



# Tegel Group Holdings Limited

FY18 Interim Results Presentation  
6 December 2017



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In this presentation Underlying EBITDA refers to earnings before interest, tax, depreciation and amortisation. Underlying EBITDA is a non-GAAP profit measure. Tegel uses Underlying EBITDA as a measure of operating performance. Underlying EBITDA excludes the effects of certain IFRS fair value adjustments and items that are of a non-recurring nature. A reconciliation of Underlying EBITDA to net profit after income tax is provided in note 2.1 of the financial statements.

# Agenda



1. **FY18 Interim Results Highlights – Phil Hand, CEO**

2. **Financial Results – Peter McHugh, CFO**

3. **Outlook – Phil Hand, CEO**

4. **Appendices**







# FY18 Interim Results Highlights

Phil Hand, CEO

# FY18 Interim Highlights

## Continued Solid Financial Performance



Poultry volume growth

**48.7k tonnes**

UP 1% YEAR ON YEAR

Revenue growth

**\$302m**

UP 2% YEAR ON YEAR

Gross Profit

**\$70.3m**

MARGIN IMPROVED TO 23.3%

Underlying EBITDA<sup>1</sup>

**\$34.6m**

VS \$35.1m IN H1'17

Net Profit After Tax

**\$14.8m**

VS \$15.1m IN H1'17

Interim declared dividend of

**3.45c** PER SHARE

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# FY18 Interim Highlights

## Delivering Strategy



### Domestic

Drive category growth  
Innovate to increase value added sales  
Enhance market leadership position

- ✓ Domestic consumption growth steady
- ✓ Share of domestic market<sup>1</sup> held
- ✓ Continued investment in new brand imagery and packaging launched in FY17
- ✓ Free Range brand investment through launch of Free Range advertising campaign
- ✓ Product innovation strategy delivering growth in Free Range and value added



<sup>1</sup> AZTEC Retail Scan data October 2017 and Management estimates for non-retail channels.

### Export

Strengthen position in current markets  
Enter new markets

- ✓ Diversification of channel and customer mix in Australia with new customers in Retail, Foodservice and QSR
- ✓ Launch of 11 new products into mainstream Retail creating new supermarket subcategories
- ✓ Diversification into Foodservice channel through major national distributor
- ✓ New industrial customers growing meal solutions category
- ✓ Expansion of Australia team
- ✓ Strong performance from Pacific Islands
- ✓ Continued focus to build on position in Middle East with new products to UAE
- ✓ Channel expansion
- ✓ Retail customer expansion
- ✓ Launch of first products to Bahrain

### Operations

Smart investment to reduce costs and improve efficiencies

- ✓ Health and safety: working towards safer farm procedures with PIANZ and WorkSafe
- ✓ Strong focus on animal welfare
- ✓ Executive team alignment with new national role of GM – Operations, Regional Operations roles disestablished
- ✓ Bridget Coates appointed to Board as Independent Director
- ✓ New Plymouth hatchery expansion commenced
- ✓ Continued development of breeder and broiler farms
- ✓ New Plymouth feedmill capacity expansion adjoining land purchase
- ✓ Continued focus on cost control and efficiency improvements through continuous improvement processes (“SIMPLIFY”)

# FY18 Interim Highlights

## Free Range Advertising Campaign Raising Awareness And Gaining Credibility



### Continuation Of Free Range Consumer Messaging

- Building on highly successful brand advertising from FY17
- Advertising campaign focused on Tegel Free Range
- Online video with one of our Free Range farmers providing transparent and enlightening information on farming practices and animal welfare through giving a day-in-the-life story of a Free Range farmer
- Continuation of enhanced educational shopper and consumer messaging: cage free, Free Range, no added hormones, NZ raised





