

18 February 2022



# ASX RELEASE

## SOLID 1H RESULTS WHILE MANAGING COVID-19 CHALLENGES

Inghams Group Limited (ASX: ING, Ingham's, the Company) today announced its half year financial results for FY22.

### Highlights

- Group core poultry sales volume growth of 5.6% on the prior corresponding period (PCP)
- Statutory and Underlying EBITDA growth of 2.2% and 1.7% respectively
- Statutory NPAT of \$38.4 million, up 8.8% and Underlying NPAT of \$39.7 million, up 5.9%
- Operational efficiency programs continue however progress has been disrupted toward the end of the half due to COVID-19
- Net Debt of \$264.6 million and leverage of 1.3 times, a significant reduction from 1.7 times at December 2020
- Dividend declared of 6.5 cps (fully franked) for the six months, reflecting a payout ratio of 60.9% of Underlying NPAT post AASB 16 adjustments

Ingham's CEO and Managing Director, Andrew Reeves, said: "The results we have delivered in the first half are broadly in-line or ahead of the first half of 2021, reflecting the resilience of our business and people, and the ongoing benefits of the Company's continuous improvement program.

"The first half of FY22 has been defined by the challenging operating environment that the business has had to navigate, which has been characterised by extended lockdowns and significant operational disruptions caused by ongoing pandemic conditions, with the most recent Omicron-related disruption to be reflected in 2H outcomes.

"However, we remain optimistic about the future, especially as the impacts of Omicron recede. The first half results are a testament to our ability to respond to external challenges and our ability to recover and adapt quickly."

### FINANCIAL RESULTS

Ingham's delivered solid results in 1H FY22, reflecting the effective management of extended lockdowns and operational disruptions caused by COVID-19.

Core poultry sales volume grew by 5.6%, driven by strong volume growth of 6.5% in Australia.

Statutory EBITDA was \$220.4 million, an increase of 2.2% on PCP, while Statutory NPAT increased 8.8% to \$38.4 million. Underlying EBITDA pre AASB 16 recorded a modest decline of -1.0% to \$99.7 million and Underlying NPAT pre AASB 16 was \$48.1 million, up 3.4%.

The Group declared a fully franked interim dividend of 6.5 cents per share, representing a payout ratio of 60.9% of Underlying NPAT post AASB 16, which is at the lower end of the Company's target range. The interim dividend reflects the solid first half but having regard to the financial results for the first seven weeks of 2H FY22 and continuing uncertainty in the short-term market outlook due to COVID-19.

### Inghams Group Limited

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Cash flow from operations was \$186.6 million for the half, an increase of 4.7% versus PCP. The Company recorded a cash conversion ratio of 83.5%, reflective of the seasonal working capital cycle and in-line with PCP.

In Australia, core poultry volumes grew by 6.5% against a backdrop of COVID-19 lockdowns and challenging market conditions. Revenue growth was 1.9% for the half versus the PCP, with core poultry revenue growth of 2.2% reflecting weak pricing across the Wholesale channel due to excess supply, while feed revenue declined -2.0% as customers transition supply away in preparation for closure of the Group's WA Feedmill. Underlying EBITDA growth was 0.3% lower than PCP at \$185.1 million, in part reflecting a lower Intercompany royalty charge, reduced by \$3.2 million, as discussed in the Company's FY21 result. The Company continues to make good progress in realising operational efficiencies across the business, despite the temporary disruption to some initiatives brought about by COVID-19, with the efficiencies resulting in only modest cost growth of 2.5% during the period compared to the stronger volume growth.

In New Zealand, core poultry volumes were flat on the PCP as lockdowns were reintroduced, including a period at Alert Level 4, which imposed strict personal travel rules and required most businesses, with the exception of essential services, to close during this period. Core poultry revenue increased by 3.6%, with price increases applied across all channels to help offset increasing feed costs and inflationary pressures related to supply chain disruption, resulting in total revenue growth for the period of 1.2%. Underlying EBITDA increased by \$4.3 million with the change to the intercompany royalty charge accounting for \$3.2 million.

	1H22	Variance to 1H21	% Variance
Group Core Poultry Volume (kt)	237.1	12.5	▲ 5.6
Statutory EBITDA (\$M)	220.4	4.8	▲ 2.2
Statutory NPAT (\$M)	38.4	3.1	▲ 8.8
Underlying EBITDA (\$M)	222.4	3.8	▲ 1.7
Underlying NPAT (\$M)	39.7	2.2	▲ 5.9
Underlying EBITDA pre AASB 16 (\$M)	99.7	(1.0)	▼ (1.0)
Underlying NPAT pre AASB 16 (\$M)	48.1	1.6	▲ 3.4
Dividends (fully franked) (cps)	6.5	(1.0)	▲ (13.3)

## BALANCE SHEET & CAPITAL MANAGEMENT

The Group's balance sheet is well positioned. Net Debt at the end of the period was \$264.6 million, representing a small increase on FY21 and a significant reduction of 19.2% on December 2020.

