Consolidated Condensed Interim Financial Statements
(In millions of Canadian dollars)

# CCL INDUSTRIES INC.

Interim periods ended March 31, 2019 and 2018
Unaudited

# CCL Industries Inc.

**Consolidated condensed interim statements of financial position**

**Unaudited**

*In millions of Canadian dollars*

| | As at March 31 2019 | As at December 31 2018 |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash and cash equivalents | $ 495.8 | $ 589.1 |
| Trade and other receivables | 981.4 | 938.0 |
| Inventories | 536.9 | 524.6 |
| Prepaid expenses | 33.3 | 34.8 |
| Income tax recoverable | 33.4 | 38.7 |
| **Total current assets** | 2,080.8 | 2,125.2 |
| **Non-current assets** | | |
| Property, plant and equipment | 1,800.8 | 1,797.5 |
| Right-of-use assets (note 2(d)) | 162.3 | - |
| Goodwill | 1,813.7 | 1,830.3 |
| Intangible assets | 1,103.4 | 1,138.9 |
| Deferred tax assets | 30.8 | 32.5 |
| Equity-accounted investments | 60.7 | 59.8 |
| Other assets | 33.1 | 34.3 |
| Derivative instruments | 15.6 | 9.1 |
| **Total non-current assets** | 5,020.4 | 4,902.4 |
| **Total assets** | **$ 7,101.2** | **$ 7,027.6** |
| **Liabilities** | | |
| **Current liabilities** | | |
| Trade and other payables | $ 1,056.5 | $ 1,223.4 |
| Current portion of long-term debt (note 8) | 2.0 | 71.8 |
| Lease liabilities (note 2(d)) | 37.0 | - |
| Income taxes payable | 49.1 | 51.2 |
| Derivative instruments | 0.2 | 0.5 |
| **Total current liabilities** | 1,144.8 | 1,346.9 |
| **Non-current liabilities** | | |
| Long-term debt (note 8) | 2,504.0 | 2,419.8 |
| Lease liabilities (note 2(d)) | 130.5 | - |
| Deferred tax liabilities | 231.7 | 216.6 |
| Employee benefits | 314.5 | 320.0 |
| Provisions and other long-term liabilities | 11.9 | 10.6 |
| Derivative instruments | 33.0 | 40.6 |
| **Total non-current liabilities** | 3,225.6 | 3,007.6 |
| **Total liabilities** | 4,370.4 | 4,354.5 |
| **Equity** | | |
| Share capital | 342.1 | 306.3 |
| Contributed surplus | 67.8 | 92.7 |
| Retained earnings | 2,332.3 | 2,238.9 |
| Accumulated other comprehensive income (loss) (note 5) | (11.4) | 35.2 |
| **Total equity attributable to shareholders of the Company** | 2,730.8 | 2,673.1 |
| Acquisitions (note 3) | | |
| Subsequent events (note 9) | | |
| **Total liabilities and equity** | **$ 7,101.2** | **$ 7,027.6** |

*See accompanying selected explanatory notes to the consolidated condensed interim financial statements.*

# CCL Industries Inc.

**Consolidated condensed interim income statements**

**Unaudited**

*In millions of Canadian dollars, except per share information*

| | | Three Months Ended March 31 | | |
|---|---|---|---|---|
| | | **2019** | | **2018** |
| Sales | $ | 1,332.1 | $ | 1,227.1 |
| Cost of sales | | 946.0 | | 849.9 |
| Gross profit | | 386.1 | | 377.2 |
| Selling, general and administrative expenses | | 195.6 | | 195.7 |
| Restructuring and other items (note 6) | | 1.4 | | 3.3 |
| Earnings in equity-accounted investments | | (1.1) | | (0.9) |
| | | **190.2** | | **179.1** |
| Finance cost | | 21.4 | | 19.9 |
| Finance income | | (1.1) | | (0.9) |
| Interest on lease liabilities | | 1.7 | | - |
| Net finance cost | | 22.0 | | 19.0 |
| **Earnings before income tax** | | **168.2** | | **160.1** |
| Income tax expense | | 44.6 | | 41.4 |
| **Net earnings for the period** | **$** | **123.6** | **$** | **118.7** |
| **Earnings per share** | | | | |
| Basic earnings per Class B share | **$** | **0.70** | **$** | **0.67** |
| Diluted earnings per Class B share | **$** | **0.69** | **$** | **0.66** |

# CCL Industries Inc.

**Consolidated condensed interim statements of comprehensive income**

**Unaudited**

*In millions of Canadian dollars*

| | Three Months Ended March 31 | |
|---|---|---|
| | **2019** | **2018** |
| **Net earnings** | **$ 123.6** | **$ 118.7** |
| **Other comprehensive income (loss), net of tax:** | | |
| Items that may subsequently be reclassified to income: | | |
| Foreign currency translation adjustment for foreign operations, net of tax recovery of $4.2 for the three-month period ended March 31, 2019 (2018 - tax expense of $5.8) | (97.2) | 198.8 |
| Net gains (losses) on hedges of net investment in foreign operations, net of tax expense of $7.5 for the three-month period ended March 31, 2019 (2018 - tax recovery of $6.6) | 50.4 | (67.0) |
| Effective portion of changes in fair value of cash flow hedges, net of tax expense of $0.1 for the three-month period ended March 31, 2019 (2018 - tax expense of $0.1) | 0.4 | 0.5 |
| Net change in the fair value of cash flow hedges transferred to the income statement, net of tax expense of $0.1 for the three-month period ended March 31, 2019 (2018 - tax expense of $0.1) | (0.2) | (0.3) |
| **Other comprehensive income (loss), net of tax** | **$ (46.6)** | **$ 132.0** |
| **Total comprehensive income** | **$ 77.0** | **$ 250.7** |

*See accompanying selected explanatory notes to the consolidated condensed interim financial statements.*

# CCL Industries Inc.

## Consolidated condensed interim statements of changes in equity
## Unaudited

*In millions of Canadian dollars*

| | Class A shares | Class B shares | Shares held in trust | Total share capital | Contributed surplus | Retained earnings | Accumulated other comprehensive income (loss) | Total equity |
|---|---|---|---|---|---|---|---|---|
| Balances, January 1, 2018 | $ 4.5 | $ 304.6 | $ (29.7) | $ 279.4 | $ 78.0 | $ 1,853.4 | $ (52.9) | $ 2,157.9 |
| Net earnings | - | - | - | - | - | 118.7 | - | 118.7 |
| Dividends declared | | | | | | | | |
| Class A | - | - | - | - | - | (1.5) | - | (1.5) |
| Class B | - | - | - | - | - | (21.5) | - | (21.5) |
| Stock-based compensation plan | - | 4.3 | - | 4.3 | (1.1) | - | - | 3.2 |
| Shares purchased and held in trust | - | - | (0.1) | (0.1) | 0.1 | - | - | - |
| Stock option expense | - | - | - | - | 2.4 | - | - | 2.4 |
| Stock options exercised | - | 15.8 | - | 15.8 | (2.7) | - | - | 13.1 |
| Income tax effect related to stock options | - | - | - | - | 1.4 | - | - | 1.4 |
| Other comprehensive income | - | - | - | - | - | - | 132.0 | 132.0 |
| **Balances, March 31, 2018** | $ 4.5 | $ 324.7 | $ (29.8) | $ 299.4 | $ 78.1 | $ 1,949.1 | $ 79.1 | $ 2,405.7 |

