

# Capilano FY17

Results and Business Strategy  
Presentation

September 2017

Australia's *homegrown* honey.





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# BUSINESS OVERVIEW

# Business Overview



## Company Overview

**Capilano is the leading packer and marketer of honey in Australia.**

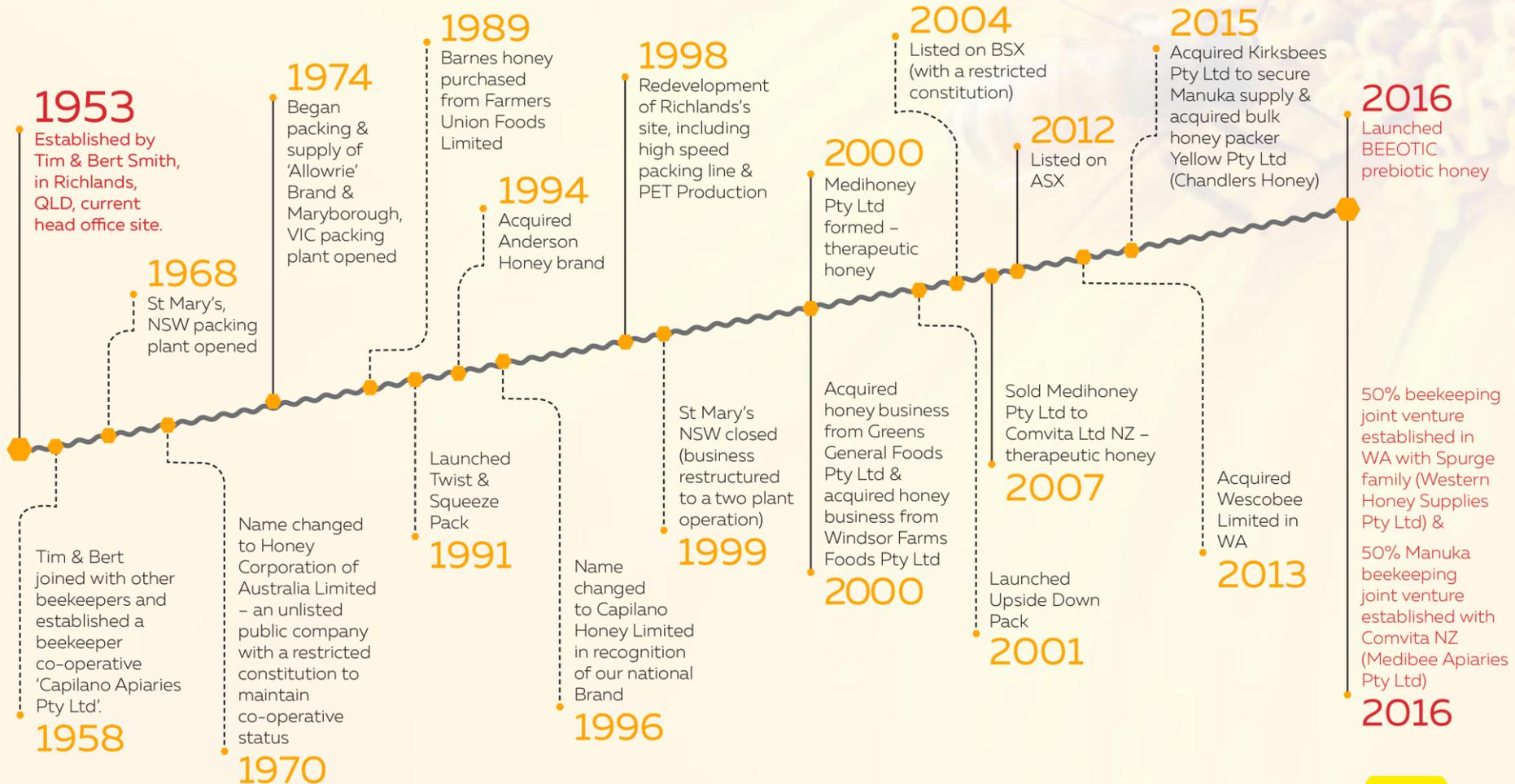
- Three operational sites in Australia (Brisbane, QLD; Maryborough, VIC; Bayswater, WA).
- Head office located in Brisbane, QLD.
- Strategic primary production joint-venture beekeeping operations located in northern NSW and south-west WA.
- Capilano has a history of completing acquisitions of complementary businesses and brands.
- ASX : CZZ – listed July 2012.
- Market Cap – \$154m (24 Aug 2017).
- Shares on issue – 9,457,481
- Staff numbers: 156



