impact of competition; consumer confidence and spending preferences; general economic and geopolitical conditions; currency exchange rates; interest rates and credit availability; technological change; changes in government regulations; risks associated with operating and product hazards; and CCL's ability to attract and retain qualified employees. Do not unduly rely on forward-looking statements as the Company's actual results could differ materially from those anticipated in these forward-looking statements. Forward-looking statements are also based on a number of assumptions, which may prove to be incorrect, including, but not limited to, assumptions about the following: global economic recovery and higher consumer spending; improved customer demand for the Company's products; continued historical growth trends, market growth in specific sectors and entering into new markets; the Company's ability to provide a wide range of products to multinational customers on a global basis; the benefits of the Company's focused strategies and operational approach; the achievement of the Company's plans for improved efficiency and lower costs, including stable aluminum costs; the availability of cash and credit; fluctuations of currency exchange rates; the Company's continued relations with its customers; the Company's ability to realize targeted operational synergies and cash flows from restructuring the Canadian Container operation; the Company's expectation that the reorganization of the Canadian

Container operation will be complete at the end of 2017; the Company's expectation that the Avery Segment's new product innovations, consumer digital e-commerce opportunities and cross selling programs with recent acquisitions will provide incremental growth opportunities; the Company's expectation that its new operations in the Argentina, Philippines, Thailand and Turkey, will not post profitable returns until 2017; the Company's expectations that recent acquisitions will provide future opportunities for margin expansion; the Company's expectation that its new start-up costs in Korea will be eventually lead to profitable returns; the Company's recent acquisitions will continue to meet management expectations and will provide incremental growth opportunities; the Company's continued capital investment in Rheinfelden will result in full production capability and a qualified alternate supply of aluminum slugs in North America; the Company's expectation that the North American in-mould label joint venture will trading in late 2016; solid demand for consumer durables globally will persist; the Company's expectation that there will be more restructuring within CCL Design that will lead to optimal financial returns; the Company's expectation that the Avery Segment will have another tempered back-to-school season for 2016; the Company's expectation that a record quarter at the Container Segment will result in another good year with return's similar to the rest of CCL; the Company's expected order intake levels; and general business and economic conditions. Should one or more risks materialize or should any assumption prove incorrect, then actual results could vary materially from those expressed or implied in the forward-looking statements. Further details on key risks can be found throughout this report and particularly in Section 4: "Risks and Uncertainties" of the 2015 Annual MD&A.

Except as otherwise indicated, forward-looking statements do not take into account the effect that transactions or non-recurring or other special items announced or occurring after the statements are made may have on CCL's business. Such statements do not, unless otherwise specified by the Company, reflect the impact of dispositions, sales of assets, monetizations, mergers, acquisitions, other business combinations or transactions, asset write-downs or other charges announced or occurring after forward-looking statements are made. The financial impact of these transactions and non-recurring and other special items can be complex and depends on the facts particular to each of them and therefore cannot be described in a meaningful way in advance of knowing specific facts.

The forward-looking statements are provided as of the date of this MD&A and the Company does not assume any obligation to update or revise the forward-looking statements to reflect new events or circumstances, except as required by law.

## **1. Overview**

The first quarter of 2016 was the twenty-second consecutive quarter of year-over-year improvement in quarterly adjusted basic earnings per Class B share (a non-IFRS financial measure; refer to definition in Section 14) for CCL. This result was driven by strong quarterly results in all the Company's operating segments. The Label, Avery and Container Segments posted increases in operating income (a non-IFRS financial measure; refer to definition in Section 14) of 27.0%, 33.1% and 21.8% respectively. Accordingly, first quarter adjusted basic earnings per Class B share for the Company was an all-time best of \$2.65 compared to adjusted basic earnings per Class B share of \$1.99 in the 2015 first quarter. Record quarterly basic earnings per Class B share were \$2.57 for the first quarter of 2016 compared to basic earnings per Class B share of \$1.97 in the prior year first quarter.

## **2. Review of Consolidated Financial Results**

The following acquisitions affected the financial comparisons to 2015:

- In February 2015, INT America LLC ("INTA"), a privately owned company based in Michigan, USA, for \$2.9 million. INTA expanded CCL Design North America's product offering in the automotive durable labels sector.

- In February 2015, pc/nametag Inc. and Meetings Direct, LLC (“PCN”), privately owned companies with common shareholders, based in Wisconsin, USA, for \$37.6 million. PCN added to Avery North America’s printable media depth in the meetings and events planning industry.
- In July 2015, Fritz Brunnhoefer GmbH (“FritzB”), a privately owned company based in Nurnburg, Germany, for \$7.6 million. This new business expanded CCL Design’s presence in the German industrial and aerospace durable goods markets.
- In October 2015, the assets of privately owned Sennett Security Products LLC and its wholly owned subsidiary Banknote Corporation of America Inc. (“BCA”) based in North Carolina, USA, for \$45.7 million. This acquisition broadened the Label Segment’s technology base and product offering to include security labels, cards and document components.
- In November 2015, the global operations of private equity owned Worldmark, Ltd. (“Worldmark”) headquartered in East Kilbride, Scotland, for approximately \$252.6 million. Worldmark is a leading supplier of functional labels for the electronics sector.
- In December 2015, Mabel’s Labels Inc. and Mabel’s Labels Retail Inc. (“Mabel’s”), privately owned companies with common shareholders based in Ontario, Canada, for approximately \$12.0 million. Mabel’s expanded the Avery Segment’s printable media platform into web-to-print personalized identification labels for children and families.
- In January 2016, Woelco AG (“Woelco”), a privately owned company in Stuttgart, Germany, with subsidiaries in China and the United States for approximately \$21.4 million. Woelco will integrate with CCL Design and expanding its depth in the industrial and automotive durable goods markets.
- In January 2016, Label Art Ltd. and Label Art Digital Ltd. (collectively “LAL”), privately owned companies with common shareholders, based in Dublin Ireland, for approximately \$13.1 million. LAL expands CCL Label’s Healthcare & Specialty business in Ireland and the U.K.
- In January 2016, CCL invested \$6.0 million in cash to increase its stake to from 50% to 75% in its tube manufacturing joint venture in Bangkok, Thailand, with Taisei Kako Co. Ltd of Japan. As a result of the change in control, 2016 financial results will be consolidated with CCL Label’s Home & Personal Care business, with a portion of the earnings attributable to the non-controlling interest.
- In February 2016, Zephyr Company Limited of Singapore, and its Malaysian subsidiaries in Penang and Johor (collectively “Zephyr”), from multiple private

shareholders for approximately \$39.4 million. Zephyr expands CCL Design's presence within the electronics industry to southeast Asia.