| | Class A shares | Class B shares | Shares held in trust | Total share capital | Contributed surplus | Retained earnings | Accumulated other comprehensive income (loss) | Total equity |
|---|---|---|---|---|---|---|---|---|
| Balances, January 1, 2019 | $ 4.5 | $ 331.8 | $ (30.0) | $ 306.3 | $ 92.7 | $ 2,238.9 | $ 35.2 | $ 2,673.1 |
| Net earnings | - | - | - | - | - | 123.6 | - | 123.6 |
| Dividends declared | | | | | | | | |
| Class A | - | - | - | - | - | (2.0) | - | (2.0) |
| Class B | - | - | - | - | - | (28.2) | - | (28.2) |
| Stock-based compensation plan | - | - | - | - | 3.1 | - | - | 3.1 |
| Shares redeemed from trust | - | - | 30.0 | 30.0 | (30.0) | - | - | - |
| Stock option expense | - | - | - | - | 2.5 | - | - | 2.5 |
| Stock options exercised | - | 5.8 | - | 5.8 | (1.0) | - | - | 4.8 |
| Income tax effect related to stock options | - | - | - | - | 0.5 | - | - | 0.5 |
| Other comprehensive loss | - | - | - | - | - | - | (46.6) | (46.6) |
| **Balances, March 31, 2019** | $ 4.5 | $ 337.6 | $ - | $ 342.1 | $ 67.8 | $ 2,332.3 | $ (11.4) | $ 2,730.8 |

*See accompanying selected explanatory notes to the consolidated condensed interim financial statements.*

# CCL Industries Inc.

**Consolidated condensed interim statements of cash flows**
**Unaudited**

*In millions of Canadian dollars*

| | Three Months Ended March 31 | |
|---|---|---|
| | **2019** | **2018** |
| **Cash provided by (used for)** | | |
| **Operating activities** | | |
| Net earnings | $ 123.6 | $ 118.7 |
| Adjustments for: | | |
| Property, plant and equipment depreciation | 57.3 | 55.1 |
| Right-of-use assets depreciation | 9.2 | - |
| Intangibles amortization | 14.3 | 12.8 |
| Earnings in equity-accounted investments, net of dividends received | (1.1) | (0.9) |
| Net finance cost | 22.0 | 19.0 |
| Current income tax expense | 31.4 | 40.0 |
| Deferred tax expense | 13.2 | 1.4 |
| Equity-settled share-based payment transactions | 6.1 | 7.1 |
| Gain on sale of property, plant and equipment | (0.6) | (1.1) |
| | 275.4 | 252.1 |
| Change in inventories | (12.2) | (57.2) |
| Change in trade and other receivables | (43.3) | (71.7) |
| Change in prepaid expenses | 1.5 | (0.4) |
| Change in trade and other payables | (180.2) | (14.3) |
| Change in income taxes receivable and payable | 3.8 | 3.1 |
| Change in employee benefits | (5.6) | 1.9 |
| Change in other assets and liabilities | 7.1 | 4.0 |
| | 46.5 | 117.5 |
| Net interest paid | (14.0) | (17.3) |
| Income taxes paid | (27.5) | (25.9) |
| **Cash provided by operating activities** | **5.0** | **74.3** |
| **Financing activities** | | |
| Proceeds on issuance of long-term debt | 104.0 | 41.2 |
| Repayment on long-term debt | (43.9) | (57.5) |
| Payment on lease liabilities | (8.6) | - |
| Proceeds from issuance of shares | 4.8 | 13.1 |
| Dividends paid | (30.2) | (23.0) |
| **Cash provided by (used for) financing activities** | **26.1** | **(26.2)** |
| **Investing activities** | | |
| Additions to property, plant and equipment | (97.3) | (109.1) |
| Proceeds on disposal of property, plant and equipment | 2.1 | 3.8 |
| Business acquisitions and other long-term investments (note 3) | (16.8) | (8.0) |
| **Cash used for investing activities** | **(112.0)** | **(113.3)** |
| Net decrease in cash and cash equivalents | (80.9) | (65.2) |
| Cash and cash equivalents at beginning of period | 589.1 | 557.5 |
| Translation adjustment on cash and cash equivalents | (12.4) | 24.2 |
| **Cash and cash equivalents at end of period** | **$ 495.8** | **$ 516.5** |



*See accompanying selected explanatory notes to the consolidated condensed interim financial statements.*

## 1. Reporting entity

CCL Industries Inc. (the "Company") is a public company, listed on the Toronto Stock Exchange, and is incorporated and domiciled in Canada. These consolidated condensed interim financial statements of the Company as at and for the interim period ended March 31, 2019 and 2018, comprise the results of the Company, its subsidiaries and its interests in joint ventures and associates. The Company has manufacturing facilities around the world and is primarily involved in the manufacture of labels, consumer printable media products, technology-driven label solutions, polymer banknote substrates and specialty films.

## 2. Basis of preparation and presentation

### (a) Statement of compliance

These consolidated condensed interim financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting.

These consolidated condensed interim financial statements should be read in conjunction with the Company's 2018 annual consolidated financial statements.

The accounting policies and methods of computation followed in the preparation of these consolidated condensed interim financial statements are consistent with those used in the preparation of the most recent annual report, with the exception of the adoption of new accounting standards as described in note 2(d) and unless otherwise noted.

These consolidated condensed interim financial statements were authorized for issue by the Board of Directors on May 15, 2019.

### (b) Basis of measurement

These consolidated condensed interim financial statements have been prepared on the historical cost basis except for the following items in the consolidated condensed interim statement of financial position:

- derivative financial instruments are measured at fair value
- financial instruments at fair value through profit or loss are measured at fair value
- assets related to the defined benefit plans are measured at fair value and liabilities related to the defined benefit plans are calculated by qualified actuaries using the projected unit credit method.

### (c) Presentation currency

These consolidated condensed interim financial statements are presented in Canadian dollars, which is the Company's presentation currency. All financial information, except per share information, is presented in millions of Canadian dollars, unless otherwise noted.

### (d) New standards effective in 2019

IFRS 16 *Leases* ("IFRS 16")

In January 2016, IFRS 16 was issued by the International Accounting Standards Board ("IASB"). 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 $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.

Impacts on financial statements

| | | |
|---|---|---|
| Operating lease commitment at December 31, 2018, as disclosed in the Company's consolidated financial statements | $ | 204.8 |
| Discounted using the incremental borrowing rate at January 1, 2019 | $ | 171.7 |
| Financial lease liabilities recognized as at December 31, 2018 | | 6.0 |
| Lease Liabilities recognized at January 1, 2019 | $ | 177.7 |

*In millions of Canadian dollars, unless otherwise noted*

**2. Basis of preparation and presentation (continued)**

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.

**3. Acquisitions**

**(a)** 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.

**(b)** In January 2019, the Company acquired Easy2Name Limited ("E2N"), a privately owned company based near Newbury in the UK for approximately $2.5 million, net of cash acquired. E2N expands Avery's direct-to-customer online digital print offering of durable, personalised "kids' labels" to the U.K. market. E2N was added to the Avery Segment.

**(c)** In March 2019, the Company and its joint-venture partner each invested an additional $0.7 million in Rheinfelden Americas, LLC, a supplier of aluminum slugs for aerosol cans.