# Business Overview



## History of the Company



# Business Overview



## Key Brand Portfolio & Philosophy

- **Capilano** - Australia's favourite honey, trusted since 1953. 100% pure Australian honey sourced from more than 600 beekeeping families across Australia. Capilano is passionate about sharing the many health benefits of our honey such as the natural antioxidants of regular honey, the antibacterial properties of Manuka honey and the prebiotic properties of Beeotic® honey. Capilano is sold across Australia and in more than thirty countries.
- **Allowrie** - offers Australian families value and a reliable choice of organic and natural honey in a range of convenient pack sizes, aimed to keep even the biggest families satisfied.
- **Wescobee** - the original Western Australian honey company, established in 1927. Celebrating over 90 years of operation, Wescobee is one of the oldest honey brands in Australia, offering a range of Jarrah, 100% pure Western Australian honey and Apple Cider Vinegar (ACV) - all packed locally in Bayswater, Perth.
- **Barnes Naturals** – first established in Victoria in 1876, Barnes Naturals is a trusted Australian brand offering a 'better for you' range of natural products. Barnes Naturals specialises in organic Apple Cider Vinegar, active Manuka and Jarrah honey.



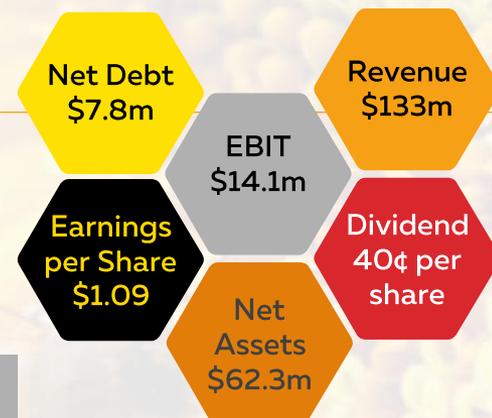


# FY17 FINANCIALS



# FY17 FINANCIALS

## FY17 Performance in Context



(\$,000's)	2017	2016	2015
Revenue	133,144	133,617	120,863
Earnings before Interest & Tax (EBIT)	14,111	14,068	11,554
EBIT Depreciation & Amortisation (EBITDA)	15,710	15,938	13,206
Net Profit before tax (NPBT)	13,813	13,443	11,128
Net Profit after tax (NPAT)	10,335	9,483	7,845
Operating cash flow	2,630	(8,387)	7,621
Net debt	7,796	9,626	4,665
Net assets	62,332	55,764	33,705
Current ratio (Current Assets / Current Liabilities)	2.62	2.33	1.54
Debt ratio (Total Liabilities / Total Assets)	35.3%	44.1%	50.8%
Interest cover (EBITDA / Interest)	53x	25x	31x
Earnings per share	\$1.09	\$1.10	\$0.91
Shares on issue	9,457,481	8,606,523	8,520,198

# FY17 FINANCIALS



## Year of Consolidation as we plan for future growth

- Sales revenue was influenced by a key customer's move to net pricing. This lowered revenue and rebates \$3.44m, though had no effect on gross margin.
- Domestic retail sales were up over 6%.
- Apple Cider Vinegar (ACV) continues to be the focus of our non-honey product range.
- 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 launch new prebiotic honey - Beeotic® and invest in brand building as a basis for future growth.
- Capital gain realised from 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 affected by newly issued shares of 860,360 (June 2016).
- NPAT was up from \$9,483k to \$10,335 (+9%).



