



*Welcome*

**Annual General Meeting**

15<sup>th</sup> November 2018

# *Scheme of Arrangement*



# SCHEME OF ARRANGEMENT

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- Capilano announced on the 13 August 2018 it had entered into a Scheme Implementation Agreement with HoldCo, an entity owned by the Consortium (Wattle Hill RHC Fund 1, ROC Capital Pty Ltd), to acquire 100% of the share capital of Capilano by way of a Scheme of Arrangement.
- At this time, Capilano shareholders were entitled to \$20.06 per share cash, this offer was later improved as announced in the Supplementary Disclosure on 2 November 2018, whereby the cash consideration was increased to \$21.00 per share.
- The scrip alternative provided shareholders with the potential to participate in the future of Capilano through an all-scrip 1:1 offer. Those shareholders electing the scrip alternative could also subscribe for a further 0.5 HoldCo shares for every 1 share held in Capilano ("Subscription Offer"), subject to rounding and a scale back mechanism.
- The Independent Expert found that the Scheme is fair and reasonable and in the best interests of Capilano shareholders.
- The Directors of Capilano unanimously recommended to Capilano's shareholders to vote in favour of the Scheme. The Board determined that the HoldCo offer provided an opportunity for shareholders to realise value for their Capilano shares at an attractive premium to the recent trading price of the Company, particularly given liquidity of the stock was low.
- The Board considered the Consortium shared its commitment to the Australian honey industry and maintaining strong beekeeper relationships. This was evident in the national beekeeper roadshow undertaken to introduce the Consortium to our suppliers.





# SCHEME OF ARRANGEMENT

## Future key dates

Event	Timeline
Application to suspend CZZ trading on the ASX	15 Nov 2018
Second Court hearing for final Scheme approval	22 Nov 2018
Scheme effective date	23 Nov 2018
Scheme implementation date	5 Dec 2018
Share payment made under the Scheme	5 Dec 2018
Delist CZZ from official ASX list	7 Dec 2018





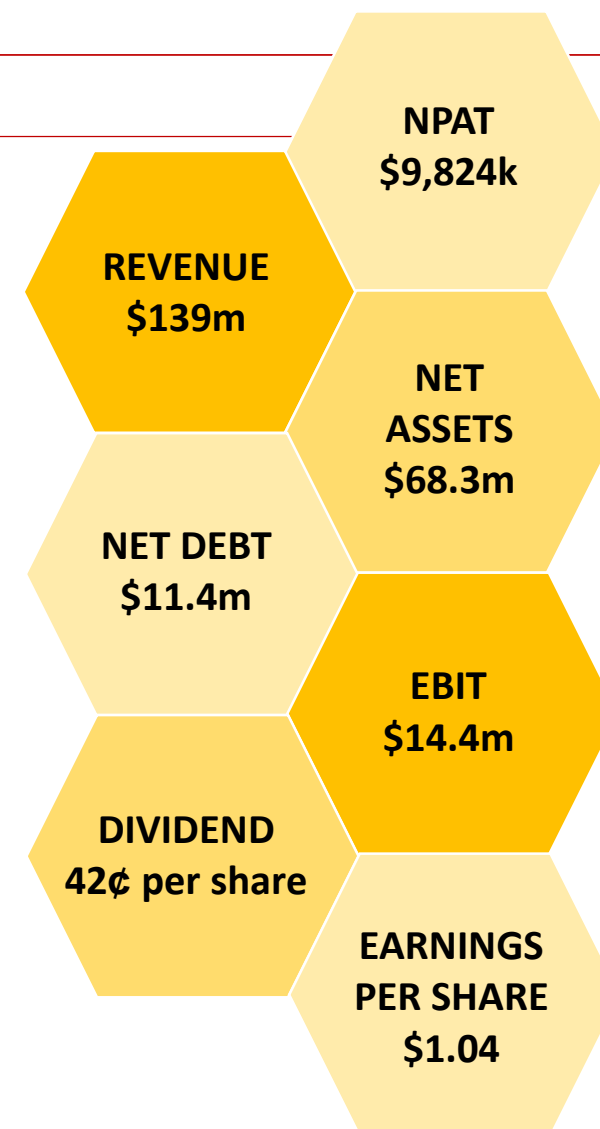
*FY18*  
*Performance*



# YEAR IN REVIEW

## 2018 Financial Year Performance

- Achieved total revenue of \$139m, which is an increase of over \$5m compared to FY17.
- EBITDA improved by \$357k to \$16,067k.
- EBIT improved by \$249k to \$14,360k.
- Despite increased discounting, gross margin percentage improved marginally.
- A net profit after tax (NPAT) of \$9,824k was achieved.
- Earnings per share of \$1.04 was achieved this financial year.
- Operating cash flow was \$1.29m positive, after the impact of further increases to inventory of \$7.1m.
- Net debt rose from \$7.8m to \$11.4m to fund higher inventory levels.
- The statement of financial position remains strong with net assets increasing by \$5.98m to a total of \$68.3m.
- The dividend payout increased from 40¢ to 42¢ per share this year.





