

Morgans AgriFood

Capilano Honey Update

22 June 2017

Australia's *homegrown* honey.





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A close-up photograph of a honeybee on a pink, tubular flower. The bee is positioned on the left side of the flower, facing right. The flower has multiple layers of pink petals and prominent stamens. The background is a soft-focus green, suggesting foliage. The text "FY17 Year of Consolidating" is overlaid in white on the right side of the image.

FY17 Year of Consolidating

Profit & Loss for FY17



Consolidating year as we plan for future growth.

Sales revenue was influenced by a key customer's move to net pricing. This lowered revenue and rebates, though has no effect on gross margin.

- Domestic retail is tracking to be up over 5%.
- Apple Cider Vinegar (ACV) growing domestically, with international sales lower as competition back in the market and no recycling of pipeline fill into new export markets.
- Export revenue was down due to lower international honey prices and greater competition, mostly in lower margin industrial segments.
- Expenses stable, with increased spend in marketing as we domestically launch new prebiotic honey - Beeotic®.
- Previous years marketing expenses was artificially low due to limited Australian honey supply.

Profit & Loss for FY17



Consolidating year as we plan for future growth.

- Capital gain realised for selling beekeeping assets into new joint venture (MediBee), offset by a raw honey stock revaluation (Dec 2017) as domestic honey price was reduced.
- Earning per share effected by newly issued shares of 860,360.
- Marketing efforts will be ongoing as we focus on communicating the health and wellness credentials of 100% Australian honey.
- NPAT was up in first half FY17 compared to FY16.

