



ASX ANNOUNCEMENT
ASX Code BUG

26 February 2020

BUDERIM GROUP LIMITED
HALF YEAR REPORT - 31 DECEMBER 2019

Dear Shareholders,

Strategic focus delivers material profit uplift

I am pleased to report that in the first half of FY20 we have continued to execute strongly on our strategic objectives outlined in our Annual Report for FY19.

We are pleased with progress in the Macadamia segment, which enjoyed strong sales growth leading a 60.5% increase in underlying profitability to \$1.30 million pcp, excluding the prior year sale of surplus land in Hawaii. Sales performed strongly on the back of US demand. There was also a \$0.78 million net increase in fair value of biological assets pcp to \$1.86 million included in the half year.

We have also improved the profitability of the Ginger segment, with a 15.3% uplift in underlying profit pcp to \$1.51 million, offsetting softness in sales due mainly to lower bulk exports. Nevertheless we enjoyed increased retail exports to Canada and growth in the UK together with a stable domestic Australian market.

The Tourism business understandably suffered reduced visitation and increased maintenance cost due to adverse weather. This was partly offset by higher per visitor spend resulting in a net drop in segment profit of \$0.14 million. The Tourism showcase continues to enjoy wide public support in social and other media.

During the current period the Group continued to invest in its business platform:-

- Building upon the platforms laid over the past two years to improve profitability.
- Investing more into building brand awareness of MacFarms, Royal Hawaiian Orchards and Buderim Ginger.
- Increasing macadamia inventory to support sales growth in the US.
- Preparing for re-financing of funding facilities to provide capital flexibility to support growth as announced on 16 January 2020.

Taken together, first half year Net Profit After Tax From Continuing Operations was \$0.98 million, a 53.3% improvement compared to \$0.64 million for the same period last year.

The first half year results are summarised in the tables below.

BUDERIM GROUP	H1 2019	H1 2018
	\$'000's	\$'000's
Income from Continuing Operations	38,869	34,506
EBIT from Continuing Operations	2,141	2,561
Net Profit/(Loss) Before Tax From Continuing Operations	1,127	999
Net Profit/(Loss) After Tax for the Half-Year From Continuing Operations	984	642
Profit/(Loss) from Discontinued Operations	-	113
Net Profit/(Loss) After Tax for the Half-Year	984	755
Earnings per Share (cents) From Continuing Operations	1.14	0.75
Earnings per Share (cents)	1.14	0.88
Shares on Issue	86,021,860	86,021,860



BUDERIM GROUP LIMITED

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BALANCE SHEET	31/12/19 \$'000's	30/06/19 \$'000's
Current Ratio	1.12	1.74
Financial Leverage Ratio	38.52%	37.07%
Net Tangible Assets ¹	42,283	40,990
Net Tangible Asset Backing/Share	\$ 0.49	\$ 0.48

¹ Excluding intangible assets and net deferred tax assets

Items included in Net Profit After Tax for the Half-Year included :-

- A non-cash unfavourable Fair Value Adjustment (FVA) of \$0.23 million related to the derivative component of the convertible notes, compared to a prior year favourable FVA of \$1.69 million.
- Adoption of lease accounting standard AASB 16 which resulted in a \$0.08 million favourable non-cash charge to the profit and loss.
- An income tax expense of \$0.14 million has been recognised in the half-year which includes a tax expense of \$0.60 million relating to the USA, and an Australian tax benefit of \$0.46 million for the period.

The Current Ratio dipped due to the Convertible Notes being classified as a current liability as at 31 December 2019. As announced on 21 February 2020, agreement has been reached with the Noteholders to repay \$5.0 million of the convertible notes on 30 September 2020 and to extend the remaining \$10.0 million for a further twelve months to 30 September 2021.

The revenues and results by segment were:-

CONTINUING OPERATIONS	H1 2019		H1 2018	
	Revenues \$'000	Results \$'000	Revenues \$'000	Results \$'000
<i>Business segments</i>				
Ginger operations	13,122	1,505	13,886	362
Macadamia operations	22,921	1,297	17,675	1,159
Tourism operations	3,367	335	3,479	475
Total	39,410	3,137	35,040	1,996
Consolidation adjustments	(541)		(534)	
Fair value gain/(loss) on other financial liabilities	-	(232)	-	1,692
Corporate overhead expenses	-	(764)	-	(1,127)
Net Finance costs	-	(1,014)	-	(1,563)
Group income and loss from continuing operations before income tax	38,869	1,127	34,506	999

The **Ginger segment's improved profitability** was achieved through our continued focus on gross margin improvement, despite a drop in sales. The results reflect:-

- Profit for the half-year of \$1.51 million compared to the prior period comparative of \$0.36 million which included the impairment and onerous lease provisions reported last year in relation to the Morwell operations totalling \$0.94 million. This half-year's profit of \$1.51 million was 15.3% up compared to the prior period underlying profit of \$1.31 million.
- The drop in revenues was contributed to by Sales of goods to external customers being 2.3% lower than the same time last year at \$12.48 million compared to \$12.76 million in the prior period, together with a \$0.60 million drop in Other revenue/income due to lower foreign currency gains, compared to the prior period.