# FY18 FINANCIALS

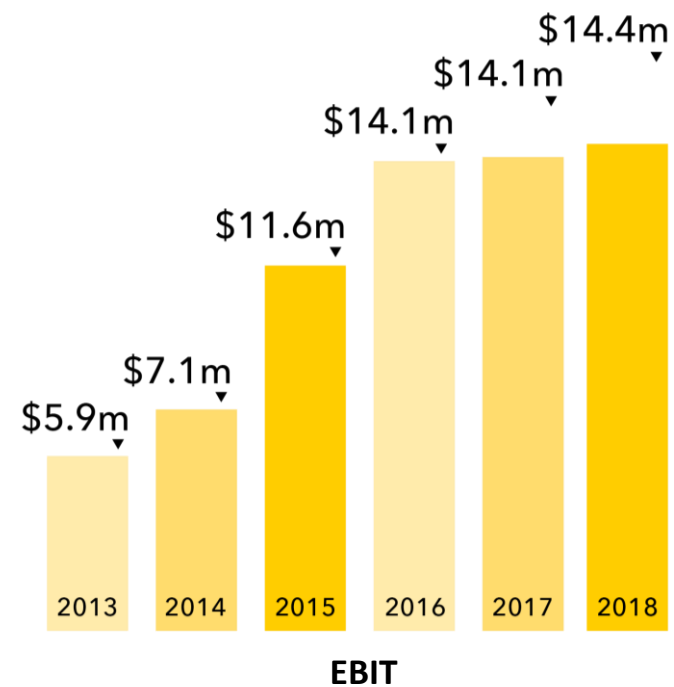
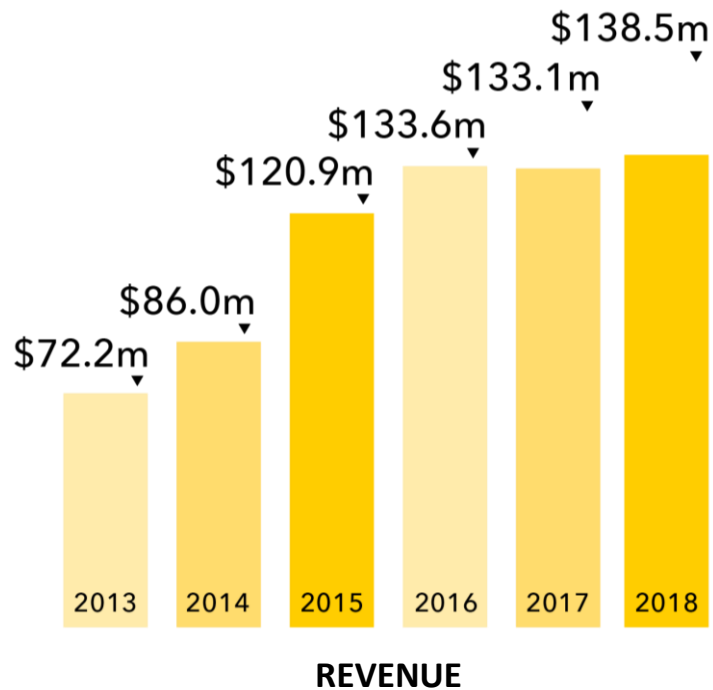
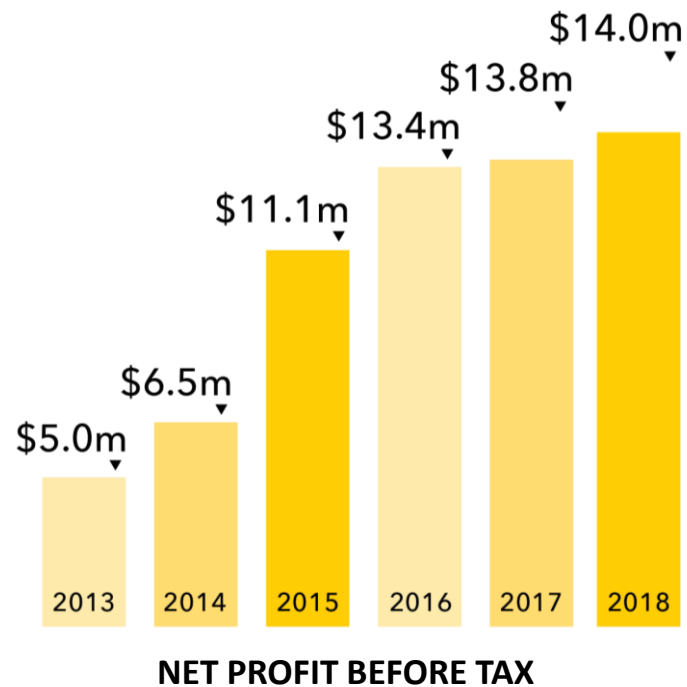
## Performance in Context

