Inghams Group Limited

1H FY2018 Results Presentation

22 FEBRUARY 2018

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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 3.7% growth in core Chicken & Turkey volumes
  - despite cycling of customer EDLP initiatives in FY17
- Strategy implementation on track and delivering improved returns
- Rising energy and feed costs either offset or being passed on to customers across all channels
- Improved New Zealand performance driven by poultry volume increases and recovery of dairy feed volumes
- Strong operating cash flow generation, supported by asset sales. Leverage ratio reduced to 0.9x

Strategy progress

- Project Accelerate continues to deliver in line with expectations
  - 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
- Progress made on identifying further opportunities including in farming, further processing and feed
- Capital investment in capacity and efficiency continues as planned
  - South Australia hatchery and breeder investments now fully operational
  - new South Australian feed mill progressing well
  - new Queensland distribution centre operational
  - Queensland feedmill acquired to compliment existing capacity

Note: Total Poultry volumes includes core chicken and turkey products in addition to ingredients

Financial highlights – 1H FY18 vs 1H FY17

Poultry Volume	Gross Profit	EBITDA	EBITDA (underlying)	NPAT	Net debt	EPS	Interim Dividend
255.2kt ↑ 2.8%	$243.1m ↑ 6.1%	$116.2m ↑ 22.0%	$108.9m ↑ 14.8%	$65.7m ↑ 28.1%	$193.3m ↓ 104.4m	17.7 cps	9.5 cps

Financial performance

- Total Poultry volume growth of 2.8% (core chicken and turkey products grew at 3.7%)
- Revenue fall of 1.7% to $1,206.1m, influenced by reduced third party feed volumes and lag in feed prices
- EBITDA growth of 22.0% to $116.2m
- Underlying EBITDA growth of 14.8% to $108.9m (excluding profit on sale and restructuring)
- NPAT growth of 28.1% to $65.7m
- Profit on sale of $14.1m in part offset by restructuring initiatives of $6.8m
- Net Cash provided by operating activities excluding interest and tax of $128.4m, 110.5% of EBITDA
- Net Debt of $193.3m (leverage ratio 0.9x)
- Earnings Per Share (EPS) of 17.7 cents
- Interim dividend of 9.5 cents per share (dividend policy remains unchanged)

Note: 1H FY18 numbers are unadjusted statutory results. 1H FY17 numbers are pro forma. A reconciliation between 1H FY17 pro forma and statutory results is included in the Appendix
Note: Total Poultry volumes includes core chicken and turkey products in addition to ingredients
Note: EBITDA refers to earnings before interest, tax, depreciation and amortization. Underlying EBITDA excludes profit on the sale of assets and restructuring cost. A reconciliation of underlying EBITDA to EBITDA is shown on page 9

Segment Information – Australia

$ millions	1H FY2018	Pro forma 1H FY2017	Variance	%
Australia				
Poultry volumes (kt)	216.2	211.9	4.3	2.0
Feed volumes (kt)	191.7	228.0	(36.3)	(15.9)
Revenue	1,015.0	1,041.5	(26.5)	(2.5)
EBITDA	**94.3**	**77.5**	**16.8**	**21.6**
EBITDA %	9.3%	7.4%	1.9%	

Note: Total Poultry volumes includes core chicken and turkey products in addition to ingredients

Summary: Australia

- Poultry volume growth excluding ingredients of 2.7%
- Price increases passed through across the vast majority of volume and in all channels, reflecting flow through of higher electricity, gas and feed prices, if not offset
- Accelerate benefits delivering profit improvement while leveraging the volume growth of the last 18 months

Retail

- Continued growth in retail volumes, despite cycling of customer EDLP initiatives
- Growth in premium penetration, e.g. Free Range

QSR & Food Service

- Continued growth in fresh volumes
- Increased competition in Further Processed segment