**(d)** The following table summarizes the allocation of the consideration to the fair value of the assets acquired and liabilities assumed for the Olympic and E2N acquisitions:

| | | |
|---|---|---|
| Cash consideration, net of cash acquired | $ | 16.1 |
| Trade and other receivables | $ | 0.2 |
| Inventories | | 0.1 |
| Property, plant and equipment | | 1.1 |
| Right-of-use assets | | 0.2 |
| Goodwill and intangibles | | 15.6 |
| Trade and other payables | | (0.9) |
| Lease liabilities | | (0.2) |
| Net assets acquired | $ | 16.1 |

Goodwill is comprised of the excess fair value of the consideration paid over the fair value of the net assets acquired. Factors that make up the amount of goodwill recognized include expected synergies and employee knowledge of operations. The total amount of goodwill and intangibles for Olympic and E2N is $15.6 million and is not deductible for tax purposes.

**(e)** The following table summarizes the combined sales and net earnings that the newly acquired Olympic and E2N have contributed to the Company for the current reporting period.

| | | Three months ended March 31 |
|---|---|---|
| Sales | $ | 0.6 |
| Net losses | $ | (0.3) |

**(f)** Pro Forma Information

The pro forma consolidated financial information below has been prepared following the accounting policies of the Company as if the acquisitions took place January 1, 2019.

The pro forma consolidated financial information has been presented for illustrative purposes only and is not necessarily indicative of results of operations and financial position that would have been achieved had the pro forma events taken place on the dates indicated, or the future consolidated results of operations or financial position of the consolidated company. Future results may vary significantly from the pro forma results presented.

The historical consolidated financial information has been adjusted in preparing the pro forma consolidated financial information to give effect to events that are: (i) directly attributable to the acquisitions; (ii) factually supportable; and (iii) with respect to revenues and earnings, expected to have a continuing impact on the results of CCL Industries Inc. As such, the impact from acquisition-related expenses is not included in the accompanying pro forma consolidated financial information. The pro forma consolidated financial information does not reflect any cost savings (or associated costs to achieve such savings) from operating efficiencies, synergies or other restructuring that could result from the acquisitions.

The following table summarizes the sales and earnings of the Company combined with Olympic and E2N as though the acquisitions took place on January 1, 2019:

| | | Three months ended March 31 |
|---|---|---|
| Sales | $ | 1,332.1 |
| Net earnings | $ | 123.6 |

*In millions of Canadian dollars, unless otherwise noted*

**3. Acquisitions (continued)**

**(g)** Acquisition of Treofan America Inc. and Trespaphan Mexico Holdings GmbH in 2018

In July 2018, the Company acquired Treofan America Inc. and Trespaphan Mexico Holdings 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 BOPP film for the North American market. The purchase price, net of cash acquired, is 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.

| | | |
|---|---|---|
| Cash consideration, net of cash acquired | $ | 307.6 |
| Trade and other receivables | $ | 37.0 |
| Inventories | | 34.5 |
| Other current assets | | 16.9 |
| Property, plant and equipment | | 90.4 |
| Other long-term assets | | 3.8 |
| Goodwill | | 140.1 |
| Intangible assets | | 47.7 |
| Trade and other payables | | (48.9) |
| Deferred tax liabilities | | (13.9) |
| Net assets acquired | $ | 307.6 |

Goodwill is comprised of the excess fair value of the consideration paid over the fair value of the net assets acquired. Factors that make up the amount of goodwill recognized include expected synergies and employee knowledge of operations. The total amount of goodwill and intangibles for Treofan is $187.8 million and is not deductible for tax purposes.

**(h)** Other acquisitions in 2018

In January 2018, the Company acquired Fascia Graphics Ltd. ("Fascia"), a privately owned company in the United Kingdom 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 brings expertise in printed electronics to the Company's product lines. Fascia was added to the CCL Segment.

In February and May 2018, the Company and its joint-venture partner each invested an additional $1.3 million and $1.9 million, respectively, in Rheinfelden Americas, LLC.

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. Imprint Plus expands Avery's printable media depth in custom name badge systems, signage systems and accessories in North America.

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 expands CCL Design's presence in Israel. Nortec was added to the CCL Segment.

In May 2018, the Company acquired the remaining 50.0% interest in CCL-Korsini ("Korsini") in-mould label joint venture in the United States from its partner for $3.1 million in net cash and $6.7 million assumed debt.

In December 2018, the Company acquired assets of Unilogo in Poland for approximately $10.7 million in net cash and acquired lease obligations. Unilogo is a supplier of digitally printed, pressure sensitive and sleeve labels for consumer products customers. Unilogo was added to the CCL Segment.

The following table summarizes the allocation of the consideration to the fair value of the assets acquired and liabilities assumed for the Fascia, Imprint Plus, Nortec, Korsini and Unilogo acquisitions:

| | | |
|---|---|---|
| Cash consideration, net of cash acquired | $ | 55.1 |
| Assumed debt | | 7.8 |
| | | 62.9 |
| Fair market value of previously held interest | | 3.1 |
| | $ | 66.0 |
| Trade and other receivables | $ | 7.9 |
| Inventories | | 2.9 |
| Other current assets | | 0.1 |
| Property, plant and equipment | | 11.7 |
| Other long-term assets | | 0.3 |
| Goodwill and intangibles | | 49.2 |
| Trade and other payables | | (5.4) |
| Deferred tax liabilities | | (0.3) |
| Provisions and other long-term liabilities | | (0.4) |
| Net assets acquired | $ | 66.0 |

*In millions of Canadian dollars, unless otherwise noted*

### 4. Segment reporting and disaggregation of revenue

The Company has four reportable segments, as described below, which are the Company's main business units. The business units offer different products and services, and are managed separately as they require different technology and marketing strategies. For each of the business units, the Company's CEO, the chief operating decision maker, reviews internal management reports regularly.

The Company's reportable segments are:

- CCL is a converter of pressure sensitive and specialty extruded film materials for a wide range of decorative, instructional, functional and security applications for government institutions and large global customers in the consumer packaging, healthcare & chemicals, consumer electronic device and automotive markets. Extruded & laminated plastic tubes, aluminum aerosols & specialty bottles, folded instructional leaflets, precision decorated & die cut components, electronic displays, polymer banknote substrate and other complementary products and services are sold in parallel to specific end-use markets.
- Avery is a 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, 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.
- Checkpoint is a 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.
- Innovia supplies specialty, high-performance, multi-layer, surface engineered biaxially oriented polypropylene ("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 CCL Secure while the smaller legacy facilities produce almost their entire output for CCL Label.

