Inghams Group Limited

FY2018 Results Presentation

22 AUGUST 2018

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Broiler Farm
South Australia

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Group highlights

Group highlights

Delivering on our strategy – growing volumes and earnings with strong cash flow

Highlights

- Chicken remains the competitive protein with 3.2% growth across ANZ in core Chicken & Turkey volumes
- Strategy implementation continues to deliver improved returns despite a challenging New Zealand market
- Rising energy, feed and insurance costs continue to be offset by strategic initiatives or price increases
- Price increases in the range 5% to 8% plus passed through in AUS across all channels in recent months
- Strong operating cash flow generation supported by working capital management and strategic asset sales
- Leverage ratio reduced to 0.7x

Strategy progress

- Project Accelerate continues to deliver in line with expectations, with further benefits to be delivered
  - benefits flowing through in improved yields, reduced unit costs and improved utilisation of assets
  - initiatives on track in network rationalisation, automation, labour efficiency, procurement and others
  - FP network optimisation announced in June 2018
- Progress made on identifying further opportunities in processing, farming and feed
  - focus on profitability and capacity rationalisation in third party feed sales
- Capital investment in capacity and efficiency continues as planned
  - new South Australian feed mill expected to be in commercial production in Q1 FY19
  - investment in new NZ Breeder facilities expected to be completed by end of H1 FY19
  - further investment planned in WA with a new Feedmill and a Hatchery to be operational in FY21

Financial highlights – FY18 vs FY17

Core Poultry Volume	Gross Profit	*Underlying* EBITDA	EBITDA	*Underlying* NPAT	NPAT	Cash Conv Ratio	Net debt	EPS	Final Dividend
397.7kt ↑ 3.2%	$476.9m ↑ 4.4%	$208.9m ↑ 7.1%	$212.0m ↑ 8.7%	$112.5m ↑ 10.3%	$114.6m ↑ 12.4%	122.9% ↑13.6%	$145.4m ↓ 154.2m	30.8 cps ↑ 12.4%	11.6 cps

Financial performance

- Core chicken and turkey volume grew at 3.2% (total poultry volume including Ingredients grew at 2.0%)
- Underlying EBITDA growth of 7.1% to $208.9m (excluding profit on sale and restructuring)
- Profit on sale of assets of $19.4m, in part offset by restructuring initiatives of $16.3m, net impact $3.1m
- Underlying NPAT growth of 10.3% to $112.5m
- NPAT growth of 12.4% to $114.6m
- Net Debt of $145.4m (leverage ratio 0.7x)
- Earnings Per Share (EPS) growth of 12.4% to 30.8 cps
- Final dividend of 11.6 cents per share (Total dividend for FY18 21.1cps – 70% of NPAT)
- Cash on hand of $273.7m up 83.7% on prior year balance of $149.0m
- Planned Capital Return of $125m, 33.0 cps*

Note: FY17 pro forma based on 52 weeks. A reconciliation between FY17 pro forma and statutory results is included in the Appendix
* Subject to ATO approval

Segment Information – Australia

$ millions (AUD)	Jun-18	Jun-17	Variance	%
<u>Australia</u>				
Poultry volumes (kt)	428.5	421.8	6.7	1.6
Feed volumes (kt)	367.4	442.0	(74.6)	(16.9)
Revenue	2003.9	2,022.6	(18.7)	(0.9)
EBITDA	**175.2**	**158.8**	**16.4**	**10.3**
EBITDA %	8.7%	7.9%	0.8%	

Summary: Australia

> Poultry volume growth excluding ingredients of 2.8%

> Improved margin reflecting realisation of efficiency and automation initiatives and benefits of premiumisation

> Price increases offsetting higher feed and utility costs

Retail

> Growth in premium product ranges partially offset by a moderation in demand for BBQ birds following the market price increases in 2H (approx. 12% retail price increase)

QSR & Food Service

> New business and demand for fresh product driving volume increases

> Further Processed segment remains competitive

Wholesale & Export

> Wholesale volume increases reflect further contractual coverage in this channel and additional opportunities resulting from market rationalisation

