

# CAPILANO HONEY LIMITED

## Annual General Meeting Presentation

November 2017

Australia's *homegrown* honey.







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# FY17 FINANCIALS

# 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 both revenue and rebates by \$3.44m, though had no effect on gross margin.
- The Australian retail market is growing and Capilano is growing with it. Domestic retail sales were up over 6%.
- Export revenue was down due to lower international honey prices and greater competition, mostly notably in lower margin industrial segments.
- Expenses stable, despite increased spend in marketing as we launch our 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, July 2016), 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) to a total of 9,457,481.
- NPAT was up from \$9,483k to \$10,335 (+9%).

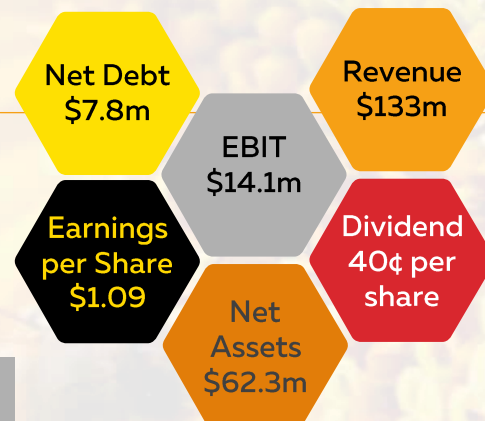




# FY17 FINANCIALS

## 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
Earnings per share	\$1.09	\$1.10	\$0.91
Shares on issue	9,457,481	8,606,523	8,520,198



# 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).

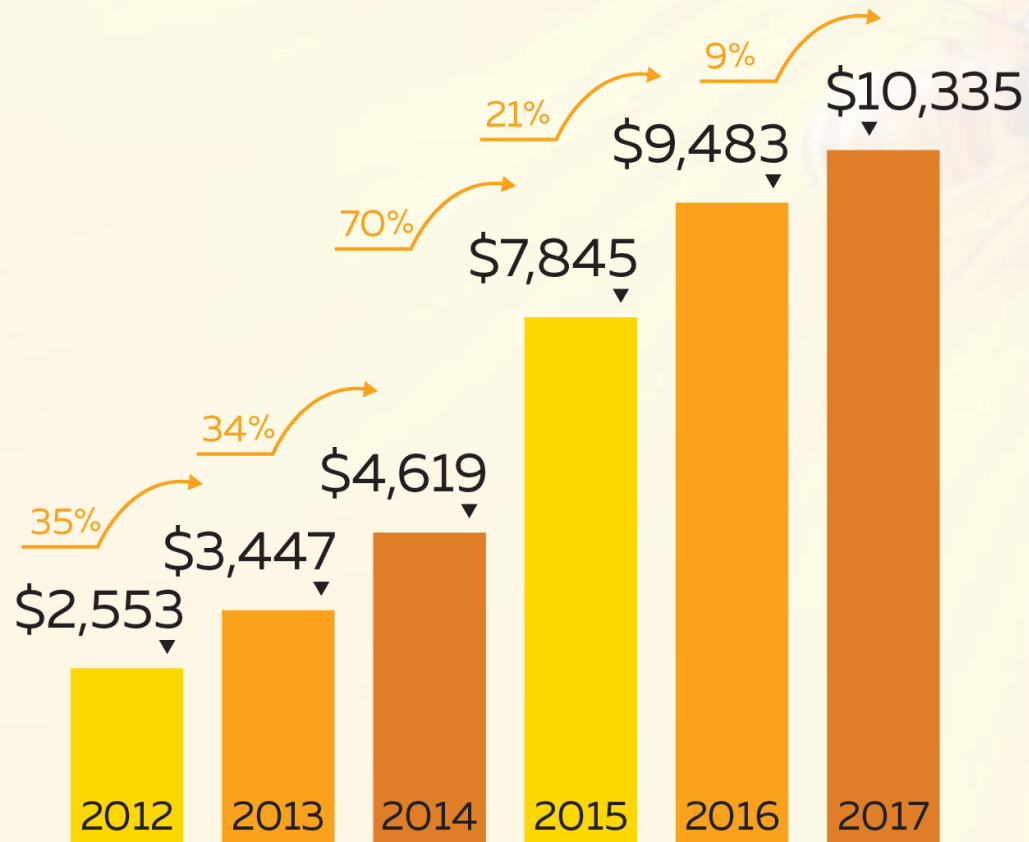
- Capital raising in June 2016 to support higher stock levels, complete the re-opening of our Maryborough (Vic) packing facility and to deliver improvements to our ACV production line.
- No big capital projects planned (new hot rooms yet to be completed) and CapEx spend has been very disciplined.
- Capital projects are prioritised to achieve expense improvement, with capital amount spent on a yearly basis 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 and has no value in Balance Sheet.
- Net assets increased \$6.56m to \$65.3m.