# FY18 Interim Highlights

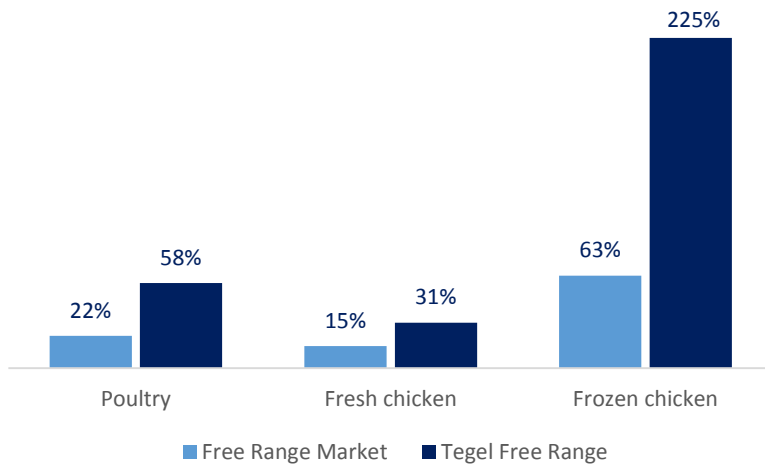
## Responding To Free Range Poultry Growth



### Free Range Products

#### NZ Grocery – Value Growth %

Strong domestic growth in Free Range over last MAT period<sup>1</sup>:



- Free Range now worth \$55.9m in NZ Grocery, with Free Range now holding 12% of total poultry scan sales market share
- Frozen Value Added growth from range of new SKUs launched
- In the chiller, Free Range Meal Maker range leading growth

#### Export

- New products launched to our export customers establishing and growing the premium, Free Range category

1. All data is IRI Aztec Scan Data, Total Poultry, MAT to 12/11/17; MAT is Moving Annual Total

### Agriculture

- Free Range grower farm expansion to deliver growth
- Continued development of breeder and broiler farms
  - Chertsey (near Christchurch):
    - Consent granted for 8 shed contract grower farm
    - First shed delivery expected in March 2018
  - Northland:
    - Suitable land identified for new state-of-the-art Free Range poultry farm







# Financial Results

Peter McHugh, CFO

# Financial Overview

## Solid Financial Results Driven By Volume Growth And Improved Efficiency



### Financial Summary

NZ\$m	H1'18 26 weeks	H1'17 26 weeks	Var	Var %
Poultry Volume (tonnes)	48,676	48,266	410	0.8%
Revenue	302.3	296.3	6.0	2.0%
Cost of Sales	(232.0)	(227.6)	(4.4)	(1.9%)
Gross Profit	70.3	68.7	1.6	2.4%
Gross Profit %	23.3%	23.2%	0.1bps	
Expenses	(35.8)	(33.6)	(2.2)	(6.7%)
Underlying EBITDA <sup>1</sup>	34.6	35.1	(0.5)	(1.7%)
Net Profit After Tax (NPAT)	14.8	15.1	(0.3)	(2.3%)
Interim Dividend (cps)	3.45	3.45	-	-

### Key Highlights

#### Volume And Revenue Growth

- Continued growth in volume driven by domestic demand
- Revenue increase driven by volume and improved price/mix in domestic market

#### Gross Profit

- Higher gross profit driven by growth in revenue combined with lower feed costs and improved operational efficiency from capital investment

#### Underlying EBITDA<sup>1</sup>

- Improved Gross Profit offset by increased investment in sales, branding and distribution to build a base for export growth

#### Net Profit After Tax

- Non-repeating costs from Kaikoura earthquake and regulatory changes
- Net financing costs lower due to more efficient use of facilities

#### Interim Dividend

- A fully imputed interim dividend of 3.45 cents per share will be paid on 26 January 2018