- In March 2016, the shares of privately owned Powerpress Rotulo & Etiquetas Adesivas LTDA ("Powerpress"), in Sao Paulo, Brazil, for approximately \$10.4 million. Powerpress enhances CCL Label's product offering in the Healthcare & Specialty business in South America.

Sales for the first quarter of 2016 were \$866.8 million, an increase of 22.8% compared to \$705.9 million recorded in the first quarter of 2015. The increase in sales can be attributed to organic growth of 4.5%, acquisition-related growth of 11.8% and positive impact from foreign currency translation of 6.5%. The quarter included one extra work day offset by the impact of Easter falling in March 2016 compared to April 2015.

Selling, general and administrative expenses ("SG&A") were \$112.2 million for the quarter ended March 31, 2016, compared to \$94.5 million for the same period in the prior year. The increases in SG&A for the aforementioned comparative periods can be attributed to additional SG&A expenses associated with the eleven above mentioned acquisitions partially offset by a reduction in corporate expenses associated with executive long-term variable compensation expense and director equity-linked compensation expenses compared to the 2015 first quarter.

The Company recorded an expense of \$3.0 million (\$2.8 million after tax) in restructuring and other items in the first quarter of 2016 for severance costs associated with the November 2015 acquisition of Worldmark and various other costs associated with the five acquisitions completed since December 31, 2015. The 2015 first quarter included restructuring and other items of \$0.9 million (\$0.8 million after tax) primarily related to the Bandfix acquisition completed in September 2014.

Operating income ("operating income," a non-IFRS financial measure; refer to definition in Section 14) for the first quarter of 2016 increased 28.0% to \$149.9 million, compared to \$117.1 million for the first quarter of 2015. Operating income increased for all three of the Company's business Segments, Label, Avery and Container, 27.0%, 33.1% and 21.8%, respectively, compared to the first quarter of 2015. Foreign currency translation contributed an improvement of 6.2% to the consolidated operating income.

Earnings before net finance cost, taxes, earnings in equity accounted investments, depreciation and amortization, restructuring and other items ("EBITDA," a non-IFRS financial measure; refer to definition in Section 14) was \$185.9 million for the first quarter of 2016, an increase of 29.9% compared to \$143.1 million for the first quarter of 2015. Foreign currency translation had a positive impact of 6.2% on EBITDA for the first quarter of 2016.

Net finance cost was \$7.9 million for the first quarter of 2016 compared to \$6.3 million for the first quarter of 2015. The increase in net finance cost for the first quarter of 2016 was attributable to higher total debt balances, augmented by the foreign currency translation impact on U.S. dollar interest expense partially offset by an increase in finance income attributable to higher cash balances.

The overall effective income tax rate was 30.6% for the first quarter of 2016 compared to 29.9% for the first quarter of 2015. The increase in the effective tax rate reflects a higher portion of CCL's taxable income being earned in higher tax jurisdictions compared to the first quarter of 2015. The effective tax rate may increase in future periods if a higher portion of the Company's taxable income is earned in higher tax jurisdictions.

Net earnings attributable to the shareholders of the Company for the first quarter of 2016 were \$89.9 million, an increase of 32.0% compared to \$68.1 million for the same period a year ago. This resulted in basic and diluted earnings of \$2.57 and \$2.54 per Class B share, respectively, for the 2016 first quarter compared to basic and diluted earnings of \$1.97 and \$1.93 per Class B share, respectively, for the prior year first quarter. The weighted average number of shares for the 2016 first quarter was 35.0 million basic and 35.5 million diluted shares compared to 34.5 million basic and 35.2 million diluted shares for the comparable period of 2015. The weighted average number of shares that would be issued on the conversion of all the dilutive shares, inclusive of stock options and other equity settled obligations, is 0.5 million shares at March 31, 2016.

Adjusted basic earnings per Class B share (a non-IFRS financial measure – see Section 14) was \$2.65 for the first quarter of 2016 compared to \$1.99 for the same period of 2015.

The following table is presented to provide context to the comparative change in the adjusted basic earnings per share.

<b><u>(in Canadian dollars)</u></b>	<b>First Quarter</b>	
	<b>2016</b>	<b>2015</b>
<b>Adjusted Basic Earnings per Class B Share</b>		
Basic earnings	\$ 2.57	\$ 1.97
Restructuring and other items	0.08	0.02
Adjusted basic earnings <sup>(1)</sup>	\$ 2.65	\$ 1.99

(1) Adjusted Basic Earnings per Class B Share is a non-IFRS financial measure. Refer to definition in Section 14.

