# Inghams Group Limited

## 2023 INTERIM RESULTS PRESENTATION

17 FEBRUARY 2023

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# ACKNOWLEDGEMENT OF COUNTRY

WE ACKNOWLEDGE THE GADIGAL PEOPLE OF THE EORA NATION, ON WHOSE LAND WE MEET TODAY.

WE PAY OUR RESPECTS TO THEIR ELDERS PAST, PRESENT AND EMERGING, AND TO ALL ABORIGINAL AND TORRES STRAIT ISLANDER PEOPLES HERE TODAY.

# EXECUTIVE SUMMARY

- **HY23 results reflect ongoing business recovery**
  - Results represent a significant improvement for the business over 2H22, with recovery strengthening as the HY progressed. Core poultry volume grew 3.2% versus 2H22
  - Underlying EBITDA[1] pre AASB 16 of $83.5M, down 16.2% on PCP and up 135.2% on 2H22, reflects the impacts of general market headwinds, including broad-based cost inflation across the business. Price increases completed in the half will contribute to future earnings recovery. NPAT decreased $21.2M on PCP
- **Operations recovering well but some business headwinds remain**
  - Ongoing transition out of the various operational challenges, with global and local market headwinds including supply chain disruptions and increasing costs remaining a feature
  - Primary and Further Processing activities running to a normal operational rhythm, producing a full product range
  - Lower volumes reflecting lower bird numbers available for processing (AU), and labour and $CO_2$ supply-related processing constraints during the period (NZ)
  - Lower 1H farming performance in Australia
    - Shortage of high-quality eggs, attributable to a small reduction in fertility levels due to the performance of breeding roosters. Breeder operations have a 60-65 week cycle and the issues were exacerbated during the Omicron wave in early 2022
    - Accordingly, less high-quality eggs have been set, which has a flow-on impact on hatch rates, with a subsequent reduction in Day Old Chick (DOC) numbers with less chicken meat available for processing
    - Focus on increasing the supply of high-quality eggs with the new NSW breeder farm, increasing breeder hen and rooster numbers, husbandry improvements and diet changes
    - January/February had good improvements, with positive trends continuing in DOC numbers, however it will be later in 2H before the benefits of more chickens being available are seen and the financial benefits accrue
  - General inflationary environment reflected in broad-based cost inflation across the business, in particular feed, fuel, freight, packaging and ingredients
  - Continuous Improvement program is a major focus for 2H23 and beyond
- **Price increases successfully implemented**
  - Price increases completed and delivering positive earnings outcomes; market demand outpaced supply during the period
  - Remain focused on ensuring pricing levels appropriately reflect ongoing feed and general cost pressures, and will pass on further price increases as required
- **Capital management**
  - Extended key bank facilities for further 2 years to November 2025
  - Leverage above target range at HY; level to reduce for FY23 as low 2H22 earnings are replaced in the rolling 12-month earnings measure
- **Investing in business capability, capacity and resilience**
  - Investing in automation and our network, future proofing the business through improved capability to meet current and future consumer requirements
  - Design phase of Business Transformation[2] program completed. However, the program has been postponed for the medium-term to maximise management effort and focus investment on highest order operational and business priorities that will support the further recovery and future growth of the business

