NZX/ASX Market Release

11 June 2018

Tegel Group Holdings Limited FY2018 Full Year Results Announcement

Tegel delivers resilient financial performance with record volumes and revenues; significant agriculture investment

Key financial and operational highlights for the 52 weeks ended 29 April 2018:

- Highest ever poultry volumes of 99,908 tonnes and revenue of $615.4 million, solid domestic performance
- Net Profit After Tax (NPAT) declined to $26.1 million from $34.2 million, impacted by non-repeating costs
- Underlying EBITDA[1] of $70.2 million, export contribution lower
- Free Range farm capacity expanded 169%, aligning the business for higher Free Range demand
- Takeover by Bounty Holdings New Zealand Limited offering $1.23 per share opened 28 May 2018
- Final dividend of 4.10 cents per share bringing total dividend of 7.55 cents per share for FY2018, consistent with FY2017
- Qualified audit opinion relating to goodwill impairment assessment

Summary Financials NZD million	**FY2018 52 weeks audited**	FY2017 52 weeks unaudited	Variance %	FY2017 53 weeks audited	Variance %
Revenue	**615.4**	603.2	2.0%	614.0	0.2%
Cost of goods sold (COGS)	**(478.1)**	(462.3)	(3.4%)	(468.9)	(2.0%)
Gross profit	**137.3**	140.9	(2.6%)	145.1	(5.4%)
Gross profit %	**22.3%**	23.4%		23.6%	
Underlying EBITDA[1]	**70.2**	72.0	(2.5%)	75.6	(7.1%)
Net profit after income tax	**26.1**	31.7	(17.7%)	34.2	(23.7%)
Final Dividend (cps)	**4.10**	-	-	4.10	-
Total Dividend (cps)	**7.55**	-	-	7.55	-

New Zealand's largest poultry producer, Tegel Group Holdings Limited (NZX/ASX: TGH, the Company), is pleased to report its preliminary result for the financial year ending 29 April 2018. The 2018 results are based on the 52 week period ending 29 April 2018 (FY2018). The comparative period shown is the reported statutory result for the 53 week period ending 30 April 2017 (FY2017). Comparatives for the 52 week period ending 23 April 2017 are also shown and referred to throughout this announcement.

[1] *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 attached to this announcement.*

Tegel has delivered another record year of poultry volumes and revenue. FY2018 net profit after tax (NPAT) of $26.1 million and underlying EBITDA of $70.2 million were within the updated earnings guidance provided to the market on 8 March 2018. NPAT was 23.7% below the statutory 53 week comparative period and 17.7% below the 52 week comparative period. The result was affected by non-repeating costs mainly from industry compliance, Ex-cyclone Gita and organisational restructuring totalling approximately $9.9 million before tax. This was also within the range flagged in March 2018. Underlying EBITDA of $70.2 million was down 7.1% on a 53 week basis and was down 2.5% on a 52 week basis reflecting the decline in contribution from exports.

Tegel's Board have approved a fully imputed final dividend of 4.10 cents per share, taking the total dividends for the year to 7.55 cents per share. The final dividend will be paid on 13 July 2018.

Financial Overview

Poultry Volume Tonnes	**FY2018 52 weeks audited**	FY2017 52 weeks unaudited	Variance %	FY2017 53 weeks audited	Variance %
Domestic Poultry	**84,008**	81,293	3.3%	82,777	1.5%
Export Poultry	**15,900**	16,743	(5.0%)	17,029	(6.6%)
Total Poultry Volume	**99,908**	98,036	1.9%	99,806	0.1%

Revenue NZD million	**FY2018 52 weeks audited**	FY2017 52 weeks unaudited	Variance %	FY2017 53 weeks audited	Variance %
Domestic Poultry	**467.1**	449.5	3.9%	457.8	2.0%
Export Poultry	**89.6**	101.4	(11.6%)	103.0	(13.0%)
Other Revenue[2]	**58.7**	52.3	12.2%	53.2	10.3%
Total Revenue	**615.4**	603.2	2.0%	614.0	0.2%

[2] Other revenue includes sales of eggs, day-old chicks, petfood, feed and offal.