| | Three Months ended March 31 | | | |
|---|---|---|---|---|
| | Sales | | Operating income | |
| | 2019 | 2018 | 2019 | 2018 |
| CCL | $ 851.1 | $ 807.7 | $ 142.0 | $ 146.3 |
| Avery | 157.6 | 146.3 | 27.9 | 24.0 |
| Checkpoint | 173.5 | 177.4 | 20.3 | 22.8 |
| Innovia | 149.9 | 95.7 | 14.6 | 7.5 |
| Total operations | $ 1,332.1 | $ 1,227.1 | $ 204.8 | $ 200.6 |
| | | | | |
| Corporate expense | | | (14.3) | (19.1) |
| Restructuring and other items | | | (1.4) | (3.3) |
| Earnings in equity-accounted investments | | | 1.1 | 0.9 |
| Finance cost | | | (21.4) | (19.9) |
| Finance income | | | 1.1 | 0.9 |
| Interest on lease liabilities | | | (1.7) | - |
| Income tax expense | | | (44.6) | (41.4) |
| Net earnings | | | $ 123.6 | $ 118.7 |

| | Total Assets | | Total Liabilities | | Depreciation and Amortization | | Capital Expenditures | |
|---|---|---|---|---|---|---|---|---|
| | March 31 | December 31 | March 31 | December 31 | Three Months ended March 31 | | Three Months ended March 31 | |
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| CCL | $ 3,790.1 | $ 3,645.8 | $ 990.6 | $ 947.5 | $ 55.1 | $ 48.3 | $ 81.2 | $ 89.1 |
| Avery | 668.9 | 637.4 | 237.7 | 237.3 | 5.9 | 3.9 | 2.8 | 2.6 |
| Checkpoint | 983.2 | 978.0 | 447.9 | 451.2 | 9.0 | 7.5 | 5.8 | 11.6 |
| Innovia | 1,122.1 | 1,140.7 | 245.1 | 225.2 | 10.4 | 7.9 | 7.5 | 4.7 |
| Equity-accounted investments | 60.7 | 59.8 | - | - | - | - | - | - |
| Corporate | 476.2 | 565.9 | 2,449.1 | 2,493.3 | 0.4 | 0.3 | - | 1.1 |
| Total | $ 7,101.2 | $ 7,027.6 | $ 4,370.4 | $ 4,354.5 | $ 80.8 | $ 67.9 | $ 97.3 | $ 109.1 |

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.

All revenues are from products and services transferred at a point in time, except $17.9 million (March 31, 2018 - $19.6 million), which are for installation and maintenance service arrangements within the Checkpoint Segment.

*In millions of Canadian dollars, unless otherwise noted*

**5. Accumulated other comprehensive income (loss)**

| | March 31 2019 | December 31 2018 |
|---|---|---|
| Unrealized foreign currency translation gains (losses), net of tax recovery of $6.9 (2018 – tax recovery of $10.2) | $ (11.3) | $ 35.5 |
| Losses on derivatives designated as cash flow hedges, net of tax recovery of nil (2018 – tax recovery of $0.1) | (0.1) | (0.3) |
| | $ (11.4) | $ 35.2 |

**6. Restructuring and other items**

| | Three months ended March 31 2019 | 2018 |
|---|---|---|
| Restructuring costs | $ 1.3 | $ 2.4 |
| Acquisition costs | 0.1 | 0.9 |
| Total restructuring and other items | $ 1.4 | $ 3.3 |

For the three months ended March 31, 2019, the Company recorded $1.4 million ($1.2 million, net of tax) for restructuring and other items compared to $3.3 million ($3.0 million, net of tax) for the first quarter of 2018. For the first quarter of 2019, restructuring and other items were principally severance costs associated with Innovia's U.K. operations. Restructuring and other items for the 2018 first quarter were mainly Checkpoint restructuring costs and acquisition related transaction costs.

**7. Financial instruments**

**(a) Fair value hierarchy**

The table below summarizes level of hierarchy for financial assets and liabilities. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying value is a reasonable approximation of fair value.

The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **March 31, 2019** | | | | |
| Other assets | $ - | $ 18.6 | $ - | $ 18.6 |
| Derivative financial assets | - | 15.6 | - | 15.6 |
| Long-term debt | - | - | (2,492.4) | (2,492.4) |
| Derivative financial liabilities | - | (33.2) | - | (33.2) |
| | $ - | $ 1.0 | $ (2,492.4) | $ (2,491.4) |
| **December 31, 2018** | | | | |
| Other assets | $ - | $ 18.8 | $ - | $ 18.8 |
| Derivative financial assets | - | 9.1 | - | 9.1 |
| Long-term debt | - | - | (2,456.3) | (2,456.3) |
| Derivative financial liabilities | - | (41.1) | - | (41.1) |
| | $ - | $ (13.2) | $ (2,456.3) | $ (2,469.5) |

**(b) Fair values versus carrying amounts**

The carrying values of cash and cash equivalents, trade and other receivables, and trade and other payables approximate fair values due to the short-term maturities of these financial instruments.

The fair value of financial liabilities together with carrying amounts shown in the consolidated condensed interim statement of financial position, are as follows:

| | March 31, 2019 | | December 31, 2018 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Long-term debt | $ 2,506.0 | $ 2,492.4 | $ 2,491.6 | $ 2,456.3 |

The interest rates used to discount estimated cash flows for the long-term debt are based on the government yield curve at the reporting date plus an adequate credit spread.

Fair value estimates are made at a specific point in time based on relevant market information and information about the financial instruments. The estimates are subjective in nature and involve uncertainties and matters of judgment.

**8. Long-term debt**

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.

The Company's debt structure at March 31, 2019, was primarily comprised of 144A private bonds of US$500.0 million ($660.4 million), Canadian bonds of $300.0 million, the syndicated revolving credit facility with an outstanding balance of $1,025.4 million, the term loan facility of US$366.0 million ($488.3 million) and the bilateral credit facility outstanding balance of US$20.7 million ($27.6 million). 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).

During the three months ended March 31, 2019, the Company drew down $104.0 million on its syndicated revolving credit facility and the aforementioned bilateral facility. Payments on debt of $43.9 million for the three months ended March 31, 2019, were primarily used to repay syndicated revolving debt.

**9. Subsequent events**

In April of 2019, the Company acquired Hinsitsu Screen (Vietnam) Company Limited ("Hinsitsu"), based in Hanoi, with a second manufacturing operation in Ho Chi Minh City. Hinsitsu is a leading supplier of durable & tamper evident labels and graphic overlays for the electronics industry in Vietnam. The agreed purchase consideration, net of cash acquired, was $12.4 million.

The Board of Directors has declared a dividend of $0.17 per Class B non-voting share and $0.1675 per Class A voting share, which will be payable to shareholders of record at the close of business on June 14, 2019, to be paid on June 28, 2019.

# MANAGEMENT'S DISCUSSION AND ANALYSIS
# First Quarters Ended March 31, 2019 and 2018

This Management's Discussion and Analysis of the financial condition and results of operations ("MD&A") of CCL Industries Inc. ("Company") relates to the first quarters ended March 31, 2019 and 2018. The information in this interim MD&A is current to May 15, 2019, and should be read in conjunction with the Company's May 15, 2019, unaudited first quarter consolidated condensed interim financial statements released on May 15, 2019, and the 2018 Annual MD&A and consolidated 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 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 strong 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 in second quarter of 2019 and will be profitable in 2020; the Company's expectation that Innovia Mexican operations will commence production on its new line during the second quarter of 2019; the Company's expectation of start-up losses on the Mexican biaxially oriented polypropylene ("BOPP") manufacturing line; the Company's expectation that current momentum at CCL Label and CCL Design will carry into the second quarter; the Company's expectation that CCL Secure will have a stronger second quarter compared to the second quarter of 2018; the Company's expectation that the Avery direct-to-consumer businesses will continue to deliver superior growth and profitability; the Company's expectation that Avery's second quarter results will be contingent on a good sales mix; the Company's expectation that the Checkpoint $6.0 million restructuring initiatives will drive future profitability improvement of $6.0 million; and the Company's expectation that resin costs in North America will remain subdued and Innovia will be able to raise prices to its customers.

