

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Third Quarters Ended September 30, 2019 and 2018

This Management's Discussion and Analysis of the financial condition and results of operations ("MD&A") of CCL Industries Inc. ("the Company") relates to the third quarters ended September 30, 2019 and 2018. The information in this interim MD&A is current to November 12, 2019, and should be read in conjunction with the Company's November 12, 2019, unaudited third quarter consolidated condensed interim financial statements ("interim financial statements") released on November 12, 2019, and the 2018 Annual MD&A and consolidated financial statements ("annual financial statements"), which form part of the CCL Industries Inc.'s 2018 Annual Report, dated February 21, 2019.

### Basis of Presentation

The interim and annual financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting and International Financial Reporting Standards ("IFRS"), respectively, and unless otherwise noted, both the interim and annual financial statements and this interim MD&A are expressed in Canadian dollars as the presentation currency. The primary measurement currencies of the Company's operations are the Canadian dollar, U.S. dollar, euro, Argentine peso, Australian dollar, Bangladeshi taka, Brazilian real, Chilean peso, Chinese renminbi, Danish krone, Hungarian forint, Indian rupee, Japanese yen, Malaysian ringgit, Mexican peso, Philippine peso, Polish zloty, Russian ruble, Singaporean dollar, South African rand, South Korean won, Swiss franc, Thai baht, Turkish lira, 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. The Company's Audit Committee and its Board of Directors have reviewed this interim MD&A to ensure consistency with the approved strategy 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 2019; 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; the Company's planned restructuring expenditures; the Company's expectations regarding general business and economic conditions; the Company's outlook that cash flows in 2019 will be sufficient to fund its expected quarterly dividends; the Company's expectation that available credit capacity will be sufficient for future expansion initiatives; the Company's expectation that the Rheinfelden joint venture will start up operations in the first quarter of 2020 and will be profitable in 2020; the Company's expectation that Innovia Mexican operations will successfully fill incremental capacity on its new manufacturing line and successfully decommission older film lines in future periods; the Company's expectation that the CCL Segment will have a tough fourth quarter for 2019; the Company's expectation that the Avery direct-to-consumer businesses will maintain third quarter momentum into the fourth quarter of 2019; the Company's expectation that the Avery Segment will successfully restructure and charges will not exceed \$3.0 million; the Company's expectation that the Checkpoint \$6.0 million restructuring initiatives will drive future profitability improvement of \$6.0 million annually; the Company's expectation that the Checkpoint Segment will improve fourth quarter of 2019 results compared to fourth quarter 2018; and the Company's expectation that the Innovia Segment will continue to benefit from pricing, productivity initiatives, mix and stable resin costs for the fourth quarter of 2019.

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 instability of 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 changes; changes in government regulations; risks associated with operating and product hazards; and the Company'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: 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 and resin costs; the availability of cash and credit; fluctuations of currency exchange rates and the Company's continued relations with its customers. Should one or more risks come to fruition 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 2018 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 the Company'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.

Effective January 1, 2019, the Company adopted the new accounting standard, IFRS 16, Leases ("IFRS 16"), that is discussed in "Critical Accounting Policies and Estimates" in this MD&A. The adoption of IFRS 16 impacted certain accounts within the consolidated condensed interim statement of financial position and consolidated condensed interim income statement with negligible impact to earnings. Due to the selected transition method, prior year comparatives have not been restated.

## **1. Overview**

Third quarter 2019 sales for the Company were \$1.4 billion, with a consolidated organic growth rate of 1.7%. The CCL, Avery and Checkpoint segments posted organic increases of 2.1%, 3.5% and 8.4%, respectively, driven by significant improvement at CCL Secure and CCL Design electronics within the CCL Segment, a strong back-to-school season in North America for Avery as well as significant activity for Checkpoint's MAS operations. Results for Innovia were largely in-line with the prior year period after eliminating the impact of a \$4.3 million non-cash acquisition accounting adjustment to fair value the July 2, 2018 acquired inventory of Treofan impacting cost of goods sold, thereby reducing operating income for that quarter. The Company posted third quarter basic earnings per Class B share of \$0.71, an increase of 12.7% compared to basic earnings per Class B share of \$0.63 for the 2018 third quarter. Adjusted basic earnings per Class B share (a non-IFRS financial measure; refer to definition in Section 13 of this MD&A) for the third quarters of 2019 and 2018 were \$0.72 and \$0.66, respectively.

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

The following acquisitions affected the financial comparisons to 2018 including those announced through to the end of the third quarter of 2019:

- In June 2019, the Company acquired Say it Personally Limited (“STS”), a privately owned company based near East Grinstead in the UK for approximately \$0.4 million, net of cash acquired. STS is a manufacturer of durable, personalized garment tags for the UK market and expands Avery’s direct-to-consumer online product offerings.
- In May 2019, the Company acquired the shares of Colle a Moi Inc. (“CAM”), a privately owned company based in Quebec City, Canada, for approximately \$3.1 million, net of cash acquired. CAM adds to Avery’s direct-to-consumer online digital print capabilities for personalized “kids’ labels.”
- In April 2019, the Company acquired the shares of Hinsitsu Screen (Vietnam) Company Limited (“Hinsitsu”), based in Hanoi, Vietnam, for approximately \$12.9 million, net of cash acquired. Hinsitsu is a leading supplier of durable and tamper evident labels and graphic overlays for the electronics industry in the ASEAN region and was added to CCL Design within the CCL Segment.
- In January 2019, the Company acquired Olympic Holding B.V. and its related subsidiaries (“Olympic”), a privately owned company based in Venray, Netherlands, for approximately \$13.6 million, net of cash acquired. Olympic is a start-up technology company with a proprietary, patented process to produce high bond, acrylic foam tapes without the use of solvents for applications in the automotive, electronics and construction industries. Olympic was added to the CCL Segment.
- In January 2019, the Company acquired Easy2Name Limited (“E2N”), a privately owned company based near Newbury, U.K., for approximately \$2.5 million, net of cash acquired. E2N expands Avery’s direct-to-consumer online digital print offering of durable, personalized “kids’ labels” to the U.K. market.
- In December 2018, the Company acquired the assets of Unilogo, based near Warsaw, Poland, for approximately \$10.7 million. Unilogo is a supplier of digitally printed, pressure sensitive and sleeve labels for consumer products customers and was added to the CCL Segment.
- In July 2018, the Company acquired Treofan America Inc. and Trespaphan Mexico Holding GmbH (“Treofan”) from their ultimate parent, M&C S.p.A., an Italian public company listed on the Milan stock exchange. Treofan, based in Zacapu, Mexico, is a leading producer of biaxially oriented polypropylene (“BOPP”) film for the North American market. The purchase price, net of cash acquired, was approximately \$307.6 million inclusive of \$43.6 million of capital additions incurred between announcement date and closing date for

the construction of its new film line. Treofan immediately commenced trading as Innovia Films.