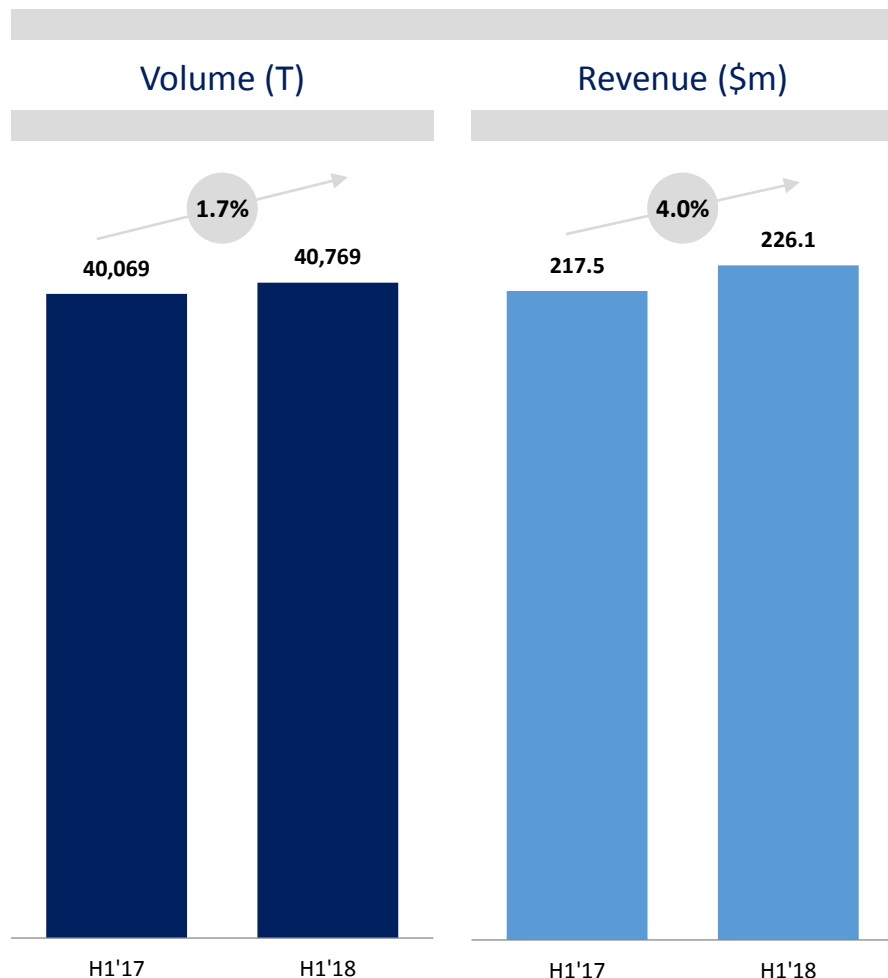
<sup>1</sup> Underlying EBITDA refers to earnings before interest, tax, depreciation and amortisation. Underlying EBITDA is a non-GAAP profit measure. Tegel uses Underlying EBITDA as a measure of operating performance. Underlying EBITDA excludes the effects of certain IFRS fair value adjustments and items that are of a non-recurring nature. It has been calculated on a consistent basis with the "Pro forma EBITDA" presented in the PFI. A reconciliation of Underlying EBITDA to net profit after income tax is provided in Appendix 1 to this presentation and in note 2.1 of the financial statements.

# Domestic

## Maintaining Track Record Of Growth



### Domestic Volumes and Revenue



### Key Highlights

#### Domestic Volume Growth

- Domestic volumes were up 1.7% for the period
- Continued poultry consumption growth with increases in all domestic channels during the half year
- Changing trends of consumers looking for increasingly convenient meal solutions being reflected in growth in QSR and Foodservice

