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ASX Release

HY23 RESULTS REFLECT ONGOING BUSINESS RECOVERY AND A SIGNIFICANT UPLIFT ON 2H FY22

Inghams Group Limited (ASX: ING, Ingham's, the Company) today announced its interim financial results for 2023.

Key results

- **1H results, whilst below the prior corresponding period (PCP), represent a significant improvement on 2H FY22, with core poultry volume growth of +3.2% and EBITDA increased +31.3% (Underlying EBITDA pre AASB 16 growth of +135.2%)**
- **Group core poultry sales volume slightly down by -0.6% on PCP**
- **EBITDA of $197.0 million, down 10.6% and Underlying EBITDA pre AASB 16 of $83.5 million, down 16.2% on PCP**
- **NPAT of $17.2 million, a decline of 55.2% and Underlying NPAT pre AASB 16 of $33.7 million, a decline of 29.9% on PCP**
- **Interim fully franked dividend of 4.5 cents per share**
- **Net Debt of $294.2 million and leverage of 2.5x times; extended $345 million of debt facilities for a further 2 years to November 2025**

Ingham's CEO and Managing Director, Andrew Reeves, said: "Our results for the first half represent a significant improvement for the business over second half of FY22, and we expect this positive momentum to continue as we proceed through the second half of the financial year.

"While it is clear the business is successfully transitioning from the various operational challenges experienced over the past 12 months, our farming operations are taking longer to return to normal levels, resulting in lower than required poultry volumes. We also continue to manage a number of general market headwinds including supply chain disruptions and broad inflationary pressures, that are a feature of the current operating environment.

"Overall, the poultry sector remains attractive, underpinned by strong demand with key long-term trends intact. Our underlying business is in good shape, and our diverse network and market leading integrated operating model provide a strong platform for future growth."

FINANCIAL RESULTS

Core poultry sales volume declined slightly, down 0.6%. In addition to COVID-related volume increases in the prior corresponding period, the reduction in volumes was due to a decline in farming performance in Australia which resulted in lower bird numbers available for processing. In New Zealand egg settings were reduced to reflect lower labour availability and CO_2 supply constraints during the period. Importantly, core poultry volumes grew 3.2% versus 2H FY22.

EBITDA declined 10.6% on PCP to $197.0 million, below Underlying EBITDA of $210.2 million due mainly to Business Transformation costs incurred during the period. NPAT was 55.2% lower on PCP at $17.2 million.

The Company's revenue increased 8.9% versus the prior corresponding period due largely to higher average selling prices. Cost of sales increased 10.9% during the half. Broad cost inflation is being experienced across many inputs, including feed, fuel and transport, packaging and ingredients. Feed costs increased by $57.9 million versus the prior corresponding period.

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During the period the Company completed the design phase of its Business Transformation[1] program, which has delivered a solid architecture platform on which the implementation phase will be based. However, the Company has decided to postpone for the medium-term this next phase, with the aim of maximising management attention and effort on key operational and business priorities, with investment prioritised on high-returning projects that will further support the recovery and future growth.

Cash flow from operations was $140.3 million for the half, down 24.8% versus PCP, due to lower trading results, spend on Business Transformation and an increase in working capital. The Company recorded a cash conversion ratio of 74.8%, a decline versus PCP due to an increase in Biological assets as the higher cost of feed cycles through the asset class, and an increase in Trade Receivables due to average selling price growth.

Key Results Summary	HY23	Variance to HY22		% Variance	Var. to 2H FY22		% Variance
Group Core Poultry Volume (kt)	235.7	(1.4)	▼	(0.6)	7.3	▲	3.2
EBITDA ($M)	197.0	(23.4)	▼	(10.6)	47.0	▲	31.3
NPAT ($M)	17.2	(21.2)	▼	(55.2)	20.5	▲	NM
Underlying EBITDA ($M)	210.2	(12.2)	▼	(5.5)	51.8	▲	32.7
Underlying NPAT ($M)	26.6	(13.1)	▼	(33.0)	23.9	▲	885.2
Underlying EBITDA pre AASB 16 ($M)	83.5	(16.2)	▼	(16.2)	48.0	▲	135.2
Underlying NPAT pre AASB 16 ($M)	33.7	(14.4)	▼	(29.9)	24.7	▲	274.4
Dividends (fully franked) (cps)	4.5	(2.0)	▼	(30.8)	4.0	▲	800.0

OPERATIONS

Australia

In Australia, core poultry volumes recorded a small reduction of 0.3% versus PCP, with revenue increasing 9.6% on PCP driven by a combination of an 8.5% increase in total poultry net selling prices and a 29.6% increase in external feed pricing. External feed volumes continued to decline, down 3.6%, due to the ongoing customer transition in preparation for closure of the Company's WA Feedmill. During 1H, the Company has experienced a shortage of high-quality eggs, attributable to a small reduction in fertility levels due to the performance of breeding roosters. Breeder operations have a 60-65 week cycle and the issues were exacerbated during the Omicron wave in early 2022. Accordingly, less high-quality eggs have been set, resulting in a reduction in Day Old Chick (DOC) numbers and less chicken meat available for processing. We have addressed this issue by increasing the supply of high-quality eggs with the new NSW breeder farm, increasing breeder hen and rooster numbers, implementing husbandry improvements and diet changes. Encouragingly, January/February has brought good improvements, with positive trends continuing in DOC numbers, however it will be later in 2H before the benefits of more chickens being available are seen and the financial benefits accrue.