Poultry inventories increased by \$45.8 million due to an increase in the value of feed materials on hand which reflects higher volumes of grain procured directly from growers during the period. The growth in Receivables was consistent with seasonal trends, while the growth in the Payables balance reflects an increase in the inventory procurement trade payable facility related to the above purchase of additional feed materials.

Total capital expenditure of \$24.0 million was lower than the PCP, reflecting the completion of the hatchery projects, ongoing project disruptions caused COVID-19 lockdowns and delays in equipment being shipped.

## **DIVIDENDS**

The Company declared a dividend for the first half of 6.5 cents per share (fully franked), in line with the PCP. This represents a payout ratio of 60.9%, which is consistent with the Company's dividend policy which targets a payout ratio of between 60-80% of Underlying NPAT.

## **ESG**

In line with Inghams' commitment to sustainability, in November the Group's Waitoa Free Range Chicken brand became New Zealand's only independently certified producer of net carbon-zero chicken. The internationally recognised certification is the result of a stringent review process involving measuring the carbon footprint at every step of the supply chain – from raw materials and production, through to distribution and packaging.

## **NAVIGATING COVID-19**

The first half of FY22 has been characterised by the ongoing challenges presented by COVID-19. The extended lockdowns in NSW and Victoria, and heightened restrictions in place for the majority of the half in New Zealand, contributed to the significant operational disruptions experienced by the Company.

Inghams has managed the operational disruptions well during the half. However, the Company has experienced significant cost pressures through increases in overtime, transport and compliance costs resulting from the heightened health and safety procedures and operational adjustments that have been a necessary part of our COVID-19 response. Our people have shown great resilience and are responding quickly and effectively to the challenges we faced in the first half and continue to face with the Omicron variant. Inghams focuses intensely on keeping our people safe and supporting health and wellbeing.

While the widely reported emergence of the Omicron variant in late December had minimal impact on the Company's 1H FY22 results, operating conditions have been significantly affected by Omicron since the start of the new calendar year. Omicron has impacted the Company more severely than previous COVID-19 variants, with extensive staff shortages experienced at all major locations. This has severely limited our ability to process both the volumes and formats required to meet customer demand, increased our unit costs and has required adjustments to volume and product mix, resulting in the temporary suspension of some products and a loss of sales. Excess supply across the market is being directed to Wholesale, resulting in significant oversupply in this channel with pricing impacted accordingly. As a result of this disruption, Underlying (unaudited) EBITDA and NPAT for the first 7 weeks of 2H FY22 are approximately \$35 million and \$24 million respectively lower than PCP.

The Inghams business is capable of recovering and adapting relatively quickly. In recent weeks, there has been some improvement in workforce availability, and thus profitability, and the Company is working to promote confidence for its people when returning to work, supporting health and wellbeing to drive increased attendance levels.

Some pandemic-related adjustments to operational practices will be retained for an extended period to ensure a safe work environment. There will be some adjustment to agricultural operations to bring farms back into balance, the timing of which will depend on operating and demand conditions, while inventory levels are expected to be returned to desired levels and mix systematically over the coming months.

## **SUMMARY**

Ingham's achieved solid financial results in 1H FY22, with challenging market conditions for its customers and consumers as a result of prolonged lockdowns, COVID-related operational disruptions and more recently the emergence of Omicron. While 2H FY22 will be significantly impacted by Omicron, and noting it is not possible to be definitive as to how long the Omicron impact on the business will last, the Inghams business is capable of recovering relatively quickly.

Another strong wheat harvest in Australia has resulted in some recent price stabilisation, however ongoing strong global demand for Australian wheat due to supply shortages and adverse northern hemisphere weather conditions is expected to result in pricing remaining firm. Combined with recent increases in soymeal pricing, we expect to see some increase in feed costs as we progress through the second half. The Company continues to hold between 3-9 months forward purchase cover on key feed ingredients.

**MARKET BRIEFING**

Ingham's will hold a market briefing to be held at 10.00am (AEDT) today, 18 February, hosted by Andrew Reeves (Chief Executive Officer and Managing Director) and Gary Mallett (Chief Financial Officer). The webcast can be accessed using the following link:

<https://edge.media-server.com/mmc/p/8ziyyr2>

Participants who prefer to use the teleconference facility can register to receive a dial in number, passcode, and a unique access PIN using the following link:

<https://s1.c-conf.com/diamondpass/10018772-na5vz7.html>

This announcement has been authorised by the Inghams Group Limited Board.



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