- In May 2018, the Company acquired the remaining 50.0% stake in the CCL-Korsini in-mould label joint venture in the United States from its partner for \$3.1 million, net of cash acquired, and \$6.7 million of assumed debt. As a result of the change in control, the financial results are no longer included as an equity investment but fully consolidated within CCL's Food & Beverage business effective June 2018.
- In May 2018, the Company acquired Nortec International Inc. ("Nortec"), a privately owned company in Israel, for approximately \$8.8 million in net cash and assumed debt. Nortec is a manufacturer of high performance labels and marking systems for the high technology sector and was added to CCL Design within the CCL Segment.
- In April 2018, the Company acquired Imprint Plus, a group of privately owned companies with common shareholders, based in Richmond, British Columbia, Canada, for approximately \$24.3 million, net of cash acquired. Imprint Plus expanded Avery's printable media depth in custom name badge systems, signage systems and accessories in North America.
- In January 2018, the Company acquired Fascia Graphics Ltd. ("Fascia"), a privately owned company in the U.K., for approximately \$9.3 million, net of cash acquired. Fascia is a manufacturer of graphic overlays, membrane-switch control panels and nameplates for large European OEM customers in the electronics and durables sector and was added to CCL Design within the CCL Segment.

Sales for the third quarter of 2019 were \$1,357.1 million, an increase of 1.5% compared to \$1,337.2 million recorded in the third quarter of 2018. Sales increased due to organic growth of 1.7% and acquisition-related growth of 0.6%, partially offset by the negative impact from foreign currency translation of 0.8%. For the nine-month period ended September 30, 2019, sales were \$4,043.4 million, an increase of 5.6% compared to \$3,828.7 million for the same nine-month period a year ago. This improvement in sales can be attributed to 2.1% organic growth and a 3.5% impact of the eleven aforementioned acquisitions with negligible impact from foreign currency translation.

Selling, general and administrative expenses ("SG&A") were \$198.0 million and \$594.8 million for the three-month and nine-month periods ended September 30, 2019, compared to \$198.1 million and \$583.9 million for same periods in the prior year, respectively. For the comparative three-month periods declines in operational SG&A were almost entirely offset by an increase in corporate SG&A. For the comparable nine-month periods the increase in SG&A expenses can be attributed to additional expenses associated with the eleven acquisitions since January 1, 2018.

The Company recorded an expense of \$1.7 million (\$1.6 million after tax) for restructuring and other items in the third quarter of 2019 compared to \$1.3 million (\$1.3

million after tax) for the third quarter of 2018. For the third quarter of 2019, restructuring and other items were principally severance costs associated with a number of CCL Segment operations, Checkpoint's European ALS operations and other transaction costs. Restructuring and other items for the 2018 third quarter were mainly comprised of Checkpoint restructuring and acquisition-related transaction costs. For the nine-month period ending September 30, 2019, the Company recorded \$5.2 million (\$4.6 million after tax) in restructuring and other items primarily related to the Innovia acquisition and other transaction costs in the first half of 2019. For the nine-month period of 2018, restructuring and other items were \$8.2 million (\$7.2 million after tax) primarily related to the Checkpoint and other transaction costs.

Operating income (a non-IFRS financial measure; refer to definition in Section 13 of this MD&A) for the third quarter of 2019 was \$209.8 million, compared to \$186.2 million for the third quarter of 2018. CCL posted improved results for all of its Business Segments, albeit the 2018 third quarter for the Innovia Segment included a \$4.3 million non-cash acquisition accounting adjustment to fair value the acquired inventory of Treofan that impacted cost of goods sold, thereby reducing operating income for that quarter. The adoption of IFRS 16 had a positive impact of 0.8% offset by 1.0% negative impact from foreign currency translation for the comparable three-month periods. For the nine months ended September 30, 2019, operating income increased 4.6%. The nine-month increase was due to improved results for the Avery and Innovia Segments partially offset by declines in the CCL and Checkpoint Segments compared to the same nine-month period in 2018. Foreign currency translation had a negligible impact on operating income while the adoption of IFRS 16 had a positive impact of 0.8% for the comparable nine-month periods.

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 13 of this MD&A) increased 11.0% to \$273.8 million for the third quarter of 2019, compared to \$246.7 million for the third quarter of 2018. Foreign currency translation had a negative 1.1% impact, completely offset by 4.6% positive impact from the adoption of IFRS 16 on EBITDA. For the nine months ended September 30, 2019, EBITDA was \$812.4 million, an increase of 8.2% compared to \$751.0 million in the comparable 2018 nine-month period. Foreign currency translation had a negligible impact on EBITDA while the adoption of IFRS 16 had a positive impact of 4.5% for the comparable nine-month periods.

Net finance cost was \$19.5 million and \$62.1 million for the three-month and nine-month periods ended September 30, 2019, compared to \$21.1 million and \$60.9 million for the same periods in the prior year, respectively. A lower average interest rate and a reduction in total debt for the third quarter of 2019 compared to the third quarter of 2018 resulted in a reduction of comparative finance costs. The increase in net finance cost for the nine-month period ended September 30, 2019 was attributable to the adoption of IFRS 16, which resulted in additional interest expense from lease liabilities of \$4.9 million.

The overall effective income tax rate was 25.7% and 26.0% for the three-month and nine-month periods ended September 30, 2019, compared to 25.6% and 25.7% for the same periods in the prior year, respectively. 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 for the third quarter of 2019 were \$127.7 million compared to \$112.7 million for the third quarter of 2018. This resulted in basic and diluted earnings of \$0.71 per Class B share for the 2019 third quarter compared to basic and diluted earnings of \$0.63 per Class B share for the prior year third quarter.

Net earnings for the nine-month period of 2019 were \$372.6 million, an increase of 5.7% compared to \$352.5 million for the same period a year ago. This resulted in basic and diluted earnings of \$2.09 and \$2.08 per Class B share, respectively, for the 2019 nine-month period compared to basic and diluted earnings of \$1.99 and \$1.97 per Class B share, respectively, for the prior year nine-month period. The weighted average number of shares for the 2019 nine-month period were 177.9 million basic and 179.1 million diluted shares compared to 176.7 million basic and 178.7 million diluted shares for the comparable period of 2018. Diluted shares include weighted average in-the-money equity compensation arrangement totaling 1.2 million shares (2018 - 2.0 million shares).