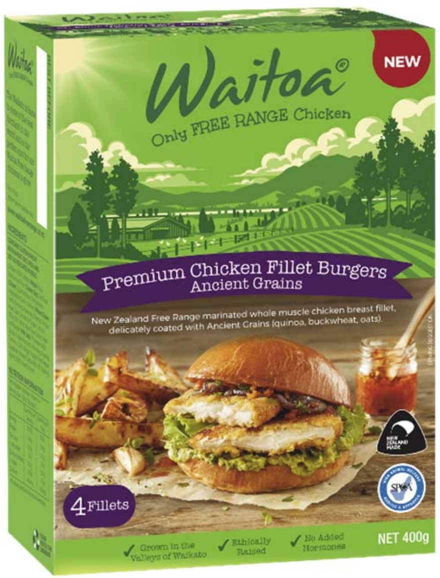
Third Party Feed sales

> Reduction in third party feed volume reflects cycling of third party customer loss in Q2 FY17, reduced demand and subsequent closure of Red Lea Chickens in NSW, and a focus on profitability in this segment

Note: Total Poultry volumes includes core chicken and turkey products in addition to ingredients
Note: FY17 pro forma based on 52 weeks. A reconciliation between FY17 pro forma and statutory results is included in the Appendix

Segment Information – New Zealand

$ millions (AUD)	Jun-18	Jun-17	Variance	%
New Zealand				
Poultry volumes (kt)	76.8	73.5	3.3	4.5
Feed volumes (kt)	137.3	123.2	14.1	11.4
Revenue	370.0	361.3	8.7	2.4
EBITDA	**36.8**	**36.2**	**0.6**	**1.7**
EBITDA %	9.9%	10.0%	-0.1%	



Summary: New Zealand

- Poultry volume growth driven by QSR and Retail
- Challenging market conditions deteriorated further in the 2H due to competitor volumes produced for export but being cleared through domestic channels
- FY trading performance reflects increased price competition due to oversupply in the domestic market
- Successful focus on higher value channels and products, leveraging the strong brand position of Waitoa
- Continue to focus on operational efficiencies driving improved performance
- Disciplined working capital performance

Third Party Feed sales

- Recovery in dairy feed volumes as dairy demand has improved on the back of strengthening milk prices
- Third party chicken feed sales in line with expectations

Note: All financial numbers are in AUD
Note: FY17 pro forma based on 52 weeks. A reconciliation between FY17 pro forma and statutory results is included in the Appendix

Further Processing Plant
Edinburgh Parks, South Australia

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Financial results

Profit & Loss

$ millions	Jun-18	Jun-17	Variance	%
Poultry volumes (kt)	505.3	495.3	10.0	2.0
Feed volumes (kt)	504.7	565.2	(60.5)	(10.7)
Total Revenue	**2,373.9**	**2,383.9**	**(10.0)**	**(0.4)**
Gross Profit	476.9	456.8	20.1	4.4
GP%	20.1%	19.2%	0.9	
Underlying EBITDA	**208.9**	**195.0**	**13.9**	**7.1**
Underlying EBITDA %	*8.8%*	*8.2%*	*0.6*	
EBITDA	**212.0**	**195.0**	**17.0**	**8.7**
Depreciation & Amortisation	(45.4)	(41.6)	(3.8)	(9.1)
EBIT	**166.6**	**153.4**	**13.2**	**8.6**
Net financing costs	(15.2)	(16.3)	1.1	6.7
Tax expense	(36.8)	(35.1)	(1.7)	(4.8)
NPAT	**114.6**	**102.0**	**12.6**	**12.4**
Underlying NPAT	**112.5**	**102.0**	**10.5**	**10.3**
Restructuring / POSA	3.1	-	3.1	
Earnings per share (cents)	30.8	27.4	3.4	12.4

Volume and Revenue Growth

> Continued growth in core poultry volume +3.2% (excluding ingredients)

> 1H v 2H seasonality impact particularly evident in Australia

Gross Profit +4.4%

> Improvement in gross margin reflective of initiatives and the successful pass through of cost increases

Depreciation & Amortisation +9.1%

> Increase reflective of capital investment over recent years

Net financing costs +6.7%

> Reduction due to investment of cash balances partly offset by funding cost of capital investment