1. Refer to reconciliation in Appendix 2. Refers to business processes, ERP and IT transformation

# OVERVIEW & HY23 UPDATE

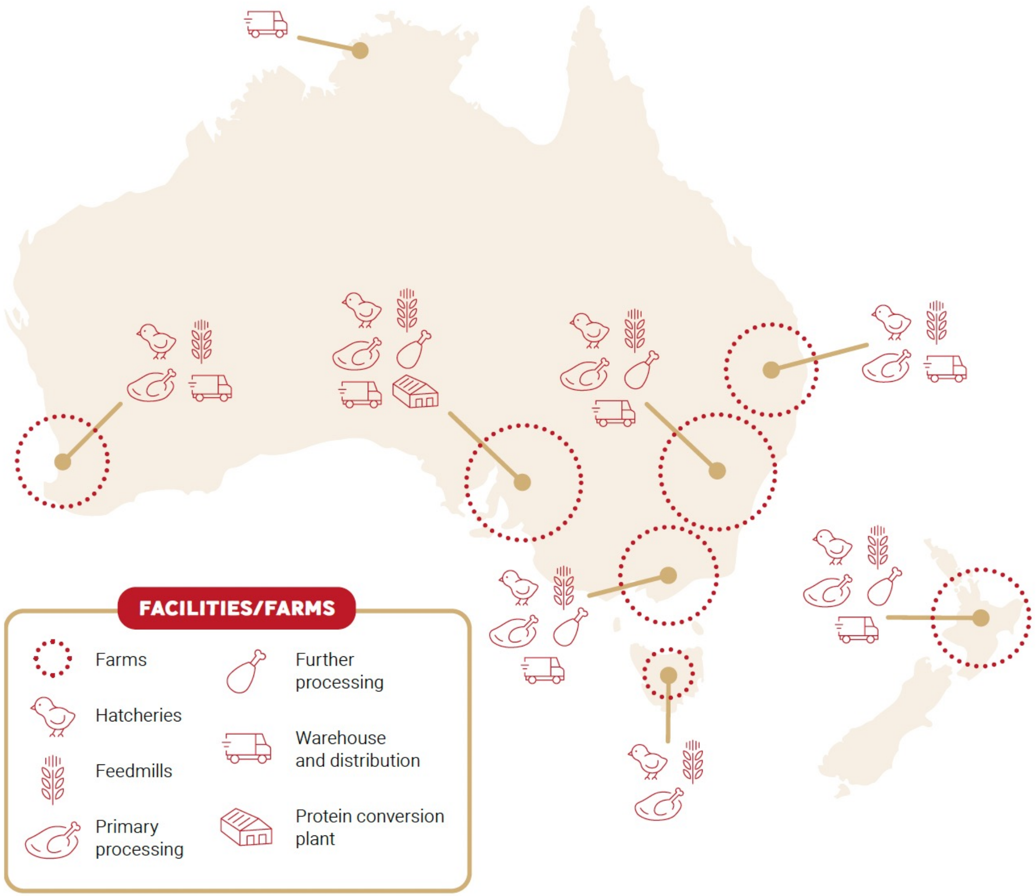
ANDREW REEVES

CEO & MANAGING DIRECTOR

# HIGHLY DIVERSIFIED AUSTRALIA & NEW ZEALAND NETWORK

## LARGEST POULTRY COMPANY ACROSS AUSTRALIA AND NEW ZEALAND WITH SIGNIFICANT MARKET SHARE IN BOTH COUNTRIES

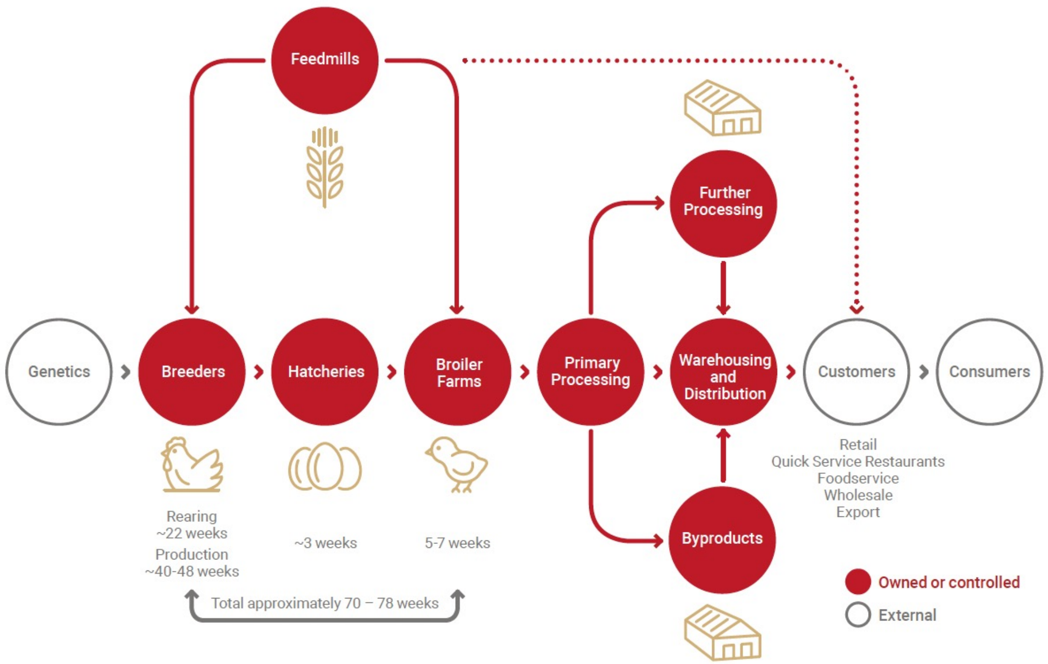
- Geographically diverse network
- Biosecurity import barrier
- Ensures we can deliver continuity of supply to meet our customers' needs
- Ability to fully service national and local customer requirements
- Provides flexibility and greater resilience
- Enhances management of agricultural and biosecurity risks
- Strong platform to support future growth