Adjusted basic earnings per Class B share were \$0.72 and \$2.12 for the three-month and nine-month periods of 2019, respectively, compared to \$0.66 and \$2.05 for the same periods of 2018.

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

<b>(in Canadian dollars)</b>	<b>Third Quarter</b>		<b>Year-To-Date</b>	
<b>Adjusted Basic Earnings per Class B Share</b>	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Basic earnings per Class B share	\$ 0.71	\$ 0.63	\$ 2.09	\$ 1.99
Restructuring and other items	0.01	0.01	0.03	0.04
Non-cash acquisition accounting adjustment related to inventory	-	0.02	-	0.02
<b>Adjusted basic earnings <sup>(1)</sup> per class B share</b>	<b>\$ 0.72</b>	<b>\$ 0.66</b>	<b>\$ 2.12</b>	<b>\$ 2.05</b>

<sup>(1)</sup> Adjusted Basic Earnings per Class B Share is a non-IFRS financial measure. Refer to definition in Section 13 of this MD&A.

The following is selected financial information for the eleven 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>					
2019	\$ 1,332.1	\$ 1,354.2	\$ 1,357.1	\$ -	\$ 4,043.4
2018	1,227.1	1,264.4	1,337.2	1,332.8	5,161.5
2017	1,061.5	1,252.9	1,206.8	1,234.5	4,755.7
<b>Net earnings</b>					
2019	123.6	121.3	127.7	-	372.6
2018	118.7	121.1	112.8	114.2	466.8
2017	87.9	109.9	106.9	169.4	474.1
<b>Net earnings per Class B share</b>					
<b>Basic</b>					
2019	0.70	0.68	0.71	-	2.09
2018	0.67	0.69	0.63	0.65	2.64
2017	0.50	0.63	0.60	0.97	2.70
<b>Net earnings per Class B share</b>					
<b>Adjusted basic</b>					
2019	0.71	0.69	0.72	-	2.12
2018	0.69	0.70	0.66	0.68	2.73
2017	0.57	0.68	0.61	0.83	2.69
<b>Net earnings per Class B share</b>					
<b>Diluted</b>					
2019	0.69	0.68	0.71	-	2.08
2018	0.66	0.68	0.63	0.64	2.61
2017	0.49	0.63	0.59	0.95	2.66

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 CCL and Innovia Segments as a result of the greater number of work days than the third and fourth quarters plus the seasonality of certain end markets. 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. For the Checkpoint Segment, in its recurring revenue streams, the second half of the calendar year is healthier as the business substantially follows the retail cycle of its customers, which traditionally experiences more consumer activity from September through the end of the year and prepares for the same in its supply chain from mid-year on.

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

#### **CCL Segment (“CCL”)**

(\$ millions)	Third Quarter			Year-To-Date		
	<u>2019</u>	<u>2018</u>	<u>+/-</u>	<u>2019</u>	<u>2018</u>	<u>+/-</u>
Sales	\$ 831.2	\$ 816.2	1.8%	\$ 2,513.8	\$ 2,427.9	3.5%
Operating Income <sup>(1)</sup>	\$ 127.2	\$ 117.6	8.2%	\$ 386.2	\$ 391.2	(1.3%)
Return on Sales <sup>(1)</sup>	15.3%	14.4%		15.4%	16.1%	
Capital Spending	\$ 56.7	\$ 53.9	5.2%	\$ 230.8	\$ 225.6	2.3%
Depreciation and Amortization <sup>(2)</sup>	\$ 49.7	\$ 48.9	1.6%	\$ 150.0	\$ 146.3	2.5%

<sup>(1)</sup> Operating Income and Return on Sales are non-IFRS financial measures. Refer to definitions in Section 13.

<sup>(2)</sup> Depreciation and Amortization expense excludes depreciation of \$5.4 million and \$15.8 million, respectively, for right-of-use assets in three-month and nine-month periods of 2019.

The CCL Segment has five customer sectors. The Company trades in three of them as CCL Label (and CCL Container or CCL Tube to recognize product differentiation where relevant) and one each as CCL Design and CCL Secure. The differentiated CCL sub-branding, points to the nature of the application for the final product. The sectors have many common or overlapping customers, process technologies, information technology systems, raw material suppliers and operational infrastructures. CCL Label supplies innovative labels, aluminum aerosols and tube solutions to Home & Personal Care customers; decorative and functional labels for Food & Beverage companies to premiumize brands; and regulated, complex multi-layer labels for major pharmaceutical, consumer medicine, medical instrument and industrial or consumer chemical customers referred to as the Healthcare & Specialty business. CCL Design, supplies long-life, high performance labels and other products to automotive, electronics and durable goods OEMs. CCL Secure supplies polymer banknote substrate, pressure sensitive stamps, passport components and other security products to government institutions and to corporations for brand protection.

Sales for CCL were \$831.2 million for the third quarter of 2019, compared to \$816.2 million for the same quarter last year. The components of the 1.8% increase in sales are organic growth of 2.1% and acquisition-related growth of 0.7% partially offset by the negative impact from foreign currency translation of 1.0%.

**North American** sales were up low-single digit for the third quarter of 2019, excluding currency translation, compared to the third quarter of 2018. Home & Personal Care sales and profitability declined compared to a very strong prior year, entirely driven by unusually slow demand for aluminum aerosols. Healthcare & Specialty sales were down, with good profitability improvements in Specialty markets offset by a decline in results in Healthcare, especially in Canada. CCL Design posted a decline in sales and profitability in all end markets. Food & Beverage posted solid sales growth in all end-markets, with substantial profitability enhancement in Sleeves. CCL Secure posted flat sales, but reduced profitability due to a change in sales mix compared to an exceptional

prior year period. Overall operating income, excluding currency translation, for the current quarter in North America declined compared to the third quarter of 2018.

Sales in **Europe** were up low-single digit for the third quarter of 2019, excluding currency translation and acquisitions, compared to the third quarter of 2018. CCL Secure results improved significantly on a large new currency denomination, compared to a soft third quarter of 2018. Home & Personal Care results declined but the Unilogo acquisition in Poland exceeded expectations partly offsetting lower profitability in legacy operations. Healthcare & Specialty sales and profitability were up largely on improvement in Germany. Food & Beverage recorded modest improvement in sales but profits fell on lower growth rates. Sales and profitability gains in electronics for CCL Design offset reduced profitability in industrial and automotive markets. Overall, European operating income, excluding currency translation, increased compared to the prior year third quarter.