Total revenue for FY2018 was $615.4 million, $12.2 million or 2.0% ahead of the 52 week comparative period for FY2017 and $1.4 million ahead of the 53 week comparative period. Record poultry volumes of close to 100,000 tonnes were 1.9% higher than the 52 week comparative period in FY2017 and broadly in line with the 53 week comparative period.

In the domestic market, Tegel held its market share producing some 25% of all meat (across poultry, beef, pork and sheep) consumed in New Zealand. Revenue growth continues to be driven by strong, growing demand for poultry as a meat protein in New Zealand. Underlying poultry consumption continued to increase, driven by population growth and share of plate gains. Domestic revenue grew 3.9%, or $17.6 million, to $467.1 million on a 52 week comparative basis and grew 2.0% on a 53 week basis. Growth in domestic sales was also achieved as a result of continued new product innovation and convenient meal solutions, particularly in Tegel's Free Range products. The Company continued to invest in the Tegel brand throughout the year and a new look for the Rangitikei brand was rolled out across all packaging. This was supported by a marketing campaign. Revenue increased at a higher percentage than volume growth mainly as a result of a better mix of free range and value added products. Pricing during the year remained competitive, however, the net sales value per kilo improved year on year.

In the export segment, Tegel continues to strengthen its position in its established markets. In Australia, the strategy to diversify across channel and customer mix and reduce customer concentration is starting to deliver results. The transition is progressing well, though slower than anticipated and thereby impacting revenue and margins. Tegel grew volumes in Retail and Foodservice channels in Australia, adding customers across all channels including QSR. 41 new products were introduced into Australia during FY2018. This partly offset the loss of volumes from a QSR customer taking production in house. As a result, export revenue declined $11.8 million or 11.6% on a 52 week basis and $13.4 million on a 53 week basis to $89.6 million. The Pacific continued its strong performance with volumes and revenue well ahead of FY2017. During the year a brand refresh was completed for products going into the United Arab Emirates. The assurance offered by Tegel's consistently high quality products drives shoppers to choose Tegel over other options.

Operations

Tegel faced a number of challenges in the operations of the business during the year. Tragically there was a fatality at one of Tegel's contract grower farms in Canterbury. This was devastating for everyone in the business, particularly those directly involved. As a result, industry group PIANZ worked with all industry companies, including Tegel, to establish a catching practice that reduced risk to catching staff. This has been signed off by industry member companies and WorkSafe. WorkSafe is still investigating the incident and Tegel is cooperating fully with that investigation.

In February, during Ex-cyclone Gita, a tree fell on a large exposed main water pipe cutting water supply to parts of the New Plymouth district including Tegel's processing plant and feedmill located there. This resulted in parts of the plant being suspended for a number of days. Tegel's crisis response team continually adjusted plans to address the ongoing disruption and ensured customer orders were delivered. With processing plants in three regions the business was able to minimise the impact to customers.

Tegel continued to realign the organisation to better deliver on its strategy. This included bringing into the Executive Team the expertise of Malcolm Clack who is already familiar with the business as GM – Sales. Christine Cash was appointed to the newly created role of GM – Strategy and Business Development. This followed the changes the Company made earlier in the year in the operations area where a new national role of GM - Operations was created and three regional Executive roles were disestablished. Other national manager roles have also been created to align the business.

The capital expenditure programme of investing in agriculture and processing assets to support sales growth, efficiency gains and savings continued throughout the year. This included the acquisition of land adjacent to the New Plymouth feedmill and the completion of the New Plymouth hatchery expansion. The business remained focused on cost saving initiatives and continuous improvements with further rollout of the SIMPLIFY! programme.

Gross profit for the financial year was $137.3 million compared to $145.1 million for the 53 weeks in FY2017. The gross profit margin decreased from 23.6% to 22.3% in FY2018 primarily as a result of non-repeating costs relating to industry compliance and Ex-cyclone Gita. Non-repeating costs of $8.4 million were included in Cost of Goods Sold (COGS). Excluding the effect of these, the resulting gross profit margin of 23.7% was in line with FY2017.

Distribution expenses increased 12.6% in FY2018 as a result of higher volumes, increase investment in the distribution network to allow for export growth and $1.4 million in non-repeating costs relating to disruption to South Island trucking routes following the Kaikoura earthquake.

The Company recognised a gain on sale of $2.0 million relating to the sale and leaseback of a farm, being a non-core asset. The gross proceeds of $2.3 million were utilised for the acquisition of a strategic parcel of land adjacent to the New Plymouth feedmill for a total of $3.6 million.