Tax expense -4.8%

> Increase in income tax due to profit on sale of assets partially offset by one off historical tax credit of $3.1m

Note: Total Poultry volumes includes core chicken and turkey products in addition to ingredients
Note: FY17 pro forma based on 52 weeks. A reconciliation between FY17 pro forma and statutory results is included in the Appendix

Cash Flow and Balance Sheet

$ millions	Jun-18	Statutory Jun-17	Variance	Pro Forma Jun-17
EBITDA	**212.0**	**198.8**	**13.2**	**195.0**
Non-cash items	(17.5)	(6.6)	(10.9)	(6.6)
Changes in working capital	66.5	23.5	39.8	15.9
Changes in provisions	(0.4)	1.5	(1.9)	1.5
Cash flow from operations	**260.6**	**217.2**	**40.2**	**205.8**
Cash conversion ratio	**122.9%**	**109.3%**	**13.6%**	**105.5%**
Capital expenditure - Inghams	(61.2)	(90.5)	29.3	(90.5)
3rd party capital recovered / (for recovery)	0.7	(4.8)	5.5	(4.8)
Deposits on property acquisitions	(2.5)	-	(2.5)	-
Proceeds from sale of assets	68.0	20.7	47.3	20.7
Net cash flow before financing & tax	**265.6**	**142.6**	**122.3**	**131.2**

$ millions	Jun-18	Statutory Jun-17	Variance	Pro Forma Jun-17
Total Assets	1,140.7	1,073.4	65.4	1,082.5
Net Debt	145.4	299.6	154.2	297.7
Net Debt / LTM EBITDA	**0.7**	**1.5**	**0.8**	**1.5**

Cashflow

- Non-cash items relate to the profit on sale of Wanneroo ($14.1m) and Leppington ($5.3m) offset by other minor items including LTIP
- Continued improvements in working capital through tight inventory, receivables and payables management
  - Operating cash conversion 122.9%
    - inventory financing benefit in the year $23.0m
    - operating cash conversion excl. inventory financing 112.1%
- Net Debt to EBITDA reduced to 0.7x

Working capital	Jun-18	Statutory Jun-17	Variance	Pro Forma Jun-17
Receivables	197.7	218.5	20.8	231.5
Biological assets	117.9	114.6	(3.3)	112.5
Inventories	151.3	163.6	12.3	156.5
Payables	(302.7)	(266.0)	36.7	(278.8)
Total	**164.2**	**230.7**	**66.5**	**221.7**

Capital program

- Asset sales relates to Wanneroo (WA), Burton Road (SA) and Leppington (NSW)
- Third party capital recoveries primarily relate to SA feed mill and SA breeder farm expansion projects