The following is selected financial information for the nine most recently completed quarters:

**(In millions of Canadian dollars, except per share amounts)**

	<u>Qtr 1</u>	<u>Qtr 2</u>	<u>Qtr 3</u>	<u>Qtr 4</u>	<u>Total</u>
<b>Sales</b>					
2016	\$ 866.8	\$	\$	\$	\$ 866.8
2015	705.9	721.5	812.9	798.8	3,039.1
2014	609.7	650.4	689.7	635.8	2,585.6
<b>Net earnings</b>					
2016	89.7				89.7
2015	68.1	73.3	81.8	71.9	295.1
2014	52.6	55.3	63.1	45.6	216.6
<b>Net earnings per Class B share</b>					
<b>Basic</b>					
2016	2.57				2.57
2015	1.97	2.12	2.36	2.05	8.50
2014	1.54	1.61	1.83	1.33	6.31
<b>Diluted</b>					
2016	2.54				2.54
2015	1.93	2.09	2.33	2.03	8.38
2014	1.51	1.58	1.79	1.31	6.19
<b>Adjusted basic net earnings per Class B share</b>					
2016	2.65				2.65
2015	1.99	2.12	2.34	2.16	8.61
2014	1.56	1.63	1.83	1.51	6.53

The quarterly financial results above are affected by the seasonality of the business Segments. The first and second quarters of a year are traditionally higher sales periods for the Label and Container Segments as a result of the greater number of work days and various customer activities undertaken during this period versus the third and fourth quarters. For Avery, the third quarter has historically been its strongest, as it benefits from the increased demand related to back-to-school activities in North America.

### **3. Business Segment Review**

#### **Label Segment**

(\$ millions)	<u>First Quarter</u>		
	<u>2016</u>	<u>2015</u>	<u>+/-</u>
Sales	\$ 622.3	\$ 486.1	28.0%
Operating Income <sup>(1)</sup>	\$ 103.9	\$ 81.8	27.0%
Return on Sales <sup>(1)</sup>	16.7%	16.8%	
Capital Spending	\$ 53.9	\$ 48.1	12.1%
Depreciation and Amortization	\$ 38.7	\$ 32.2	20.2%

<sup>(1)</sup> Operating Income and Return on Sales are non-IFRS financial measures. Refer to definitions in Section 14.

Sales for the Label Segment were \$622.3 million for the first quarter of 2016, compared to \$486.1 million for the same quarter last year. The 28.0% increase in sales can be attributed to organic growth of 7.3%, the impact from the INTA, FritzB, BCA, Worldmark, Woelco, LAL, Zephyr and Powerpress acquisitions of 14.4% and the positive effect from foreign currency translation of 6.3%.

**North American** sales were up high-single digit for the first quarter of 2016, excluding currency translation and the acquisitions of INTA, BCA and Worldmark, compared to a soft first quarter of 2015. Home & Personal Care sales and profitability improved substantially on strong organic growth due to improved end markets with higher customer product launches and supplemented by foreign currency translation, compared to the prior year quarter. Sales at CCL Design, excluding the Worldmark acquisition, remained solid but profit margin improved due to mix and productivity gains. Healthcare & Specialty results were steady with gains in sales and profits on stable conditions in Healthcare augmented by a recovery in the Ag-Chem and Specialty markets compared to a soft prior year. Sales and profits improved appreciably in Food & Beverage on market share wins in Wine & Spirits and meaningful operational improvement in the Sleeve business. The acquired BCA and Worldmark businesses delivered results in line with management's seasonal expectations. Overall, profitability and return on sales ("Return on sales," a non-IFRS financial measure; refer to definition in Section 14) increased significantly in North America including the impact of acquisitions and currency translation.

Sales in **Europe** were up low-single digit for the first quarter of 2016, excluding currency translation and acquisitions, compared to a very strong first quarter of 2015. Results were comparatively impacted by the timing of Easter falling in March 2016. Home & Personal Care sales and profits declined in tough industry conditions and end markets for customers, especially in France, plus start-up costs of a new facility in Turkey. Sales in Healthcare & Specialty, excluding foreign currency translation and the LAL acquisition, were down slightly due to a slow European Ag-Chem market, profitability improved significantly due to operating performance and cost controls throughout the business. Results in Food & Beverage, excluding currency translation, improved moderately on an exceptional prior year in Sleeves influenced by a fire at a major competitor's plant and significant new pressure sensitive label beverage applications. A difficult quarter in Wine & Spirits was more than offset by strong results in Closures. The new German film extrusion plant continued to progress moving into solid profitability. Excluding the impact of acquisitions, CCL Design sales increased in strong automotive markets but profitability declined due to operational difficulties with challenging new programs for OEMs. Overall, European operating income, excluding incremental acquisitions, was up slightly compared to the prior year first quarter with a mix driven reduced return on sales ("Return on sales," a non-IFRS financial measure; refer to definition in Section 14). The recently acquired businesses in FritzB, Worldmark and Woelco, met management expectations for the quarter and provide opportunities for margin expansion in future periods.

Sales in **Latin America**, excluding the Worldmark acquisition and currency translation, increased strong double digits for the first quarter of 2016, compared to the first quarter of 2015, despite the timing of Easter in 2016. Sales increased in both Mexico and most notably Brazil in all lines of business in part driven by price increases attempting to

recover the cost inflation impact of currency declines. These pressures muted considerably towards the end of the quarter on the sequential weakening of the U.S. dollar. Start-up operations in Argentina moved into profit for the first quarter of 2016. Operating income increased significantly, despite the negative impact of currency translation and start-up costs for CCL Design in Mexico maintaining a robust return on sales (“Return on sales,” a non-IFRS financial measure; refer to definition in Section 14). Worldmark operations in the region met management expectations for the first quarter of 2016.

**Asia Pacific** sales, excluding acquisitions and currency translation, increased high single digit for the first quarter of 2016, compared to a slow first quarter in 2015. Sales in China increased slightly in all business lines but profitability improved significantly on mix. Thailand sales and profitability expanded substantially, despite start-up losses in the new Home & Personal Care tube operation, aided by rich mix and foreign exchange gains on customer contracts priced in euros. Sales and profitability in Vietnam improved on market share gains. Australian results were mixed with increased sales in Wine & Spirits offset by ongoing poor performance in Healthcare. The new Philippines operation recorded its first meaningful sales quarter and almost reached breakeven, more than offsetting an increase in start-up losses in Korea. The recently acquired Worldmark, Woelco and Zephyr businesses representing CCL Design in Asia met sales and profitability expectations. Operating income increased significantly in absolute terms and as a percentage of sales in the Asia Pacific region.