# FY17 FINANCIALS



## Statement of Financial Position

	2017	2016
	\$	\$
<b>CURRENT ASSETS</b>	69,837,666	70,515,238
Non-Current assets classified as held for sale	-	7,425,442
<b>TOTAL CURRENT ASSETS</b>	<b>69,837,666</b>	<b>77,940,680</b>
<b>TOTAL NON-CURRENT ASSETS</b>	<b>26,511,217</b>	<b>21,794,540</b>
<b>TOTAL ASSETS</b>	<b>96,348,883</b>	<b>99,735,220</b>
<b>CURRENT LIABILITIES</b>		
Trade and other payables	20,845,265	20,671,941
Short term borrowings	1,990,902	8,120,105
Provision for dividend	3,783,238	3,783,238
Income tax payable	-	836,226
<b>TOTAL CURRENT LIABILITIES</b>	<b>26,619,405</b>	<b>33,411,510</b>
<b>NON-CURRENT LIABILITIES</b>		
Long term borrowings	6,997,500	10,201,648
Long term provisions	400,013	357,940
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>7,397,513</b>	<b>10,559,588</b>
<b>TOTAL LIABILITIES</b>	<b>34,016,918</b>	<b>43,971,098</b>
<b>NET ASSETS</b>	<b>62,331,965</b>	<b>55,764,122</b>
<b>EQUITY</b>		
Issued capital	24,532,157	24,586,832
Reserves	4,113,551	4,042,851
Retained earnings	33,686,257	27,134,439
<b>TOTAL EQUITY</b>	<b>62,331,965</b>	<b>55,764,122</b>



# FY17 FINANCIALS



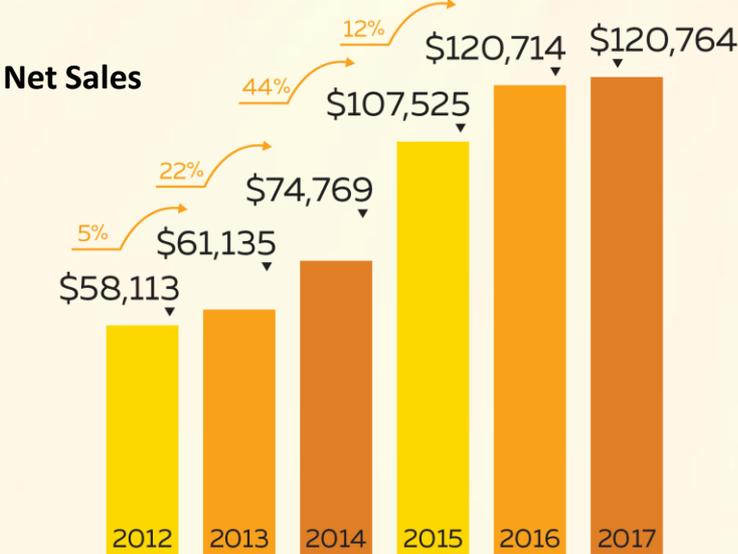
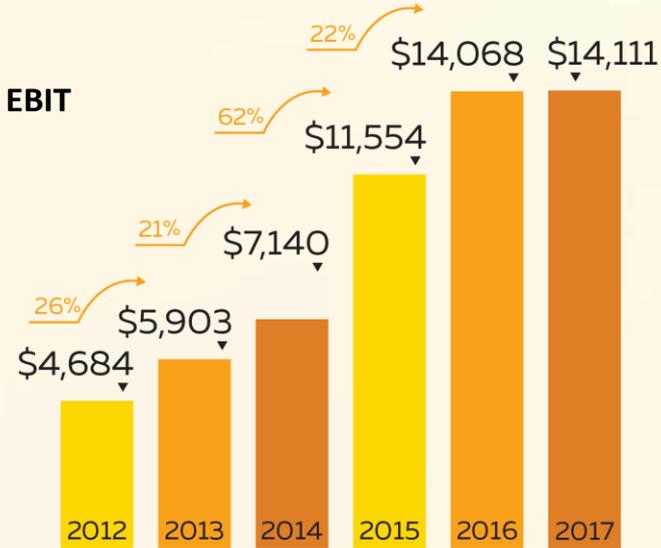
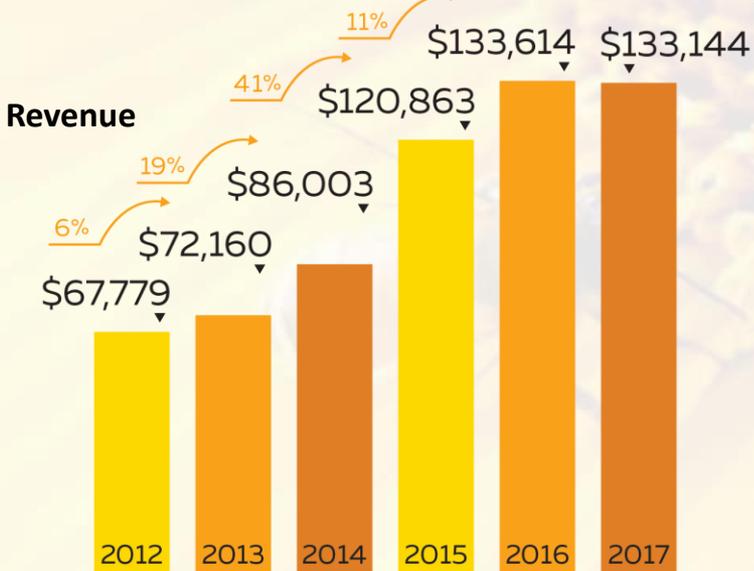
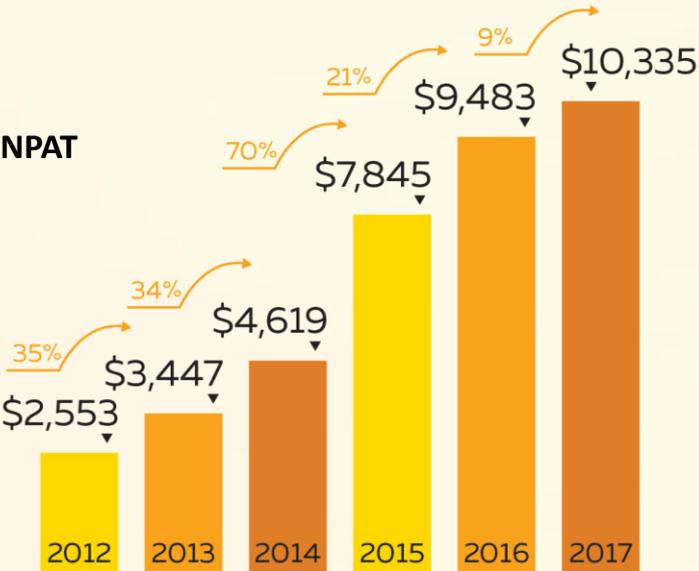
## Healthy Balance Sheet & Cash Flow