Feed mill
Berrima, New South Wales

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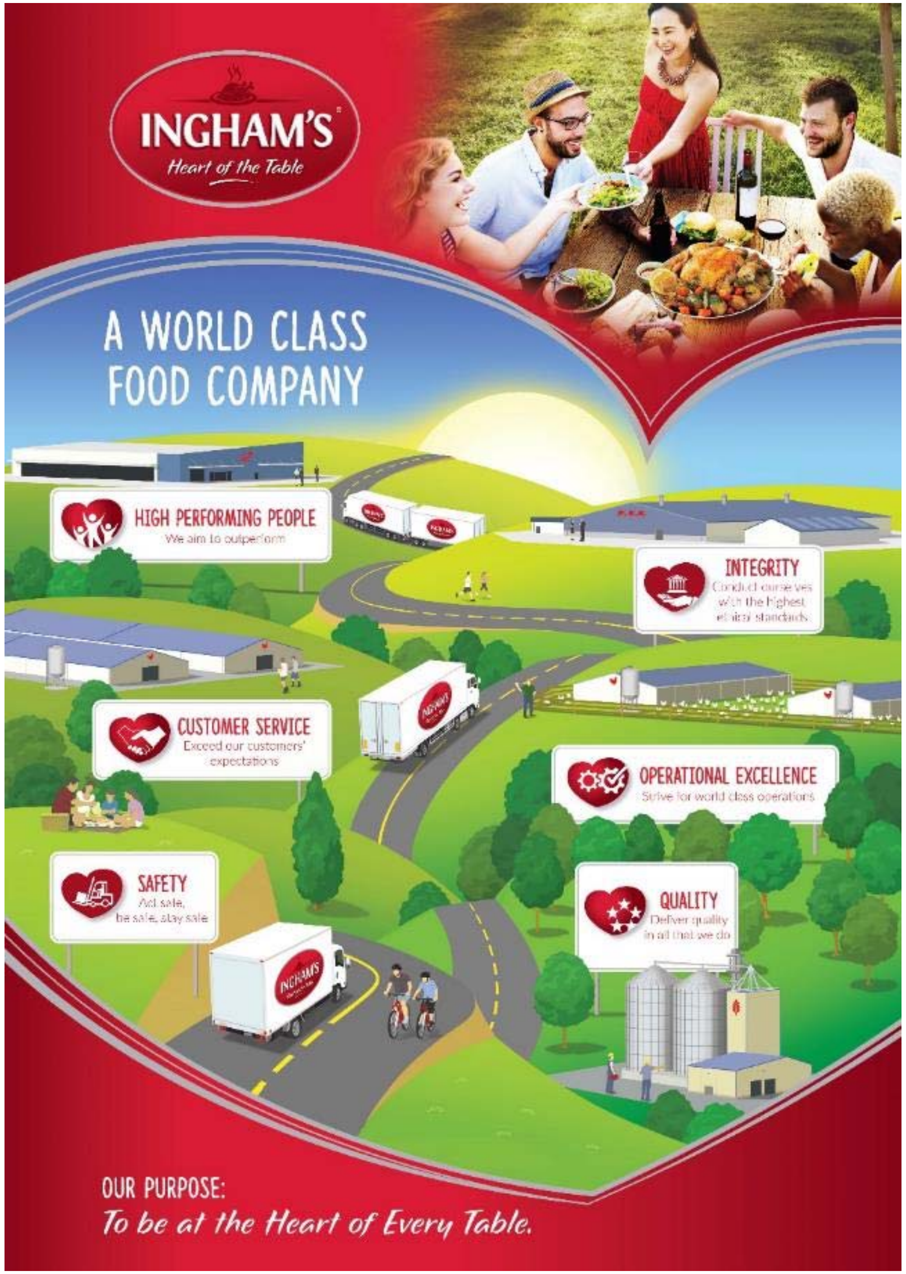
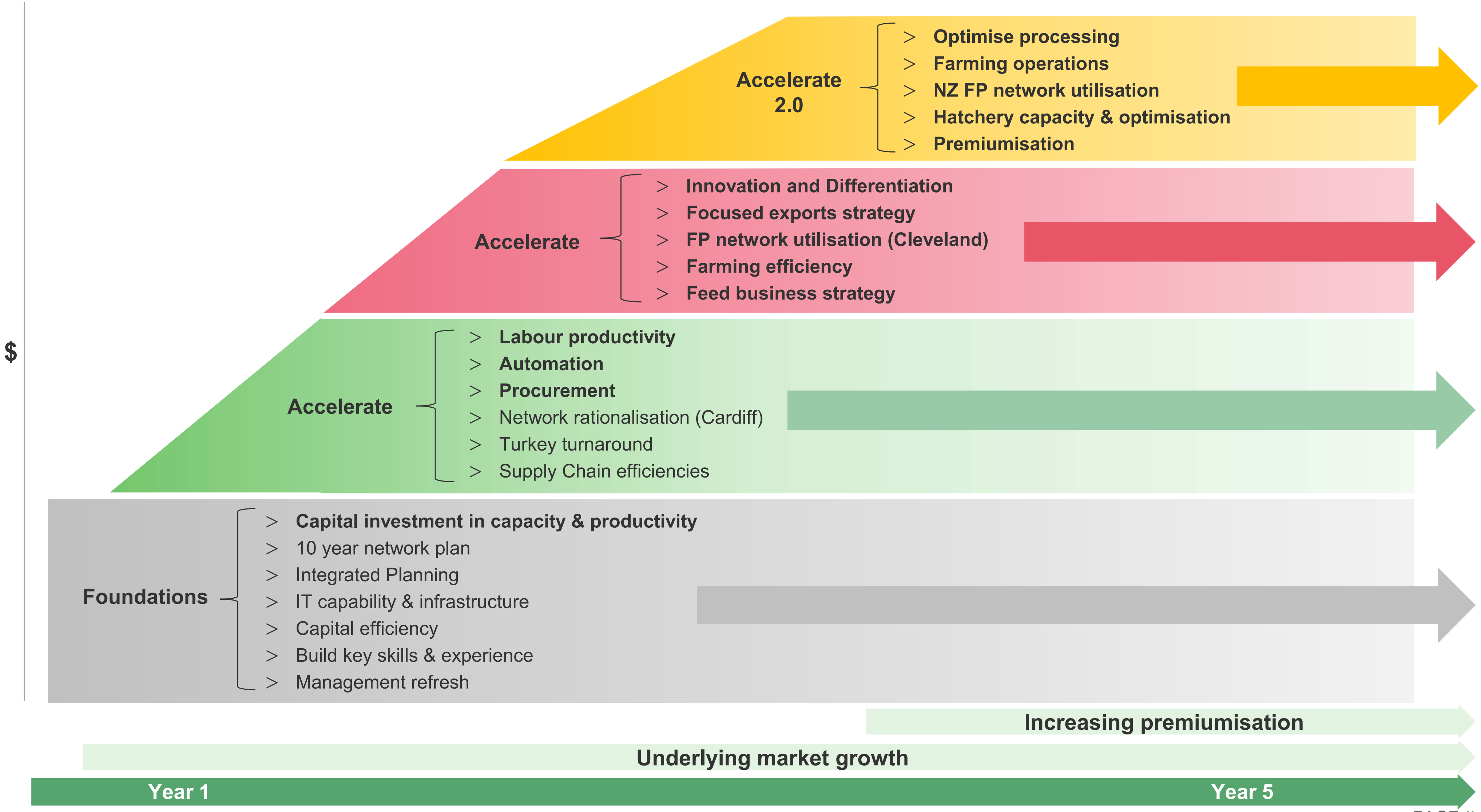
Strategy update

