NZX / ASX Market Release

27 June 2017

Tegel Group Holdings Limited – Full Year Results for the 53 weeks ended 30 April 2017

Tegel Group Holdings Limited advises that the attached presentation will be given during an investor call by Tegel Group Holdings Limited starting at 10.30am NZT today.

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About Tegel Group Holdings Limited

Tegel Group Holdings Limited (NZX/ASX: TGH) processes approximately 53 million birds per year, across vertically integrated operations in Auckland, Christchurch and New Plymouth. It is New Zealand's leading poultry producer, processing approximately half of New Zealand's poultry, and also manufactures and markets a range of other processed meat products. Tegel produces a range of products across its core business (e.g. fresh and frozen whole chickens, fillets and portions), and value added convenience products (e.g. fresh value added, cooked and smoked small-goods and frozen further processed products), which are sold through three key sales channels domestically (retail grocery, foodservice / industrial and quick-service restaurants), and in selected channels in international markets. Its brands are Tegel, Rangitikei and Top Hat.

For more information go to: www.tegel.co.nz

Tegel Group Holdings Limited

FY17 Full Year Results Investor & Analyst Conference Call Script

Tuesday 27 June 2017

Operator: Good morning, ladies and gentlemen, and welcome to the Tegel Group Holdings Limited Full Year 2017 Results Investor & Analyst Conference Call. Today's conference is being recorded. Throughout the call, all participants will be in a listen-only mode and afterwards there will be a question and answer session. Now I'd like to hand the call over to Phil Hand, CEO, and Peter McHugh, CFO, who will run through a presentation. Please go ahead, sir.

Slide 1: Tegel Group Holdings Limited FY17 Full Year Results Presentation

Good morning everyone, I'm Phil Hand and it is my pleasure to welcome you on the call today to discuss our FY17 results. Thank you for making the time to join us.
Peter and I will be discussing our FY17 results for the 53 weeks ended 30 April 2017.
There's a range of information we have to get through today and we'll try to make it as clear as possible. Firstly we will highlight our FY17 performance against the prior year, being the 52 weeks ended 24 April 2016. We will also compare our FY17 performance against the prospective financial information issued through the IPO prospectus and our revised guidance which you will recall we provided to the market in December last year.
The result was lodged on the NZX and ASX and to our Tegel investor website this morning and the pack included the Financial Review Commentary, Financial Statements and the slide presentation to which we will be referring throughout this call.

Slide 3: Agenda

Turning to our agenda on slide 3, first I will run through an overview of the highlights for the year. Peter will then look in further detail at the financials before handing back to me to run through what we can expect for the FY18 year. We will then be happy to receive any questions at the end of the call.

Slide 5: FY17 Highlights: Solid financial performance and delivering on strategy

So turning now to slide 5 of the presentation.
We have never before grown so many birds and produced as many products for sale to our customers in New Zealand and our overseas markets. Our record volumes for FY17 were close to 100,000 tonnes and up 7.1% compared to FY16. Revenues exceeded $600 million for the first time ever. Our underlying EBITDA was solid compared to FY16 and our NPAT earnings of $34.2 million, with cash flows from operating activities of $45.6 million for the year, indicate that the business is in good shape.

As a result of the very favourable NPAT, adjusted for amortisation of customer contracts, the Board has declared a final dividend of 4.10 cents per share. Combined with our interim dividend of 3.45 cents per share, this results in a total dividend for FY17 of 7.55 cents per share. This equates to a gross dividend yield of 4.9% on the IPO price and 5.1% on the average daily close during FY17.

Peter will speak in more detail about the financial results shortly.

Slide 6: FY17 Highlights: Continuing to deliver strong results

Slide 6 shows Tegel has been consistently growing volume, revenue and underlying EBITDA over the last five years due to continuing favourable domestic market conditions, new product development, capital investment and expanding export sales.

All this is underpinned by a trusted and iconic brand and a reputation for producing quality products.

Slide 7: FY17 Highlights: Delivering on our strategy

So turning now to slide 7 and our operating highlights and mapping these to our domestic and export strategy.

On every objective or goal, we delivered on our strategy.

In our domestic market, we grew our share by 2%. Those of you based in NZ will now be familiar with our rebranding – seen in our new pack designs and advertising. This was completed during the year and has delivered real results for us.

Our innovation team brought 29 new products to market during the year. Some of these products are proving very popular and include our value added meal solutions range as well as our free range products.

On the export front - in line with our export strategy and the market access change for the Australian market, we are very pleased to announce today that a wider range of our Tegel branded products will soon be on shelf in the Australian retail channel. This is an exciting development in the diversification of our Australian business.

In our other export markets, we saw a particularly strong performance from the Pacific Islands and Asia continued to grow year on year.

During the year we developed new products for our export markets and we entered a new market, the Philippines, where we secured our first sales.

To reinforce our strategic focus, we have continued to invest in agriculture and processing assets that are supporting sales growth, efficiency gains and savings. We invested in a new state of the art breeder farm in Christchurch and our automation and capital expenditure programme continues. We experienced the immediate benefit of this, for example our new automatic breast deboner and cut up equipment which we put into New Plymouth, reduced shift processing time by 1 hour per shift. Meanwhile our focus on cost saving initiatives and continuous improvement programmes resulted in $12 million of savings for the year.