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 2016 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) and CapEx spend has been very disciplined.
- Capital projects are prioritised to achieve expense improvement.
- Capital amount spent on yearly basis is in line with depreciation.
- The value of inventory has increased from \$38.8m to \$44.2m this FY as we support three sites and hold stock to retain Capilano's high quality blend composition and customer supply security.
- Brand is a strong asset, no value in Balance Sheet.



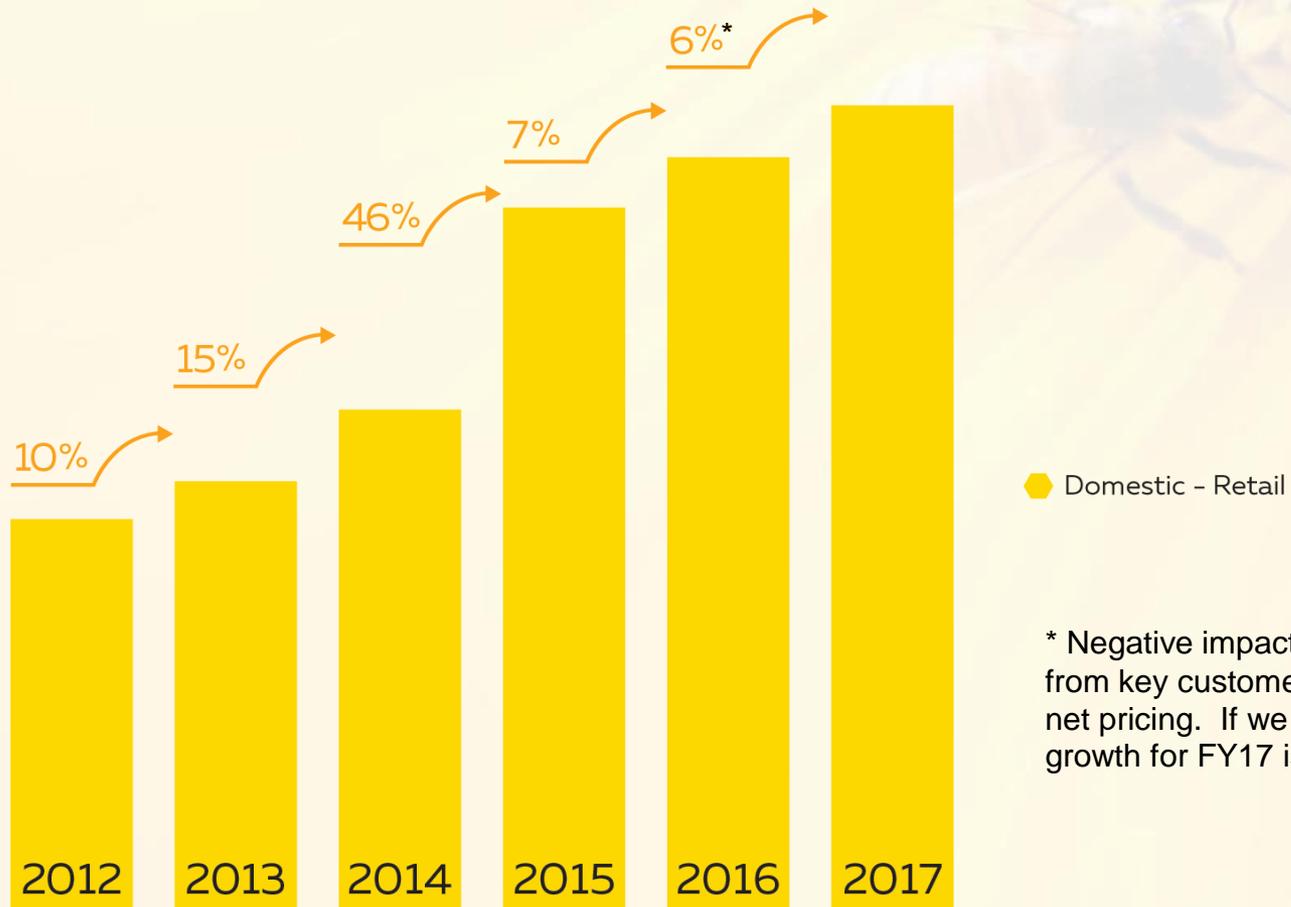
# LONG-TERM FINANCIAL PERFORMANCE



# LONG-TERM FINANCIAL PERFORMANCE



## Continued Strong Domestic Retail Sales Growth Through 2017



\* Negative impact of \$3.44m from key customer moving to net pricing. If we include this, growth for FY17 is 10%



# THE MARKET



# The Market



## Market Context

### Australia remains Capilano's key market.

- Household budgets are under pressure and we are seeing consumers pursue value. Despite this, growth in the Australian grocery market remains above other developed countries.
- Total customers and spend per customer is up for total spreads category, as is purchase frequency in total spreads and honey<sup>1</sup>. Growth in the honey category is being driven by an increase in purchase frequency.
- Domestic honey category growth of 4.9% average CAGR over last 2 years is expected to continue<sup>2</sup>.
- During the last year, the Australian honey market grew at 6.1% to \$156.9m and 7.1% in volume to 10,749t (excluding ALDI)<sup>3</sup>.
- The health and wellness honey segment is growing at 13.3%, where Capilano is well represented and growing above the category average at 27.1%<sup>3</sup>. Beeotic® is a key contributor to this.
- About two-thirds of Capilano brand customers are loyal and only shop that brand<sup>1</sup>.
- Capilano is driving growth in the honey category over the last quarter, with a notable increase in sales versus last year.

<sup>1</sup> Quantium CheckOut (MAT 02/05/217)

<sup>2</sup> Aztec data, Australian grocery scan total segment (MAT 16/04/17) excluding ALDI.