Ingham's – A World Class Food Company



Project Accelerate – opportunity pipeline strong

Implementation of the multi year transformation project continues



The growth benefits from Project Accelerate are designed to allow Ingham's to remain competitive, mitigate inflation in costs and contribute to profit growth

Strategy update

Project Accelerate

- **Automation** delivering benefits in improved processing yields and reduced unit costs across major Primary plants
  - program continues with deboning initiatives planned at Te Aroha (New Zealand) and a focus on FP plants
  - further opportunities in process streamlining and plant debottlenecking
- **Labour** savings continued to be delivered through improved labour productivity and EBA renegotiation
  - EBA's at major plants closed out and operational, focus on delivering benefits from flexibility provided
- **Network** rationalised with volume growth in QLD and SA, improving utilisation and unit costs
  - consequent reduction in NSW and some VIC production
  - transformation of Victorian cost base
  - move towards self-sufficiency in WA
- **Further processing** network optimisation announced and underway
- **Procurement, Turkey and Supply Chain** initiatives tracking as planned
- Further opportunities identified in **Farming, Feed and Premiumisation**
- **Capital investment** program tracking to plan

Note: The growth benefits from Project Accelerate are designed to allow Ingham's to remain competitive, mitigate inflation costs and contribute to profit growth

Strategy update

Energy costs

- Energy cost increases continue to flow through
  - new 3 year gas contract secured to provide cost certainty through to FY21
  - 100% of electricity supply for FY19 and 20% of 1H FY20 secured through progressive procurement
- All industry participants face similar challenges, evidenced with recent market price increases
- Continue to focus on offsetting increases via Project Accelerate initiatives and pass on where necessary
- Expect to benefit from recent capital investment in more efficient greenfield sites and DCs

Feed prices

- Feed prices have continued moving higher driven by dry conditions in Australia
- Over 60% of Australian poultry volumes supplied with feed pass through mechanisms and other cost adjustments
- Our forward coverage extends approximately 9 months (similar to that previously communicated)
- Poultry prices increasing in the market in line with feed price movements as per historical trends
- Smaller feed customers under pressure from rising feed prices in Australia, impacting on volumes e.g. Red Lea
- NZ feed prices tend to be more stable and dairy demand is strengthening