# VERTICALLY INTEGRATED OPERATING MODEL

## OPTIMISING VALUE FROM OUR OPERATING MODEL THROUGH INTEGRATED PLANNING AND OPERATIONAL EXCELLENCE

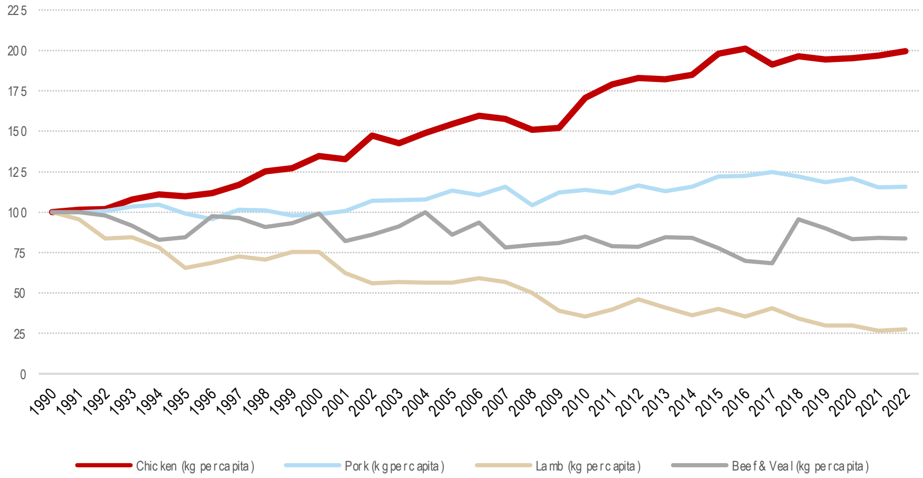
- Enables us to create value and realise efficiencies across a highly complex and large-scale supply chain
- Balance and operational excellence are key to margin capture
- Cost, capability and complexity create barriers to entry
- Diversified customers including tier 1 retail and QSR



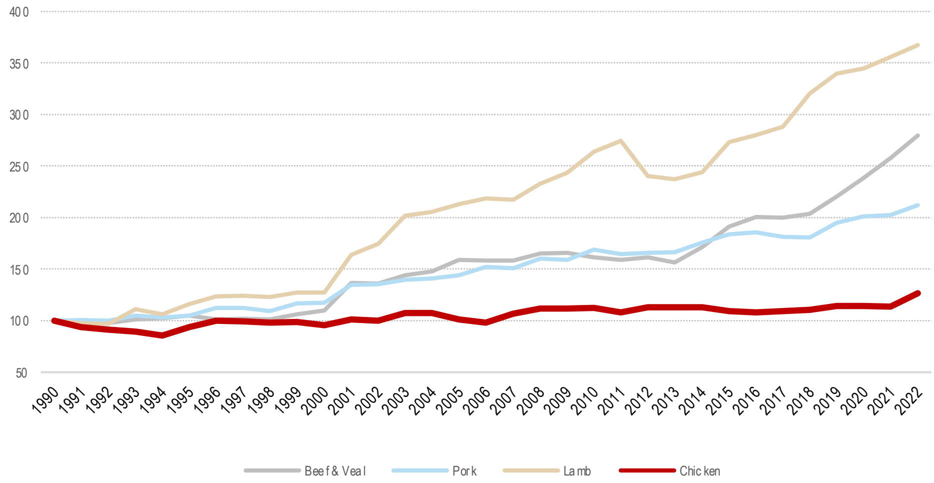
# POULTRY IS AN ATTRACTIVE & GROWING SECTOR

- **Affordable** – significant consumer price advantage over other meat proteins, and growing
- **Healthy** – a lean and versatile protein that continually finds favour with consumers that is aligned to the macro-trend towards healthier options across all channels
- **Sustainable** – chicken has one of the lowest carbon footprints when compared to other land-based animal proteins, and is 5-times[1] lower than red meat
- Consistent and reliable YoY total consumption growth versus other protein products – long-term trends remain intact
  - **Inghams core poultry volumes grew at 3.0% per annum between 1H20 and 1H23**