# Solid NPAT Growth Continues



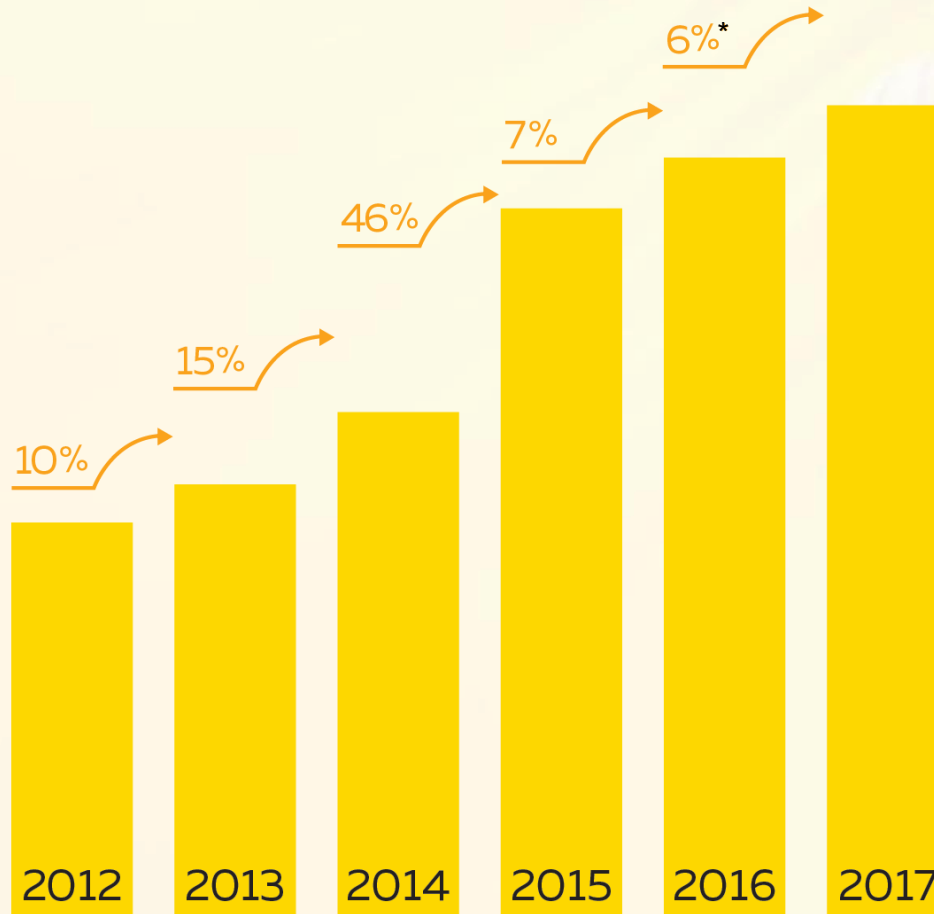
## Net profit after tax (NPAT) performance over time



# Continued Strong Domestic Sales Growth FY17



## Domestic Retail Sales Growth



Domestic - Retail

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





THE MARKET

# Australia Remains Capilano's Key Market



## Market Context

- 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 and premium products.
- 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 of FY17, with a notable increase in sales versus last year.