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 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

First quarter 2019 sales for the Company were solid, with a consolidated organic growth rate of 2.9%. The CCL and Avery segments posted organic increases of 4.2% and 2.8%, respectively, driven by gains across all regions for CCL and easy comparisons to a soft first quarter 2018 at Avery. Checkpoint's organic decline of 1.8% was better than expected compared to a prior year quarter that included significant technology installations that did not repeat. Results for Innovia, including Treofan acquired on July 2, 2018, improved compared to the first and fourth quarters of 2018 due to price increases and moderation of resin costs in North America. Consolidated, the Company posted first quarter basic earnings per Class B share of $0.70 compared to basic earnings per Class B share of $0.67 for the 2018 first quarter. Adjusted basic earnings per Class B share (a non-IFRS financial measure; refer to definition in Section 14 of this MD&A) for the first quarters of 2019 and 2018 were $0.71 and $0.69, respectively.

## 2. Review of Consolidated Financial Results

The following acquisitions affected the financial comparisons to 2018 including those announced during the first quarter of 2019:

- 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, 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-customer online digital print offering of durable, personalised “kids’ labels” to the U.K. market.

- In December 2018, 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.

- In July 2018, 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 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, 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 were no longer included as an equity investment but fully consolidated within CCL’s Food & Beverage business effective June 2018.

- In May 2018, 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 added to CCL Design within the CCL Segment.

- In April 2018, 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, 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 added to CCL Design within the CCL Segment.

Sales for the first quarter of 2019 were $1,332.1 million, an increase of 8.6% compared to $1,227.1 million recorded in the first quarter of 2018. Organic growth of 2.9%, acquisition-related growth of 5.2% and the positive impact from foreign currency translation of 0.5% drove the sales increase.

Selling, general and administrative expenses ("SG&A") were $195.6 million for the first quarter of 2019, almost flat to first quarter 2018. The increase in SG&A expenses attributable to the Treofan acquisition were largely offset by lower variable compensation, reduced insurance-related costs and a foreign exchange gain within corporate expenses.

The Company recorded an expense of $1.4 million ($1.2 million after tax) for restructuring and other items in the first quarter of 2019 compared to $3.3 million ($3.0 million after tax) for the first quarter of 2018. For the first quarter of 2019, restructuring and other items were principally severance costs associated with Innovia's U.K. operations. Restructuring and other items for the 2018 first quarter were mainly Checkpoint restructuring costs and acquisition-related transaction costs.

Operating income (a non-IFRS financial measure; refer to definition in Section 14 of this MD&A) for the first quarter of 2019 was $204.8 million, compared to $200.6 million for the first quarter of 2018. The improved results for the Avery and Innovia Segments were partially offset by declines in the CCL and Checkpoint Segments compared to the same period in 2018. Foreign currency translation and the adoption of IFRS 16 had a 0.2% and 0.8%, respectively, positive impact on operating income for the comparable three-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 14 of this MD&A) was $271.3 million for the first quarter of 2019, an increase of 8.8% compared to $249.4 million for the first quarter of 2018. The adoption of IFRS 16 had a 4.4% positive effect to EBITDA while the foreign currency translation impact was insignificant.

Net finance cost was $22.0 million for the first quarter of 2019, compared to $19.0 million the same quarter a year ago. The increase in net finance cost was attributable to the adoption of IFRS 16, which resulted in additional interest expense from lease liabilities of $1.7 million, plus an increase in finance costs due to the primarily debt-financed acquisition of Treofan on July 2, 2018.

The overall effective income tax rate was 26.7% for the first quarter of 2019, compared to 26.0% for the first quarter of 2018. The increase in the effective tax rate for the three-month period ended March 31, 2019, was primarily driven by a higher portion of taxable income and expense being recorded in higher tax rate jurisdictions.

Net earnings for the first quarter of 2019 were $123.6 million compared to $118.7 million for the first quarter of 2018. This resulted in basic and diluted earnings of $0.70 and $0.69 per Class B share, respectively, for the 2019 first quarter compared to basic and diluted earnings of $0.67 and $0.66, respectively, per Class B share for the prior year first quarter.

The weighted average number of shares for the 2019 first quarter were 177.3 million basic and 178.7 million diluted shares compared to 176.2 million basic and 178.4 million diluted shares for the comparable period of 2018. Diluted shares include weighted average in-the-money equity compensation arrangements totaling 1.4 million shares.

Adjusted basic earnings per Class B share were $0.71 for the first quarter of 2019, compared to $0.69 for the same period of 2018.

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

**(in Canadian dollars)**

| | First Quarter | |
|---|---|---|
| **Adjusted Basic Earnings per Class B Share** | **2019** | **2018** |
| Basic earnings per Class B share | $ 0.70 | $ 0.67 |
| Restructuring and other items | 0.01 | 0.02 |
| Adjusted basic earnings [1] per class B share | $ 0.71 | $ 0.69 |

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

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

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

| | Qtr 1 | Qtr 2 | Qtr 3 | Qtr 4 | Total |
|---|---|---|---|---|---|
| **Sales** | | | | | |
| 2019 | $ 1,332.1 | $ - | $ - | $ - | $ 1,332.1 |
| 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 |
| **Net earnings** | | | | | |
| 2019 | 123.6 | - | - | - | 123.6 |
| 2018 | 118.7 | 121.1 | 112.8 | 114.2 | 466.8 |
| 2017 | 87.9 | 109.9 | 106.9 | 169.4 | 474.1 |
| **Net earnings per Class B share** | | | | | |
| **Basic** | | | | | |
| 2019 | 0.70 | - | - | - | 0.70 |
| 2018 | 0.67 | 0.69 | 0.63 | 0.65 | 2.64 |
| 2017 | 0.50 | 0.63 | 0.60 | 0.97 | 2.70 |
| **Adjusted basic net earnings per Class B share** | | | | | |
| 2019 | 0.71 | - | - | - | 0.71 |
| 2018 | 0.69 | 0.70 | 0.66 | 0.68 | 2.73 |
| 2017 | 0.57 | 0.68 | 0.61 | 0.83 | 2.69 |
| **Net earnings per Class B share** | | | | | |
| **Diluted** | | | | | |
| 2019 | 0.69 | - | - | - | 0.69 |
| 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) | First Quarter | | |
|---|---|---|---|
| | **2019** | **2018** | **+/-** |
| Sales | $ 851.1 | $ 807.7 | 5.4% |
| Operating Income [(1)] | $ 142.0 | $ 146.3 | (2.9%) |
| Return on Sales [(1)] | 16.7% | 18.1% | |
| Capital Spending | $ 81.2 | $ 89.1 | (8.9%) |
| Depreciation and Amortization [(2)] | $ 50.1 | $ 48.3 | 3.7% |

(1) Operating Income and Return on Sales are non-IFRS financial measures. Refer to definitions in Section 14.
(2) Depreciation and Amortization expense excludes depreciation of $5.0 million for right-of-use assets in 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 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 and 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 $851.1 million for the first quarter of 2019, compared to $807.7 million for the same quarter last year. The components of the 5.4% increase in sales are organic growth of 4.2%, acquisition related growth of 0.7% and positive impact from foreign currency translation of 0.5%.