#### Domestic Revenue Growth

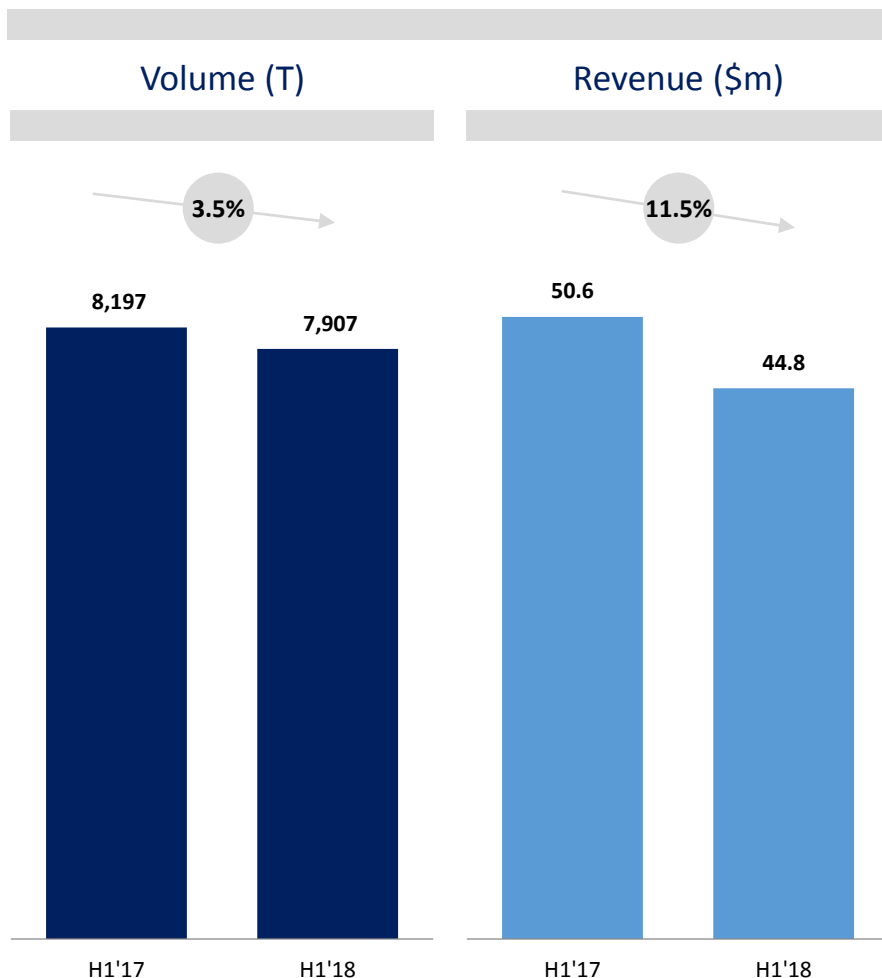
- Domestic revenue increased by \$8.6 million or 4.0% driven by volume and ongoing improvements in price/mix
- Largest revenue gains were through Retail and Foodservice channels

# Export

## Diversifying Customer Base In Australia



### Export Volumes and Revenue



### Key Highlights

#### Export Volume

- Long term customer diversification strategy in Australia:
  - Volumes lower as expected due to diversification of channel and customer mix
  - Addition of significant new customers into Retail, Foodservice and QSR
  - Incremental number of products into mainstream Retail
- Strong growth into the Pacific, with solid volumes into the Middle East and Asia

#### Export Revenue

- Export revenue declined by \$5.8 million to \$44.8 million driven by volume decline
- Australia revenue lower as expected due to timing of transitioning





# Balance Sheet And Working Capital

## Strong Balance Sheet Supporting Ongoing Growth

Summary Balance Sheet NZ\$m	H1'18 29 Oct'17	H1'17 23 Oct'16 Restated <sup>1</sup>	H1'18-H1'17 Var	H1'18-H1'17 Var %	FY17 30 Apr'17 Restated <sup>1</sup>
Current Assets	231.9	223.1	8.8	3.9%	196.0
Non-Current assets	515.3	503.2	12.1	2.4%	507.0
<b>Total Assets</b>	<b>747.2</b>	<b>726.3</b>	<b>20.9</b>	<b>2.9%</b>	<b>703.0</b>
Current Liabilities	88.7	73.0	15.7	21.5%	71.7
Non-Current Liabilities	175.1	180.8	(5.7)	(3.2%)	149.2
<b>Total Liabilities</b>	<b>263.8</b>	<b>253.8</b>	<b>10.0</b>	<b>3.9%</b>	<b>220.9</b>
<b>Net Assets</b>	<b>483.4</b>	<b>472.5</b>	<b>10.9</b>	<b>2.3%</b>	<b>482.1</b>
Issued Capital	427.1	427.1	-	-	427.1
Retained Earnings and Reserves	56.3	45.4	10.9	24.0%	55.0
<b>Total Equity</b>	<b>483.4</b>	<b>472.5</b>	<b>10.9</b>	<b>2.3%</b>	<b>482.1</b>

