Inghams Group Limited

H1 FY2019 Results Presentation

28 FEBRUARY 2019

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Broiler Farm
South Australia

01

Group performance

Group highlights

Growing volumes and earnings with strong cash flow

Highlights

- Chicken remains the competitive protein with 3.0% growth across ANZ in core Chicken & Turkey volumes
- Strategy implementation continues to deliver improved returns despite challenges in the New Zealand business
- Rising feed costs continue to be offset by strategic initiatives or price increases
- Strong operating cash flow generation supported by working capital management
- Leverage ratio of 1.1x after $125m capital return
- Strategic plan will be completed in Q4 FY19

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 progressing on track
- Progress made towards self sufficiency in milling
- Divested non-core Mitavite business and Cardiff feed mill
- Capital investment in capacity and efficiency continues as planned
  - Completion of SA feed mill and NZ Breeder facilities
  - further investment planned in WA with a new Feed mill and a Hatchery to be operational in FY21
  - further investment planned in VIC with a new Hatchery to be operational in FY21

Financial highlights – H1 FY19 vs FY18

Core Poultry Volume	Gross Profit	EBITDA (underlying)	EBITDA	NPAT (underlying)	NPAT	Net Debt	EPS	Interim Dividend
207.5kt ↑ 3.0%	$250.2m ↑ 2.9%	$109.6m ↑ 3.6%	$152.0m ↑ 30.8%	$55.4m ↓ 5.3%	$84.4m ↑ 28.5%	$234.5m ↑ 89.1m	22.6 cps ↑ 27.7%	9.0 cps

Financial performance

- Total Poultry volume growth of 1.5% (core poultry products grew at 3.0%)
- Underlying EBITDA growth of 3.6% to $109.6m (excluding profit on sale, restructuring and Mitavite)
- Profit on sale of assets of $53.9m in part offset by restructuring initiatives of $11.4m and impairment of $2.3m
- Underlying NPAT decline of 5.3% to $55.4m, due to increase in effective tax rate
- Net Debt of $234.5m and leverage ratio 1.1x, post capital return of $125m
- Earnings Per Share (EPS) growth of 27.7% to 22.6cps
- Interim dividend of 9.0 cents per share
- Dividend policy for FY20 is under review given the impacts of AASB 16 Leases on NPAT
- On market buy-back to commence in March 2019

Profit & Loss

$ millions	Dec-18	Dec-17	Variance	%
Core Poultry volumes (kt)	207.5	201.4	6.1	3.0
Feed volumes (kt)	233.3	270.4	(37.1)	(13.7)
Revenue	**1,257.0**	**1,206.1**	**50.9**	**4.2**
Gross Profit	250.2	243.1	7.1	2.9
EBITDA	**152.0**	**116.2**	**35.8**	**30.8**
Depreciation & Amortisation	(23.3)	(22.8)	(0.5)	(2.2)
EBIT	**128.7**	**93.4**	**35.3**	**37.8**
Net financing costs	(8.9)	(8.1)	(0.8)	(9.9)
Tax expense	(35.4)	(19.6)	(15.8)	(80.6)
NPAT	**84.4**	**65.7**	**18.7**	**28.5**
Earnings per share (cents)	22.6	17.7	4.9	27.7
Underlying EBITDA	**109.6**	**105.8**	**3.8**	**3.6**
Underlying EBITDA %	*8.8%*	*8.8%*	*0.0*	
Underlying NPAT	**55.4**	**58.5**	**(3.1)**	**(5.3)**
Underlying NPAT %	*4.4%*	*4.9%*	*(0.5)*	

Volume and Revenue Growth

> Continued growth in Core Poultry volume and revenue of 3.0% and 5.5% respectively

> Loss of NSW feed customer in March 2018

Gross Profit

> Improvements in gross margin reflective of project accelerate initiatives and the ability to pass through input cost increases

EBITDA

> Includes $53.9m related to profit on sale partially offset by $13.7m in restructuring and other costs

Finance exit costs

> Net financing costs includes $0.9m related to the close out of the previous syndicated debt facility and $1.1m related to the funding for the SA feed mill

Tax

> Effective tax rate increased to 29.5% following change to NZ tax legislation on hybrid mismatch

EBITDA and NPAT reconciliation

$ millions	Dec-18	Dec-17	Variance	%
EBITDA	**152.0**	**116.2**	**35.8**	**30.8**
Profit on sale of assets	(53.9)	(14.1)	(39.8)	(282.3)
Impairment of assets	2.3	-	2.3	100.0
Restructuring	11.4	6.8	4.6	67.6
Mitavite	(2.2)	(3.1)	(0.9)	(29.0)
Underlying EBITDA	**109.6**	**105.8**	**3.8**	**3.6**