Sustainable Farming

Tegel is investing for future growth and meeting the demand for Free Range products. Customers continue to demand better transparency on where their food comes from. In FY2018 the Company focused on providing an insight into its farming practices and animal welfare through, for example, an online video. This continues the journey to enhance understanding of poultry farming as being cage free, no added hormones and New Zealand raised.

During the year, Tegel made a significant step change in aligning the business for increased Free Range demand. In total, the Company increased Free Range capacity by 169% representing an additional 80,000 square metres of farm capacity. This was achieved through converting a number of existing farms, adding farms in the Waikato region as well as constructing new farms in New Plymouth and in Canterbury. The Company also passed a significant milestone by completing the build of the last of its standard grower sheds. Going forward all new Tegel grower farms will be Free Range.

Together with Tegel's farmers the business produces poultry in a sustainable way with a minimal impact on the environment relative to other proteins. Tegel delivers a world class feed conversion ratio due to the combined efforts of Tegel's feed team and farmers as well as a favourable growing environment.

Tegel has also been planning the future of its poultry farms in New Zealand and has identified suitable land near Dargaville for a new state-of-the-art Free Range poultry farm. This is an exciting development for Tegel. The proposed farm will use the latest technologies, for example, the use of solar panels for electricity generation and a rain harvesting system to reduce reliance on ground water supply. The project will create 32 jobs once fully operational, with up a significant number of additional jobs during the three year construction period. The Company is currently awaiting the outcome of the resource consent and the Overseas Investment Office (OIO) approval processes.

Summary Balance Sheet

NZD million	**29 April 2018 audited**	30 April 2017 audited Restated[3]	Variance $m	Variance %
Current Assets	**224.7**	196.0	28.7	14.6%
Non-Current assets	**526.5**	507.0	19.5	3.8%
Total Assets	**751.2**	703.0	48.2	6.9%
Current Liabilities	**97.7**	71.7	26.0	36.3%
Non-Current Liabilities	**170.6**	149.2	21.4	14.3%
Total Liabilities	**268.3**	220.9	47.4	21.5%
Net Assets	**482.9**	482.1	0.8	0.2%
Issued Capital	**427.1**	427.1	-	-
Retained Earnings and Reserves	**55.8**	55.0	0.8	1.5%
Total Equity	**482.9**	482.1	0.8	0.2%

[3] The FY2017 balance sheet has been restated as set out in note 1.2 of the financial statements.

Working capital increased during FY2018. The timing of Tegel's balance date can impact significantly on the level of working capital. In FY2017 the balance date fell on the last calendar day of the month. As a result, accounts receivable and accounts payable were both higher than FY2017.

The higher inventory levels at the year end reflected higher margin products and a wider range of products in finished goods. Meanwhile as the level of automation has increased the amount of spare parts and consumables have increased and are of a higher value.

The Group's balance sheet is in a position to facilitate further growth opportunities for the business with significant headroom on debt and interest cover.

Cash flows

In FY2018, Tegel had a net decrease of $4.0 million in cash mainly due to further investment in the business. Operating cash inflows were $41.5 million for the year, a decline of $4.1 million from the prior period mainly due to timing differences in customer receipts and supplier payments. On investments, Tegel acquired land adjacent to the New Plymouth feedmill, continued to invest in automation and upgrades to internal systems and readied the five new Free Range farms to Tegel standards.

As communicated at the Interim Results, a new banking facility was negotiated, with all bank borrowings repaid and a new three year facility being advanced. Finally, the Company paid $26.9 million in dividends in FY2018.

Qualified Audit Opinion

A qualified audit opinion has been issued with respect to the FY18 Financial Statements. Tegel's Directors have arrived at a different opinion from the auditors relating to the valuation of goodwill for the year.

The accounting standard allows for different valuation methods to be used when assessing a company's value. Based on internal modelling, the Directors have formed the view that the Discounted Cash Flows model consistently used by Tegel arrives at a better estimate of the value of the business and indicates headroom still exists and so goodwill should not be impaired. On the other hand, the auditors have arrived at a valuation which is based mainly on Bounty's effective offer of $1.271 ($1.23 plus $0.041 proposed dividend). This is only one indicator of value and the Directors believe other considerations should be made.