<sup>3</sup> Aztec data, Australian grocery scan total segment (MAT 06/08/17) excluding ALDI.



# The Market



## Market Position - Export

FY17 export sales were affected by lower demand for industrial bulk sales and lower international honey prices.

- Focus has been directed to areas of export (China) where we have the greatest opportunities to sell premium retail products.
- Expanding support for our partner distributors in each export market has been a priority.
- In China, sales are originating from a larger distribution base, including pharmacy, grocery, TV shopping and a recently launched ecommerce platform.
- We are supporting this market by training staff and increasing online marketing to help build brand awareness.
- Sales to China grew 39% in FY17.





# BUSINESS STRATEGY



# Business Strategy



## Macro Trends

The 2020 strategy is influenced by a number of key macro trends:

- Increasing competition in the Australian grocery market driving commodity pricing.
- Climate and weather volatility impacting supply.
- Consumer interest in health and wellness supporting honey proposition here and abroad.
- Economic growth in Asia increasing purchasing power of consumers.
- Ageing population trend with a better understanding of the link between nutrition, natural products and health.
- Excellent international reputation of Australian primary produce establishes strong platform for honey export market.



Capilano is well positioned to capitalise on growing global consumer demand for natural, healthy products.





## Key Strategic Themes

### Operational

- Maximise the effectiveness and security of the supply chain, honey purchases, beekeepers and the welfare of their bees.
- Market leading operational excellence in processing, procurement, packing, quality, cost control and logistics.

### Core

- Protect and grow share in all domestic sales channels, including grocery and pharmacy, with a resilient brand portfolio accompanied by an intelligent marketing and promotional campaign.
- Drive consumer awareness through innovative marketing and promotion of key brands to grow the category and our share in prioritised international markets.

### Growth

- Build demand for premium high value natural health products in local and export markets.
- Invest in structured and strategically derived new product development and innovation to broaden our range, competitive advantage and reach.

# Business Strategy

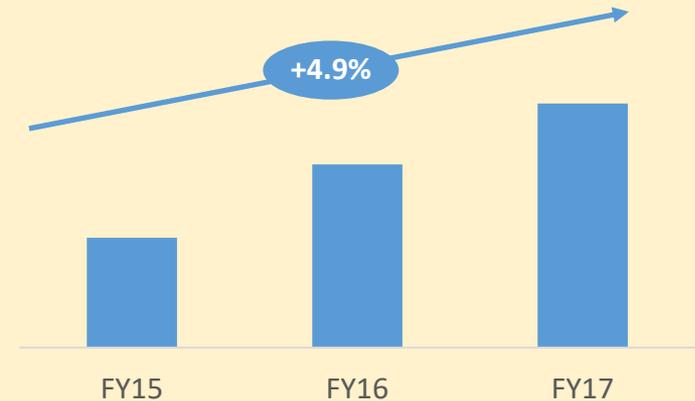


## Domestic Sales

Provide differentiation through innovation, pricing and volume mix.

- The domestic honey category is growing, and it is crucial that Capilano retains market share.
- Strong portfolio management with good, better, best product range to maintain and grow share in key market segments.
- Invest in an innovation capability that allows us to better appeal to emerging markets and build market value by moving sales to higher value product segments.
- Commitment to on-going brand building advertising and promotional activity underpinned by data analysis.
- Capture opportunities to further supply private label business, if it makes strategic and financial sense.

**Domestic Honey Sales, Supermarkets AU\$ (Million)**



**Australian Supermarket Revenue 3-year Growth Rate**  
CAGR, %, 2015-2017.

**Source:** Aztec data, Australian grocery scan total segment (MAT 16/04/17) excluding ALDI.

# Business Strategy



## Export Sales

### Re-setting the export business to drive growth with great Australian honey:

- We will expand the focus on export markets as we improve company resources to support this growth and build on relationships with new and current partners.
- Increasing focus on key strategic markets and higher margin retail products.
- Markets have been prioritised using a weighted criteria and regionalised into 4 key regions.
- Region specific plans have been developed to accommodate demographic and cultural differences.
- The sales team size and capability are aligned to region specific priorities.