Wholesale & Export

- Wholesale market prices reflecting flow through of cost price increases
- Export volumes remain < 2%, primarily for clearance

Feed

- Reduction in volume reflects cycling of third party customer loss in Q2 FY17 and lower demand from smaller chicken feed customers

Segment Information – New Zealand

$ millions	1H FY2018	Pro forma 1H FY2017	Variance	%
New Zealand				
Poultry volumes (kt)	39.0	36.3	2.7	7.3
Feed volumes (kt)	78.7	69.1	9.6	13.9
Revenue	191.1	185.8	5.3	2.9
EBITDA	**21.9**	**17.7**	**4.2**	**23.7**
EBITDA %	11.5%	9.5%	2.0%	

Summary: New Zealand

> Challenging market conditions continued into this half

> Improvement in trading performance reflects a continuation of 2H FY17 trends

> Poultry volume growth led by Retail and QSR

> Focus on higher value channels, leveraging strong brand position of Waitoa

> Continued focus in operational efficiencies driving improved performance

> Disciplined working capital performance continues
  – inventory days consistent with Dec 16 and June 17, at ~31 days, and cash conversion of ~15 days

Third party feed sales

> Recovery in dairy feed volumes as dairy demand has improved on the back of milk price recovery

> Third party chicken feed sales in line with expectations

Note: All financial numbers are in AUD
Note: Total Poultry volumes includes core chicken and turkey products in addition to ingredients

Further Processing Plant
Edinburgh Parks, South Australia

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Financial results

Profit & Loss

$ millions	1H FY2018	Pro forma 1H FY2017	Variance	%
Poultry volumes (kt)	255.2	248.2	7.0	2.8
Feed volumes (kt)	270.4	297.1	(26.7)	(9.0)
Total Revenue	**1,206.1**	**1,227.2**	**(21.1)**	**(1.7)**
Gross Profit	243.1	229.0	14.1	6.1
EBITDA	**116.2**	**95.2**	**21.0**	**22.0**
Depreciation & amortisation	(22.8)	(18.3)	(4.5)	(24.6)
EBIT	**93.4**	**76.9**	**16.5**	**21.4**
Net financing costs	(8.1)	(7.9)	(0.2)	(2.5)
Tax expense	(19.6)	(17.7)	(1.9)	(11.0)
Net profit after tax	**65.7**	**51.3**	**14.4**	**28.1**
Gross profit %	20.2%	18.7%	1.5%	8.0
EBITDA %	9.6%	7.8%	1.8%	24.1
Pro forma earnings per share (cents) [1]	17.7	13.8	3.9	27.9

A reconciliation to 1H FY2017 Statutory EBITDA of $61.5m and 1H FY2017 Statutory NPAT of $9.0m is set out in the Appendix

Volume & Revenue Growth

> Continued growth in poultry volumes
> NZ volume run rate consistent with 2H FY17
> 1H vs 2H seasonality in Australian market will be more evident (in a 52 week year)
> Revenue fall driven by lagged effect of feed prices and reduced Third Party feed volumes in Australia

EBITDA +22.0%

> Accelerate has delivered on a range of efficiency initiatives to deliver margin improvement, following rapid volume growth in FY17
> Increase in other expenses including Distribution and SG&A due to restructuring initiatives (see over)
> Profit on sale of properties in part offset by restructuring expenses

NPAT +28.1%

> Net financing costs comparable with pcp
> One off tax credit of $3.1m upon settlement of historical tax dispute

1. Pro forma net profit after tax / post IPO weighted average shares outstanding. 1H FY2017 restated calculated on post IPO weighted average shares outstanding instead of actual weighted average shares outstanding as previously reported.

