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ASX Release

22 February 2018

Inghams Group Limited Half Year Financial Results FY2018

Financial Results (comparison to Pro forma 1H FY2017)[1]

- Poultry volumes of 255kt, increased 2.8%
- Gross Profit of $243.1m, increased 6.1%
- EBITDA of $116.2m, increased 22.0%
- Underlying EBITDA of $108.9m, increased 14.8%[2]
- NPAT of $65.7m, increased 28.1%
- Net Cash provided by operating activities excluding interest and tax of $128.4m, 110.5% of EBITDA
- Net Debt of $193.3m, leverage ratio of 0.9x

Inghams Group Limited (ASX: ING, Ingham's), Australia and New Zealand's largest integrated poultry producer today announced its financial results for the half year ending 30 December 2017 (1H FY2018).

Key highlights

- Strategy implementation delivering benefits with growing volumes, earnings and strong cashflow
- Continued growth in Australian chicken and turkey volumes
- Rising energy and feed costs either offset via operational improvement or reflected in higher prices
- Improved New Zealand performance supported by growing poultry volumes and dairy feed demand
- Project Accelerate delivering improved yields, lower unit costs and improved asset utilisation with further opportunities identified
- Capital investment program on track, expanding capacity and improving efficiency
- Strong operating cashflow supported by targeted asset sales aligned to strategy implementation

Inghams Group Limited CEO Mick McMahon said "The results are pleasing and reflect both good progress on implementing our strategy and continued strong demand for Ingham's quality products supported by consumer preference for great value, healthy and versatile poultry products".

Poultry volumes increased 2.8% despite cycling a number of customer EDLP initiatives in FY17, with core Chicken and Turkey volumes up 3.7%. Revenue was down 1.7% reflecting the lagged effect of lower feed prices (the major input cost) and reduced third party feed volumes in Australia as a result of increased focus on profitability in that segment.

Strong volume growth in New Zealand was driven primarily by growth in the Retail and QSR customer segments and improved demand for dairy feed.

Gross Profit increased 6.1% to $243.1m supported by continued progress on Project Accelerate initiatives covering automation, labour productivity, procurement, network rationalisation and other initiatives.

The Accelerate program continues on schedule and the benefits are being realised in line with our expectations, while further opportunities have been identified in areas such as Farming, Further Processing and Feed.

[1] See Appendix I for a reconciliation of 1H FY17 Statutory results to pro forma 1H FY17

[2] See Appendix II for a reconciliation of 1H FY18 underlying EBITDA to Statutory EBITDA

Underlying EBITDA increased 14.8% to $108.9m for the half, while EBITDA of $116.2m (including the net effect of profit on sale and restructuring charges) increased 22.0%.

NPAT of $65.7m increased 28.1% and this included a one-off tax credit of $3.1m relating to the resolution of an historical tax matter.

Cash flow in the half was very strong benefiting from continued improvements in working capital management supported by asset sales, consistent with our strategy.

The capital program remains on track with spending lower than the comparative period and in line with expectations. Major projects completed or underway include the expansion of our breeder farm network in Australia and New Zealand and a greenfield feedmill in South Australia. In February 2018 Inghams have purchased a feedmill and opened a new DC in Queensland.

As a result of the strong cashflow Net Debt reduced to $193.3m with a leverage ratio of 0.9x.

“The business continues to make progress against the strategy demonstrated through its improved operational and financial performance“ said Mr. McMahon. “It is very pleasing to see the progress we have made reflected in continued volume growth and improved earnings, supporting strong cash generation and continued reduction in net debt. As a result, capital management options are under review.” he said.

Dividends
The Board declared a fully franked dividend of 9.5 cents per share (record date 12 March 2018, payment date 6 April 2018).

The company reconfirms its dividend policy is unchanged with an intention to pay fully franked dividends of 65-70% of NPAT across the full year.

FY2018 Outlook
Strategy implementation remains on track with further opportunities identified and Accelerate benefits expected to continue to underpin cost reduction, profit improvement and cash generation.

Cost increases in utilities and feed are expected to continue and, where they are unable to be offset, flow through to price increases in the Australian market, while the New Zealand market dynamic remains challenging.

The first half is seasonally stronger than the second half (as we revert to a 52 week year).

Further asset sales are expected to offset ongoing restructuring costs in the second half as we continue to implement our strategy and cashflow is expected to be strong.

About Ingham’s
Ingham’s is Australia and New Zealand’s leading integrated poultry producer supplying leading retail, quick service restaurants and food service customers, processing 4 million birds per week and employing approximately 8,000 people. Ingham’s operations include 10 feedmills, breeder and broiler farms, 11 hatcheries, seven primary processing plants, seven further processing plants and nine distribution centres. Ingham’s was founded in Sydney in 1918 by Walter Ingham and listed on the Australian Stock Exchange in November 2016.

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Appendix I

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Reconciliation of 1H FY17 Statutory results to pro forma 1H FY17

$ millions		1H FY2017
Statutory EBITDA		**61.5**
IPO transaction costs	1	28.0
Advisory fees	2	1.2
Write off previous LTI scheme	3	2.2
Transformation & relocation costs	4	3.3
Full period public company costs	5	(1.0)
Pro forma EBITDA		**95.2**
Statutory NPAT		**9.0**
IPO transaction costs	1	19.6
Advisory fees	2	0.8
Write off previous LTI scheme	3	2.2
Transformation & relocation costs	4	2.3
Full year public company costs	5	(0.8)
Cost of exit from finance facilities	6	12.6
Capital structure adjustment	7	4.5
Tax adjustments	8	1.1
Pro forma NPAT		**51.3**

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. Adjustments to normalise certain tax related charges half on half

Appendix II

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Reconciliation of 1H FY18 underlying EBITDA to Statutory EBITDA

$ millions	1H FY2018	Pro forma 1H FY2017	Variance	%
EBITDA (underlying)	**108.9**	**94.8**	**14.1**	**14.9**
Profit on sale	14.1	0.4	13.7	
Restructuring	(6.8)	-	(6.8)	
Redundancy	*(4.9)*	-	*(4.9)*	
Breeder farm exits	*(1.9)*	-	*(1.9)*	
EBITDA (Statutory)	**116.2**	**95.2**	**21.0**	**22.0**

Profit on sale

> 1H FY18 profit on sale attributable to sale of Wanneroo farming and feedmill site (WA)

> 1H FY17 profit on sale from Foggo Road (SA) and Cardiff (NSW) processing plants

Restructuring as we implement Accelerate

> 1H FY18 restructuring costs incurred as volumes continue to be rebalanced to QLD and SA
  - consequent labour restructuring for efficiency at Somerville (VIC processing facility) and Prestons (NSW distribution centre)
  - cost associated with NSW breeder farm closures

> No restructuring costs were included within reported EBITDA in 1H FY17