$ millions	Dec-18	Dec-17	Variance	%
NPAT	**84.4**	**65.7**	**18.7**	**28.5**
Profit on sale of assets	(37.7)	(9.9)	(27.8)	(280.8)
Impairment of assets	1.6	-	1.6	100.0
Restructuring	8.0	4.8	3.2	66.7
Mitavite	(1.5)	(2.1)	(0.6)	(28.6)
Finance exit costs	0.6	-	0.6	100.0
Underlying NPAT	**55.4**	**58.5**	**(3.1)**	**(5.3)**

Profit on Sale of Assets

> Current year relates to sale of Mitavite, Cardiff and Mile End, prior year relates to Wanneroo

Impairment of assets

> Impairment to the carrying value of the Maldon hatchery currently held for sale

Restructuring

> Onerous lease provision and related costs for Further Processing network optimization, farming exits and other cross over costs.

> Refer to Appendix for additional details

Mitavite

> FY19 Mitavite trading results to 12th October.

> Refer to Appendix for additional details

Cash Flow and Balance Sheet

$ millions	Dec-18	Dec-17	Variance
EBITDA	**152.0**	**116.2**	**35.8**
Non-cash items	(47.1)	(15.6)	(31.5)
EBITDA excluding non-cash items	**104.9**	**100.6**	**4.3**
Changes in working capital	(0.8)	27.1	(27.9)
Changes in provisions	(1.3)	0.7	(2.0)
Cash flow from operations	**102.8**	**128.4**	**(25.6)**
Cash conversion ratio	**98.0%**	**127.6%**	**(29.6%)**
Capital expenditure - Inghams	(27.0)	(29.8)	2.8
Property purchases	(39.1)	-	(39.1)
3rd party capital expenditure recovered	6.5	8.6	(2.1)
Proceeds from sale of assets	75.6	57.0	18.6
Net cash flow before financing & tax	**118.8**	**164.2**	**(45.4)**

$ millions	Dec-18	Jun-18	Variance
Total Assets	1,111.7	1,140.7	(29.0)
Net Debt	234.5	145.4	(89.1)
Net Debt / LTM Underlying EBITDA	**1.1**	**0.7**	**(0.4)**

Cashflow

- Non-cash items predominantly relate to the profit on sale of Mitavite and Cardiff offset by other minor items, including LTIP
- Strong operating cash conversion through working capital management. Inventory financing benefit $28.3m in 1H
- Net Debt to Underlying EBITDA increased to 1.1x post capital return of $125m

Working capital	Dec-18	Jun-18	Variance
Receivables	254.0	197.7	(56.3)
Biological assets	120.3	117.9	(2.4)
Inventories	161.9	151.3	(10.6)
Payables	(371.2)	(302.7)	68.5
Total	**165.0**	**164.2**	**(0.8)**

Capital program

- Proceeds from the sale of assets relates to Mitavite and Cardiff
- Third party capital recovered relates to funding received on the Murray Bridge feed mill and NZ breeder farm
- Property purchases relate to Pakenham, Cardiff and Maldon properties acquired from the landlord, and settlement of the Wacol feed mill

INGHAM'S
Heart of the Table

02

Segment results

Segment Information – Australia

$ millions (AUD)	Dec-18	Dec-17	Variance	%
Australia				
Core Poultry volumes (kt)	175.4	169.0	6.4	3.6
Feed volumes (kt)	157.3	191.7	(34.4)	(17.9)
Revenue	1,064.3	1,015.0	49.3	4.9
EBITDA	**137.8**	**94.3**	**43.5**	**46.1**
EBITDA %	*12.9%*	*9.3%*	*3.6*	
Underlying EBITDA	**95.4**	**83.9**	**11.5**	**13.7**
Underlying EBITDA %	*9.0%*	*8.3%*	*0.7*	

Summary: Australia

- Core Poultry volume growth and revenue growth of 3.6% and 6.5% respectively
- Improved margin reflecting realisation of Project Accelerate efficiency and automation initiatives and benefits of premiumisation
- Price increases and initiatives offsetting higher feed and utility costs

Retail

- Price increase in BBQ birds resulting in reduced volumes sold into Retail

QSR & Food Service

- Good volume growth across both segments

Wholesale & Export

- Solid growth in wholesale volume reflects improved coverage in this channel

Third Party Feed sales

- Reduction in third party feed volume is the result of Red Lea Chickens closure in March 2018
- Mitavite sale completed in October, EBITDA includes trading and profit on sale