EBITDA reconciliation

$ 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	**116.2**	**95.2**	**21.0**	**22.0**
EBITDA (underlying)				
Group EBITDA %	9.0%	7.7%		
AUS EBITDA %	8.6%	7.4%		

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

Cash Flow and Balance Sheet

$ millions	1H FY2018	Pro forma 1H FY2017	Variance
EBITDA	**116.2**	**95.2**	**20.9**
Non-cash items	(15.6)	(0.3)	(15.3)
Changes in working capital	27.1	(15.9)	43.0
Changes in provisions	0.7	0.2	0.5
Cash flow from operations	**128.4**	**79.2**	**49.2**
Cash conversion ratio	**110.5%**	**83.2%**	**32.8%**
Capital expenditure - Inghams	(29.8)	(60.4)	30.6
3rd party capital recovered / (for recovery) [1]	8.6	(15.7)	24.3
Proceeds from sale of assets	57.0	1.1	58.1
Net cash flow before financing & tax	**164.2**	**4.2**	**160.0**

$ millions	December 2017	Pro forma June 2017	Variance
Total Assets	1,095.7	1,082.5	13.2
Net Debt	193.3	297.7	104.4
Net Debt/LTM EBITDA	**0.9**	**1.5**	**0.6**

Cashflow

- Non-cash items relates to the profit on sale of Wanneroo ($14.1m) and other minor items ($1.5m), primarily LTIP
- Continued improvements in working capital through tight inventory and receivables management
  - Operating cash conversion 110%
  - Net Debt to EBITDA reduced to 0.9x

Working capital	Dec-17	Jun-17	Variance	Dec-16
Receivables	232.5	231.5	(1.0)	259.9
Biological assets	109.2	112.5	3.3	112.1
Inventories	140.8	156.5	15.7	144.5
Payables	(287.9)	(278.8)	9.1	(241.3)
Total	**194.6**	**221.7**	**27.1**	**275.2**

Capital program

- Capital program on track, below pcp as expected
- Asset sales relate to the sale of Wanneroo (WA) and Burton Road (SA)
- Sale of Leppington (NSW) unconditional in Feb 2018
- Third party capital recovered primarily relates to SA feed mill and SA breeder farm expansion projects