Operating income for the first quarter of 2016 improved 27.0% to \$103.9 million, compared to \$81.8 million for the first quarter of 2015. Operating income as a percentage of sales was 16.7%, slightly less than the 16.8% recorded for the same period in 2015. This minor decline is entirely attributable to the dilutive mix impact of recent acquisitions.

Sales backlogs for the label business rarely exceed one month of sales, making forecasts one quarter ahead difficult. Management continues to watch the global economic situation closely along with associated volatility in foreign exchange rates.

The Label Segment invested \$53.9 million in capital spending for the first quarter of 2016, compared to \$48.1 million in the same quarter in 2015. The investments for the first quarter are in line with Company’s planned capital expenditures for 2016. The major expenditures for the first quarter related to equipment installations to support the Home & Personal Care and Healthcare businesses in North America, capacity additions for Food & Beverage in Europe and capacity expansion for CCL Design in the United States and Asia. As in the past, investments in the Label Segment are expected to continue in order to increase its capabilities, expand geographically, and replace or upgrade existing plants and equipment. Depreciation and amortization for the Label Segment was \$38.7 million for the first quarter of 2016, compared to \$32.2 million for the same quarter of 2015.

## Avery Segment

(\$ millions)	First Quarter		
	<u>2016</u>	<u>2015</u>	<u>+/-</u>
Sales	\$ 179.6	\$ 160.2	12.1%
Operating Income <sup>(1)</sup>	\$ 35.4	\$ 26.6	33.1%
Return on Sales <sup>(1)</sup>	19.7%	16.6%	
Capital Spending	\$ 8.0	\$ 6.4	25.0%
Depreciation and Amortization	\$ 4.0	\$ 3.3	21.2%

<sup>1)</sup> Operating Income and Return on Sales are non-IFRS financial measures. Refer to definitions in Section 14).

Avery Segment has two primary product groups, Printable Media and Binders, Organization & Presentation and Writing Instruments (“BOPWI”).

Sales for the Avery Segment were \$179.6 million for the first quarter of 2016, compared to \$160.2 million for the same quarter last year. The 12.1% increase in sales can be attributed to the positive 8.3% impact from the PCN and Mabel’s acquisitions and the positive 8.4% effect from foreign currency translation partially offset by a 4.6% organic decline in sales.

Sales in **North America** for the first quarter of 2016, excluding acquisitions and currency translation, were down mid-single digit compared to an unusually strong prior year period that was driven by Printable Media performance on retailer inventory build to support planogram changes. BOPWI sales and profitability improved on new customer wins in the commercial channel. The acquired PCN operation recorded sales, profits and returns above management’s expectations while Mabel’s results for its seasonally slowest period were not material. Canadian profits benefitted from the softer U.S. dollar on imported finished products and materials despite a decline in sales. Operating income, excluding the impact of currency translation and the PCN and Mabel’s acquisitions, increased for the first quarter of 2016 compared to the same period a year ago on cost savings and improved mix. Return on sales for this region remains above the segment average.

**International** sales, principally generated in the Printable Media category, represented 24% of the Avery Segment sales for the quarter. Sales declined low-single digits overall with European sales and profits down further on the timing of Easter in 2016 and difficulties in the UK wholesaler channel. Australian sales benefitted from retailer planogram changes and foreign exchange related price increases. Profitability improved compared to the first quarter of 2015 aided by cost reduction, a sequentially firming currency and new product initiatives. Latin American sales were up but profits were lower on challenges in Argentina.

Operating income for the first quarter of 2016 improved 33.1% to \$35.4 million, compared to \$26.6 million for the first quarter of 2015. Operating income as a

percentage of sales was 19.7%, compared to 16.6% recorded for the same quarter in 2015.

The Avery Segment invested \$8.0 million in capital spending for the first quarter of 2016 compared to \$6.4 million in the same period a year ago. The majority of the expenditures were for Printable Media capacity additions in North America to support the planned consolidation of label manufacturing in Tijuana and raw land in Mexico for the previously announced new binder manufacturing facility. Depreciation and amortization for the Avery Segment was \$4.0 million for the first quarter of 2016, compared to \$3.3 million for the first quarter of 2015.

### **Container Segment**

(\$ millions)	First Quarter		
	<u>2016</u>	<u>2015</u>	<u>+/-</u>
Sales	\$ 64.9	\$ 59.6	8.9%
Operating Income <sup>(1)</sup>	\$ 10.6	\$ 8.7	21.8%
Return on Sales <sup>(1)</sup>	16.3%	14.6%	
Capital Spending	\$ 8.6	\$ 2.2	290.9%
Depreciation and Amortization	\$ 3.8	\$ 3.7	2.7%

<sup>(1)</sup> Operating Income and Return on Sales are non-IFRS financial measures. Refer to definitions in Section 14.

Sales for the Container Segment in the 2016 first quarter were \$64.9 million compared to \$59.6 million in the 2015 first quarter. The 8.9% increase in sales can be attributed to organic growth of 5.7% and a 3.2% positive impact of currency translation. North American volume was up significantly but lower aluminum cost pass-through pricing held back organic sales growth. Profitability increased on lower operating expenses. Mexican volume was also up with rich mix and excellent operating performance driving strong profit improvement. Foreign exchange transactions were a modest headwind overall, largely driven by the sequentially lower U.S. dollar. The Segment also benefitted from lower aluminum costs and a reduced mid-west premium year-over-year on sales to customers without pass-through pricing agreements. As a result, the Container Segment posted a 21.8% improvement in operating income to a quarterly record \$10.6 million compared to \$8.7 million for the 2015 first quarter.

At current exchange rates and volume loading, the planned closure of the Canadian operation and redistribution of its manufacturing equipment to existing operations in the U.S. and Mexico has been postponed until the second half of 2017. Consequently, there were no equipment relocation expenses incurred in the first three months of 2016.