**North American** sales were up mid-single digit for the first quarter of 2019, excluding currency translation, compared to the first quarter of 2018. Home & Personal Care sales and profitability increased on market share wins in labels and tubes partly offset by lower results for aerosols. Healthcare & Specialty sales were up slightly with profitability improvements in specialty markets almost entirely offset by reduced results in Healthcare. CCL Design profitability improvements in electronics were offset by reductions in automotive and alkaline battery markets. Food & Beverage posted strong growth and profitability improvement driven by market share gains in all categories. CCL Secure had a strong quarter on stamp and security document sales.

Sales in **Europe** were up low-single digit for the first quarter of 2019, excluding currency translation and acquisitions, compared to the first quarter of 2018. CCL Secure results were, as expected, below the prior year period that included an important new banknote launch in the region. Home & Personal Care sales were up organically but profitability fell in Germany. The Unilogo acquisition exceeded expectations. Healthcare & Specialty sales and profits declined driven by results in the UK and Scandinavia. Food & Beverage recorded solid improvement in sales and profitability attributable to market share wins. CCL Design posted sales and profitability gains in electronics and industrial markets, offsetting slower German automotive demand. Overall, European operating income, excluding currency translation, declined compared to the prior year first quarter, largely due to reduced profitability at CCL Secure.

Sales in **Latin America**, excluding currency translation, improved mid-single digit for the first quarter of 2019 compared to the first quarter of 2018. Sales in Mexico were slightly ahead of a very strong prior year quarter fueled by exceptional mix so profitability reduced significantly in 2019 on change in mix, especially at CCL Secure, although still recording solid results for the current quarter. Sales also increased in Brazil but similar mix challenges reduced profitability, although not to the same extent as Mexico. Profitability in Chile declined on commercial and operational challenges in the quarter. Excluding the impact of currency translation, underlying operating income decreased and return on sales declined.

**Asia Pacific** sales, excluding currency translation, were up low single digit for the first quarter of 2019, compared to the corresponding quarter in 2018. CCL Label sales and profits in China increased significantly, augmented by strong improvement at CCL Design in electronics end markets; results also improved in ASEAN. Australian CCL Label sales and profitability increased on improvement in Healthcare operations. The start-up plant in New Zealand posted start-up losses while South African revenue and profitability improved. CCL Secure posted a strong quarter but below an exceptional prior year period for both sales and profitability on timing of orders; comparisons ease significantly in the second quarter. For the Asia Pacific region, operating income and return on sales improved.

Operating income for the first quarter of 2019 was $142.0 million, compared to $146.3 million for the first quarter of 2018. Return on sales was 16.7% compared to the 18.1% recorded for the same period in 2018. The declines are largely due to reduced profitability in the CCL Secure polymer banknote operations partially offset by the improved results for the legacy CCL Segment operations, for the comparative quarters.

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 $81.2 million in capital spending for the first quarter of 2019, compared to $89.1 million in the same period in 2018. The investments for the first quarter are in line with planned capital expenditures for 2019. Major expenditures for the first quarter period related to capacity additions to support the Home & Personal Care and Food & Beverage businesses 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 $50.1 million for the first quarter of 2019, compared to $48.3 million for the same period of 2018.

## Avery Segment ("Avery")

| ($ millions) | First Quarter | | | | |
|---|---|---|---|---|---|
| | | 2019 | | 2018 | +/- |
| Sales | $ | 157.6 | $ | 146.3 | 7.7% |
| Operating Income [(1)] | $ | 27.9 | $ | 24.0 | 16.3% |
| Return on Sales [(1)] | | 17.7% | | 16.4% | |
| Capital Spending | $ | 2.8 | $ | 2.6 | 7.7% |
| Depreciation and Amortization [(2)] | $ | 4.3 | $ | 3.9 | 10.3% |

(1) Operating Income and Return on Sales are non-IFRS financial measures. Refer to definitions in Section 14.
(2) Depreciation and Amortization expense excludes depreciation of $1.6 million for right-of-use assets in 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 $157.6 million for the first quarter of 2019, compared to $146.3 million for the same quarter last year. The 7.7% increase in sales can be attributed to 2.8% organic growth in sales, 2.7% impact from acquisitions and a 2.2% positive effect from foreign currency translation.

Sales in **North America** for the first quarter of 2019 were up low single digit, excluding currency translation and acquisitions with comparative performance aided by an unusually soft first quarter of 2018 as trade customers bought forward in the fourth quarter of 2017 in advance of a January 2018 price increase. Sales for Printable Media product lines were up slightly while profitability improved significantly on strong sales mix. Direct to Consumer product lines continued to post double digit sales and profitability improvements. Sales for OPG declined modestly, principally driven by reduced volumes in low margin ring binders. However, sales gains in ancillary products partially offset and mix improved profitability for the OPG line.

**International** sales, largely generated in the Printable Media category, represented approximately 29% of Avery sales for the quarter. Excluding currency translation and acquisitions, sales in Europe were up, partially offset by declines in Latin America and Australia compared to the prior year first quarter. Direct to Consumer sales and profitability growth rates outpaced traditional business lines driving modest overall profitability improvement for the first quarter of 2019 compared to the same period in 2018.

Operating income for the first quarter of 2019 increased 16.3% to $27.9 million compared to $24.0 million for the first quarter of 2018. Return on sales improved to 17.7%, compared to 16.4% recorded for the same quarter in 2018.

Avery invested $2.8 million in capital spending in the first quarter of 2019 compared to $2.6 million in the same period a year ago. The majority of the expenditures were capacity additions in the Direct to Consumer operations in North America. Depreciation and amortization was $4.3 million for the first quarter of 2019 compared to $3.9 million for the 2018 first quarter.

## Checkpoint Segment ("Checkpoint")

| ($ millions) | First Quarter | | |
|---|---|---|---|
| | **2019** | **2018** | **+/-** |
| Sales | $ 173.5 | $ 177.4 | (2.2%) |
| Operating Income (1) | $ 20.3 | $ 22.8 | (11.0%) |
| Return on Sales (1) | 11.7% | 12.9% | |
| Capital Spending | $ 5.8 | $ 11.6 | (50.0%) |
| Depreciation and Amortization (2) | $ 7.1 | $ 7.5 | (5.3%) |

(1) Operating Income and Return on Sales are non-IFRS financial measures. Refer to definitions in Section 14.
(2) Depreciation and Amortization expense excludes depreciation of $1.9 million for right-of-use assets in 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 $173.5 million for the first quarter of 2019 compared to $177.4 million for the first quarter of 2018 with 1.8% organic decline and 0.4% negative impact from foreign currency translation. MAS sales declined as expected in North America and Europe due to large chain-wide technology rollouts that took place in each market in the first quarter of 2018. MAS Asian operations posted improved sales and profitability on strong sales mix. ALS posted significant sales growth with modest profitability improvements on operational challenges. The small Meto business posted reduced sales and a modest improvement in profitability for the first quarter of 2019 compared to the same period in 2018.

Operating income was $20.3 million for the first quarter of 2019 compared to $22.8 million for the first quarter of 2018; return on sales declined to 11.7% from 12.9%.

Checkpoint invested $5.8 million in capital spending in the first quarter of 2019, compared to $11.6 million for the first quarter 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 $7.1 million for the first quarter, compared to $7.5 million for the first quarter of 2018.