1. Third party capital agreements in place, funds to be received

Feed mill
Berrima, New South Wales

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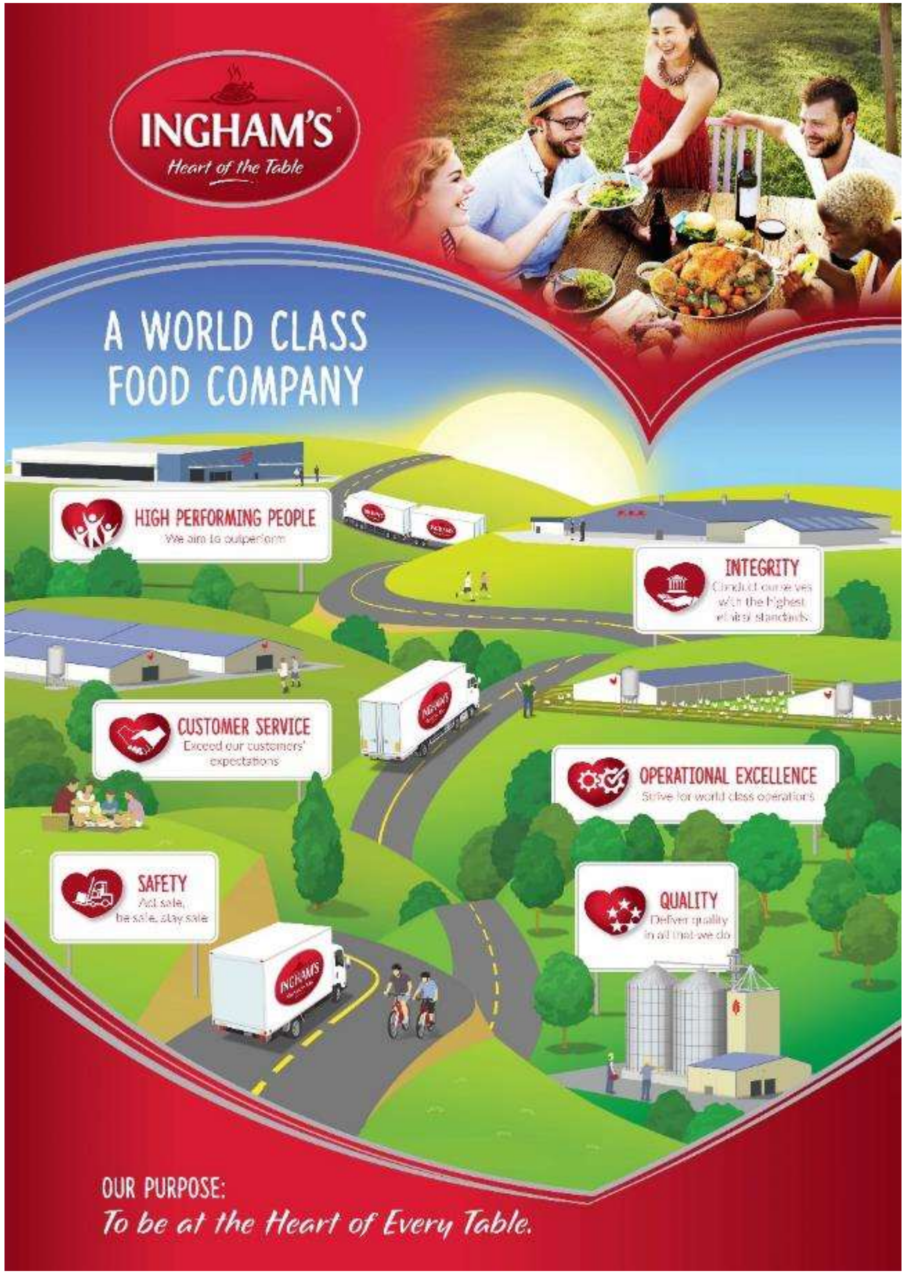
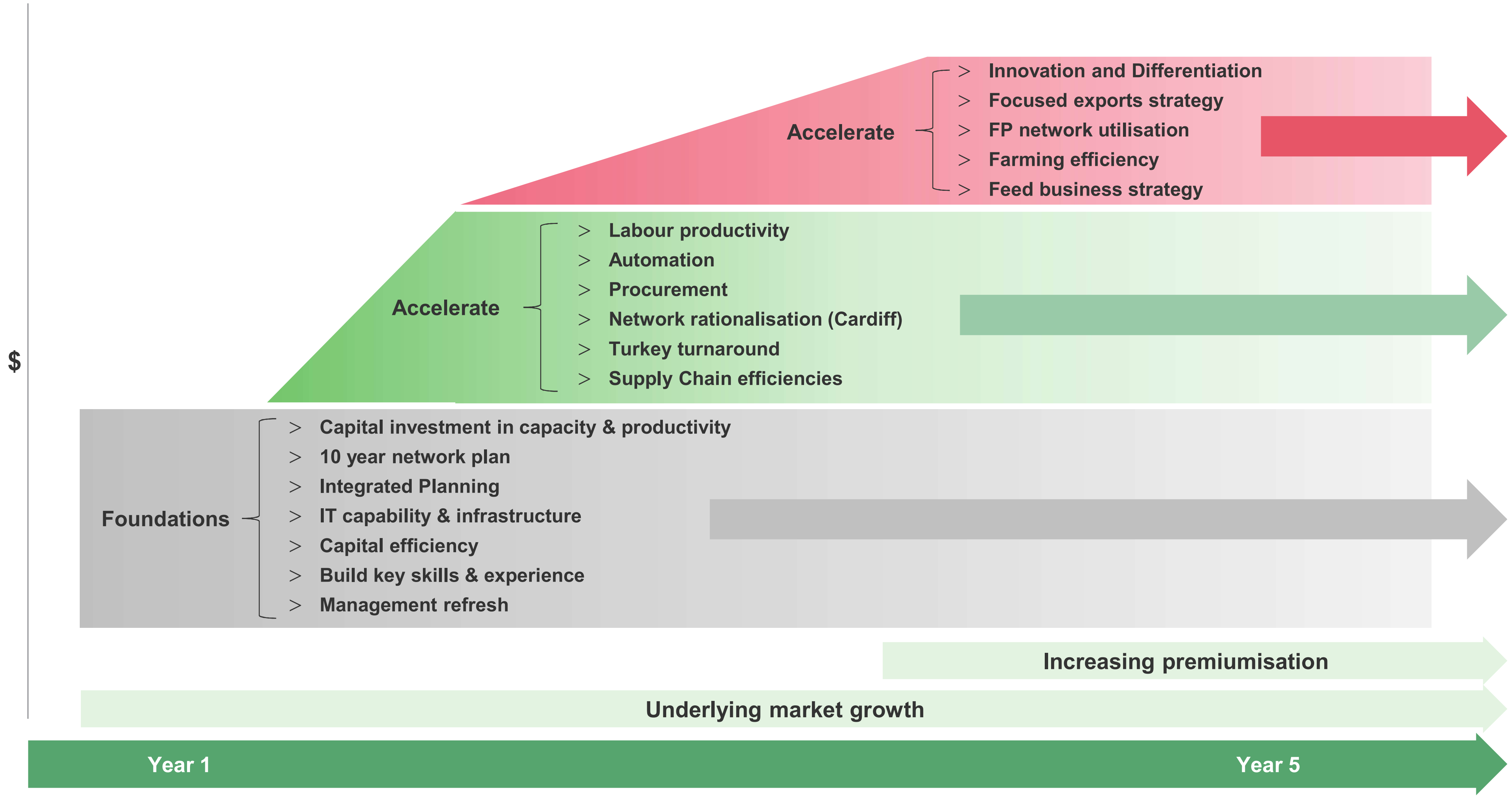
Strategy update