Segment Information – New Zealand

$ millions (AUD)	Dec-18	Dec-17	Variance	%
New Zealand				
Core Poultry volumes (kt)	32.1	32.4	(0.3)	(0.9)
Feed volumes (kt)	76.0	78.7	(2.7)	(3.4)
Revenue	192.7	190.9	1.8	0.9
Reported EBITDA	**14.2**	**21.9**	**(7.7)**	**(35.2)**
Reported EBITDA %	*7.4%*	*11.5%*	*(4.1)*	
Underlying EBITDA	**14.2**	**21.9**	**(7.7)**	**(35.2)**
Underlying EBITDA %	*7.4%*	*11.5%*	*(4.1)*	

Summary: New Zealand

> Core Poultry volume decline driven by softer Retail and Wholesale demand resulting from an oversupply in the market

> QSR and Foodservice volumes and performance is in line with expectations

> H1 trading performance reflects increased price competition across the entire domestic market

> Re-balance of supply chain due to less free range farms and overall lower volumes impacting efficiency

> Continued focus on higher value channels and products, leveraging the strong brand position of Waitoa

Third Party Feed sales

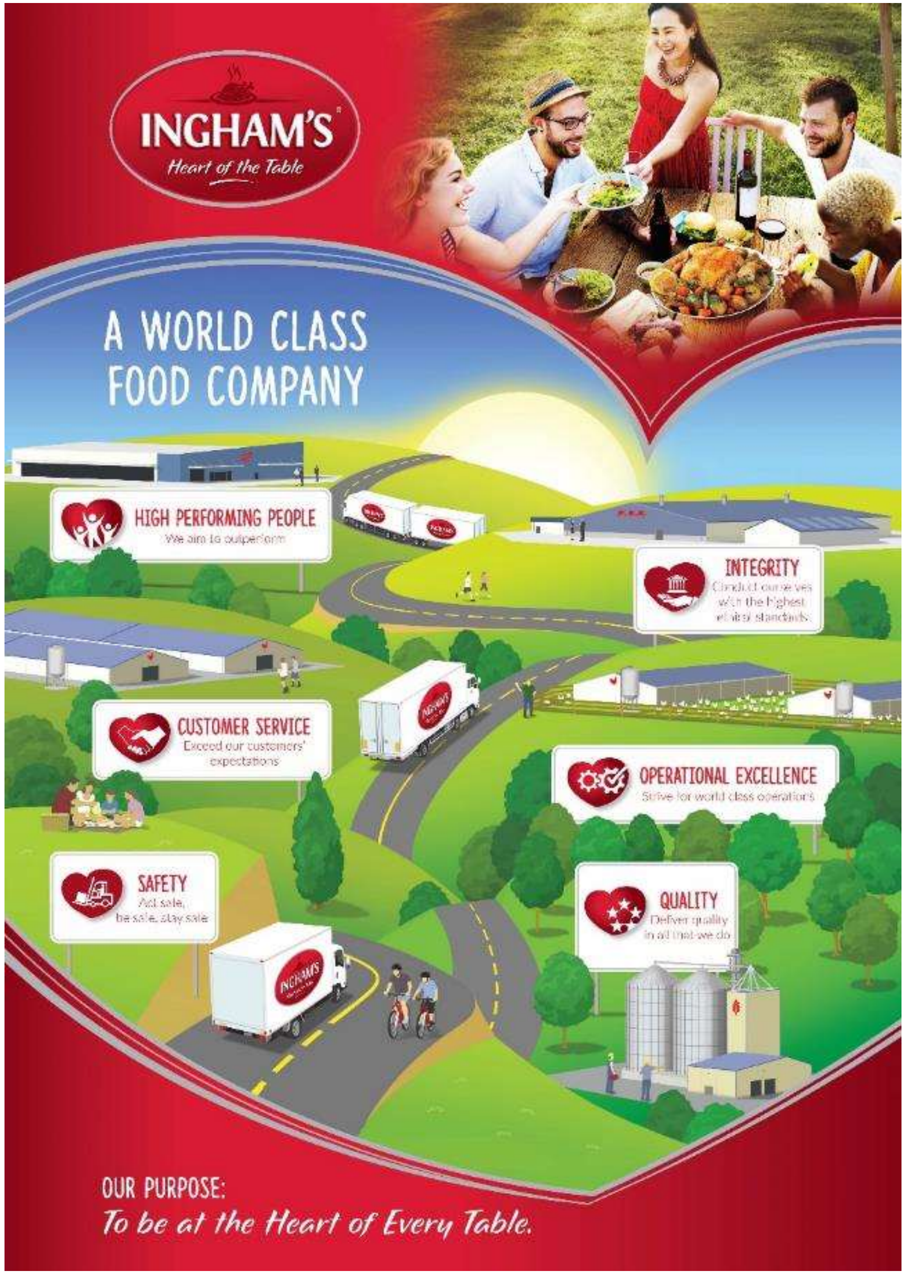
> Demand for dairy feed constrained as a result of excellent pasture conditions