New Zealand

In New Zealand, core poultry volume declined by 2.4% versus PCP, with lower chicken available for sale due to an adjustment to egg settings in response to both significant labour availability and CO_2 supply constraints at the Company's primary and processing facilities during the period. Revenue increased 4.8% on PCP, attributable to an increase in total poultry net selling prices of 7.4% (14.1% NZD). While the business experienced challenges in the operating environment early during 1H, notably through shortages in both labour and CO_2, both operating and financial performance has shown an improving trend as the period progressed.

BALANCE SHEET & CAPITAL MANAGEMENT

Net debt increased to $294.2 million, up 10.1% on FY22, due to reduced operating earnings and working capital requirements. Principally due to the reduced earnings over the last 12 months the Company's leverage ratio was 2.5 times at 31 December, above the Company's target range of 1.0x – 2.0x. Total capital expenditure of $23.5 million was in line with PCP.

[1] Refers to business processes, ERP and IT transformation

In November, the Company extended $345 million of debt facilities for a further 2 years to November 2025 with the syndicated bank group.

DIVIDENDS

An interim fully franked dividend of 4.5 cents per share has been declared, representing a payout ratio of 63%, within the Company's policy range.

INVESTING IN NETWORK & AUTOMATION

Following a detailed review of the Company's operational network and market environment, the Company will undertake a series of new investments in processing technology. The investments in automation, in addition to the current development of a new breeder triangle in Northern New South Wales, are focused on future proofing the business through improved production capability and resilience to meet current and future consumer requirements.

On 17 February 2023, Inghams entered into an agreement for the conditional purchase of the poultry meat business and assets of Bromley Park Hatcheries (BPH) for NZ$8.6 million, with a third-party lessor to acquire land and facilities and to enter into a long-term lease with Inghams. The final purchase price is subject to working capital adjustments at the date of completion. BPH own and operate a number of breeder farms as well as a hatchery in New Zealand and are currently used by Inghams as a 3rd party supplier of Day Old Chicks (DOC). The purchase is expected to settle in the first quarter of FY24 after a number of purchase conditions are satisfied, including Commerce Commission and Overseas Investment Office approval. The acquisition provides the opportunity for Ingham's NZ to become self-sufficient in respect of its DOC requirements and also reduces network risk, improves hatchery contingency with a modern hatchery, whilst providing for future growth.

SUMMARY

As the HY23 results show, Inghams is successfully transitioning from the operational disruptions experienced in FY22, and management is firmly focused on returning the business's operations and financial performance to full recovery.

Healthy growth in poultry demand is being seen as consumer activity returns to pre-COVID patterns, which combined with an industry-wide reduction in the volume of chicken available for sale during the last 6 months has underpinned a favourable pricing environment, as reflected in the growth in average selling prices during the period.

As we move into the second half of FY23, some headwinds remain. The Company has implemented initiatives to address the reduced 1H farming performance, and while there is an improving performance trend early 2H FY23 it will be later in 2H before the benefits of more chickens are seen and the financial benefits accrue. Broad inflationary pressures continue to be felt across the business, with further increases expected for key inputs including labour, fuel, freight, packaging, utilities and ingredients. While the pricing of feed ingredients stabilised in 1H, the pricing of wheat and soymeal is expected to remain elevated versus longer-term levels due to tight global supply and elevated logistics costs.

Group net selling prices grew strongly during 1H and Inghams remains focused on ensuring customer pricing levels appropriately reflect these ongoing feed and inflationary cost pressures and will pass on further price increases as required.

The poultry sector remains a growing sector, holding a significant and growing affordability advantage over red meat and seafood alternatives which is particularly attractive in the current inflationary environment. Importantly, ongoing discussions with key customers highlights their strategic focus on the poultry segment, reaffirming our optimism for the category over the medium to longer term.

MARKET BRIEFING

Ingham's will hold a market briefing today at 10.00am (AEDT) today, 17 February, hosted by Andrew Reeves (Chief Executive Officer and Managing Director) and Gary Mallett (Chief Financial Officer). The webcast can be accessed using the following link:

https://web.lumiagm.com/372678803

If you prefer to dial-in to the presentation, please use the following number: +61 3 4158 8532.

This announcement has been authorised by the Inghams Group Limited Board.

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