**Per capita consumption (indexed)[1]**




**Australian consumer meat prices (indexed)[2]**




1. **Source**: OECD; Macquarie 2. **Source**: ABS (Consumer Price Index)

# GROUP 1H23 FINANCIAL SUMMARY

## REFLECTING BENEFITS OF PRICE INCREASES & OPERATIONAL RECOVERY, OFFSET BY EFFECTS OF ONGOING MARKET-WIDE HEADWINDS

- The business remains on a recovery path, while managing the ongoing effects of general market headwinds, including supply chain disruptions and impact of broad-based cost inflation on the business
- Group core poultry volumes were slightly lower than prior period, down 0.6%, reflecting lower bird numbers available for processing (AU), and labour and $CO_2$ supply-related processing constraints during the period (NZ)
  - Core poultry volumes grew 3.2% versus 2H22, and volume growth of 3.0% per annum achieved since 1H20
- **Price increases completed** (1H23 total poultry average selling price growth of 8.5%) and contributing to earnings recovery
- Increase in cost of sales of 10.9% includes feed, packaging & ingredients, and fuel and distribution
- EBITDA includes Business Transformation Project costs of $16.2M relating to program pre-implementation and design phase
- **Net Debt**: Increased by $29.6M on PCP mainly due to a decline in earnings from trading activities
- **Leverage**: 2.5x, an increase on PCP mainly due to the low 2H22 EBITDA result; level to reduce for FY23 as low 2H22 earnings are replaced in the rolling 12-month earnings measure
- **Dividend:** Interim fully franked dividend of 4.5 cps declared, maintaining dividend payout ratio within policy

| | 1H23 | 1H22 | Var ($) | Var (%) | 2H22 | Var ($) | Var (%) |
|---|---|---|---|---|---|---|---|
| Group Core Poultry Volume (kt) | 235.7 | 237.1 | (1.4) | (0.6) | 228.4 | 7.3 | 3.2 |
| EBITDA ($M) | 197.0 | 220.4 | (23.4) | (10.6) | 150.0 | 47.0 | 31.3 |
| NPAT ($M) | 17.2 | 38.4 | (21.2) | (55.2) | (3.3) | 20.5 | (621.2) |
| Underlying EBITDA ($M) | 210.2 | 222.4 | (12.2) | (5.5) | 158.4 | 51.8 | 32.7 |
| Underlying NPAT ($M) | 26.6 | 39.7 | (13.1) | (33.0) | 2.7 | 23.9 | 885.2 |
| Underlying EBITDA pre AASB 16 ($M) | 83.5 | 99.7 | (16.2) | (16.2) | 35.5 | 48.0 | 135.2 |
| Underlying NPAT pre AASB 16 ($M) | 33.7 | 48.1 | (14.4) | (29.9) | 9.0 | 24.7 | 274.4 |
| Dividend (fully franked) (cps) | 4.5 | 6.5 | (2.0) | (30.8) | 0.5 | 4.0 | 800.0 |

| | Dec-22 | Jun-22 | Dec-21 | Var to Dec-21 |
|---|---|---|---|---|
| Leverage (underlying pre AASB 16) | 2.5x | 2.0x | 1.3x | 1.2x |
| Net Debt ($M) | 294.2 | 267.3 | 264.6 | 29.6 |