<sup>1</sup> Quantum 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 - Export



## Export sales affected by lower demand for industrial bulk and lower international honey prices.

- Focus has been directed to areas of export where we have the greatest opportunity to grow sales of premium retail products with attractive margins.
- 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 continue to support this market by training staff in China and increasing online marketing to help build brand awareness.
- Sales to China grew 39% in FY17.







# ENHANCED BUSINESS STRATEGY

# Business Strategy



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

- Increasing competition in the Australian grocery market driving commodity pricing.
- Increasing the security of 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.
- The excellent international reputation of Australian primary produce establishes strong platform for the honey export market.



**Capilano is well positioned to capitalise on growing global consumer demand for natural, health and wellness products.**



# Business Strategy



## Key strategic priorities designed to grow earnings:

- Maintain and grow our strong presence in Australian retail, including grocery, health foods and pharmacy channels. The Australian retail market is growing and we are growing with it.
- Significant commitment to new product development, focussing on the health and wellness benefits of honey, ACV and related products.
- Increased commitment to growing sales substantially in China, including Beeotic®, Manuka and several other prioritised honey varieties.
- Protecting our supply chain, including growing the output of our beekeeping joint ventures.
- Improving the productivity of our operating facilities to reduce costs.







# STRATEGIC PRIORITIES

# Strategic Priorities – *Expanding Executive Talent*



*Getting the capability and leadership team assembled to focus on a small number of core strategic priorities.*



**MANAGING DIRECTOR**  
**Dr Ben McKee**  
B.Agri.Sci (Hons), PhD, GAICD



**COMPANY SECRETARY**  
**Ms Annette Zbasnik**  
GIA (Cert)



**GENERAL MANAGER - FINANCE**  
**Mr Dirk Kemp**  
CIMA, MBA, CPA, Bcompt (Hons)



**INTERNATIONAL SALES DIRECTOR**  
**Mr Peter McDonald**  
B.Int.Bus (Hons)



**DOMESTIC SALES DIRECTOR**  
**Mr Jamie Henderson**  
B.Com, MBA



**MARKETING AND INNOVATION DIRECTOR**  
**Ms Tanya Watt**  
B. Com (Marketing)



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**NATIONAL HR & SAFETY MANAGER**  
**Ms Keryn Austin**  
Dip Mgt (Human Resources)



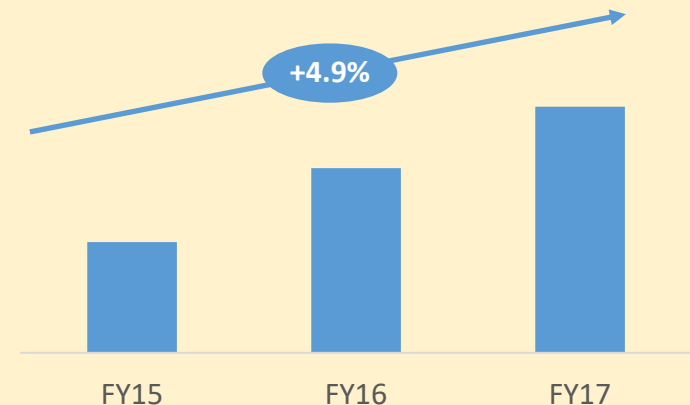


# Maintaining Growth in Domestic Sales



- 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 insights and analysis.
- Capture opportunities to further supply private label business.

**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.



# Delivering on Export Strategy



## 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 such as China 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.



# Strategic Focus on Premium Health & Wellness Products



## Leading with premium health & wellness 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 proven health and wellness credentials.
- Apple Cider Vinegar (ACV) is another natural product in which we have a large international market opportunity.
- Capilano's premium brand portfolio and health and wellness range is aligned with Asian market cultural and consumer trends, with the opportunity in China yet to be fully realised.
- Health & wellness products will be a primary focus of our new product development endeavours.