Ingham's – A World Class Food Company



Project Accelerate

Implementation of the multi year transformation project is well underway



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 – Accelerate

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
- **Procurement, Turkey and Supply Chain** initiatives tracking as planned
- Further opportunities identified in **Farming, Further Processing and Feed**
- **Capital investment** program tracking to plan


Completed breeder farm
Yumali, South Australia

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 cost and feed prices

Energy costs

> Energy cost increases continue to flow through

- gas prices currently ~30% higher than current contract which expires in December 2018
- electricity supply contracted to the end of FY18 with progressive procurement options for FY19 and beyond

> All industry participants face similar challenges, as evidenced by 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 in recent months

> 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)

> Market pricing expected to move in line with feed price movements as per historical trends

> Smaller feed customers under pressure from rising feed prices in Australia, impacting on volumes

> 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 2018
- 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) and Mitavite (horse feed) performing well
- Continue to review improvement opportunities in the commercial stockfeed business

Feed mill under construction
Murray Bridge, South Australia


Breeder Farm
Matamata, New Zealand

INGHAM'S
Heart of the Table

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Outlook

Outlook

- Strategy implementation remains on track, with further opportunities identified
- Accelerate benefits expected to continue to underpin cost reduction and profit improvement as planned
- Increases in energy and feed costs expected to continue and, where they are unable to be offset, flow through to market price increases consistent with recent experience
- 1H seasonality skew more evident in 52 week year
- New Zealand market dynamic remains challenging
- Some third party feed customers continue to struggle with rising prices
- Further asset sales expected to offset further restructuring costs in FY18
- Capital management options under review
- Dividend policy remains unchanged

INGHAM'S
Heart of the Table

Appendix

Reconciliation of 1H FY17 Statutory results to pro forma

$ 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

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.

> **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.

> **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.