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The drop in Sales of goods to external customers was primarily driven by lower industrial bulk exports, whilst the domestic sales were stable and export retail sales grew, particularly in Canada following recent marketing activities. Industrial export sales have continued to face pricing competition from other origin ginger and export retail sales into Asia including China have been difficult to achieve, however the UK retail market has shown signs of growth.

In the Australian domestic market we invested in marketing and trade activities focussing on usage occasions, origin, provenance and quality, particularly in the pre-Christmas peak baking season. November saw the launch of our first ginger and turmeric and propolis ginger chews into the higher margin pharmacy and independents' sales channels.

- Operating costs remained controlled, despite some increases in items such as insurance.

The **Macadamia segment's improved profitability** was achieved through strong sales growth and continued favourable growing conditions despite a late start to this year's crop. The results reflect:-

- Profit for the half-year of \$1.30 million compared to the prior year half year profit of \$1.16 million which included a one-off \$0.35 million profit on sale of surplus land in Hawaii. Excluding the profit on sale of land last year, this half year's profit was a 60.5% increase in underlying profitability.
- The improved performance was contributed to by a 31.4% lift in sale of goods to external customers compared to the same time last year. The increase in sales has been driven by continuing strong demand for macadamias in the US market.

Retail distribution has grown beyond 50,000 outlets and has been supported by investment in listing fees and marketing activities to build brand awareness including through promotional sponsorships and activations at the 2019 Kona World Ironman Championship in Hawaii and with the Anaheim Ducks ice hockey team in California. Discussions have commenced with potential strategic partners to further build brand awareness in the US market and to explore export opportunities in Asia.

Favourable supply conditions and access to increased working capital have enabled us to invest in inventories to support sales growth including sales into the US industrial bulk market. As a result a greater portion of our sales have been through the industrial bulk market and it is an opportunity for further development.

- Despite a late start to this season's crop resulting in a lower harvest of 3.43 million pounds compared to last year's 4.86 million pounds for the same period, the density of the nut drop accelerated in December following record rainfall. Rainfall for the last twelve months as at 31 December was 49 inches compared to 27 inches for the prior twelve months. The late start resulted in 5.93 million pounds being ready for harvest on the orchard floor as 31 December, compared to 3.00 million pounds as at 31 December 2018. The net increase in fair value of biological assets included in the half year results was \$1.86 million being \$0.78 million favourable to last year. Intake from independent growers for the current period was consistent with last year.
- Net operating costs increased due to higher net manufacturing costs as a result of the lower production volumes due to the late nut drop and the higher selling and marketing costs associated with the growth in sales and increased marketing activities outlined above.

The **Tourism segment** (The Ginger Factory) experienced challenging trading conditions with hot dry weather and reduced visitation leading to revenues and profitability for the half year dipping. The results reflected:-

- Profit dropped \$0.14 million or 29.5 % compared to last year down to \$0.335 million. The 3.22% drop in revenues to \$3.37 million was driven by a 6.80% drop in visitor numbers, but partially offset by a higher spend per visitor. Operating costs weighed on the first half result, driven by increased costs necessary to maintain the park at its best during the recent challenging weather conditions.



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Whilst this is a disappointing result it is pleasingly the park continued to operate at a high standard and maintained its excellent visitor appeal as evidenced by social media and travel website reviews.

- On a more positive note, in November The Ginger Factory was awarded for the second year running the Sunshine Coast Business Awards - Major Attraction award and in December the park welcomed Kokopod Chocolate an award winning chocolatier as a new tenant in the long vacant Overboard tenancy.

At this stage we are not aware of any material impact on the Group caused by Coronavirus Disease 2019 (COVID-19).

I would like to thank our team for their continued dedication and commitment to delivering these results, and to thank our stakeholders for their support, and you our shareholders for your continuing support.

Yours faithfully

Andrew Bond
Chief Executive Officer

Authorised for release by the Board.

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For more information please contact:
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About Buderim Group Limited

Starting as a small Ginger Growers Cooperative in 1941, Buderim Group today is a long-standing and proudly successful Australian business. It is Australia's leading ginger processor and marketer of confectionary ginger products and through MacFarms in Hawaii is the largest vertically integrated orchard to retail macadamia nut processor and marketer in the USA. The Group's public face is the renowned and highly awarded tourism attraction, The Ginger Factory, located on Queensland's Sunshine Coast.



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