# Strategic Priority – Manuka antibacterial honey



- Manuka sales recently bolstered from favourable scientific research into Australian Manuka's potency when compared to New Zealand product.
- Capilano firmly believes Manuka is an Australian brand, and we will continue to defend that position.
- New Upside Down (UD) range of active Manuka being distributed and performing.
- Maintaining supply during a period of reduced production and increased demand is challenging.
- 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 grew 15% in the second half of FY17 and remains the market leader<sup>1</sup>.



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





# Strategic Priority – 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 for this product 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>.
- Range innovation will continue to drive strength and breadth of Beeotic® portfolio.



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

# Strategic Priorities – *Innovation and new products*

## New Product Development (NPD)

- Innovation and NPD is an upskilled and better resourced focus at Capilano.
- Capilano's innovation strategy is aligned with macro trends, category growth drivers and our core capabilities.
- Focus is on creating a new strong innovation pipeline that delivers growth, revenue diversity and capitalises on consumer demand for premium offerings and health and wellness products.
- Our existing brands are aligned with the direction of our NPD strategy for delivering premium and complementary health and wellness products.



# Strategic Export Priority – China

- China is the largest honey market in the world.
- Sales into mainland China recently commenced and represent only several percent of company revenue, despite our close location to the market and the credentials of our product portfolio.
- There is much opportunity for Capilano in capturing a larger market share in China with a range of specific health and wellness focused products.
- Premium supermarket, social media, Ecommerce and in China TV Shopping platforms have been activated.
- Investing in building brand awareness and educating consumers about product key selling propositions is the fundamental next step to drive growth.



07 澳大利亚

康蜜乐桉树蜂蜜  
原生态蜂蜜 口感纯正

view more >>

“蓝色海洋的传说” 有点甜

澳大利亚人才算得上是“天生会游泳”，那里的人们不是在沙滩上，就是去沙滩的路上，他们对于蓝色海洋的迷恋，胜过初恋澳大利亚的养蜂人也是如此，他们会花更多的时间在沙滩上，所以蜂蜜就给你纯净自然无添加的吧，当然，鉴于那里有彪悍的袋鼠，呆萌的考拉，蜜蜂在他们眼中也是一种可爱的生物，所以要萌萌地印在包装上！

Capilano 康蜜乐

6月30日 09:50 来自 weibo.com

你如能上澳洲众多健身大V最推崇的营养午餐是什么吗？Beeotic天然益生元蜂蜜在麦片和希腊style的老酸奶上，有效帮助人体产生。Capilano也是当今世界上第一个也是唯一一个成功通过临床实验的天然存在的益生元蜂蜜，蜂蜜蜜源来自我们真正的澳洲Capilano蜂农大家伙。这些澳洲蜜蜂在将花蜜转变为蜂蜜的过...

展开全文

☆ 收藏 127 2 2



康蜜乐 Beeotic  
(蜜益健) 蜂蜜

澳大利亚 Capilano (康蜜乐) 为目前全球最大的蜂蜜公司之一。蜜益健是经过澳大利亚新南威尔士大学临床测试的益生元蜂蜜。益生元有助于大肠内的有益菌生长，这些有益菌在体内得到滋养后将使人体更健康强壮。不是所有的蜂蜜都含有益生元。临床验证可促进肠胃健康，滋养有益菌，抑制有害菌。

[https://capilano.tmall.hk/shop/view\\_shop.htm](https://capilano.tmall.hk/shop/view_shop.htm)