**Innovia Segment ("Innovia")**

| ($ millions) | First Quarter | | | | |
|---|---|---|---|---|---|
| | | 2019 | | 2018 | +/- |
| Sales | $ | 149.9 | $ | 95.7 | 56.6% |
| Operating income [(1)] | $ | 14.6 | $ | 7.5 | 94.7% |
| Return on Sales [(1)] | | 9.7% | | 7.8% | |
| Capital Spending | $ | 7.5 | $ | 4.7 | 59.6% |
| Depreciation and Amortization [(2)] | $ | 9.8 | $ | 7.9 | 24.1% |

(1) Operating Income and Return on Sales are non-IFRS financial measures. Refer to definitions in Section 14.
(2) Depreciation and Amortization expense excludes depreciation of $0.6 million for right-of-use assets in 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 CCL Secure while the smaller legacy facilities produce almost their entire output for CCL Label.

Sales for Innovia were $149.9 million for the first quarter of 2019 compared to $95.7 million for the first quarter of 2018. The components of the 56.6% increase in sales are 0.8% organic growth, 0.5% negative impact from currency translation and 56.3% from the Treofan acquisition. Legacy Innovia sales improved on price increases, coupled with better mix, productivity and stable resin costs in the European and Asian markets, led to improved profitability compared to the first quarter of 2018. The Treofan operation, acquired in July 2018, posted improved profitability compared to the fourth quarter of 2018. Operating income was $14.6 million compared to operating income of $7.5 million in the 2018 first quarter.

Innovia invested $7.5 million in capital spending for the first quarter of 2019 compared to $4.7 million for the first quarter of 2018. The majority of the expenditures were in Mexico for the completion of the new film line and in the U.K. to enhance efficiency of the manufacturing facility. Depreciation and amortization was $9.8 million for the first quarter 2019, compared to $7.9 million for the first quarter of 2018.

## Joint Ventures

| ($ millions) | First Quarter 2019 | | 2018 | | +/- |
|---|---|---|---|---|---|
| Sales (at 100%) | | | | | |
| CCL joint ventures | $ | 30.2 | $ | 28.5 | 6.0% |
| Rheinfelden* | | - | | 1.3 | n.m. |
| CCL Total | $ | 30.2 | $ | 29.8 | 1.3% |
| Earnings (losses) in equity accounted investments | | | | | |
| CCL joint ventures | $ | 1.5 | $ | 1.1 | 36.4% |
| Rheinfelden | | (0.4) | | (0.2) | (100.0%) |
| CCL Total | $ | 1.1 | $ | 0.9 | 22.2% |

* 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 significant sales and profitability improvements, partially offset by reduced profitability for CCL-Kontur due to higher overhead costs related to capacity expansions for the 2019 first quarter compared to the prior year first 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 late second quarter 2019. Earnings in equity accounted investments amounted to $1.1 million for the first quarter of 2019 compared to income of $0.9 million for the first 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 first 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 first quarter of 2019 were impacted by the appreciation of the Canadian dollar against the euro, U.K pound, Brazilian real and Chinese renminbi by 2.8%, 1.6%, 9.4% and 1.0%, 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, Mexican Peso and Thai baht of 5.1%, 2.7% and 4.9%, respectively, when comparing the rates in the first quarters of 2019 and 2018. For the first quarter of 2019, currency translation had a negligible 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)**

| | | **March 31, 2019** | | **December 31, 2018** |
|---|---|---|---|---|
| Current debt | $ | 2.0 | $ | 71.8 |
| Current lease liabilities | | 37.0 | | - |
| Long-term debt | | 2,504.0 | | 2,419.8 |
| Long-term lease liabilities | | 130.5 | | - |
| Total debt | | 2,673.5 | | 2,491.6 |
| Cash and cash equivalents | | (495.8) | | (589.1) |
| Net debt [1] | $ | 2,177.7 | $ | 1,902.5 |
| | | | | |
| EBITDA[1][2] | $ | 1,017.2 | $ | 995.3 |
| Proforma lease expense[3] | | 21.9 | | - |
| Proforma EBITDA | $ | 1,039.1 | $ | 995.3 |
| Net debt to Proforma EBITDA [1] | | 2.10 | | 1.91 |

(1) Net debt, EBITDA and net debt to Proforma EBITDA are non-IFRS financial measures. Refer to definitions in Section 14 of this MD&A.
(2) EBITDA is calculated on a trailing twelve-month basis. Refer to definitions in Section 14 of this MD&A.
(3) Proforma lease expense represents the estimated lease expenses for the nine 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 quarter of 2019, the Company drew down $104.0 million on its syndicated revolving credit facility and bilateral term facility. Payments on debt of $43.9 million were primarily used to repay syndicated revolving debt.

The Company's debt structure at March 31, 2019, was primarily comprised of 144A private bonds of US$500.0 million ($660.4 million), Canadian bonds of $300 million, the syndicated revolving credit facility with an outstanding balance of $1,025.4 million, the term loan facility of US$366.0 million ($488.3 million) and the bilateral credit facility outstanding balance of US$20.7 million ($27.6 million). 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). Furthermore, with the adoption IFRS 16, an additional $167.5 million of lease liabilities previously not recorded on the consolidated condensed interim statement of financial position were included in total debt.

Net debt was $2,177.7 million at March 31, 2019, $275.2 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 aforementioned additional lease liabilities and a $93.3 million reduction of cash-on-hand compared to December 31, 2018.

Net debt to proforma EBITDA at March 31, 2019, increased as expected to 2.10 times, compared to 1.91 times at December 31, 2018, reflecting the increase in net debt attributable to lease liabilities without a proportionate increase in EBITDA for the associated lease payments that were reclassified according to IFRS 16.

Including $3.2 million of outstanding letters of credit, the Company had approximately US$428.6 million of available capacity within its syndicated revolving credit facility as at March 31, 2019.

The Company's overall average finance rate, excluding lease liabilities, was 2.7% as at March 31, 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

| | First Quarter | |
|---|---|---|
| **Summary of Cash Flows** | **2019** | **2018** |
| Cash provided by operating activities | $ 5.0 | $ 74.3 |
| Cash provided by (used in) financing activities | 26.1 | (26.2) |
| Cash used for investing activities | (112.0) | (113.3) |
| Translation adjustments on cash and cash equivalents | (12.4) | 24.2 |
| Decrease in cash and cash equivalents | $ (93.3) | $ (41.0) |
| Cash and cash equivalents – end of period | $ 495.8 | $ 516.5 |
| Free cash flow from operations (1) | $ (90.2) | $ (31.0) |

(1) Free cash flow from operations is non-IFRS financial measure. Refer to definition in Section 14.

During the first quarters of 2019 and 2018, the Company generated cash from operating activities of $5.0 million and $74.3 million, respectively. Free cash flow from operations was an outflow of $90.2 million in the 2019 first quarter compared to an outflow of $31.0 million in the prior year first quarter. A reduction in trade payables and other payables was the primary driver for reduced cash from operating activities and free cash flow from operations.

Capital spending in the first quarter of 2019 amounted to $97.3 million compared to $109.1 million in the 2018 first quarter. Total depreciation and amortization for the first quarter of 2019 was $80.8 million, including $9.2 million of depreciation for right-of-use assets resulting from the adoption of IFRS 16 not reflected in the in $67.9 million for the first 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 first quarters of 2019 and 2018 were $30.2 million and $23.0 million, respectively. The total number of shares issued and outstanding as at March 31, 2019 and 2018, were 178.0 million and 177.5 million, respectively. Since the Company's current cash flow and financial position are strong and its outlook for the remainder of 2019 continues to be positive, 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 June 14, 2019, and payable June 28, 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

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. The Company continues to evaluate the appropriate levels of fixed versus floating interest rate debt and underlying currency of its drawn debt.