Feed mill
Berrima, New South Wales

03

Strategy update

Ingham’s – A World Class Food Company



Project Accelerate – opportunity pipeline strong

Implementation of the multi year transformation project continues

Accelerate 2.0
- > Optimise processing
- > Farming operations
- > NZ FP network utilisation
- > Hatchery capacity & optimisation
- > Premiumisation

Accelerate
- > Innovation and Differentiation
- > Focused exports strategy
- > FP network utilisation (Cleveland)
- > Farming efficiency
- > Feed business strategy

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Accelerate
- > Labour productivity
- > Automation
- > Procurement
- > Network rationalisation (Cardiff)
- > Turkey turnaround
- > Supply Chain efficiencies

Foundations
- > Capital investment in capacity & productivity
- > 10 year network plan
- > Integrated Planning
- > IT capability & infrastructure
- > Capital efficiency
- > Build key skills & experience
- > Management refresh

Increasing premiumisation

Underlying market growth

Year 1 **Year 5**

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 (New Zealand) and further opportunities in process streamlining
- **Labour** savings continue to be delivered through improved labour productivity and EBA renegotiation
- **Network** rationalised with volume growth in QLD and SA, improving utilisation and unit costs
  - transformation of Victorian cost base and increased volumes in WA to improve service levels
- **Further processing** network optimisation announced and underway
- Further opportunities identified in **Farming, Feed and Premiumisation**

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 6 months
- Poultry prices increasing in the market in line with feed price movements as per historical trends
- Alternative procurement and nutrition options being reviewed including imports

Strategy update - Feed

Feed Strategy

- Inghams has progressed the objective of self sufficiency for own use and the business focus is now on improving mill utilisation in relation to third party sales
- The Murray Bridge (SA) greenfield site is now fully operational and supplying all of Inghams requirements in SA. The Mile End (SA) feed mill has been decommissioned and an unconditional agreement to sell the property was signed in December 2018
- Planning is advanced for a new state of the art feed mill in WA. A contract for the purchase of land has been signed, subject to due diligence and the design of the mill has commenced
- Sale of Mitavite (horse feed business) to Adamantem Capital completed on 12 October 2018
- Cardiff feed mill was sold in November 2018 consistent with the reduced feed production requirements in NSW

Feed mill – Murray Bridge, South Australia

Breeder Farm
Matamata, New Zealand

04

Outlook

Outlook

- Demand for poultry products continue to grow at historical levels
- Project Accelerate initiatives remain on track and the opportunity pipeline is strong
- The outcome of the strategic plan will be shared in Q4 FY19
- Feed costs expected to remain high through to the start of the next domestic grain harvest in December
  - offset cost increases where possible or pass on to the market if and when necessary
- New Zealand business remains challenging with initiatives to improve, however expectation is this will continue throughout 2H FY19
- On market share buy-back to commence in March 2019
- Dividend policy for FY20 is under review given the impacts of AASB 16 Leases on NPAT

Appendix

Mitavite trading results

$ millions	Dec-18	Dec-17	Variance	%
Weeks	*15.0*	*26.0*		
Feed volumes (kt)	12.7	19.0	(6.3)	(33.2)
Trading Results				
Revenue	11.8	15.9	(4.1)	(25.8)
EBITDA	2.2	3.1	(0.9)	(29.0)
NPAT	**1.5**	**2.1**	**(0.6)**	**(28.6)**
Profit on sale				
Other income	51.4	-	51.4	100.0
Tax on profit on sale	(15.4)	-	(15.4)	100.0
NPAT	**36.0**	**-**	**36.0**	**100.0**
Total NPAT	**37.5**	**2.1**	**35.4**	**1,685.7**

Trading period

> Completion of sale of Mitavite to Adamantem Capital was 12 October 2018

> H1 FY19 Profit & Loss includes 15 weeks of trading results

> These trading results for Mitavite have been excluded from underlying performance in slide 6

Restructuring costs

$ millions	Dec-18	Dec-17	Variance	%
Restructuring	**11.4**	**6.8**	**4.6**	**67.6**
Farming exits	*1.4*	*1.9*		
FP Network optimization	*8.2*	-		
Redundancy and other costs	1.8	*4.9*		

Restructuring

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

> FP Network optimisation costs relate to onerous lease provisions and other related costs at the Cleveland FP

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
- **Underlying EBITDA:** EBITDA excluding any profit on sale of assets, restructuring expenses and trading results for Mitavite
- **Underlying NPAT:** Net Profit After Tax excluding any profit on sale of assets, restructuring expenses and trading results for Mitavite 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, excluding ingredients
- **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.