	(\$,000's)	2018	2017	2016
Revenue		138,518	133,144	133,617
Earnings before Interest & Tax (EBIT)		14,360	14,111	14,068
EBIT Depreciation & Amortisation (EBITDA)		16,067	15,710	15,938
Net Profit before tax (NPBT)		14,046	13,813	13,443
Net Profit after tax (NPAT)		9,824	10,335*	9,483
Operating Cash Flow		1,293	2,630	(8,387)
Net Debt		11,436	7,796	9,626
Net Assets		68,317	62,332	55,764
Current Ratio (Current Assets / Current Liabilities)		2.76	2.62	2.33
Debt Ratio (Total Liabilities / Total Assets)		34.5%	35.3%	44.1%
Interest Cover (EBITDA / Interest)		51x	53x	25x

\* The FY17 NPAT excluding the capital gain was \$8,262k

# FY18 FINANCIALS

## Long-term Financial Performance



*\* Negative impact of \$3.44m FY17 compared to FY16 and \$2.1m FY18 compared to FY17 from key customers moving to net pricing.*



# FY18 HIGHLIGHTS

## *Another strong performance by Capilano*

- Capilano received the highest levels of Australian honey supply last season for over a decade, and remains the largest supporter and purchaser of Australian honey.
- We have built our stock reserves of quality Australian honey, ensuring that we have met our distribution targets with ease.
- The Company achieved a “AA” BRC quality assurance program rating at all three of our packing sites.
- This year we are proud to report that we reached our target and achieved zero lost time incidents (LTIs) across all our operations nationally.
- Along with our Perth (WA) packing site, our Maryborough (VIC) site now has a significant solar power installation, which will off-set 44.9% of the site’s carbon-based energy usage a year and is expected to reduce power costs by 40%.



# *Business Strategy*





# A FOCUSED BUSINESS STRATEGY

*Five key pillars form the basis of our strategic objectives*





# STRATEGIC PILLAR ONE

## 1. Operational & Supply Chain Excellence



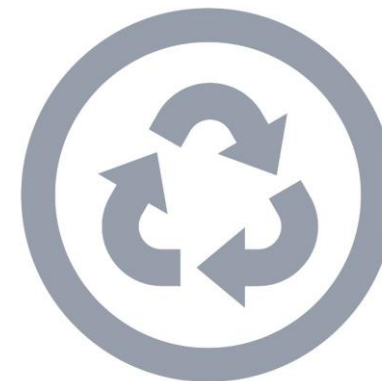
### Partner of Choice for Beekeepers

- ✓ Increased supplier base
- ✓ Sustained honey price
- ✓ Value-adding to their businesses
- ✓ Deepening beekeeper relationships
- ✓ Foster bee health & welfare



### Operational Excellence

- ✓ The highest quality standards
- ✓ Production improvements
- ✓ Minimise operational cost
- ✓ Continuous improvement
- ✓ Strategic sourcing



### Environmental Sustainability

- ✓ Solar Power
- ✓ Packaging Covenant
- ✓ Waste minimisation

# STRATEGIC PILLAR TWO

## 2. The Best Brands in the World

- Purpose-led premium brand portfolio, focused on selling and marketing Australian honey.
- With a selection of the best products.
- At the highest quality.
- Bringing the best innovation to market, with renewed focus and capability.
- Ensuring that we are relevant to both consumers and retailers.



To use the power of nature to maintain, support and restore the health of everyday Australian families.



100% Australian Honey.  
To love and care for the bees that make it. To support and ensure the welfare of our beekeepers that harvest it.  
To quality check every drop and deliver it pure and simply to your table. So together we can enjoy it.



One of the oldest honey brands in Australia, Wescobee has been proudly offering 100% Western Australian honey since 1927. With a range of regular, organic and active Jarrah honeys and Apple Cider Vinegar products. Wescobee remains a Western Australian favourite.