Sales in **Latin America**, excluding currency translation, declined low-single digit for the third quarter of 2019 compared to the third quarter of 2018. Sales & profitability growth in CCL Label and CCL Design business lines partly offset aluminum aerosol declines and a demand hiatus at CCL Secure in Mexico. Profitability in Brazil, Chile and Argentina declined on lower sales in challenging end markets, operational issues and pricing pressures in part related to exchange rate volatility in Argentina. Excluding the impact of currency translation, underlying operating income overall decreased and return on sales declined slightly.

**Asia Pacific** sales, excluding currency translation, were up high single digit for the third quarter of 2019, compared to the corresponding quarter in 2018. Sales in China increased modestly but profitability improved significantly on good mix and productivity initiatives. Sales in ASEAN countries also increased modestly but entirely due to the CCL Design acquisition in Vietnam; profitability declined on changes in business mix, especially in Thailand. Significant Australian sales and profitability gains came from very strong performance at CCL Secure. For the Asia Pacific region, operating income improved significantly compared to the third quarter of 2018.

Operating income for the third quarter of 2019 was \$127.2 million, compared to \$117.6 million for the third quarter of 2018. Return on sales was 15.3% compared to the 14.4% recorded for the same period in 2018. The improvement is due to significantly stronger results for CCL Secure.

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.

CCL invested \$230.8 million in capital spending for the first nine months of 2019, compared to \$225.6 million in the same period in 2018. The investments for the nine-month period are in line with planned capital expenditures for 2019. Major expenditures for the nine-month period related to capacity additions to support the Home & Personal Care and Food & Beverage globally. Investments will continue in order to add capacity, broaden capabilities, expand geographically, and replace or upgrade existing plants and

equipment. Depreciation and amortization was \$150.0 million for the nine months ended September 30, 2019, compared to \$146.3 million for the same period of 2018.

### **Avery Segment (“Avery”)**

(\$ millions)	Third Quarter			Year-To-Date		
	<u>2019</u>	<u>2018</u>	<u>+/-</u>	<u>2019</u>	<u>2018</u>	<u>+/-</u>
Sales	\$ 207.6	\$ 198.4	4.6%	\$ 568.5	\$ 538.8	5.5%
Operating Income <sup>(1)</sup>	\$ 48.4	\$ 40.8	18.6%	\$ 121.6	\$ 109.5	11.1%
Return on Sales <sup>(1)</sup>	23.3%	20.6%		21.4%	20.3%	
Capital Spending	\$ 4.3	\$ 3.3	30.3%	\$ 10.5	\$ 8.6	22.1%
Depreciation and Amortization <sup>(2)</sup>	\$ 4.3	\$ 4.1	4.9%	\$ 12.9	\$ 12.3	4.9%

<sup>(1)</sup> Operating Income and Return on Sales are non-IFRS financial measures. Refer to definitions in Section 13.

<sup>(2)</sup> Depreciation and Amortization expense excludes depreciation of \$1.6 million and \$4.9 million, respectively, for right-of-use assets in three-month and nine-month periods of 2019.

Avery is the world’s largest supplier of labels, specialty converted media and software solutions to enable short-run digital printing in businesses and homes alongside complementary office products sold through distributors and mass market retailers. The products are split into three primary lines: (1) Printable Media, including address labels, shipping labels, marketing and product identification labels, business cards, and name badges supported by customized software solutions; (2) Organizational Products Group (“OPG”), including binders, sheet protectors, indexes, dividers and writing instruments; (3) Direct to Consumer digitally imaged media including labels, business cards, name badges and family oriented identification labels supported by unique web-enabled e-commerce URLs.

Avery sales were \$207.6 million for the third quarter of 2019, compared to \$198.4 million for the same quarter last year. The 4.6% increase in sales is attributed to 3.5% organic sales growth, 1.1% impact from acquisitions and a negligible impact from foreign currency translation.

Sales in **North America** for the third quarter of 2019 were up mid-single digit excluding currency translation compared to the third quarter of 2018. Sales for Printable Media product lines were up modestly but profitability gains significantly outpaced on rich mix. Direct to Consumer product lines continued to post double digit sales and profitability improvements. Sales and profitability for OPG improved, primarily on increased volumes in low margin ring binders. Results in Canada were also strong.

**International** sales, largely generated in the Printable Media category, represented approximately 23% of Avery sales for the third quarter. Excluding currency translation and acquisitions, sales in Europe were up, largely offset by declines in Latin America and Australia compared to the prior year third quarter. Direct to Consumer sales and profitability grew substantially for the third quarter but declines in profitability in Latin

America and Australia offset improvement in Europe for the third quarter of 2019 compared to the same period in 2018.

Operating income for the third quarter of 2019 increased 18.6% to \$48.4 million compared to \$40.8 million for the third quarter of 2018. Return on sales was 23.3%, compared to 20.6% recorded for the same quarter in 2018.

Avery invested \$10.5 million in capital spending in the first nine months of 2019 compared to \$8.6 million in the same period a year ago. The majority of the expenditures were digital printing capacity additions in the Direct to Consumer operations in North America. Depreciation and amortization was \$12.9 million for the 2019 nine-month period compared to \$12.3 million for the 2018 nine-month period.

### **Checkpoint Segment (“Checkpoint”)**

(\$ millions)	Third Quarter			Year-To-Date		
	<u>2019</u>	<u>2018</u>	<u>+/-</u>	<u>2019</u>	<u>2018</u>	<u>+/-</u>
Sales	\$ 180.5	\$ 168.8	6.9%	\$ 531.3	\$ 523.7	1.5%
Operating Income <sup>(1)</sup>	\$ 28.0	\$ 25.5	9.8%	\$ 71.4	\$ 75.9	(5.9%)
Return on Sales <sup>(1)</sup>	15.5%	15.1%		13.4%	14.5%	
Capital Spending	\$ 7.9	\$ 9.1	(13.2%)	\$ 20.8	\$ 29.5	(29.5%)
Depreciation and Amortization <sup>(2)</sup>	\$ 7.1	\$ 6.8	4.4%	\$ 22.0	\$ 21.0	4.8%

<sup>(1)</sup> Operating Income and Return on Sales are non-IFRS financial measures. Refer to definitions in Section 13.

<sup>(2)</sup> Depreciation and Amortization expense excludes depreciation of \$2.1 million and \$6.0 million, respectively, for right-of-use assets in the three-month and nine-month periods of 2019.