Strategy update - Feed

Feed Strategy

- Focus on providing self sufficiency for own use, and improving mill utilisation and profitability of third party sales
- Construction of greenfield feed mill in Murray Bridge (SA) is on track to open in Q1 FY19
- Acquired existing Wacol (QLD) mill during 2H FY18, consistent with strategy of feed self-sufficiency
- Well advanced in planning for a new state of the art feedmill in WA, as part of WA expansion
- Dairy feed business (NZ) performing well off the back of improved dairy prices
- Agreement to sell Mitavite (horse feed business) to Adamantem Capital for $59.5m subject to normal conditions precedent

Feedmill – Murray Bridge, South Australia

Capital Management

Capital Return

- Strong cash generation since IPO
  - $150m of extra capital was raised at IPO
  - cash balance of $273m at June 2018
  - leverage 0.7x (at listing 2.5x FY16 Pro forma EBITDA)
- Independent review of capital management options undertaken
- Capital return of $125m approved by the Board to return surplus capital to shareholders, 33.0 cps
  - expected timing Dec18 - Jan19
  - Management will seek class ruling from the ATO in order to confirm the tax treatment to shareholders

On-Market Share Buy-Back

- Sale of Mitavite expected to complete in Q4 CY18
  - Upon completion, the Board intends to proceed with an on-market share buy back of up to 5% of issued capital
  - Macquarie Securities has been appointed to manage the on-market share buyback

Outlook

> Demand for poultry products continues to grow

> Strategy implementation remains on track, opportunity pipeline is strong

> Expect a continuation of market price increases, reflecting increases in energy and feed costs

- offset cost increases where possible or pass on to the market when necessary

> New Zealand market dynamic remains challenging in 2H and expectation is this will continue through 1H

> Capital Management to be progressed

> Change in New Zealand tax legislation expected to increase the Group effective tax rate to c.29%

> Dividend policy remains unchanged

Appendix

EBITDA reconciliation

$ millions	Jun-18	Jun-17	Variance	%
EBITDA (underlying)	**208.9**	**195.0**	**13.9**	**7.1**
Profit on sale of assets	**19.4**	**6.9**	**12.5**	
Cardiff		*0.5*		
Mount Martha		*6.4*		
Wanneroo	*14.1*			
Leppington	*5.3*			
Restructuring	**(16.3)**	**(6.9)**	**(9.4)**	
FY17 restructuring		*(6.9)*		
Redundancy	*(4.2)*			
Farming exits	*(4.6)*			
Network cross over costs	*(2.5)*			
FP network optimisation	*(5.0)*			
Reported EBITDA	**212.0**	**195.0**	**17.0**	**8.7**

Profit on Sale

> Relates to the sale and leaseback of Wanneroo and the sale of Leppington, which completed in December 17 and April 18 respectively

Restructuring

> Redundancies relate to a reweighting of volume to QLD / SA as capacity is adjusted at a number of sites

> Farming exits relate to NSW (end of lease) as farming capacity shifts to SA and exits of contract growers

> Other network costs include crossover and setup costs related to new sites including new feedmills and the new QLD distribution centre

> Further Processing network optimisation relating to the relocation of Cleveland FP production to South Australia and Victoria

Reconciliation of FY17 Statutory results to pro forma

$ millions (AUD)		FY2017 52 weeks
Statutory EBITDA		**160.3**
IPO transaction costs	1	28.0
Advisory fees	2	1.2
Write off previous LTI scheme	3	4.2
Transformation & relocation costs	4	6.1
Full period public company costs	5	(1.0)
53rd Week	8	(3.8)
Pro forma EBITDA		**195.0**
Statutory NPAT		**59.1**
IPO transaction costs	1	19.6
Advisory fees	2	0.8
Write off previous LTI scheme	3	4.2
Transformation & relocation costs	4	4.3
Full year public company costs	5	(0.8)
Cost of exit from finance facilities	6	12.5
Capital structure adjustment	7	4.5
53rd week	8	(2.2)
Pro forma NPAT		**102.0**

