

16 February 2024



ASX Release

Strong 1H24 results driven by solid operating performance, growth in margin and volume

Inghams Group Limited (ASX: ING) (Inghams, Company) today announced its interim financial results for 2024.

Key results

- **EBITDA of \$253.7 million, up 28.8% and Underlying EBITDA pre AASB 16 of \$138.4 million, up 65.9% on the prior corresponding period (PCP)**
- **NPAT of \$63.4 million, an increase of 268.6% and Underlying NPAT pre AASB 16 of \$69.3 million, an increase of 107.5% on PCP**
- **Group core poultry sales volume increased 2.2% on PCP**
- **Interim fully franked dividend of 12.0 cents per share, representing growth of 20.0% on the final (2H23) dividend and 166.7% on PCP**
- **Net Debt of \$345.9 million and leverage of 1.5x**

Inghams CEO and Managing Director, Andrew Reeves, said: "Inghams has delivered a strong interim result, in-line with our trading update provided in October 2023. Our underlying business is performing well and provides a strong platform for future earnings growth.

"Our interim results reflect the benefit of the price increases that were applied during FY23 and early FY24 in response to a significant growth in costs, modest volume growth, improved margins and the continued improvement in operational performance in both farming and processing.

"The poultry sector remains attractive, with key long-term trends intact, and while there has been a significant acceleration in inflation in recent times which has seen poultry prices rise, poultry continues to be the protein of choice and remains significantly more affordable than red meat."

FINANCIAL RESULTS

Core poultry sales volume increased 2.2% on PCP. In Australia, volume grew 1.0%, and reflects a shift in channel mix as consumers responded to cost of living pressures through increased demand for in-home dining and convenience products. As a result, Retail volume experienced strong growth of 9.3%, which was substantially offset by a reduction in volume in QSR and other out-of-home channels through 2Q24. In New Zealand, core poultry volumes grew 9.5% in 1H24, as production capacity returned to normal levels versus 1H23, when production volumes were significantly impacted by lower egg setting in response to labour and CO₂ shortages.

Revenue increased 8.7% on PCP to \$1.64 billion, driven largely by growth in Net Selling Prices (NSP) across all channels, reflecting NSP increases implemented in FY23 and early FY24 in response to increased costs. NSP in 1H24 are broadly in line with pricing levels reported for end 4Q23.

EBITDA increased 28.8% on PCP to \$253.7 million, while Underlying EBITDA pre AASB 16 increased 65.9% to \$138.4 million. NPAT increased 268.6% on PCP to \$63.4 million.

Underlying costs grew at 6.9% versus PCP, with internal feed cost increasing \$10.8 million, while other costs increased \$78.3 million due to growth in volume and inflation, partially offset by efficiencies and an improvement in operational performance.

Cash flow from operations was \$223.7 million for 1H24, an increase of \$83.4 million versus PCP, reflecting higher EBITDA and improved cash conversion. The Company's cash conversion ratio was up 14.3 percentage points versus PCP to 89.1%, which reflects strong cash collection notwithstanding an increase in inventory.

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Key Results Summary	1H24	Variance to 1H23		% Variance
Group Core Poultry Volume (kt)	240.8	5.1	▲	2.2
Revenue	1,642.2	131.0	▲	8.7
EBITDA (\$M)	253.7	56.7	▲	28.8
NPAT (\$M)	63.4	46.2	▲	268.6
Underlying EBITDA (\$M)	252.1	41.8	▲	19.9
Underlying NPAT (\$M)	62.3	35.7	▲	134.2
Underlying EBITDA pre AASB 16 (\$M)	138.4	55.0	▲	65.9
Underlying NPAT pre AASB 16 (\$M)	69.3	35.9	▲	107.5
Dividends (fully franked) (cps)	12.0	7.5	▲	166.7

Australia

In Australia, core poultry volume increased 1.0% versus PCP. The modest growth in volume in 1H24 includes a shift in channel mix toward Retail, as consumers responded to cost of living pressures which resulted in a decline in QSR and other out-of-home channel volumes.

Revenue increased 7.2% on PCP, driven by volume growth and an 8.4% increase in Core Poultry NSP, in response to cost growth across the business, and a decline in external feed revenue of 20.3% due to the closure of the Wanneroo feedmill in April 2023. Underlying total costs increased 6.4% in the period, driven by a number of factors, including an increase in internal feed costs as a result of both higher production volume and a small increase in domestic feed pricing, while growth in other costs of 7.8% included provision for short and long-term incentive costs, cyber security and IT investments, electricity, ingredients, and repairs and maintenance costs. External feed and Ingredients EBITDA were broadly flat in the period.