Checkpoint is a leading manufacturer of technology-driven loss-prevention, inventory-management and labeling solutions, including radio frequency and radio frequency identification (“RFID”) solutions, to the retail and apparel industry. The Segment has three primary product lines: Merchandise Availability Solutions (“MAS”), Apparel Labeling Solutions (“ALS”) and “Meto.” The MAS line focuses on electronic-article-surveillance (“EAS”) systems; hardware, software, labels and tags for loss prevention and inventory control systems including RFID solutions. ALS products are apparel labels and tags, some of which are RFID capable. Meto supplies hand-held pricing tools and labels and promotional in-store displays.

Checkpoint sales were \$180.5 million for the third quarter of 2019 compared to \$168.8 million for the third quarter of 2018 with 8.4% organic sales growth offset by 1.5% negative impact from foreign currency translation. MAS sales and profitability improved significantly due to new hardware business wins and strong sales in the associated higher margin consumables in the United States. European and Asian sales were up slightly but profitability declined in part due to the weaker euro. ALS sales slowed on softer apparel markets and profits declined modestly. The small Meto business had reduced sales and profitability for the third quarter of 2019 compared to the same period in 2018.

Operating income increased 9.8% to \$28.0 million for the third quarter of 2019 compared to \$25.5 million for the third quarter of 2018; return on sales improved to 15.5% from 15.1%.

Checkpoint invested \$20.8 million in capital spending for the first nine months of 2019, compared to \$29.5 million for the nine-month period of 2018. The majority of the expenditures were in the Asia Pacific region to enhance capacity and technology within the MAS and ALS manufacturing facilities. Depreciation and amortization was \$22.0 million for the nine-month period ended September 30, 2019, compared to \$21.0 million for the nine-month period of 2018.

### **Innovia Segment (“Innovia”)**

(\$ millions)	Third Quarter			Year-To-Date		
	<u>2019</u>	<u>2018</u>	<u>+/-</u>	<u>2019</u>	<u>2018</u>	<u>+/-</u>
Sales	\$ 137.8	\$ 153.8	(10.4%)	\$ 429.8	\$ 338.3	27.0%
Operating Income <sup>(1)</sup>	\$ 6.2	\$ 2.3	169.6%	\$ 34.1	\$ 9.9	244.4%
Return on Sales <sup>(1)</sup>	4.5%	1.5%		7.9%	2.9%	
Capital Spending	\$ 5.7	\$ 9.0	(36.7%)	\$ 23.4	\$ 15.6	50.0%
Depreciation and Amortization <sup>(2)</sup>	\$ 10.9	\$ 10.5	3.8%	\$ 31.6	\$ 26.4	19.7%

<sup>(1)</sup> Operating Income and Return on Sales are non-IFRS financial measures. Refer to definitions in Section 13.

<sup>(2)</sup> Depreciation and Amortization expense excludes depreciation of \$0.6 million and \$1.8 million, respectively, for right-of-use assets in the three-month and nine-month periods of 2019.

The Innovia Segment consists of the February 28, 2017, and July 2, 2018, acquired film manufacturing operations of Innovia and Treofan, respectively, and two small legacy CCL extrusion plants. Innovia supplies specialty, high-performance, multi-layer, surface engineered BOPP films from facilities in Australia, Belgium, Mexico and the United Kingdom to customers in the pressure sensitive label materials, flexible packaging and consumer packaged goods industries worldwide. Additionally, a small percentage of the total volume is sold internally to the CCL Segment and especially to CCL Secure while the smaller legacy facilities produce almost their entire output for CCL Label.

Sales for Innovia were \$137.8 million for the third quarter of 2019 compared to \$153.8 million for the third quarter of 2018. The components of the 10.4% decline in sales are 9.8% organic decline and 0.6% negative impact from currency translation. Legacy Innovia sales declined on reduced volumes in labels and flexible packaging markets, especially in Europe. Profitability increased on strong Australian demand for security films, improved price/mix of specialty films, moderately lower European resin costs and favourable U.S. dollar exchange rates to the U.K. pound. Despite pruning low margin products from the mix, film volume at the Treofan operation, acquired at the beginning of July 2018, was stable. However, sales fell partly on mix, but largely on a significant drop in third quarter resin costs in the United States compared to the inflationary spike in the summer of 2018, with associated pass-through pricing. Direct margins over raw

materials still improved year on year and the anticipated drag in profitability due to the start-up expense with the new film line in Mexico was less than anticipated. Operating income improved to \$6.2 million for the third quarter of 2019 compared to operating income of \$2.3 million in the 2018 third quarter. Operating income for the 2018 third quarter included a \$4.3 million non-cash acquisition accounting adjustment to eliminate profit on the acquired inventory of Treofan, partly offset by foreign exchange gains on favourable U.S. dollar exchange rates to the Mexican peso, with a net reduction in profitability for that quarter.

Innovia invested \$23.4 million in capital spending for the first nine months of 2019 compared to \$15.6 million for the 2018 nine-month period. Depreciation and amortization was \$31.6 million for the nine months ended September 30, 2019 compared to \$26.4 million for the nine months ended 2018.

### **Joint Ventures**

	Third Quarter			Year-to-Date		
(\$ millions)	<u>2019</u>	<u>2018</u>	<u>+/-</u>	<u>2019</u>	<u>2018</u>	<u>+/-</u>
Sales (at 100%)						
CCL joint ventures	\$ 31.4	\$ 30.6	2.6%	\$ 92.7	\$ 88.0	5.3%
Rheinfelden*	-	-	-	-	1.3	n.m.
CCL Total	\$ 31.4	\$ 30.6	2.6%	\$ 92.7	\$ 89.3	3.8%
Earnings (losses) in equity accounted investments						
CCL joint ventures	\$ 1.5	\$ 1.9	(21.1%)	\$ 4.5	\$ 3.7	21.6%
Rheinfelden	(0.4)	(0.4)	-	(1.1)	(1.1)	-
CCL Total	\$ 1.1	\$ 1.5	(26.7%)	\$ 3.4	\$ 2.6	30.8%

\* primarily sales to the CCL Segment

Results from the joint ventures in CCL-Kontur, Russia; Pacman-CCL, Middle East and Rheinfelden in the United States are not proportionately consolidated into a Segment but instead are accounted for as equity investments. The Company's share of the joint ventures' net earnings is disclosed in "Earnings in Equity-Accounted Investments" in the consolidated condensed interim income statements. Pacman-CCL posted sales and profitability in line with the 2018 third quarter, however, CCL-Kontur's results partially offset due to reduced profitability from higher overhead costs related to capacity expansions for the 2019 third quarter. Profitability at the Rheinfelden slug operation will not occur until 2020 due to a small fire in the facility in the first quarter of 2018 and subsequent delay in new equipment installations. Production is anticipated to

commence during the first quarter 2020. Earnings in equity accounted investments amounted to \$1.1 million for the third quarter of 2019 compared to income of \$1.5 million for the third quarter of 2018. Commencing June 2018, equity investments no longer include the financial results of the CCL-Korsini venture due to the Company's increase in ownership to 100%.