Also supporting the Directors view that goodwill should not be impaired is that the independent adviser's report, commissioned to assess the takeover offer for Tegel, includes a wide range of valuation modelling, the upper values of which are consistent with the Company's view of goodwill. The qualified audit opinion has no impact on the takeover offer for Tegel. This is a unique set of circumstances with judgement involved in arriving at an outcome on both sides.

Looking ahead

Tegel will continue to focus on the domestic market, driving category growth and innovation on new products while responding to the demands of its customers. The changing trends of New Zealanders looking for increasingly convenient meal solutions is being reflected in growth across all domestic channels. Meanwhile the Company expects overall consumption growth to continue at the rate it has consistently done. Domestic pricing remains competitive. The business will continue to monitor pricing and to identify opportunities to increase margin through product mix while maintaining market share.

In exports, Tegel will strengthen its position in current markets such as in Australia where the business will target channel synergies across Australia and New Zealand with continued customer diversification.

Feed is one of the key cost components in the business. Globally, the likes of wheat and soybean meal have lifted from multi-year lows. In addition, fuel costs are rising, impacting the business on many levels. Partially offsetting these headwinds is the ability to hedge on currencies and commodities. Meanwhile, labour is also a key cost component of the business with an employee base that is largely waged. The increase in the minimum wage in New Zealand will also have an impact on the business.

Operationally Tegel continues to control its costs and drive efficiencies within the business through the ongoing roll out of SIMPLIFY! It is also important to Tegel to continue to ensure its Animal Welfare objectives are met.

To secure input costs, the Company hedges its exposure to certain commodities and foreign exchange risks denominated in US dollars. The Company also uses foreign exchange contracts to hedge revenue from export sales denominated in Australian dollars. All foreign exchange forward contracts and commodity contracts are executed in accordance with the Board-approved FX Hedging and Commodity Risk Treasury Policies. As at 29 April 2018, 58% of US dollar raw material purchase requirements and 70% of forecast Australian dollar receipts were hedged for FY2019.

Takeover

On 28 May 2018, a full takeover offer for Tegel was made by Bounty Holdings New Zealand Limited, a wholly owned subsidiary of Bounty Fresh Food. The Offer period runs until 25 August 2018, unless extended under the Takeovers Code. The Offer may be declared unconditional up to 24 September 2018 (being not later than 30 days after the end of the Offer period), unless extended under the Takeovers Code.

The Offer price is $1.23 per ordinary Tegel Share on issue. This is in addition to the final dividend of 4.1 cents per share announced today and together represents a premium to recent trading. The Offer remains subject to a number of conditions including Bounty receiving approval from the OIO.

The 50% minimum acceptance condition has been satisfied, with total acceptances of 62.4% as at close of Thursday 7 June 2018, including:

- 16.3% of Tegel Shares on issue that Bounty owns
- 46.1% of Tegel Shares on issue in respect of which the Offer has been accepted (including the 45.0% held by significant shareholder Claris' Investments Pte. Ltd ("Claris"))

An Independent Directors Committee was formed to manage Tegel's response to the Offer on behalf of the Tegel Board. KordaMentha was appointed as the Independent Adviser in respect of the Offer

The Independent Directors **unanimously recommend that shareholders accept the Bounty Offer**.

The reasons for this recommendation are as follows:

- The Offer price is fair and within the range assessed by both the Independent Directors and KordaMentha for the current value of Tegel Shares;
- The Offer price represents a premium to Tegel's undisturbed historic trading price;
- The Offer's 50% minimum acceptance condition has already been satisfied;
- Bounty will have effective majority control of Tegel if the Offer is declared unconditional. This introduces additional uncertainties for any minority shareholders who elect to reject the Offer, including in respect of Tegel's future business strategy, and dividend and capital management

policies (as to which the Independent Directors Committee does not have any visibility, and so cannot assess);

- If Tegel remains listed following completion of the Offer, it is likely that there will be reduced liquidity impacting the ability to sell Tegel Shares;
- The trading price of Tegel's Shares may fall in the absence of the Offer or a superior proposal; and
- It is unlikely that there will be a competing offer (given Bounty's current shareholding of 16.3%, as at close of Thursday 7 June 2018, and likely majority control).