# Business Strategy



## Focus on Premium Products

### Leading with premium health products into export markets:

- Global Manuka market remains strong and Capilano's global Manuka market share is estimated to be 11%, which permits further market expansion.
- Beeotic is a unique natural product aligned with health trends and the only regulated prebiotic honey product on the market. Consumers require significant education of this products health and wellness credentials.
- Apple Cider Vinegar (ACV) is another natural product in which we have a large market opportunity.



# Business Strategy



## Manuka premium antibacterial honey

- Manuka sales recently bolstered from favourable scientific research into Australian Manuka's potency when compared to New Zealand product.
- New Upside Down (UD) range of active Manuka being distributed and performing.
- Inventory from previous seasons is helping maintain supply during a period of reduced production.
- International prices for Manuka have been rising and the market is changing.
- Capilano is continuing to concentrate on supplying the Australian market and our neighbours in Asia.
- Capilano's grocery sales of Manuka has grown over 15% in the second half of FY17 and remains the market leader<sup>1</sup>.



<sup>1</sup> Aztec Australian grocery scan Manuka Brands



# Business Strategy



## Beeotic® premium prebiotic honey

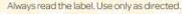
- TGA registered product and Capilano has a TGA manufacturing licence for packing.
- Aimed to further promote the health and wellness credentials of Australian honey and attract a greater premium.
- Awaiting regulatory approvals in a range of key export markets.
- Currently selling into China as a priority export market to establish, with Singapore launch held on 5 Sept 2017.
- More advertising, product development and strategic marketing planned to support the product and educate consumers.
- We have invested in research to understand our customer profile in Australia.
- Beeotic® has brought new honey consumers to the honey category<sup>1</sup>. Repeat customers have grown close to 30%<sup>1</sup>.

<sup>1</sup> Quantum CheckOut (MAT 02/05/217)

**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](http://capilano.com.au) to find out more.

*Beeotic®. 100% natural Australian prebiotic honey.*

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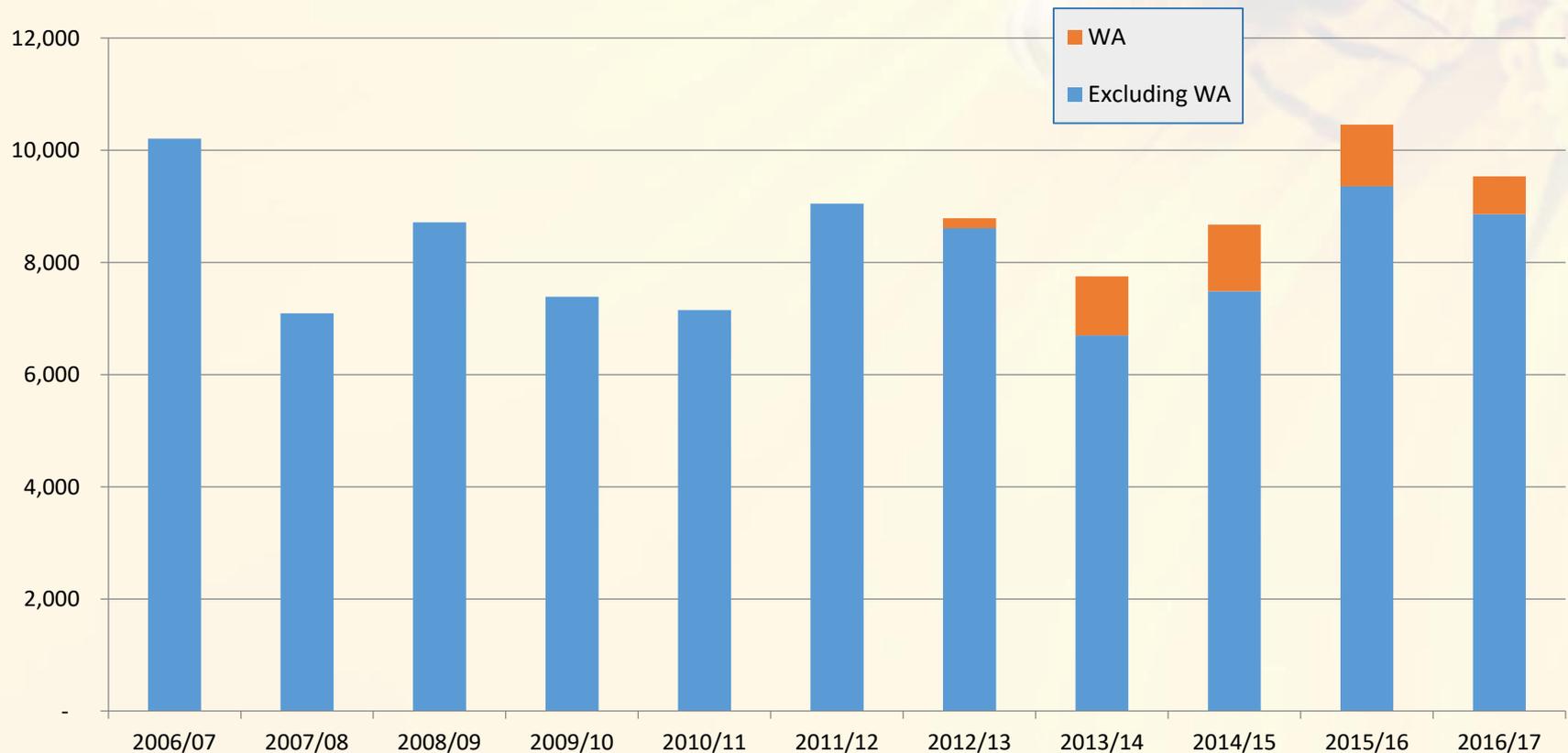
# Business Strategy