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

Approximately 97% of sales made in the third quarter of 2019 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 third quarter of 2019 were impacted by the appreciation of the Canadian dollar against the euro, U.K pound, Mexican peso and Chinese renminbi by 3.4%, 4.4%, 1.6% and 2.0%, respectively, compared to the rates in the same period in 2018. This negative impact was offset by a depreciation of the Canadian dollar relative to the U.S. dollar, Brazilian real and Thai baht of 1.0%, 0.4% and 8.4%, respectively, when comparing the rates in the third quarters of 2019 and 2018. For the third quarter of 2019, currency translation had a \$0.01 negative impact on earnings per Class B share compared to last year's third quarter.

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

The Company's capital structure is as follows:

<b>(\$ Millions)</b>		
	<b>September 30, 2019</b>	<b>December 31, 2018</b>
Current portion of long-term debt	\$ 1.9	\$ 71.8
Current lease liabilities	35.7	-
Long-term debt	2,402.4	2,419.8
Long-term lease liabilities	116.0	-
<b>Total debt</b>	<b>2,556.0</b>	<b>2,491.6</b>
Cash and cash equivalents	(601.3)	(589.1)
<b>Net debt <sup>(1)</sup></b>	<b>\$ 1,954.7</b>	<b>\$ 1,902.5</b>
EBITDA <sup>(1)(2)</sup>	\$ 1,056.7	\$ 995.3
Pro forma lease expense <sup>(3)</sup>	7.3	-
<b>Pro forma EBITDA</b>	<b>\$ 1,064.0</b>	<b>\$ 995.3</b>
<b>Net debt to Pro forma EBITDA <sup>(1)</sup></b>	<b>1.84</b>	<b>1.91</b>

(1) Net debt, EBITDA and net debt to Pro forma EBITDA are non-IFRS financial measures. Refer to definitions in Section 13 of this MD&A.

(2) EBITDA is calculated on a trailing twelve-month basis. Refer to definitions in Section 13 of this MD&A.

(3) Pro forma lease expense represents the estimated lease expenses for the three months ended December 31, 2018.

During the first quarter of 2019, the Company amended its syndicated credit facilities with a reduction of the interest rate margins for both the US\$366.0 million term loan and US\$1.2 billion revolving credit facilities. The US\$366.0 million term facility was further amended by removing the quarterly principal repayment requirement and extending the maturity from February 2020 to February 2021. In addition, the Company signed a bilateral credit facility for US\$35.0 million, which expires January 22, 2021. This bilateral loan incurs interest at the applicable domestic rate plus an interest rate margin and, annually, automatically extends out additional years until January 22, 2024.

During the second quarter of 2018, the Company closed its initial Canadian \$300.0 million aggregate principal amount of 3.864% bonds due April 2028 by way of offering memorandum. The bonds are unsecured senior obligations. The proceeds of the offering were used to repay drawn debt within the Company's revolving credit facility.

During the first nine months of 2019, the Company drew down \$94.2 million on its syndicated revolving credit facility and US\$20.7 million on its new bilateral credit agreement. Debt payments of \$139.6 million were primarily used to repay syndicated revolving debt in the first nine months of 2019.

The Company's debt structure at September 30, 2019, was primarily comprised of 144A private bonds of US\$500.0 million (\$655.4 million), Canadian bonds of \$300.0 million, the syndicated revolving credit facility with an outstanding balance of \$932.5 million, the term loan facility of US\$366.0 million (\$484.4 million) and the bilateral credit facility outstanding balance of US\$20.7 million (\$27.4 million). Furthermore, with the adoption of IFRS 16 on January 1, 2019, an additional \$151.7 million of lease liabilities previously not recorded on the consolidated condensed interim statement of financial position were included in total debt. The Company's debt structure at December 31, 2018, was primarily comprised of the 144A private bonds of US\$500.0 million (\$674.5 million), the Canadian bonds of \$300.0 million, the unsecured syndicated revolving credit facility with an outstanding balance of \$1,012.2 million and the term loan facility of US\$366.0 million (\$498.8 million).

Net debt was \$1,954.7 million at September 30, 2019, \$52.2 million higher than the net debt of \$1,902.5 million at December 31, 2018. The increase in net debt is primarily due to the \$151.7 million of additional lease liabilities partially offset by an increase of \$12.2 million in cash-on-hand and debt repayments in the first nine months of 2019.

Net debt to Pro forma EBITDA at September 30, 2019, declined to 1.84 times, compared to 1.91 times at December 31, 2018, reflecting the increase in net debt attributable to lease liabilities more than offset by the increased EBITDA from all of the Company's business segments.

Including \$3.1 million of outstanding letters of credit, the Company had approximately US\$492.7 million of available capacity within its syndicated revolving credit facility as at September 30, 2019.

The Company's overall average finance rate, excluding lease liabilities, was 2.5% as at September 30, 2019, compared to 3.0% at December 31, 2018, primarily driven by reduced interest rate margins on the Company's revolving and term loan facilities.

The Company is in compliance with all its debt covenants and 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**

(in millions of Canadian dollars)	<b>Third Quarter</b>		<b>Year-to-Date</b>	
<b>Summary of Cash Flows</b>	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Cash provided by operating activities	\$ 258.2	\$ 178.1	\$ 480.8	\$ 443.5
Cash provided by (used in) financing activities	(53.1)	(173.6)	(123.0)	54.7
Cash used for investing activities	(73.0)	(378.0)	(312.6)	(613.9)
Translation adjustments on cash and cash equivalents	(12.3)	(10.7)	(33.0)	(3.6)
Increase (decrease) in cash and cash equivalents	\$ 119.8	\$ (384.2)	\$ 12.2	\$ (119.3)
Cash and cash equivalents – end of period	\$ 601.3	\$ 438.2	\$ 601.3	\$ 438.2
Free cash flow from operations <sup>(1)</sup>	\$ 185.3	\$ 103.5	\$ 201.4	\$ 180.8

<sup>(1)</sup> Free cash flow from operations is non-IFRS financial measure. Refer to definition in Section 13.