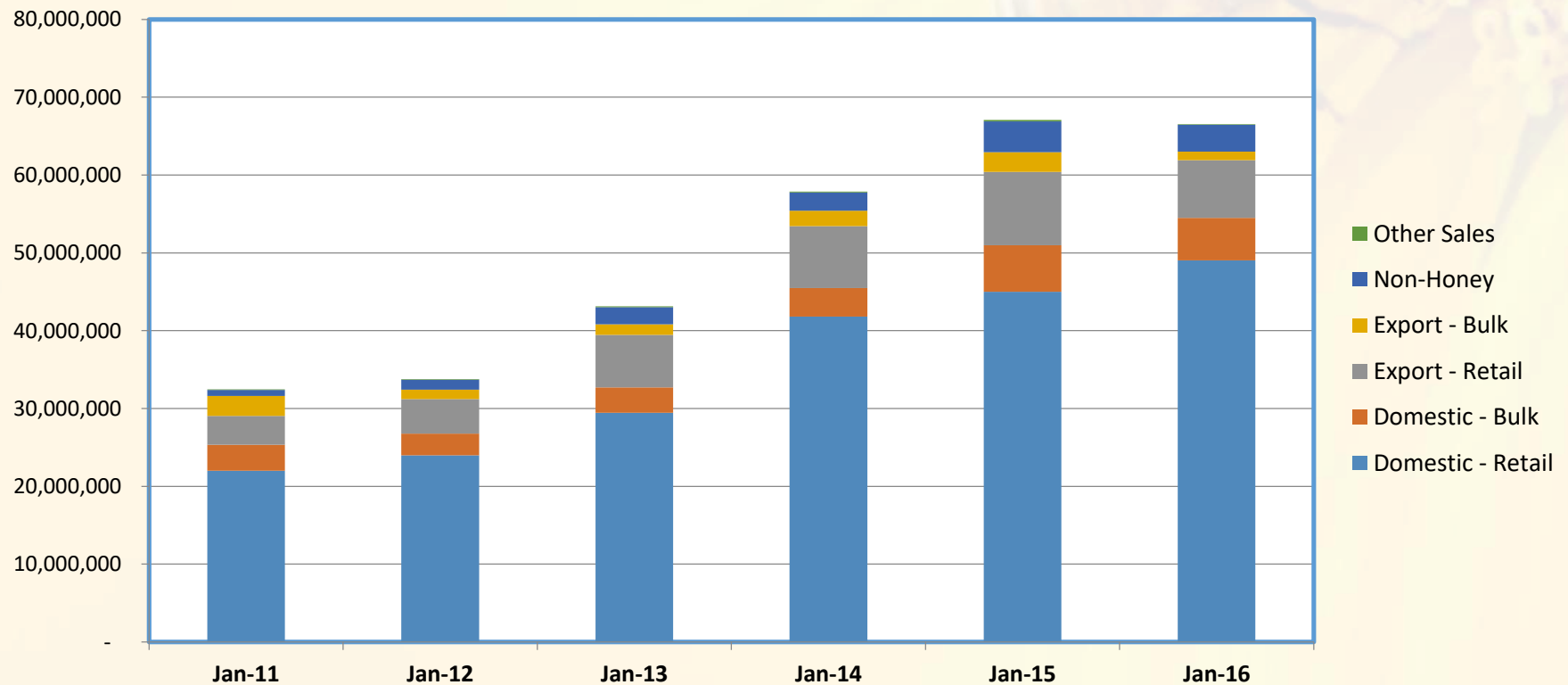


Revenue Over Time (6 months, no adjustments)



Over time the company has delivered growth in revenue and profit.

During the last year, the Australian honey market grew at 4.4% in dollars and tonnes (domestic grocery market excluding ALDI, MAT 28/05/17).





Statement of Financial Position

Balance Sheet & Cash Flow



Healthy Balance Sheet and cash available in current bank facility.

Company cash flow is mainly affected by changes in working capital affected by the changing levels of raw honey supply (seasonal).

- Capital raising was done in June'16 to support higher stock levels, complete the re-opening of our Maryborough (Vic) packing facility and to deliver improvements to our ACV production line.
- No big capital projects planned (new hot rooms yet to be completed).
- Capital projects are prioritised to achieve expense improvement.
- Capital amount spent on yearly basis is inline with depreciation.
- Current inventory over \$35m and debt only at \$10m.



Balance Sheet & Cash Flow



Healthy Balance Sheet and cash available in current bank facility.

- Brand is a strong asset, no value in Balance Sheet.
- Honey does not go “off” thus we can retain stock for future growth and to overcome supply shortages.
- Asset backing has been increasing.
- We have ample capacity available for increased production with current assets.

Balance sheet remains strong with plenty of capacity for growth.

Increased stock holdings are necessary to support three sites and to retain Capilano's high quality blend composition for consistent flavour and quality.

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A glass of white yogurt is topped with a drizzle of golden honey and a fresh green mint leaf. A wooden honey dipper with a blue handle is positioned over the glass. In the background, a glass jar is filled with honey. The scene is set on a rustic wooden surface.

Export, Manuka and Beeotic®

Export



Opportunities to grow Export with premium products.

Company had a difficult start to FY17 in export markets as bulk sales were affected by lower demand and lower international honey prices.

- Focus on areas of export (China) where we have the greatest export opportunities for premium retail products.
- Expanding our support for partnering distributor's in market.
- In China, sales exist in pharmacy and grocery and we are supporting this market by training staff and increasing online marketing to help build the brand.
- Our China TMall ecommerce site launched earlier this year.
- We will expand the focus on more export markets as we improve company resources to support this growth and build on relationships with new and current partners.

Export Distribution



Manuka



Premium products will help grow export markets as well as support improved profitability and shift honey away from a commodity product.

- Manuka sales recently bolstered from favourable scientific research into Australian Manuka's potency when compared to New Zealand product.
- Inventory from previous seasons is helping maintain supply during a period of reduced production.
- International prices for Manuka has been rising and the market is changing.
- Capilano is continuing to concentrate on supplying the Australian market and neighbours in Asia.





Premium products will help grow export markets as well as support improved profitability and shift honey away from a commodity product.

- World first clinical trial supporting product efficacy.
- TGA registered product and Capilano has a TGA manufacturing licence.
- Aimed to further promote the health and wellness credentials of Australian honey and attract a greater premium.
- Awaiting regulatory approvals in a range of key export markets, currently selling into China as a priority market.
- More advertising and strategic marketing planned to support the product and educate consumers.