## Commodity Outlook – Supply Security

Continued investment in the honey industry and deepening beekeeping relationships.

### Capilano's Australian honey deliveries over time:



# Business Strategy



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

- MediBee Apiaries 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 the security of premium honey supply.

- Strategic acquisitions have been made to increase floral resources.
- Currently focusing on beekeeper skills development and increasing hive numbers to fully utilise the floral resources acquired.
- We are confident of the future positive earnings potential of these ventures, in addition to the benefits of improved supply security.
- A low production season over FY17 impacted profitability in both ventures.



# Business Strategy



## Making a positive difference to industry sustainability and bee welfare

**‘Keeping Futures Program’ instigated to support industry and bee welfare, key focus is:**

- The training of the next generation of beekeepers. In collaboration with MediBee Apiaries we are sponsoring four new beekeeping trainees. At Western Honey Supplies (WA) we have another 3 trainees. Intakes are planned to occur annually.
- The ‘BeeScholar’ program fuels further research on bee health and welfare, as well as research on Manuka and its antibacterial potency. There is a propensity to support new graduate scientists with funding into Apicultural research.
- The new Honey Bee Products CRC program is a key component of our “Keeping Futures” program, with \$20m worth of targeted research taking place over 5 years.



Three generations of the Gell family, beekeepers from central Victoria



**CRCHBP**  
FOR HONEY BEE PRODUCTS





# OUTLOOK

# Outlook



## Opportunities to grow.....

- Protect core domestic market:
  - ✓ Resilient brand portfolio represented in all major sales channels.
  - ✓ Ensuring focused intelligent 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 high potential export markets to deliver new growth.
- Provide solid platform for growth by:
  - ✓ Investing and educating the industry.
  - ✓ Further opportunistic vertical integration and developing the beekeeping skills base through our existing joint-venture operations.
  - ✓ Managing cost-base and scale to maintain the best competitive position.
  - ✓ Investing in structured, strategically determined innovation and new product development (NPD).

# Key Points



- Growing domestic market.
- Progressing export sales plans to improve the contribution from this segment.
- Balance Sheet and financial position remains strong.
- Australian honey inventory improved and favourable current supply conditions.
- Beekeeping ventures commenced and in full operation, including our 'Keeping Futures' program to support the next generation of skilled beekeepers. Focus is increasing security of supply and bee welfare.
- Continuing pursuit of operational excellence and lowest cost of production.
- Investment in talent and disciplined execution of strategy.



# Questions?



Australia's *homegrown* honey.