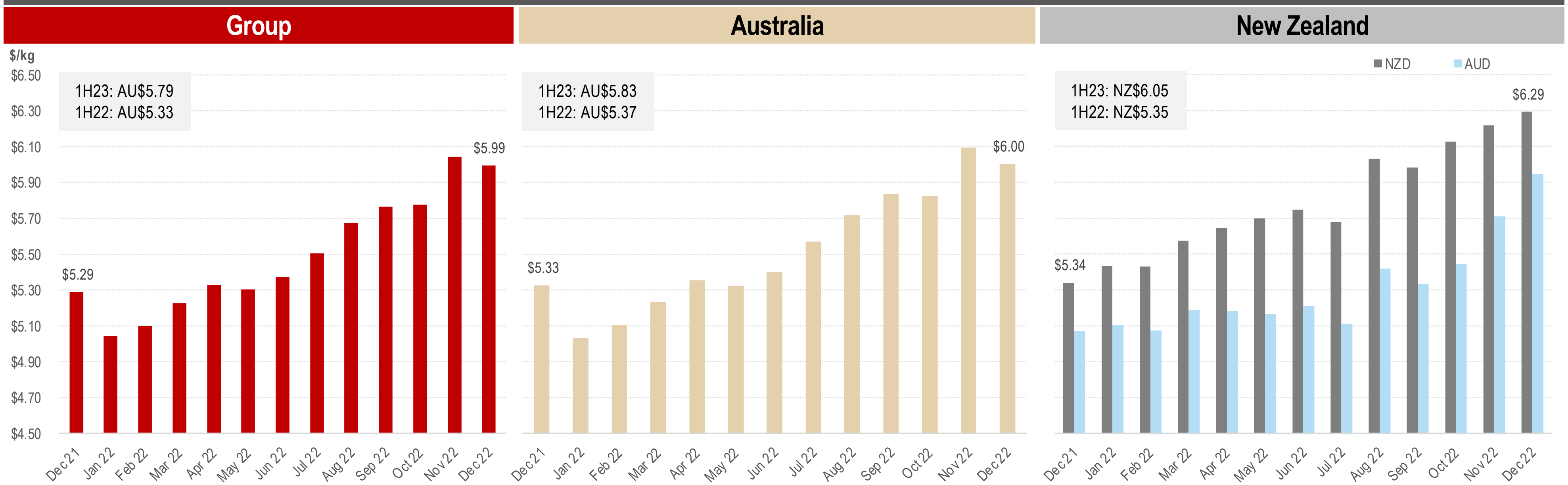
Refer to Definitions for certain Non-IFRS information referred to in this presentation

# 1H23 CORE POULTRY AVERAGE SELLING PRICES

## STRONG AVERAGE SELLING PRICE (ASP) GROWTH

- Strong price growth reflects successful execution of price increases across all customers and channels in response to input cost pressures, and tightening in poultry supply and demand balance
- Variations in ASP over time reflect both customer pricing changes and changes in channel and product mix
- Group core poultry ASP has grown strongly, increasing 8.5% versus the prior corresponding period, and +10.7% versus 2H FY22
  - Monthly Group core poultry ASP has recovered strongly from 3Q FY22 lows, increasing 18.8% between January – December 2022
- 1H23 Australian core poultry ASP growth was 8.6% vs PCP while NZ core poultry ASP (in NZD) increased 13.0% over the same period (NZ ASP grew 7.4% in AUD terms)