Working Capital NZ\$m	H1'18 29 Oct'17	H1'17 23 Oct'16	H1'18-H1'17 Var	H1'18-H1'17 Var %	FY17
Trade and other receivables	94.0	82.4	11.6	14.1%	63.3
Inventories	99.9	97.6	2.3	2.4%	84.9
Trade and other payables	(82.0)	(67.6)	(14.4)	(21.3%)	(66.6)
<b>Operating Working Capital</b>	<b>111.9</b>	<b>112.4</b>	<b>(0.5)</b>	<b>(0.4%)</b>	<b>81.5</b>

1. H1'17 and FY17 balance sheets have been restated as set out in note 1.2 of the financial statements.

## Key Highlights

### Assets

- Non-current assets increased as we invested in plant automation in H2'17 and Enterprise Resource Planning (ERP) in H1'18

### Liabilities

- New borrowing arrangements negotiated to October 2020: \$120m senior facility and \$50m working capital facility. Considerable headroom on debt and interest cover ratios

### Operating Working Capital

- Operating working capital consistent with H1'17 with higher levels of trade and other receivables due to timing and higher revenues offset by higher trade and other payables
- Inventory levels to support summer seasonality build, higher margin products, sales to both domestic and export markets and timing of feed shipments consistent with H1'17



# Cash Flow And Capex

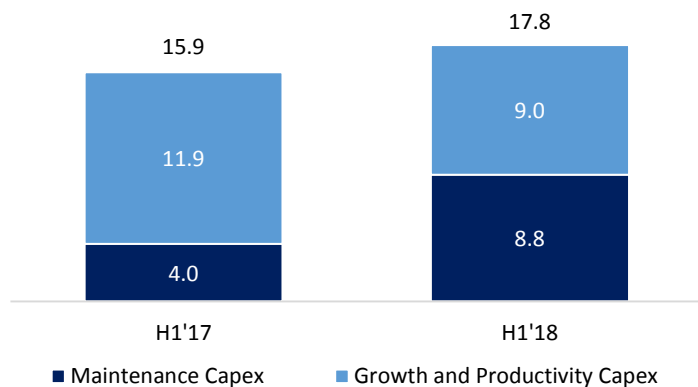
## Capital Expenditure Programme Delivering



### Cash Flow Summary

NZ\$m	H1'18	H1'17	Var	Var %
Cash (out)flow from operating activities	(3.6)	(18.2)	14.6	80.2%
Cash (out)flow from investing activities	(18.8)	(16.3)	(2.5)	15.3%
Cash inflow from financing activities	10.6	39.6	(29.0)	(73.2%)
Increase / (decrease) in cash	(11.8)	5.1	(16.9)	(331.4%)
Opening balance	13.4	4.0	9.4	235.0%
Closing cash balance	1.6	9.1	(7.5)	(82.4%)

### Capital Expenditure Summary (\$m)



### Key Highlights

#### Operating Activities

- Improved operating cash flows driven by timing differences and IPO related costs in prior period

#### Investing Activities

- Higher investing activities mainly on software development costs relating to the ERP project upgrade

#### Financing Activities

- New banking facility negotiated, with all bank borrowings repaid and advancement of new three year facility including a \$10.0m higher working capital facility
- Payment of FY17 final dividend in H1'18

#### Capex

- New automation equipment
- Enterprise Resource Planning (ERP) project "M3" commenced
- Brand investment
- New product innovation