Slide 8: FY17 Highlights: Vertically integrated regional operations give strategic advantage

Slide 8 is a reminder of our fully integrated regional operations. These fully integrated regional sites - from breeder farms to distribution centres - provide Tegel with a strategic advantage ensuring consistent national and international supply to all our customers.

Tegel enjoys a world class feed conversion ratio due to a favourable growing environment and our fully vertically integrated supply chain which allows close control of feed. We also produce poultry in a sustainable way with a minimal impact on our environment.

Slide 9: FY17 Highlights: Brand refresh completed supported by advertising campaign

So now on to slide 9. We are very pleased with our brand refresh and advertising campaign which was implemented and completed this year. It has been a great success. If we look back, our packaging was outdated and not consistent across products. The rebrand also gave us an opportunity to enhance our labelling and dispel some myths. Our research found that some people still confuse the egg laying industry with the broiler chickens that we grow for consumption. So we have updated our labelling to clearly show either the cage free or free range stamp. All our products are free of added hormones and our labels reflect this. Following the brand refresh, cage free awareness of our products has increased by 113%, free range awareness by 137% and no added hormones awareness by 29%.

Slide 10: FY17 Highlights: Significant innovation delivered to market

Looking at new product development on slide 10 - which is a major focus in our business. During the year, as I stated earlier, we launched 29 new products out into the market. Free range product growth has been particularly pleasing increasing by 28% year on year.

The reason for our focus on NPD is that we know for the health of our business we need to bring our customers up the value chain. Simply participating in the bulk commodity space will not drive growth. The more we can do this, the more we can improve our margins and diversify our business.

I'll now hand over to Peter to run through the financials in a bit more detail.

Slide 12 Financial Overview

Thanks very much Phil and good morning everyone.

Turning firstly to slide 12.

Phil has run through some of the highlights and here we provide the financial overview.

Firstly I would like to make a number of comments on what has been a very challenging year. The team at Tegel worked very hard to bring the company to listing and our forecast numbers were based on very valid assumptions at that time. In December we had to adjust these forecasts due to the fierce domestic pricing competition. Naturally, we are very disappointed to not achieve our original PFI numbers.

However, overall, Tegel has delivered a strong result for the year and we have continued to deliver on our strategy.

Just to remind you, FY17 was a 53 week year with the extra trading week occurring from the retail accounting method.

So first off, comparing revenue and volumes to our original PFI.

Domestically, we were within 1% of forecast volumes through delivering new contracts secured in FY16 and in early FY17. However, pricing pressure throughout much of FY17 meant that revenues fell short of expectations.

Meanwhile export volumes were also within 1% of forecast but revenues were lower than expected due to product mix.

Pleasingly, our Underlying EBITDA and Net Profit After Tax were within the revised guidance range. So if we look back to December and the revised forecast we set for the second half of this year:

- As we expected, we had a stronger second half through the extra trading week in FY17 and we had the full six month impact of a number of contracts which we won in the first half. These included the lower north island KFC contract and various retail contracts. Tegel benefited from the rebranding advertising which started in November, we had new product launches and our usual summer seasonality. Only the pricing improvement did not come through.

Now, comparing to FY16, overall poultry volumes increased by 7.1%. Revenue was up 5.4% to $614.0 million driven by volume growth. And I'll come to the detail of that shortly.

Gross Profits overall fell by 1.6%. However we have seen some price stabilisation in the second half of FY17.

Our targeted costs savings projects delivered on expectations.

Expenses continued to be well controlled within the business at 4.1% lower than FY16. Net Profit After Tax was $34.2 million. This was $22.9 million higher than last year mainly as a result of earnings growth and the change in capital structure. In FY16, the business incurred net finance costs of $28.0 million, while in the current year, these were reduced to $6.0 million.

Adjusting the bottom line for a number of items including depreciation, amortisation, net finance costs, Kaikoura earthquake costs and foreign exchange, Underlying EBITDA was $75.6 million. This was flat on the comparative period.

As Phil mentioned, the Board is pleased to declare a final dividend for the FY17 year. The fully imputed final dividend for the second half of FY17 of 4.10 cents per share will be paid on 27 July this year.

This is in addition to the 3.45 cents per share interim dividend already paid this year and gives a combined dividend of 7.55 cents per share for FY17.

Tegel's dividend policy remains unchanged. As previously communicated and looking beyond 2017, it is the Board's intention to target a dividend payout ratio in the range of 60-75% of annual NPAT excluding the expense relating to the non-cash amortisation of customer contracts.

Slide 13: Domestic

Turning now to slide 13 and looking at domestic volumes and revenue.

Domestic volumes were up 7.2% for the year. This was mainly from higher retail and QSR sales. Although softer pricing impacted FY17, domestic revenue increased by $25.3 million or 5.9%.

The domestic business continues to be supported by favourable macro economic conditions including population growth, increased chicken consumption and our ability to work with our customers to develop new products.