Happy tummy honey.

New Beeotic® is a 100% natural prebiotic honey which can help boost your digestive health. Look for it in the honey section at leading supermarkets and pharmacies. Visit capilano.com.au to find out more.

Beeotic® 100% natural Australian prebiotic honey.



Always read the label. Use only as directed.



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Apple Cider Vinegar



Premium products will help grow export markets as well as support improved profitability and shift honey away from a commodity product.

- Growing market with health conscious consumer following.
- Focus on expanding distribution of this product and increasing export opportunities.
- Capacity to increase volumes with new production equipment.
- Marketing and advertising efforts for ACV are expanding as we promote product and brands.

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Barnes Naturals SINCE 1876

OVER ONE HUNDRED YEARS OF NATURAL HEALTH GOES INTO EVERYTHING WE DO...

NEW

Barnes Naturals organic, unfiltered Apple Cider Vinegars are made from delicious, organically grown apples and all contain the 'The Mother' enzyme.

Enjoy it's wholesome benefits:

- Added to taste to purified drinking water for a refreshing tonic
- Sprinkled over salad, vegetables or even popcorn for a zesty flavour boost
- Added to your cooking instead of plain, processed vinegar

Choose Barnes Naturals. Australia's Favourite Apple Cider Vinegar range/brand*.

barnesnaturals.com.au *Aztac Pharmacy's Sales. MAT 13/11/16. Available at CHEMIST DISCOUNT CHINNEY





Joint Ventures and Supply

Supply



Australian honey supply is weather dependent and can change quickly.

- Current Australian honey stocks have improved considerably.
- Capilano will build stock (reasonably) to support growth and protect against seasons of short supply.



Primary Production Joint Ventures



Two beekeeping joint ventures initiated, one focused on Manuka and the other on supply in Western Australia.

- Medibee is a joint venture with NZ Manuka specialist Comvita (CVT).
- Western Honey Supplies is a joint venture with an existing supplier, based in Western Australia.

Main focus is increasing security of supply.

- Joint ventures have made strategic acquisitions to increase floral resources.
- Currently focusing on increasing hive numbers to fully utilise floral resources.
- We are confident of the future positive earnings potential of these ventures, in addition to the benefits of improved supply security.



Industry

‘Keeping Futures’ program supporting bee welfare and industry

- The joint ventures with support from Capilano is training new beekeepers in our “Keeping Futures” program.
- The program also includes a “BeeScholar” program that fuels further research on bee health and welfare as well as research on Manuka and its antibacterial potency.
- The new Honey Bee Products CRC program is a key component of our “Keeping Futures” program, with \$7m worth of targeted research.



CRC**HBP**
FOR HONEY BEE PRODUCTS



Outlook

Outlook



Opportunities to grow.....

- Protect core domestic market:
 - ✓ Having expansive and resilient brand portfolio represented in all major sales channels.
 - ✓ Ensuring focused, data-driven marketing and promotional campaigns.
- Grow domestic and global presence by:
 - ✓ Leveraging health trends to promote existing premium products - Manuka, Beeotic and ACV.
 - ✓ Using these premium products to increase \$/Kg returns, and revenue.
 - ✓ Prioritising and investing in certain export markets to deliver new growth.
 - ✓ Assessing synergistic M&A opportunities.
- Provide solid platform for growth by:
 - ✓ Investing and educating the industry.
 - ✓ Managing cost-base and scale to provide platform for growth.
 - ✓ Having structured, strategically determined NPD.

Key Points



- Domestic market sales in growth.
- Balance Sheet and financial position remains strong.
- Progressing export sales plans to improve the contribution from this segment.
- Australian crop likely to improve next season, thus we need to create opportunities for more premium export market sales.
- Beekeeping ventures commenced and in full operation, including our 'Keeping Futures' program to support the next generation of skilled beekeepers. Main focus is increasing security of supply.





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