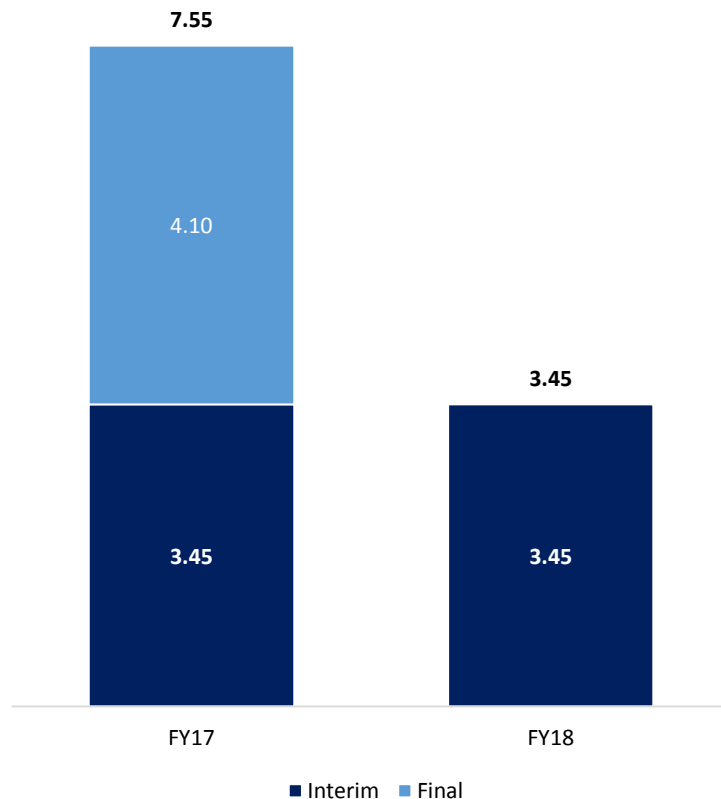


# Dividend

## Consistent Payment



### Dividend Payments (cps) (FY17-FY18)



### Payment And Policy

#### Payment

- A fully imputed interim dividend of 3.45 cents per share will be paid on 26 January 2018 (in H2'18)

#### Policy

- Target dividend payout ratio in the range of 60-75% of annual NPAT excluding the expense relating to the non-cash amortisation of customer contracts





# Outlook

Phil Hand, CEO



# Looking Ahead: 2018 Outlook

## Summer Seasonality



### Domestic

Drive category growth  
Innovate to increase value added sales  
Enhance market leadership position

- Expect continued domestic consumption growth of 4-5%
- Hold share of domestic market
- New summer BBQurious advertising campaign launched in November supporting summer seasonality

### Export

Strengthen position in current markets  
Enter new markets

- Building on customer diversification in Australia
- Product expansion and growth in other markets

### Operations

Smart investment to reduce costs and improve efficiencies

- Capital expenditure guidance slightly ahead across a range of efficiency and growth initiatives
- Higher cost environment going forward
- FY18 Underlying EBITDA ahead of FY17 subject to consistent domestic pricing and increasing volumes into Australia





# Questions And Answers





## Appendix 1

### Supplementary Information



# Reconciliation To GAAP



NZ\$m	H1'18 26 weeks	H1'17 26 weeks
<b>Underlying EBITDA<sup>1</sup></b>	34.6	35.1
Unrealised losses on foreign exchange revaluations	(0.1)	(0.3)
Fair value adjustment to biological assets	-	(0.2)
Share based payments	(0.1)	(0.1)
Settlement of historical legal and other claims	(0.1)	(0.1)
Kaikoura earthquake costs and other distribution costs	(0.7)	-
Industry compliance costs	(0.5)	-
<b>EBITDA</b>	<b>33.1</b>	<b>34.4</b>
Depreciation	(8.2)	(7.9)
Amortisation	(1.5)	(1.6)
Net finance costs	(2.8)	(3.5)
<b>Net profit before tax</b>	<b>20.6</b>	<b>21.4</b>
Income tax	(5.8)	(6.3)
<b>Net profit after tax</b>	<b>14.8</b>	<b>15.1</b>