The Container Segment invested \$8.6 million for the first quarter of 2016, compared to \$2.2 million for the three-month period ended March 31, 2015. The majority of the expenditures for the first quarter of 2016 were for the installation of a new manufacturing line in the U.S. operation to facilitate the efficient redistribution of the Canadian plant's equipment. Depreciation and amortization for the Container Segment

was \$3.8 million for the first quarter of 2016, compared to \$3.7 million for the comparable period of 2015.

The Container Segment continues to hedge some of its anticipated future aluminum purchases through futures contracts and has hedged 12.6% and 4.8% of its expected 2016 and 2017 requirements, respectively. All of these hedges are specifically tied to customer contracts. Existing hedges are priced in the US\$1,500 to US\$1,800 range per metric ton. The Company is encouraging customers to adopt 90-day pass-through pricing for changes in aluminum cost and is only adopting long-term hedges to stabilize input prices with large blue-chip multinationals willing to accept responsibility for the hedge.

Prices for aluminum in the first quarter of 2016 ranged from US\$1,400 to US\$1,620 per metric ton compared to US\$1,700 to US\$1,900 in the first quarter of 2015. The mid-West premiums paid over these prices returned to historic norms after a speculative rise in 2014 and the early months of 2015.

## **Joint Ventures**

(\$ millions)	First Quarter		
	<u>2016</u>	<u>2015</u>	<u>+/-</u>
Sales (at 100%)			
Label joint ventures	\$ 27.4	\$ 23.3	17.6%
Rheinfelden*	1.9	-	n.m
*primarily sales to CCL	\$ 29.3	\$ 23.3	25.8%
Earnings (losses) in equity accounted investments			
Label joint ventures	\$ 1.2	\$ 0.7	71.4%
Rheinfelden	(0.4)	(0.2)	100.0%
	\$ 0.8	\$ 0.5	60.0%

The following investments affected the financial comparisons to 2015:

- In July 2015, the Company signed a binding agreement with Korsini-SAF to create a North American "in-mould" label joint venture. The partners will invest approximately \$20.0 million between them, in a combination of debt and equity, each owning 50% of the new company.
- In January 2016, CCL invested \$6.0 million in cash to increase its stake from 50% to 75% in its tube manufacturing joint venture in Bangkok, Thailand, with Taisei Kako Co. Ltd of Japan. As a result of the change in control, 2016 financial results will no longer be included in equity investments but be consolidated with CCL Label's Home & Personal Care business, with a portion of the earnings attributable to non-controlling interest.

Results from the joint ventures in CCL-Kontur, Russia; Pacman-CCL, Middle East; Acrus-CCL, Chile; Rheinfelden and Korsini-CCL in the United States, are not proportionately consolidated into a Segment but instead are accounted for as equity investments. CCL's share of the joint ventures' net earnings is disclosed in "Earnings in Equity Accounted Investments" in the consolidated condensed interim income statements. CCL-Kontur posted robust sales growth but profitability dipped as new production capacity came on-line during the first quarter of 2016. Sales and profits at Pacman-CCL improved significantly and contributed meaningfully to overall earnings for the 2016 first quarter. For the first quarter of 2016, Acrus-CCL posted solid sales and profitability improvement. Rheinfelden continues to incur expected start-up losses, however with its output recently approved, will commence an additional tranche of capital investment to bring the facility to full production capacity for 2017. Korsini-CCL completed their initial capital investment in January 2016 and site development commenced in earnest. Earnings in equity accounted investments amounted to \$0.8 million for the 2016 first quarter compared to \$0.5 million for the 2015 first quarter as notable profitability improvements offset start-up losses.

#### **4. Currency Transaction Hedging and Currency Translation**

Approximately 95% of sales made in the first quarter of 2016 to end-use customers were denominated in foreign currencies leaving the Company exposed to potentially significant translation variances when reporting results publicly in Canadian dollars. The Company does not hedge or manage such translation movements but does actively manage transaction exposures. Where possible, the Company contracts its business in local currencies with both customers and suppliers of raw materials.

The results of the first quarter of 2016 were positively impacted by the depreciation of the Canadian dollar against the U.S. dollar, euro, British pound, and Chinese renminbi, 10.6%, 8.5%, 4.6% and 5.5%, respectively, compared to the rates in the same period in 2015. This positive impact was partially offset by a strengthening of the Canadian dollar relative to the Mexican peso and Brazilian real, 8.2% and 18.9%, respectively, when comparing the rates in the first quarters of 2016 and 2015. For the first quarter of 2016, currency translation had a \$0.13 positive impact on earnings per Class B share compared to last year's first quarter.

## **5. Liquidity and Capital Resources**

The Company's capital structure is as follows:

**(\$ Millions)**

	<b>March 31, 2016</b>	<b>December 31, 2015</b>	<b>March 31, 2015</b>
Current debt	\$ 18.7	\$ 167.1	\$ 203.6
Long-term debt	1,011.9	838.4	537.9
Total debt	1,030.6	1,005.5	741.5
Cash and cash equivalents	(320.1)	(405.7)	(206.0)
Net debt <sup>(1)</sup>	\$ 710.5	\$ 599.8	\$ 535.5
EBITDA <sup>(1)(2)</sup>	\$ 651.2	\$ 608.4	\$ 506.9
Net debt to EBITDA <sup>(1)</sup>	1.09	0.99	1.06

<sup>(1)</sup> Net debt, EBITDA and net debt to EBITDA are non-IFRS financial measures. Refer to definitions in Section 14.

<sup>(2)</sup> EBITDA is calculated on a trailing twelve month basis. Refer to definitions in Section 14.

In December 2015, the Company signed an amended five-year US\$1.2 billion revolving credit facility with a syndicate of banks. Outstanding debt on the previous revolving and non-revolving syndicated credit facilities were rolled into this amended facility. This amended facility incurs interest at the applicable domestic rate plus an interest rate margin linked to the Company's net debt to EBITDA.