The lower domestic pricing has been well documented and discussed. More recently we have seen prices stabilising and we anticipate a more rational market place going forward.

Slide 14: Export

On slide 14, in total, export volumes were up 6.7% for the year while total export revenue was up 1.1% compared to FY16.

Australia continues to make up the majority of our exports, where we have approximately a 1% share of the market. Volumes to Australia for FY17 were down slightly compared to FY16 which was in part driven by one of our customers taking one product line inhouse and the non-repeat of promotional activity which we talked about at the interim results. This decline was more than offset by growth in volumes to the Pacific, Asia and the Middle East regions.

In the UAE, a second major supermarket now sells Tegel branded product which allows us to capture another tier of the market there. During the year, we supplied product for the QSR channel in the Philippines for the first time. This new business came out of the customer concerns about their supply chain and their ability to get premium product. Overall our export volumes were very close to PFI.

Slide 15: Capex

Our FY17 capex programme has been a great success. It has been especially satisfying to see new automation equipment commissioned and delivering benefits so rapidly.

We have new breast deboners in Henderson and New Plymouth. We have a new automated cut up machine, or what we call an ACM, in New Plymouth as well as a nine-piece cut up machine there. We expanded our breeder farm in Christchurch and we had a number of smaller projects completed at Henderson.

Our total spend for the year was $29.9 million, of which $19.4 million was for growth and productivity initiatives.

Looking ahead we'll carry out an ACM upgrade in Henderson and continue to invest to meet the growth in volume and sales.

Now just to talk about an investment we're making over the next two years on our enterprise resource planning system, called M3. This is already underway and it's a significant internal project. We are updating the system to improve Tegel's core capability around systems, processes and infrastructure. M3 will enhance business continuity, enable business growth, drive efficiency into business operations and deliver advanced business planning and optimisation tools.

Slide 16: Balance Sheet and working capital

Slide 16. We have a strong balance sheet, with improved working capital.

Impacting the level of current assets, our inventory levels were in line with expectations. Finished goods were up $1.8 million supporting our higher sales levels. Meanwhile cash and cash equivalents were $9.4 million higher.

Our non-current assets were up by $10.5 million in the year. This was a result of the capex spend I talked about earlier.

Tegel's IPO at the beginning of the financial year resulted in $284 million of capital raised and we repaid borrowings of $130 million. We negotiated new arrangements for our borrowing facilities which includes a facility of $120 million and a working capital facility of $40 million. These expire in November 2018.

Slide 17: Cash Flow

Moving now to Cash Flow on Slide 17. Overall we had a net increase of $9.4 million in cash. Our operating cash flows were stable and included one-off expenses of $4.1 million relating to the public listing of Tegel. Investing activities related primarily to higher asset spend. The IPO - including debt, equity and payments - was processed through the financing activities.

The business continues to generate strong operating cash flows.

With that, I'll now hand back to Phil.

Slide 19: Outlook

Thanks very much Peter.

So on to our final slide, before we take questions.

Tegel has been NZ's leading poultry producer for more than 55 years.

With the PFI period now complete, we will continue with our strategic objectives for our domestic and export businesses.

Domestic volume and market growth is underpinned by increased poultry consumption of around 5% since 1990. We see those trends continuing and they will impact favourably on our business.

We have an expanding population and the competition for protein still lies in favour of poultry.

We will continue to drive category growth. We invested significantly in our brand refresh and we have seen poultry share within most of the retailers continue to grow.

We'll continue to drive free range expansion which attracts higher margins. Demand for free range chicken has been significant. For example, we grew around 16% more free range volumes from FY16 to FY17 and that is set to increase at an even faster rate into FY18.

In our export markets we'll continue to roll out more new products. Today's announcement on having a wider range of Tegel branded product on shelf in the Australian retail market in the second quarter is very exciting. It will allow us to diversify across channels to reduce customer concentration and replace some of the volumes lost through another customer.

In our other markets, New Zealand's strict biosecurity controls, major avian disease free status and reputation as premium quality food producing nation continues to resonate. We are working hard to increase exports to our Asian and our new markets such as the Philippines and Bahrain.

We will continue on the path of proven success with capital expenditure of around $30 million in FY18 across a range of initiatives including hatchery expansion in New Plymouth, brand investment and new product innovation.

As free range demand continues, we are putting in multi-use sheds and we are also converting farms to free range to satisfy those consumer preferences.

Our costs are well controlled and we continue to drive efficiencies within our business through the continued roll out of SIMPLIFY!

So looking at FY18, based on the current market conditions, holding domestic market share, with continued domestic consumption growth of 4-5% and continuing exports, overall, we expect to deliver an increase in underlying EBITDA from the level at FY17.

Tegel remains a solid and growing business. Our people are working hard to deliver sustainable growth and we are extremely proud of their skills and dedication.

We are now happy to take any questions callers may have.

Questions and Answers

Summary comments following Questions and Answers

That concludes our Full Year 2017 Results presentation, thank you all for joining us. Tegel is a growing business, the company is in great shape and we are excited about our future prospects.