澳洲老字号·64年

进口天然 100% 澳大利亚蜂蜜

全网首发

医药级呵护肠道

从益生元

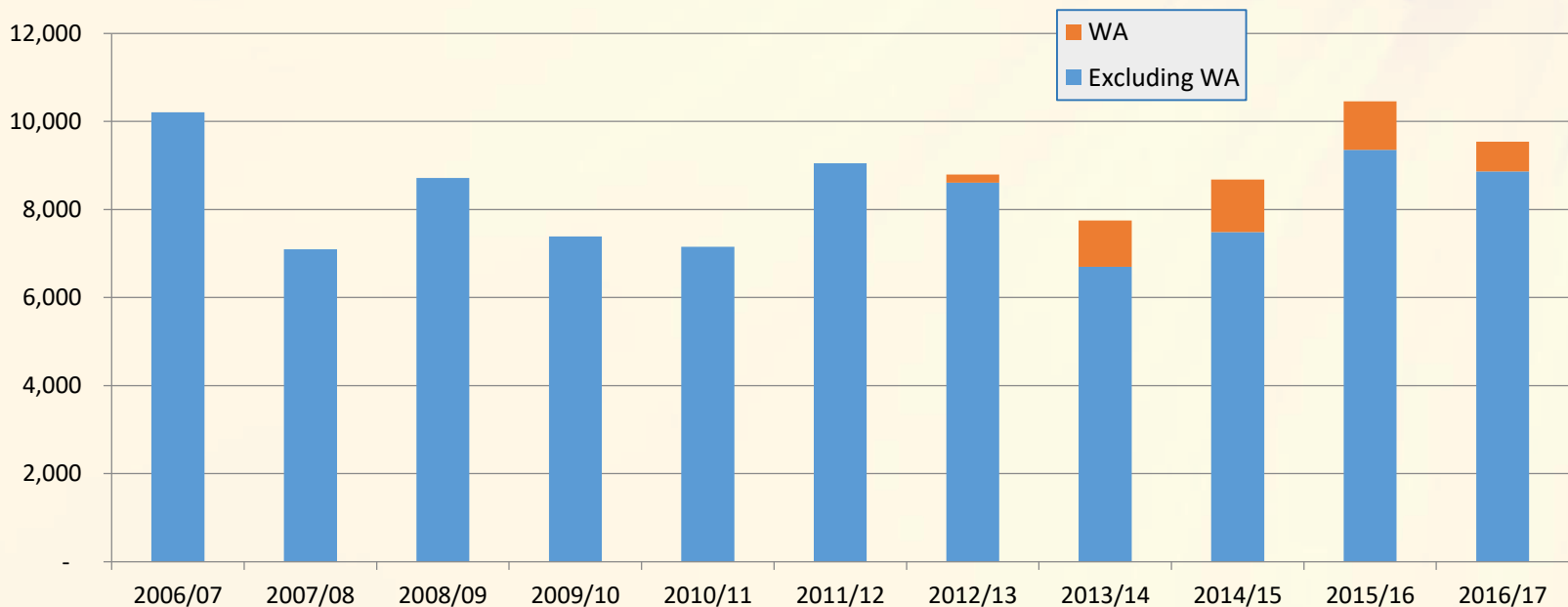


# Strategic focus on supply security



## Honey supply not limiting growth

- In FY17 over 9,500 tonnes of Australian honey was purchased by Capilano.
- Capilano remains the company of choice for beekeepers.
- The contracted supply base has increased some 19% over recent years.
- FY18 crop prospects are looking promising, with an above average crop forecast.



# Strategic focus on premium honey security of supply



## 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.
- 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.



# Making a positive difference to industry



## ‘Keeping Futures Program’ instigated to support industry sustainability and bee welfare

- 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.
- Contributing to the new Honey Bee Products CRC program is a key component of our “Keeping Futures” program, with this industry program conducting \$20m worth of targeted research taking place over 5 years.
- Key theme is to maximise the effectiveness and security of the supply chain, honey purchases, beekeepers and the welfare of their bees.



Three generations of the Gell family, beekeepers from central Victoria



**CRC HBP**  
FOR HONEY BEE PRODUCTS







# OUTLOOK

# Outlook - The way forward for Capilano



- We will protect and continue to grow our domestic market using a resilient brand portfolio represented in all major sales channels, strengthened by intelligent marketing and promotional programs.
- Continue export sales focus to improve the contribution by investing in high potential export markets.
- Our Balance Sheet and financial position remains strong.
- Australian honey inventory and current supply conditions are vastly improved.
- Continuing pursuit of operational excellence and lowest cost of production.
- Structured, strategically determined innovation and new product development (NPD).
- Investment in talent and disciplined execution of strategy.
- Year to date trading is ahead of the same point for the underlying business in FY17.





Australia's *homegrown* honey.