The Company's debt structure at March 31, 2016 was primarily comprised of two private debt placements completed in 1998 and 2008 for a total of US\$129 million (C\$167.5 million) and outstanding debt totaling \$832.6 under the syndicated revolving credit facility. The Company's debt structure at March 31, 2015, was comprised of three private debt placements completed in 1998, 2006 and 2008 for a total of US\$239.0 million (C\$302.7 million) and outstanding debt under the bank syndicated credit facilities of \$384.1 million.

During the first quarter of 2016, the Company made a drawdown of US\$110.0 million (C\$146 million) on its syndicated revolving credit facility to fund a US\$110 million repayment of private placement debt on March 7, 2016. Consequently, the current portion of long-term debt decreased compared to December 31, 2015, and March 31, 2015. Further drawdowns of \$85.6 million on the revolving credit facility in the first quarter were primarily made to fund the business acquisitions completed during the quarter.

Net debt (a non-IFRS financial measure; refer to definition in Section 14) was \$710.5 million at March 31, 2016, \$110.7 million higher than the net debt of \$599.8 million at December 31, 2015. The increase in net debt is due to the increased borrowings to fund the acquisitions during the first quarter of 2016 and a reduction in cash-on-hand due to an increase in working capital and capital expenditures, partially offset by the impact of the strengthening of the Canadian dollar on period end exchange rates on the Company's primarily U.S. dollar-denominated debt. Net debt as at March 31, 2016, is

\$175.0 million higher than the net debt of \$535.5 million at March 31, 2015, due to increased borrowings to fund acquisitions partially offset by free cashflow from operations (a non-IFRS financial measure; refer to definition in Section 14).

Net debt to EBITDA (a non-IFRS financial measure; refer to definition in Section 14) at March 31, 2016, was 1.09 times, compared to 0.99 times at December 31, 2015, reflecting the increase in net debt but partially offset by record profitability over the past twelve months.

Including \$3.6 million of outstanding letters of credit, the Company had approximately US\$562.9 million of available capacity within its revolving credit facility as at March 31, 2016.

The Company's overall average finance rate was 2.5% as at March 31, 2016, compared to 3.5% as at March 31, 2015. The decrease in the average finance rate was primarily caused by the Company's higher proportion of debt in its lower cost variable rate revolving syndicated credit facility, subsequent to the repayment in aforementioned private placement debt, compared to the outstanding debt at March 31, 2015.

The Company believes that it has sufficient cash on hand, unused credit lines and the ability to generate cash flow from operations to fund its expected financial obligations for the next few years.

## **6. Cash Flow**

<b>Summary of Cash Flows</b>	<b>First Quarter</b>	
	<b>2016</b>	<b>2015</b>
Cash provided by operating activities	\$ 14.9	\$ 47.3
Cash provided by financing activities	67.6	23.4
Cash used for investing activities	(151.0)	(94.9)
Translation adjustments on cash and cash equivalents	(17.1)	8.2
Decrease in cash and cash equivalents	\$ (85.6)	\$ (16.0)
Cash and cash equivalents – end of period	\$ 320.1	\$ 206.0
Free cash flow from operations <sup>(1)</sup>	\$ (50.0)	\$ (8.8)

<sup>(1)</sup> Free Cash Flow from Operations is non-IFRS financial measure. Refer to definition in Section 14.

During the first quarters of 2016 and 2015, the Company generated cash from operating activities of \$14.9 million and \$47.3 million, respectively. Free cash flow from operations (a non-IFRS financial measure; refer to definition in Section 14) was an outflow \$50.0 million in the 2016 first quarter compared to an outflow \$8.8 million in the prior year first quarter. The change in cash flow from operating activities and free cash flow from operations was primarily due to the increase in net earnings offset by the change in non-cash working capital items for the comparative quarters.

Capital spending in the first quarter of 2016 amounted to \$70.5 million compared to \$56.7 million in the 2015 first quarter. Depreciation and amortization for the first quarters

of 2016 and 2015 were \$46.8 million and \$39.4 million, respectively. Plans for capital spending in 2016 are expected to be approximately \$195 million, slightly ahead of annual depreciation expense. The Company is continuing to seek investment opportunities to expand its business geographically, add capacity in its facilities and improve its competitiveness.

Dividends in the first quarters of 2016 and 2015 were \$17.5 million and \$13.0 million, respectively. The total number of shares issued and outstanding as at March 31, 2016 and 2015, were 35.1 million and 34.8 million, respectively. Since the Company's current cash flow and financial position are strong and its outlook for the remainder of 2016 continues to be positive, the Board of Directors has approved a continuation of the dividend paid in March 2016 of \$0.4875 per Class A share and \$0.50 per Class B share to shareholders of record as of June 16, 2016, and payable June 30, 2016. The annualized dividend rate is \$1.95 per Class A share and \$2.00 per Class B share.

## **7. Interest rate and Foreign Exchange Management**

The Company has an interest rate swap agreement ("IRSA") to convert US\$80 million notional debt from floating interest rates to a fixed interest rate since all of the underlying debt is floating rate debt within the syndicated bank credit facility. The effect of the IRSA increased finance cost nominally in the first quarters of 2016 and 2015.

As at March 31, 2016 the Company had US\$588.6 million, EUR 71.2 million and GBP \$70.0 million drawn under the private placement and syndicated bank credit facility, which are hedging a portion of its US\$-based, euro-based and GBP-based investments and cash flows.

Since the Company has developed into a global business with a significant asset base in the United States and Europe, the majority of the Company's debt is drawn in United States dollars and euros.

## **8. Accounting Policies**

### **A) Critical Accounting Estimates**

The preparation of the Company's financial statements in accordance with IFRS requires management to make estimates and assumptions that impact the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. The Company evaluates these estimates and assumptions on a regular basis, based upon historical experience and other relevant factors. Actual results could differ materially from these estimates and assumptions. The critical accounting policies are impacted by judgments, assumptions and estimates used in the preparation of the consolidated condensed interim financial statements. The material impact on reported results and the potential impact and any associated risk related to these estimates are discussed throughout this MD&A and in the notes to the consolidated condensed interim financial statements.