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# Volume And Revenue



	H1'18 26 weeks	H1'17 26 weeks	Var	Var %	FY17 53 weeks	FY16 52 weeks
<b>Poultry Volume (T)</b>						
Domestic Poultry	40,769	40,069	700	1.7%	82,777	77,182
Export Poultry	7,907	8,197	(290)	(3.5%)	17,029	15,967
<b>Total Poultry Volume</b>	<b>48,676</b>	<b>48,266</b>	<b>410</b>	<b>0.8%</b>	<b>99,806</b>	<b>93,149</b>

	H1'18 26 weeks	H1'17 26 weeks	Var	Var %	FY17 53 weeks	FY16 52 weeks
<b>Revenue (NZ\$m)</b>						
Domestic Poultry	226.1	217.5	8.6	4.0%	457.8	432.5
Export Poultry	44.8	50.6	(5.8)	(11.5%)	103.0	101.9
Other Revenue <sup>1</sup>	31.4	28.2	3.2	11.4%	53.2	48.0
<b>Total Revenue</b>	<b>302.3</b>	<b>296.3</b>	<b>6.0</b>	<b>2.0%</b>	<b>614.0</b>	<b>582.4</b>

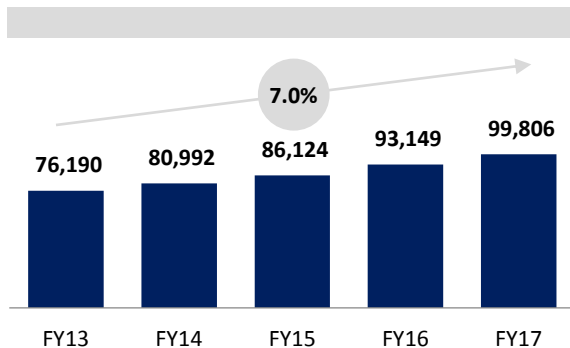
<sup>1</sup> Other revenue includes sales of eggs, day-old chicks, feed and offal.

# Five Year Highlights

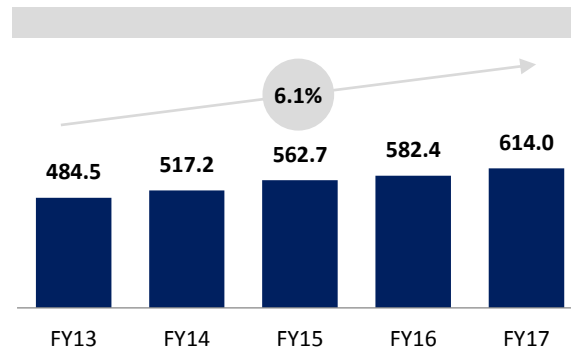
## Continuing To Deliver Strong Results



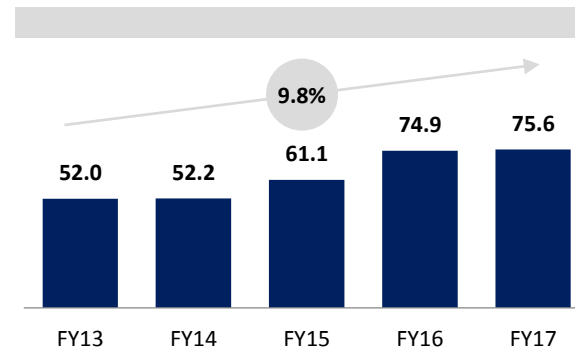
Volume (T)



Revenue (\$m)



Underlying EBITDA (\$m)<sup>1</sup>



- ✓ **New Zealand's leading poultry producer with strong heritage** – part of New Zealander's lives since 1961
- ✓ The number one poultry brand in New Zealand, with the highest brand awareness and preference<sup>2</sup>
- ✓ Completion of full re-brand, including brand livery, packaging re design, and launch of new advertising campaigns
- ✓ Leading producer of high quality core and value-added poultry products, **exporting to 19 countries** across Australia, the Middle East, Asia and the Pacific
- ✓ **Five years of continued growth** in each of Volume, Revenue and Underlying EBITDA

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2. Tegel Brand Tracker Research, March 2017, PSL Research.