As at March 31, 2019, the Company had US$960.0 million, EUR18.5 million and GBP60.3 million term loan and syndicated bank credit facility, which are hedging a portion of its US$-based, euro-based and GBP-based investments and cash flows.

As at March 31, 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 $3.9 million for the three months ended March 31, 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 three months ended March 31, 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 $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.

## 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 first three months of 2019 other than the adoption of IFRS 16.

## 10. Controls and Procedures

In accordance with the provisions of National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings, management, including the CEO and CFO, have limited the scope of their design of the Company's disclosure controls and procedures and internal control over financial reporting to exclude controls, policies and procedures of Treofan. The Company acquired Treofan on July 2, 2018, for approximately $307.6 million.

The scope of the limitation is primarily based on the time required to assess Treofan's disclosure controls and procedures and internal control over financial reporting in a manner consistent with the Company's other operations. Further details related to the summary financial information of Treofan is disclosed in Note 3(g) of the Company's unaudited consolidated condensed interim financial statements for the period ended March 31, 2019.

Except for the preceding changes, there were no other material changes in internal control over financial reporting in the three-month period ended March 31, 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 three months of 2019.

## 12. Outlook

The Company posted solid results for the first quarter of 2019 with organic sales growth for the CCL, Avery and Innovia Segments. Legacy CCL Label businesses including CCL Design all improved. CCL Secure's results were good, albeit less than an exceptional prior year period. Strong gains in the Direct to Consumer offering elevated Avery's results with an easy comparison to the prior year in legacy product lines. Innovia results improved on price increases, mix and operational initiatives. Checkpoint posted a better-than-expected quarter on solid performance in the base MAS business, excluding the two large 2018 technology installations, and continued improvements in ALS. Consolidated first quarter adjusted basic earnings were in line with expectations at $0.71 per class B share.

CCL Segment results should improve in the second quarter as CCL Secure plants are fully loaded compared to a volume hiatus in 2018. Other business lines are also expected to be at or up on prior year overall as order intake remains stable.

Avery should match prior year second quarter results subject to the timing of back to school orders in the United States, either late in the second quarter or early third quarter. The direct-to-consumer digital businesses should continue to outperform, while management looks for additional acquisitions to add incremental digital capabilities and products.

Since the acquisition, Checkpoint's MAS product line sales and incremental profitability outpaced the ALS product line. MAS moves into its seasonally stronger period over the next two quarters. ALS will commence a $6.0 million restructuring initiative through the second half of 2019 and early 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.

Financial results for Innovia improved in the first quarter of 2019 due to pricing, productivity initiatives, mix and stabilizing resin costs. Further enhancements are still required in future periods to improve margins using the same levers. For the up-coming quarters, focus will be on the start-up of the new BOPP line, the largest piece of industrial equipment in CCL's history, at Innovia's Mexican operation. Start-up costs are more likely to affect the third quarter of 2019 and may affect the profitability improvement for the Segment temporarily.

Order levels going into the second quarter of 2019 remain steady.

The Company finished the first quarter with $495.8 million of cash-on-hand, and additional liquidity of US$428.6 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 be nominally beneficial at current exchange rates for the second quarter, largely due to the strengthening U.S. dollar to the Canadian dollar.

## 13. Subsequent Events

In April of 2019, the Company acquired Hinsitsu Screen (Vietnam) Company Limited ("Hinsitsu"), based in Hanoi, with a second manufacturing operation in Ho Chi Minh City. Hinsitsu is a leading supplier of durable and tamper evident labels and graphic overlays for the electronics industry in Vietnam. The agreed purchase consideration, net of cash acquired, was $12.4 million.

## 14. 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.

<u>Adjusted Basic Earnings per Class B Share</u> – 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.

| **(in millions of Canadian dollars)** | First Quarter | |
|---|---|---|
| **EBITDA** | **2019** | **2018** |
| Net earnings | $ 123.6 | $ 118.7 |
| Corporate expense | 14.3 | 19.1 |
| Earnings in equity accounted investments | (1.1) | (0.9) |
| Finance cost, net | 22.0 | 19.0 |
| Restructuring and other items – net loss | 1.4 | 3.3 |
| Income taxes | 44.6 | 41.4 |
| Operating income (a non-IFRS measure) | $ 204.8 | $ 200.6 |
| Less: Corporate expense | (14.3) | (19.1) |
| Add: Depreciation and amortization | 80.8 | 67.9 |
| EBITDA (a non-IFRS measure) | $ 271.3 | $ 249.4 |

| | **2019** | **2018** |
|---|---|---|
| EBITDA for 12 months ended December 31, 2018 and 2017, respectively | $ 995.3 | $ 959.2 |
| less: EBITDA for three months ended March 31, 2018 and 2017, respectively | (249.4) | (211.6) |
| add: EBITDA for three months ended March 31, 2019 and 2018 respectively | 271.3 | 249.4 |
| **EBITDA for 12 months ended March 31** | $ 1,017.2 | $ 997.0 |

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.

**(in millions of Canadian dollars)**

| Free Cash Flow from Operations | **First Quarter** | |
|---|---|---|
| | **2019** | **2018** |
| Cash provided by operating activities | $ 5.0 | $ 74.3 |
| Less: Additions to property, plant and equipment | (97.3) | (109.1) |
| Add: Proceeds on disposal of property, plant and equipment | 2.1 | 3.8 |
| Free Cash Flow from Operations | $ (90.2) | $ (31.0) |

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, lease liabilities, less cash and cash equivalents.

Net Debt to EBITDA and Net Debt to Proforma 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 Proforma EBITDA is calculated as net debt divided by Proforma EBITDA. Proforma EBITDA removes for the nine 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 – 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 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 First Quarter | | Operating Income First Quarter | | Return on Sales First Quarter | |
|---|---|---|---|---|---|---|
| Industry Segments | **2019** | **2018** | **2019** | **2018** | **2019** | **2018** |
| CCL | $ 851.1 | $ 807.7 | $ 142.0 | $ 146.3 | 16.7% | 18.1% |
| Avery | 157.6 | 146.3 | 27.9 | 24.0 | 17.7% | 16.4% |
| Checkpoint | 173.5 | 177.4 | 20.3 | 22.8 | 11.7% | 12.9% |
| Innovia | 149.9 | 95.7 | 14.6 | 7.5 | 9.7% | 7.8% |
| Total Operations | $ 1,332.1 | $ 1,227.1 | $ 204.8 | $ 200.6 | 15.4% | 16.3% |

**Supplemental Financial Information**

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

| | Three Months Ended March 31, 2019 | | | |
|---|---|---|---|---|
| | **Organic Growth** | **Acquisition Growth** | **FX Translation** | **Total** |
| CCL | 4.2% | 0.7% | 0.5% | 5.4% |
| Avery | 2.8% | 2.7% | 2.2% | 7.7% |
| Checkpoint | (1.8%) | - | (0.4%) | (2.2%) |
| Innovia | 0.8% | 56.3% | (0.5%) | 56.6% |
| Total | 2.9% | 5.2% | 0.5% | 8.6% |