New Zealand

New Zealand core poultry volume grew by 9.5% versus PCP, with volume growth reflecting improved production with a return to normal operating cadence, with the PCP impacted by labour and CO₂ shortages. External Feed volumes increased 5.9% due to an increase in demand from third party table-egg customers.

Revenue increased 17.5% on PCP, attributable to core poultry volume growth and an increase of 9.4% in core poultry NSP, reflecting the effect of FY23 increases. Underlying costs increased 9.3% versus 1H23. Internal feed cost was flat, as the decline in international feed pricing was offset by the increase in volume, while growth in other costs of 13.2% was the result of increases in labour, electricity, ingredients, and repairs and maintenance costs.

BALANCE SHEET & CAPITAL MANAGEMENT

Total capital expenditure during the period was \$117.8 million, following the Company's acquisition of the previously leased Bolivar Primary Processing facility (\$75.6 million) in South Australia, the acquisition of Bromley Park Hatcheries in New Zealand (\$3.5 million), and the ongoing investments in automation (\$12.2 million).

Net debt increased \$83.4 million on PCP to \$345.9 million. Combined with the continued improvement in earnings, the Company's leverage ratio increased marginally to 1.5 times, comfortably within the target range of 1.0 – 2.0 times.

Inventories increased by \$31.0 million, due largely to an increase in processed poultry inventories during the period to support improved customer service level performance and Further Processed poultry inventories due to a softening of demand in out-of-home channels in 2Q24, restocking, and an increase in Biologicals following the acquisition of Bromley Park Hatcheries in New Zealand.

INVESTING IN NETWORK & AUTOMATION

The focus on higher levels of automation is a key consideration for Inghams as part of its network analysis and planning. As part of the automation investment program announced in FY23, the acquisition of four modern leg deboning machines in Australia has been completed ahead of schedule and budget, with installation of all four new deboning machines completed by December 2023. The introduction of these machines will, over time, provide cost savings, higher yield and throughput outcomes, and improved product quality. It is also expected that they will support increased production of value-add products and new customer opportunities. Higher levels of automation are also expected to deliver meaningful safety benefits by reducing labour in highly repetitive, labour intensive roles, and thereby improving the overall health and wellbeing of our people.

Delivery and installation of four state-of-the-art waterjet cutters in Australia remains on-track and is expected to occur progressively into FY25.

Following the end of the period, Inghams' new distribution centre in Hazelmere, WA, commenced operations. The Hazelmere facility is the third of a three-facility investment program that has seen Inghams open new distribution centres at Truganina, Victoria, and Edinburgh Parks, Adelaide, in August 2022 and April 2023 respectively.

DIVIDENDS

Reflecting the strength of the Company's financial performance, an interim fully franked dividend of 12.0 cents per share has been declared, representing an increase of 20% on the final dividend announced in August 2023, an increase of 166.7% on PCP, and a payout ratio of 71.6% of Underlying NPAT, in line with our payout policy.

OUTLOOK

Inghams delivered a strong set of interim results for 1H24, in-line with the trading update provided in October 2023. However, market conditions for consumers over 2H24 are expected to remain challenging, underpinning the shift already being seen toward in-home dining (Retail) from out-of-home (QSR and Food Service) channels. The combined effect of income tax relief for consumers and a modest slowing in the overall rate of inflation may provide some benefit during FY25.

The pricing of key feed ingredients has stabilised in recent months, however Australian wheat pricing is adjusting at a slower rate than international pricing. Based on current market pricing, Inghams anticipates some benefit from lower key feed costs may be seen in FY25, while overall such costs are expected to remain elevated versus longer-term levels.

SG&A is expected to remain higher than PCP in FY24 due to investments in our people and capabilities, short and long-term incentives, cyber security and IT investments. Inghams is also maintaining its long-term focus on operational efficiency and continuous improvement initiatives. This is a key strategic pillar, delivering cost savings and reducing waste, lowering our overall operating costs.

The focus on higher levels of automation remains a key focus. The Group's automation investment program is well progressed, with the installation of the new waterjet cutters expected to occur progressively into FY25.

As advised in the Company's trading update in October 2023, the 2H24 result is expected to be lower than 1H24 due to normal seasonality, and continued inflationary headwinds across labour, feed and other costs including fuel, energy and CO₂.

MARKET BRIEFING

Inghams will hold a market briefing today at 10.00am today, 16 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.lumiconnect.com/392807208>

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

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