# STRATEGIC PILLAR THREE

## 3. Transformative Innovation – Health & Wellness Focus



INNOVATION PRIORITY: Build out the premium honey segment within grocery. Target new shoppers and consumers and lead the category.



INNOVATION PRIORITY: Innovate in Apple Cider Vinegar to bring value-added health solutions in Pharmacy and health food retailers to extend category leadership.





# STRATEGIC PILLAR FOUR

## *4. Intelligent Marketing and Trade Activation*

- Capilano launched a national metro television and digital advertising campaign in July through to early September, aligned with a brand refresh that included a modernised bee icon.
- The campaign's focus was to reengage with our consumers and highlight that by choosing Capilano, they were helping more of the bees, pollinate more of the crops, that help feed us all.
- Post-campaign brand tracking showed an improvement across all brand health measures, with brand awareness moving from 89 to 95% of consumers.
- Four out of five consumers indicated that they were now either likely or very likely to buy Capilano.
- On-going investment in consumer research, trends and trade data is driving structured decision making.



# STRATEGIC PILLAR FIVE

## 5. *Be an Industry Leader*

- At Capilano, our mission is to drive positive change that benefits the whole industry:
  - ✓ Government representation;
  - ✓ Australian Honey Bee Industry Council support;
  - ✓ Transparent investment in Research & Development (CRC Bee Products, Universities, encouraging young scientists);
  - ✓ Beekeeper apprenticeship program, aimed to help sustain the beekeeping industry;
  - ✓ Supporting industry's on-going access to Australia's natural resources and native forests.
- Creating deepening supplier relationships that beekeepers value, which fosters loyalty and improved Australian honey supply.



**Hon David Littleproud MP**, Minister for Agriculture and Water Resources tours Capilano beekeeper facility in Warwick, QLD with Australian Honey Bee Industry Council (AHBIC) representatives.



# *Outlook*





# MARKET DYNAMICS

## *Domestic & International*

- Increased honey supply has seen increased competition in the market.
- Private label offerings of Australian honey has increased, unfortunately this offer is at the same price point as blended products.
- There has been a fragmentation of branded premium honeys entering the category, for instance in Manuka.
- Export sales are tracking in-line with last year, as we focus our efforts on four key regions and 100% Australian retail offerings.
- Capilano is focussed on conveying to consumers the benefits of our branded products, and the quality credentials of the beekeepers that support us and the natural product they produce.



# FIRST QUARTER TRADING UPDATE

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## *Increased honey supply – more competitive market conditions*

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Based on Capilano's analysis of its most recent trading figures, the following factors have impacted Capilano's trading and are expected to have a negative impact on profitability for the first half of the financial year:

- Changes to domestic retail ranging in conjunction with adverse media publicity for the honey industry has unfavourably impacted sales revenue;
- Heightened competition in promotional pricing in the market segments in which we operate;
- A deep dive price reduction campaign, conducted last year but not undertaken this financial year, has resulted in reduced revenue this half year;
- Domestic and export industrial bulk sales have declined due to our largest domestic bulk industrial customer ceasing manufacture of its product locally and increased competition in international markets from cheaper origin honeys;
- Export retail sales into China have been adversely affected by uncertainty about the Scheme outcome and potential for changes to distribution arrangements;
- Planned increased marketing expenses this year have been incurred, including a national television campaign and specific export initiatives, aimed to grow our sales and strengthen our brand positioning in the longer term.

Profitability in the first half of this year is expected to be materially lower than last year's result.



# OUTLOOK

## *Re-positioning the business for future growth*

Whilst we have been facing a challenging market environment and adverse media attention, our focus is centred on restoring consumer confidence and re-positioning the business for a return to strong growth.

Capilano has implemented immediate measures to protect market share to mitigate the short-term reductions in revenue and improve long-term sales outcomes:

- Impact on new initiatives on improved profitability is not yet clear;
- Capilano has secured the honey inventory for an expected return of normal honey category sales volumes with a improved profit performance anticipated in the second half of this financial year;
- Honey adulteration testing regimes are in place on all retail products we pack and we are working closely with industry on the establishment of new industry wide standards.