During the third quarters of 2019 and 2018, the Company generated cash from operating activities of \$258.2 million and \$178.1 million, respectively. Free cash flow from operations was an inflow of \$185.3 million in the 2019 third quarter compared to an inflow of \$103.5 million in the prior year third quarter. A reduction in cash taxes and interest paid, coupled with additional proceeds from equity-settled share-based transactions and improved non-cash working capital were the primary drivers for the increase in cash provided by operating activities.

Capital spending in the third quarter of 2019 amounted to \$74.8 million compared to \$75.3 million in the 2018 third quarter. Total depreciation and amortization for the third quarter of 2019 was \$82.1 million, including \$9.8 million of depreciation for right-of-use assets resulting from the adoption of IFRS 16 not reflected in the \$70.5 million for the third quarter of 2018. Capital spending in 2019 is expected to be approximately \$350 million. 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 third quarters of 2019 and 2018 were \$30.3 million and \$23.1 million, respectively. The total number of shares issued and outstanding as at September 30, 2019 and 2018, were 178.3 million and 177.7 million, respectively. The Board of Directors has approved a dividend of \$0.1675 per Class A share and \$0.17 per Class B share to shareholders of record as of December 13, 2019, and payable December 27, 2019. The annualized dividend rate is \$0.67 per Class A share and \$0.68 per Class B share.

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

The Company is a global business with a significant asset base in the United States and Europe, consequently a majority of the Company's debt is drawn in U.S. dollars and euros. The Company continues to evaluate the appropriate levels of fixed versus floating interest rate debt and underlying currency of its drawn debt.

As at September 30, 2019, the Company had US\$910.5 million, EUR10.0 million and GBP60.3 million term loan and syndicated bank credit facility, which are hedging a portion of its US\$-based, euro-based and GBP-based investments and cash flows.

As at September 30, 2019, the Company utilized cross-currency interest rate swap agreements ("CCIRSAs") to hedge its euro-based assets and cash flows, effectively converting notional US\$264.7 million 3.25% fixed rate debt into 1.23% fixed rate euro debt, US\$111.5 million 3.25% fixed rate debt into 1.16% fixed rate euro debt, and US\$228.4 million floating rate debt into negative 0.28% fixed rate euro debt. The effect of the CCIRSAs has been to decrease finance cost by \$13.1 million for the nine months ended September 30, 2019.

## **8. Accounting Policies**

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

The preparation of the Company's consolidated condensed interim 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 consolidated condensed interim 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 2018 annual audited consolidated financial statements and notes thereto, as well as the 2018 annual MD&A, have identified the accounting policies and estimates that are critical to the understanding of the Company's business operations and results of operations. For the nine months ended September 30, 2019, there are no changes to the critical accounting policies and estimates from those described in the 2018 annual MD&A, except as outlined below.

## IFRS 16 Leases (“IFRS 16”)

In January 2016, IFRS 16 was issued by the International Accounting Standards Board. This standard introduces a single-lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. The Company adopted IFRS 16 in its financial statements for the annual period beginning on January 1, 2019, using the modified retrospective approach and the practical expedients related to, i. grandfathering previous assessments of which existing contracts are, or contain, leases, ii. short-term leases, and, iii. leases of low-value items. Lease obligations associated with short-term and low-value leases are recognized as an expense in the consolidated income statement when incurred. Accordingly, the comparative information for 2018 has not been restated and is presented under IAS 17.

The Company recognizes right-of-use assets and lease liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value. The right-of-use asset is measured based on the initial value of the lease liability adjusted for lease payments made at or before the commencement of the lease, initial direct costs and estimated dismantling and restoration costs. The right-of-use asset is depreciated over the shorter of the lease term and the asset's useful life unless it is reasonably certain the Company will obtain ownership by the end of the lease term, then the asset is depreciated over its useful life.

The lease liability is measured at the present value of all future lease payments discounted at the lessee's incremental borrowing rate. Lease liabilities are measured at amortized cost using the effective interest rate method whereby interest is recognized in profit or loss over the lease term.

Upon adoption of IFRS 16, the Company recognized \$167.6 million for right-of-use assets, a corresponding additional \$171.7 million of lease liabilities and a reduction in other liabilities of \$4.1 million in its consolidated condensed interim statement of financial position.

## IFRIC Interpretation 23 Uncertainty over Income Tax Treatments (“IFRIC 23”)

In June 2017, IFRIC 23 was issued by the IASB. The interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The interpretation requires an entity to contemplate whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better predictions of the resolution, to determine if it is probable that the tax authorities will accept the uncertain tax treatment and, if it is not probable that the uncertain tax treatment will be accepted, measure the tax uncertainty based on the most likely amount or expected value, depending on whichever method better predicts the resolution of the uncertainty.

The Company adopted the IFRIC 23 in its financial statements for the annual period beginning on January 1, 2019. The impact of adoption of the interpretation was immaterial on the Company's consolidated condensed interim financial statements.

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

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, 2018. There have been no changes to the nature of, or parties to, the transactions for the nine months ended September 30, 2019.

## **9. Commitments and Contingencies**

The Company has no material "off-balance sheet" financing obligations, surety bonds and loan guarantees. The nature of these commitments are described in note 25 and note 26 of the annual consolidated financial statements for the year ended December 31, 2018. There are no defined benefit plans funded with CCL Industries Inc. stock. There have been no material changes during the nine months of 2019 other than the adoption of IFRS 16.

## **10. Controls and Procedures**

There were no other material changes in disclosure controls and procedures and internal control over financial reporting in the nine-month period ended September 30, 2019.

## **11. Risks and Strategies**

The 2018 MD&A in the annual report detailed risks to the Company's business and the strategies planned for 2019 and beyond. There have been no material changes to those risks and strategies during the first nine months of 2019.

## **12. Outlook**

The Company posted solid consolidated organic sales growth of 1.7% for the third quarter of 2019 driven by strong organic tallies of 3.5% and 8.4% for the Avery and Checkpoint Segments, respectively, offsetting a 9.8% organic decline for Innovia driven by a combination of lower volume and pass-through pricing on reduced resin costs. The CCL Segment benefited from strong results for CCL Secure over a soft prior year quarter as well as good results for CCL Design Electronics. Consolidated third quarter adjusted basic earnings were \$0.72 per class B share compared to adjusted basic earnings of \$0.66 per Class B share for the 2018 third quarter.

Demand levels on a whole for the CCL Segment offer little upside going into the 2019 fourth quarter and could curtail if customers take extended downtime in the December holiday month to keep inventory controlled. Geopolitical uncertainty remains in the foreground in all of CCL's major markets coupled with a volatile global economic environment, suggesting caution for expectations in the upcoming quarter. A number of businesses in the Segment will restructure operations to deal with the new global climate but charges associated with that should not be significant.