1. Removal of costs of listing on ASX in November 2016
2. Relates to fees for services charged by TPG entities that will not be incurred post listing
3. Relates to the remaining share based payments expense to be recognized in FY17 relating to the previous LTI scheme
4. Consulting and other costs in relation to the transformation program and the costs relating to the relocation of head office incurred in FY16
5. Adjustment to include a full period of public company related costs and replacement LTI scheme
6. Payment for the early termination of interest rate swap contracts and write off of deferred borrowing costs resulting from refinancing as part of the listing
7. Adjustment to reflect the interest and financing costs for the capital structure in place as a result of the listing
8. Removal of 53rd week

Definitions

Certain non-IFRS information is referred to in this presentation. Defined below is what is included in each non-IFRS measure used throughout this presentation.

- **EBITDA:** Earnings before Interest, Tax, Depreciation and Amortisation
- **EBIT:** Earnings before Interest and Tax
- **Net Debt**: Debt less cash and cash equivalents
- **Pro Forma**: For FY17 comparative purposes pro forma numbers are based on 52 weeks of trading and excludes IPO and Pre-IPO costs
- **Underlying EBITDA:** EBITDA excluding any profit on sale of assets and restructuring expenses
- **Underlying NPAT:** Net Profit After Tax excluding any profit on sale of assets and restructuring expenses after income tax
- **Gross Profit:** Total revenue less cost of sales excluding depreciation
- **Earnings Per Share (EPS):** NPAT divided by the weighted average shares outstanding
- **Total Poultry:** includes core chicken and turkey products in addition to ingredients and other sales
- **Core Poultry:** refers to chicken and turkey products only
- **Cash Conversion ratio:** Cash Flow from Operations divided by EBITDA

Risks Summary (per Financial Statements)

Material business risks faced by the Group that may have a significant effect on the financial prospects of the Group include:

- **Import restrictions:** Changes to import quarantine conditions in Australia and/or New Zealand that would allow additional forms of poultry to be imported could result in changes to the poultry market that would adversely impact Ingham's financial performance.
- **Food safety and disease outbreak:** If products of Ingham's or a competitor became unsafe or were to be perceived as unsafe, reduced demand for Ingham's products or for poultry products as an industry could follow. Food safety costs can lead to significant costs being incurred for recalls or other operations to address such issues, in addition to compensation, penalties or liability claims which could be incurred. Outbreak of avian disease(s) occurring in Ingham's flock or in geographic areas in which Ingham‘s operates could lead to restriction on the use or transportation of affected poultry. Such disruption to supply, in addition to the other events identified here could have an adverse effect on Ingham's financial performance.
- **Material increase in input costs:** There have been recent actual and forecast increases in a number of input costs such as utilities and commodities, ie grains and legumes. While Ingham’s has a range of cost pass through arrangements in place with customers, especially in respect of feed prices, there may be instances where Ingham’s is not able to pass through, or is delayed from passing through, increases in these costs to customers, resulting in the potential risk of margin erosion.
- **Supply chain disruption:** Failure of a parent stock supplier, poor animal husbandry practices, poor feed quality or outbreak of disease could all cause a significant reduction in the volume or quality of Ingham's parent stock or broiler stock, limiting the Group's ability to supply sufficient volumes of product. Disruption to the supply chain such as time critical delays, failure or dispute with key suppliers, severe weather events, fires, floods, failure in the supply of energy, water or other significant inputs or other events of disruption could limit the Group's ability to supply sufficient volumes of product and have a material adverse impact on the Group's financial performance.
- **Regulatory factors:** Ingham's requires a range of licences, permits and accreditations/certifications relating to food standards, animal welfare, workers compensation and the environment in order to continue operating successfully. Inability to secure or retain these regulatory approvals, or amendments or revoking of these approvals could have an adverse effect on Ingham's financial performance. Ongoing compliance with laws and regulations in the countries in which Ingham's operates, and ability to comply with changes to these laws and regulations are material to Ingham's business. Failure to do so would have a material adverse impact on Ingham's.
- **Transformation projects:** Project Accelerate involves material capital investment and is expected to deliver cost savings and efficiencies to the business in future periods. Delays in the project or cost overruns, in addition to realised results differing from estimates, may negatively impact Ingham's financial performance compared to management's forecasts.