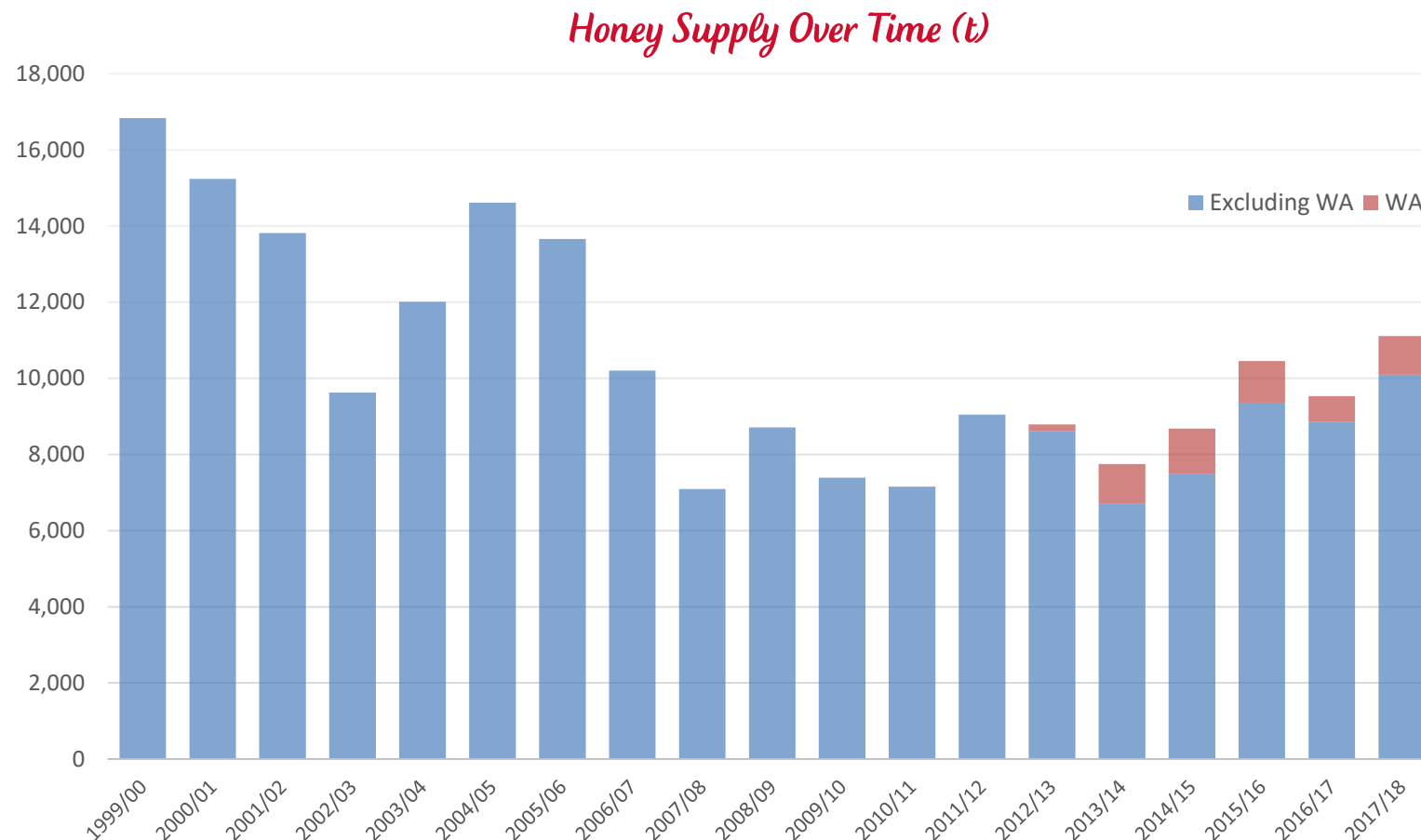




# HONEY SUPPLY

*Building honey supply security to support future growth*

- Our beekeeper supplier base has again increased.
- Australian honey deliveries received in the 2018 financial year were 11,097t, that is a 16.2% improvement.
- Whilst the impact of drought threatened the 2019 financial year crop, we expect that deliveries of honey will be commensurate with recent crops of the last 5 years.
- Capilano is holding good inventory stocks of Australian honey, which mitigate the risks of low supply periods, such as drought.



# HONEY SUPPLY

*Building honey supply security to support future growth*

Capilano continues to operate two primary production beekeeping joint-ventures aimed at strengthening our security of premium honey supply. We have invested in both businesses to increase floral resources and grow hive numbers:



**Medibee Apiaries** is a 50:50 joint-venture with NZ Manuka specialist Comvita (CVT) focusing on increasing production and security of Australian Manuka honey supply. Medibee Apiaries was the single largest supplier of Manuka again this past financial year.



**Western Honey Supplies** is a joint-venture with a large existing supplier based in Western Australia. Its main focus is increasing the supply security of premium floral and organic honey from pristine environments in WA. Western Honey Suppliers was the single largest supplier of WA honey to Capilano this financial year and is one of our top five suppliers nationally.





# Annual General Meeting

15<sup>th</sup> November 2018