Further detail in respect of the above is available in the Target Company Statement – notwithstanding the reasons outlined above, the Independent Directors Committee recognises that some Tegel shareholders with a greater tolerance for risk, and a longer investment time horizon, and who have a view that Bounty's involvement with Tegel will create value for all Tegel shareholders, may consider rejecting the Offer. As always, the decision as to whether or not to accept the Offer will depend on the circumstances for each individual shareholder, including individual risk profile, portfolio strategy, tax position, financial circumstances and investment horizon.

The Independent Directors Committee advise shareholders to take independent advice in respect of their Tegel shares and to consider the Bounty Offer in conjunction with the full Target Company Statement.

Tegel shareholders should also take the following into account in respect of the Offer:

- There is no benefit to accepting the Offer early as it restricts flexibility – the minimum acceptance condition has been satisfied and no cash will be paid until the Offer becomes unconditional.
  - If you accept the Offer in respect of your shares, you are still entitled to the final dividend of 4.10 cents per share which is scheduled to be paid on 13 July 2018.
  - However, you will not be entitled to this final dividend in respect of any shares sold on market prior to 5:00pm on the record date of 29 June 2018 (as noted on NZX Appendix 7).
- If Overseas Investment Office approval is not received by 24 September 2018 (the latest date by which the Offer must be unconditional), the Offer will lapse. However, the lock-up agreement between Bounty and Tegel's significant shareholder, Claris, will continue to apply if Bounty and Claris reasonably agree, based on legal advice, that it is reasonably likely that the OIO condition will be satisfied.
  - In these circumstances, Bounty is required to make a replacement takeover offer within 10 business days of 24 September 2018 for the shortest possible offer period under the Takeovers Code.
  - Assuming the replacement takeover notice was served on 8 October 2018, and assuming the shortest possible timeframes under the Takeovers Code, the replacement offer period would end on 17 November 2018.

Outlook

In response to Bounty's Offer, and in parallel to accelerating the review and reporting of these FY18 results, management recently prepared and a sub-committee of Independent Directors reviewed an FY19 earnings range. This FY19 Illustrative EBITDA range of $65.5 million to $70.2 million is to facilitate the preparation of the Independent Advisor's Report and broader Target Company Statement. At this early stage of the financial year there are many uncertainties which could materially impact the FY19 results for Tegel. For the avoidance of doubt the FY19 Illustrative EBITDA Range does not constitute a forecast.

-ENDS-

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About Tegel Group Holdings Limited

Tegel Group Holdings Limited (NZX/ASX: TGH) processes approximately 58 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 (QSR)), and in selected channels in international markets. Its brands are Tegel, Rangitikei and Top Hat.

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

Appendix: Reconciliation to GAAP

Underlying EBITDA is a profit measure used by Tegel to manage the business and differs from NZ IFRS net profit after tax. Underlying EBITDA is used by management in conjunction with other measures to monitor operating performance and make investment decisions. Underlying EBITDA refers to earnings before interest, tax, depreciation and amortisation. Underlying EBITDA is a non-GAAP profit measure and excludes the effects of certain IFRS fair value adjustments and items that are of a non-recurring nature.

NZD millions	**FY2018 52 weeks**	FY2017 53 weeks	FY2017 52 weeks
Underlying EBITDA	**70.2**	75.6	72.0
Unrealised gains / (losses) on foreign exchange revaluations	**0.1**	(0.4)	
Fair value adjustment to biological assets	**0.2**	-	
Share based payments	**(0.5)**	(0.2)	
Settlement of historical legal and other claims	**-**	(0.7)	
Listing costs	**-**	(0.2)	
Gains / (loss) on the disposal of property, plant and equipment	**2.0**	(0.2)	
Kaikoura earthquake costs and other distribution costs	**(1.4)**	(0.5)	
Industry compliance costs	**(4.1)**	-	
Costs related to Ex-cyclone Gita and other one off events	**(3.3)**	-	
Restructuring costs	**(1.1)**	-	
EBITDA	**62.1**	73.4	69.8
Depreciation	**(16.7)**	(16.3)	
Amortisation	**(3.3)**	(3.2)	
Net finance costs	**(6.2)**	(6.0)	
Profit before tax	**35.9**	47.9	
Income tax expense	**(9.8)**	(13.6)	
Net profit after tax	**26.1**	34.2	31.7