The 2015 annual audited consolidated financial statements and notes thereto, as well as the 2015 annual MD&A, have identified the accounting policies and estimates that

are critical to the understanding of CCL's business operations and results of operations. For the three months ended March 31, 2016, there are no changes to the critical accounting policies and estimates from those described in the 2015 annual MD&A.

## **B) Inter-Company and Related Party Transactions**

The Company has entered into a number of agreements with its subsidiaries that govern the management and commercial and cost-sharing arrangements with and among the subsidiaries. A summary of the Company's related party transactions are set out in note 26 of the annual consolidated financial statements for the year ended December 31, 2015.

## **9. Commitments and Contingencies**

The Company has no material "off-balance sheet" financing obligations, except for long-term operating lease agreements and loan guarantees. The nature of these commitments is described in note 25 and note 26 of the annual consolidated financial statements for the year ended December 31, 2015. There are no defined benefit plans funded with CCL stock. There have been no material changes during the first three months of 2016.

## **10. Controls and Procedures**

There were no material changes in internal control over financial reporting in the three-month period ended March 31, 2016.

## **11. Risks and Strategies**

The 2015 MD&A in the annual report detailed risks to the Company's business and the strategies that were planned for 2016 and beyond. There have been no material changes to those risks and strategies during the first three months of 2016.

## **12. Outlook**

The first quarter of 2016 was another record, generating adjusted basic earnings per Class B share of \$2.65, topping the previous record by 13.2% set in the third quarter of 2015. All three business Segments posted significant increases in operating income driven by solid organic growth at the Container and Label Segments, further strengthened by the business acquisitions since January 1, 2015, as well as continued margin expansion at the Avery Segment.

The Label Segment continues to execute the Company's global acquisition initiative, enhancing CCL Design's product capabilities with Zephyr and Woelco while expanding the Healthcare operations geographic presence with LAL and Powerpress. Consumer markets in developed economies improved in the United States and parts of Europe while Emerging Markets remain challenged by the macroeconomic environment. Although growth remains at a premium to the rest of the world, rates of improvement

have moderated, a trend that is likely permanent. Solid demand for consumer durables continues globally.

CCL Design commenced construction of its new plant to service major global automotive OEM and Tier 1 customers in Mexico. Initial restructuring costs were recorded for the Worldmark acquisition however more restructuring expense should be expected as CCL Design solidifies its acquired global operating footprint and optimizes financial returns. Expansion initiatives, such as the new Specialty plant in Korea are in the construction phase, and while new Home & Personal Care operations in the Philippines, Argentina, Turkey and Thailand are now trading, overall profitability is not expected until 2017.

At the Avery Segment another tempered back-to-school season for 2016 is expected on share loss of low margin, mass market, back-to-school binders as Avery focuses on new product innovations, consumer digital e-commerce opportunities and cross selling programs with the recent acquisitions to provide incremental potential for growth. Operating focus for the binder and label product lines surrounds the October 2015 announced consolidation of label production in Tijuana, Mexico, and the relocation plan for North American binder manufacturing from Meridian, Mississippi, to a new facility to be constructed in Guanajuato, Mexico, and subsequent relocation of the U.S. distribution centre to Dallas, Texas. These supply chain changes will be staggered, completing after the “back-to-school” season concludes in 2017.

The Container Segment opened 2016 with a record quarter setting the stage for another good year with returns now similar to the rest of the CCL consumer packaging businesses. Additional capacity is being commissioned in the U.S. operation, and a facility expansion is underway in Mexico to allow the eventual redistribution of manufacturing equipment from Canada to the U.S. and Mexican operations; this restructuring is unlikely to complete before mid-2017. Another tranche of capital investments for Rheinfelden in 2016 will enable this new operation to realize its full production capability, move into profit and ensure a sustainable second source of aluminum slugs for the North American market.

Early into the second quarter, order intake remains solid across the board. Unused credit lines stand at US\$562.9 million and with additional cash-on-hand, the Company has the capacity to execute its global growth strategy or the flexibility to reduce its bank leverage. The Company remains focused on vigilantly managing working capital and prioritizing capital to higher-growth organic opportunities or unique acquisitions that are expected to enhance shareholder value. The Company’s capital spending for the year is expected to be approximately \$195 million, slightly above annual depreciation expense. Current Canadian dollar exchange rates would significantly diminish the translation benefit on reported results in the second quarter and revert to a headwind for the second half of the year if prolonged.

### **13. Checkpoint Systems Inc. Acquisition Update**

On March 2, 2016, CCL announced it had entered into a definitive merger agreement whereby CCL will acquire Checkpoint Systems, Inc. (NYSE:CKP) (“Checkpoint”) for US\$10.15 per share in an all-cash transaction valued at approximately \$556 million, including net cash. The boards of directors of both companies unanimously approved the transaction. Subsequently the proposed merger cleared filing reviews with the Securities and Exchange Commission and received all anti-trust regulatory approvals. Checkpoint filed their definitive proxy statement, setting the shareholder vote for May 11, 2016; subject to shareholder approval, closing has been scheduled for May 13, 2016.

### **14. Key Performance Indicators and Non-IFRS Financial Measures**

CCL measures the success of the business using a number of key performance indicators, many of which are in accordance with IFRS as described throughout this report. The following performance indicators are not measurements in accordance with IFRS and should not be considered as an alternative to or replacement of net earnings or any other measure of performance under IFRS. These non-IFRS measures do not have any standardized meaning and may not be comparable to similar measures presented by other issuers. In fact, these additional measures are used to provide added insight into CCL’s results and are concepts often seen in external analysts’ research reports, financial covenants in banking agreements and note agreements, purchase and sales contracts on acquisitions and divestitures of the business, and in discussions and reports to and from the Company’s shareholders and the investment community. These non-IFRS measures will be found throughout this report and are referenced alphabetically in the definition section below.