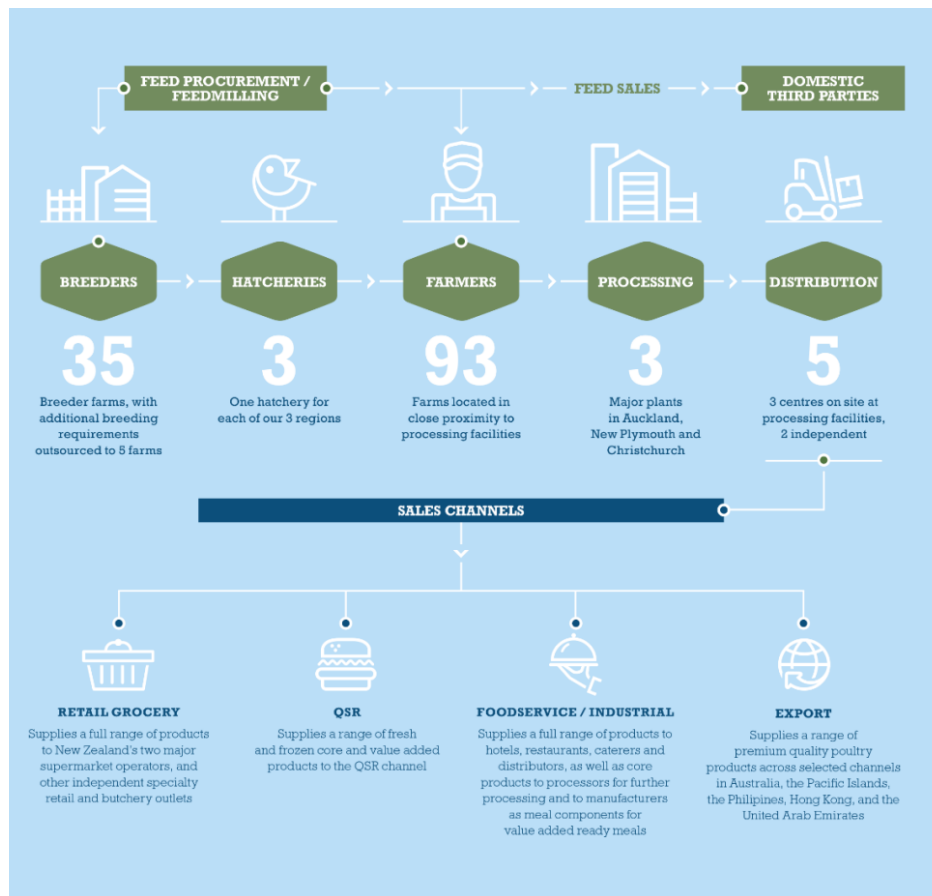


# Vertically Integrated Regional Operations

## Strategic National Coverage



Tegel's vertically integrated business model aims to ensure efficiency and control at all stages of production as well as the delivery of high quality product to customers



### STRATEGIC LOCATIONS

3

**Facilities**  
Hatchery, feedmill, breeder farms, grower farms, processing and distribution

**Upper North Island**  
**AUCKLAND**

**Lower North Island**  
**NEW PLYMOUTH**

**South Island**  
**CHRISTCHURCH**

**Fielding**  
Distribution\*

**Wellington**  
Processing\*

Primary processing capacity

75m

Birds per annum

\* Outside of its three main geographic regions, Tegel operates a small leased distribution facility in Fielding to further service the lower North Island, and operates a processing facility in Wellington which produces various poultry, turkey, beef and other smallgoods products

## Sustainable And Efficient Business

Compared to Dairy / Lamb / Beef / Pork, Tegel's poultry is more efficient and sustainable, based on:

- World class FCR - lower feed use per kg food
- Lower water use per kg food
- Fewer hectares used per kg food
- Less effluent produced per kg food