Momentum, from Avery's significantly improved North American 2019 back-to-school season, should continue into the fourth quarter of the year, especially in direct-to-consumer digital businesses. Management continues to look for unique acquisitions to add incremental digital capabilities and products. Certain international operations will restructure their businesses in the coming two quarters to handle a weaker economy, especially in Europe. Charges associated with that should not exceed \$3 million with a one-year payback.

Checkpoint's ALS business commenced a \$6.0 million restructuring initiative during the second quarter of 2019 with completion planned in the first half of 2020 to yield equal annualized savings. The changes are also strategically necessary to localize all label manufacturing in countries where retailers and brand owners source apparel. Checkpoint's results for the third quarter exceeded the prior year period, with the trend expected to continue in the fourth quarter.

Financial results for Innovia improved for the first nine months of 2019 due to pricing, productivity initiatives, mix, stabilizing resin costs and foreign exchange benefits on U.S. dollar sales from the United Kingdom. Further enhancements are still required in future periods to improve margins using the same levers. The new film line launched in Mexico with fewer-than-expected start-up issues. Focus will be on fine-tuning operating efficiencies of the new line while decommissioning the older lines and filling the new incremental capacity.

The Company finished the third quarter with \$601.3 million of cash-on-hand and additional liquidity of US\$492.7 million within its syndicated revolving credit facility. The Company remains focused on vigilantly managing working capital and prioritizing capital to higher-growth organic opportunities or unique acquisitions expected to enhance shareholder value. The Company's capital spending for the year will be approximately \$350.0 million. In absence of any significant business acquisition, the Company expects to use free cash flow to reduce debt.

Foreign currency translation would have negligible impact at current exchange rates for the fourth quarter, largely due to the stability of the U.S. dollar to the Canadian dollar.

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

The Company 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 the Company'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, non-cash acquisition accounting adjustments to inventory, 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, non-cash acquisition accounting adjustments to inventory, 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 the 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 the 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 the Company's bank lines of credit.

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

<b>(in millions of Canadian dollars)</b>	<b>Third Quarter</b>		<b>Year-to-Date</b>	
<b>EBITDA</b>	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Net earnings	\$ 127.7	\$ 112.7	\$ 372.6	\$ 352.5
Corporate expense	18.1	14.3	47.1	46.5
Earnings in equity accounted investments	(1.1)	(1.5)	(3.4)	(2.6)
Net finance cost	19.5	21.1	62.1	60.9
Restructuring and other items	1.7	1.3	5.2	8.2
Income taxes	43.9	38.3	129.7	121.0
Operating income (a non-IFRS measure)	\$ 209.8	\$ 186.2	\$ 613.3	\$ 586.5
Less: Corporate expense	(18.1)	(14.3)	(47.1)	(46.5)
Add: Depreciation and amortization	82.1	70.5	246.2	206.7
Add: Non-cash acquisition accounting adjustment to inventory	-	4.3	-	4.3
<b>EBITDA (a non-IFRS measure)</b>	<b>\$ 273.8</b>	<b>\$ 246.7</b>	<b>\$ 812.4</b>	<b>\$ 751.0</b>
			<b>2019</b>	<b>2018</b>
EBITDA for 12 months ended December 31, 2018 and 2017, respectively			\$ 995.3	\$ 959.2
less: EBITDA for nine months ended September 30, 2018 and 2017, respectively			(751.0)	(700.2)
add: EBITDA for nine months ended September 30, 2019 and 2018 respectively			812.4	751.0
<b>EBITDA for 12 months ended September 30</b>			<b>\$ 1,056.7</b>	<b>\$ 1,010.0</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 condensed interim statements of cash flows for the periods ended as indicated.

<b>(in millions of Canadian dollars)</b>	<b>Third Quarter</b>		<b>Year-to-Date</b>	
<b>Free Cash Flow from Operations</b>	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Cash provided by operating activities	\$ 258.2	\$ 178.1	\$ 480.8	\$ 443.5
Less: Additions to property, plant and equipment	(74.8)	(75.3)	(285.8)	(280.0)
Add: Proceeds on disposal of property, plant and equipment	1.9	0.7	6.4	17.3
<b>Free Cash Flow from Operations</b>	<b>\$ 185.3</b>	<b>\$ 103.5</b>	<b>\$ 201.4</b>	<b>\$ 180.8</b>

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 and lease liabilities, less cash and cash equivalents.

Net Debt to EBITDA and Net Debt to Pro forma EBITDA (or leverage ratio) – A measure that indicates the Company’s ability to service its existing debt. Net Debt to EBITDA is calculated as net debt divided by EBITDA. Net debt to Pro forma EBITDA is calculated as net debt divided by Pro forma EBITDA. Pro forma EBITDA removes for the three months ended December 31, 2018, the estimated lease expense as if the Company adopted IFRS 16 retrospectively.

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 condensed interim income statements for the periods ended as indicated.

Restructuring and Other Items per share – 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 weighted 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 condensed interim 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)

	Sales Third Quarter		Operating Income Third Quarter		Return on Sales Third Quarter	
	2019	2018	2019	2018	2019	2018
CCL	\$ 831.2	\$ 816.2	\$ 127.2	\$ 117.6	15.3%	14.4%
Avery	207.6	198.4	48.4	40.8	23.3%	20.6%
Checkpoint	180.5	168.8	28.0	25.5	15.5%	15.1%
Innovia	137.8	153.8	6.2	2.3	4.5%	1.5%
Total Operations	\$ 1,357.1	\$ 1,337.2	\$ 209.8	\$ 186.2	15.5%	13.9%

## Supplemental Financial Information

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

	Three Months Ended September 30, 2019				Nine Months Ended September 30, 2019			
	Organic Growth	Acquisition Growth	FX Translation	Total	Organic Growth	Acquisition Growth	FX Translation	Total
CCL	2.1%	0.7%	(1.0%)	1.8%	2.9%	0.8%	(0.2%)	3.5%
Avery	3.5%	1.1%	-	4.6%	2.9%	1.3%	1.3%	5.5%
Checkpoint	8.4%	-	(1.5%)	6.9%	2.2%	-	(0.7%)	1.5%
Innovia	(9.8%)	-	(0.6%)	(10.4%)	(4.3%)	32.0%	(0.7%)	27.0%
Total	1.7%	0.6%	(0.8%)	1.5%	2.1%	3.5%	-	5.6%