Adjusted Basic Earnings per Class B Share – An important non-IFRS measure to assist in understanding the ongoing earnings performance of the Company excluding items of a one-time or non-recurring nature. It is not considered a substitute for basic net earnings per Class B share, but it does provide additional insight into the ongoing financial results of the Company. This non-IFRS measure is defined as basic net earnings per Class B share excluding gains on business dispositions, goodwill impairment loss, restructuring and other items and tax adjustments.

EBITDA - A critical financial measure used extensively in the packaging industry and other industries to assist in understanding and measuring operating results. It is also considered as a proxy for cash flow and a facilitator for business valuations. This non-IFRS measure is defined as earnings before net finance cost, taxes, depreciation and amortization, goodwill impairment loss, earnings in equity accounted investments, and restructuring and other items. The Company believes that EBITDA is an important measure as it allows the assessment of CCL’s ongoing business without the impact of net finance cost, depreciation and amortization and income tax expenses, as well as non-operating factors and one-time items. As a proxy for cash flow, it is intended to indicate the Company’s ability to incur or service debt and to invest in property, plant and equipment, and it allows comparison of CCL’s business to that of its peers and competitors who may have different capital or organizational structures. EBITDA is a measure tracked by financial analysts and investors to evaluate financial performance

and is a key metric in business valuations. EBITDA is considered an important measure by lenders to the Company and is included in the financial covenants for CCL's bank lines of credit.

The following table reconciles EBITDA measures to IFRS financial measures reported in the consolidated income statements for the periods ended as indicated.

(in millions of Canadian dollars)

	<b>First Quarter</b>	
	<b>2016</b>	<b>2015</b>
<b>EBITDA</b> (earnings before net finance cost, taxes, depreciation and amortization, goodwill impairment loss, earnings in equity accounted investments, and restructuring and other items)		
Net earnings	\$ 89.7	\$ 68.1
Corporate expense	10.8	13.4
Earnings in equity accounted investments	(0.8)	(0.5)
Finance cost, net	7.9	6.3
Restructuring and other items – net loss	3.0	0.9
Income taxes	39.3	28.9
Operating income (a non-IFRS measure)	\$ 149.9	\$ 117.1
Less: Corporate expense	(10.8)	(13.4)
Add: Depreciation and amortization	46.8	39.4
<b>EBITDA (a non-IFRS measure)</b>	<b>\$ 185.9</b>	<b>\$ 143.1</b>
	2016	2015
EBITDA for 12 months ended December 31, 2015 and 2014, respectively	\$ 608.4	\$ 481.6
less: EBITDA for three months ended March 31, 2015 and 2014, respectively	(143.1)	(117.8)
add: EBITDA for three months ended March 31, 2016 and 2015 respectively	185.9	143.1
<b>EBITDA for 12 months ended March 31</b>	<b>\$ 651.2</b>	<b>\$ 506.9</b>

Free Cash Flow from Operations – A measure indicating the relative amount of cash generated by the Company during the period and available to fund dividends, debt repayments and acquisitions. It is calculated as cash flow from operations less capital expenditures, net of proceeds from the sale of property, plant and equipment.

The following table reconciles the free cash flow from operations measure to IFRS measures reported in the consolidated statements of cash flows for the periods ended as indicated.

(in millions of Canadian dollars)

Free Cash Flow from Operations	First Quarter	
	2016	2015
Cash provided by operating activities	\$ 14.9	\$ 47.3
Less: Additions to property, plant and equipment	(70.5)	(56.7)
Add: Proceeds on disposal of property, plant and equipment	5.6	0.6
Free Cash Flow from Operations	\$ (50.0)	\$ (8.8)

Net Debt – A measure indicating the financial indebtedness of the Company assuming that all cash on hand is used to repay a portion of the outstanding debt. It is defined as current debt, which includes bank advances, plus long-term debt, less cash and cash equivalents.

Operating Income – A measure indicating the profitability of the Company's business units defined as income before corporate expenses, net finance cost, goodwill impairment loss, earnings in equity-accounted investments, restructuring and other items and tax.

See EBITDA definition above for a reconciliation of Operating Income measures to IFRS financial measures reported in the consolidated income statements for the periods ended as indicated.

Restructuring and Other Items – A measure of significant non-recurring items that are included in net earnings. The impact of restructuring and other items on a per share basis is measured by dividing the after-tax effect of the restructuring and other items by the average number of shares outstanding in the relevant period. Management will continue to disclose the impact of these items on the Company's results because the timing and extent of such items do not reflect or relate to the Company's ongoing operating performance. Management evaluates the operating income of its segments before the effect of these items.

Return on Sales - A measure indicating relative profitability of sales to customers. It is defined as Operating Income (see definition above) divided by sales, expressed as a percentage.

The following table reconciles the Return on Sales measure to IFRS financial measures reported in the consolidated income statements in the industry segment information as per note 4 of the Company's consolidated condensed interim financial statements for the periods ended as indicated.

(in millions of Canadian dollars)

Industry Segments	Sales First Quarter		Operating Income First Quarter		Return on Sales First Quarter	
	2016	2015	2016	2015	2016	2015
Label	\$ 622.3	\$ 486.1	\$ 103.9	\$ 81.8	16.7%	16.8%
Avery	179.6	160.2	35.4	26.6	19.7%	16.6%
Container	64.9	59.6	10.6	8.7	16.3%	14.6%
Total Operations	\$ 866.8	\$ 705.9	\$ 149.9	\$ 117.1	17.3%	16.6%

### Supplemental Financial Information

#### Sales Change Analysis Revenue Growth Rates (%)

Three Months Ended March 31, 2016				
	Organic Growth	Acquisition Growth	FX Translation	Total
Label	7.3%	14.4%	6.3%	28.0%
Avery	(4.6%)	8.3%	8.4%	12.1%
Container	5.7%	-	3.2%	8.9%
CCL	4.5%	11.8%	6.5%	22.8%