CORE POULTRY AVERAGE SELLING PRICES

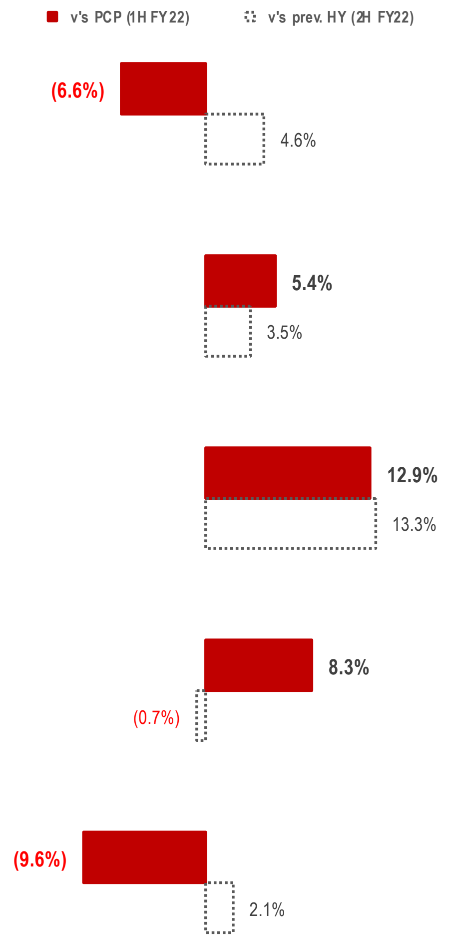


# OBSERVATIONS ACROSS OUR CHANNELS

## GROUP CORE POULTRY VOLUME HAS GROWN BY 3.0% PER ANNUM SINCE 1H20

- Core poultry volume declined 0.6% on PCP, and increased 3.2% on 2H22

**YoY change in volume by channel (Kt)**




**Comments[1]**

**RETAIL**

- Retail volume contracted in 1H versus PCP as expected cycling stronger demand during COVID-19 restrictions
- Input cost pass-through to Retailers led to RRP increases resulting in slight softening of demand which is expected to normalise as consumers adjust to price environment, also taking into account red meat pricing
- NZ cycling Auckland 100-day lockdown in PCP which drove volume into retail from Food Service and Wholesale; frozen product production levels reduced due CO2 availability restricting further processing capacity

**QSR**

- Volume growth of 5.4% on the PCP reflecting the impact of previous COVID-19 restrictions on customer demand
- Reduced promotional activity during the HY
- NZ QSR segment cycling COVID-impacted PCP; channel performed strongly during the HY driven by major QSR promotional programs

**FOOD SERVICE**

- Stronger growth across Australia and New Zealand as consumers return to pre-pandemic lifestyles, habits and international travel activity re-opened
- Demand remains strong despite menu price increases observed across many out-of-home venues
- Actively grown exposure to NZ meal kit segment

**WHOLESALE**

- Large segment of customer base represented by “Further Processors”, supplying products to restaurants, cafés, airlines etc. Removal of COVID restrictions and increased travel resulted in significant improvement in demand, largely offsetting adjustment to excess supply experienced in the channel in 2H22
- Some product clearance undertaken to balance the portfolio
- Rebound in underlying customer demand resulted in strong channel price growth off lows in early 1H CY22

**EXPORT & OTHER**

- Channel used to manage excess stock
- With norminalising of trading conditional across all channels, clearance volumes declined versus PCP

1. Commentary relative to the prior corresponding period, unless otherwise noted

# FINANCIAL RESULTS

GARY MALLETT

CHIEF FINANCIAL OFFICER

# PROFIT & LOSS

## BENEFIT OF PRICE INCREASES AND OPERATIONAL RECOVERY OFFSET SMALL VOLUME DECLINE

- **Volume**: small decline in core poultry volume of 0.6%
  - Australian volume declined 0.3% driven mainly by lower bird numbers processed as a result of operational farming challenges
  - New Zealand volume declined 2.4%, reflecting temporary lower egg setting to address impact of labour-related processing constraints and reduced further processing production driven by nation-wide shortage of $CO_2$
- The reduction in **external feed volumes** reflects customer transition away from WA feed mill before closure, and a reduction in feed available for external sales in NZ
- **Revenue**: increased 8.9% due to growth in average selling prices
- Cost of sales increased 10.9% versus 1H22 due to increasing input costs, including:
  - 1H23 incremental feed cost increase of $57.9M
  - Packaging & ingredients cost increase of $12.4M due to price increases passed on from suppliers
  - A $28.2M increase in freight costs as higher fuel and related costs were passed through, with additional costs due to rail network constraints
- **Significant items:** EBITDA includes Business Transformation costs of $16.2M, less a $3.0M benefit relating to the Cleveland facility lease assignment
- **Net finance expense:** increased due to higher external debt level during the period, increase in interest rates and signing of new leases and grower contract extensions; offset by FX gain on NZD hedging
- **Tax expense**: lower than PCP due to lower earnings and prior year $2.2M provision reversal

| $M | 1H23 | 1H22 | Variance | % |
|---|---|---|---|---|
| *Core Poultry volumes (kt)* | ***235.7*** | ***237.1*** | ***(1.4)*** | ***(0.6)*** |
| *Total Poultry volumes (kt)* | *294.8* | *295.9* | *(1.1)* | *(0.4)* |
| *External Feed volumes (kt)* | *155.9* | *168.9* | *(13.0)* | *(7.7)* |
| Revenue | 1,511.2 | 1,388.1 | 123.1 | 8.9 |
| Gross Profit | 370.3 | 359.7 | 10.6 | 2.9 |
| *Gross Profit % Revenue* | *24.5* | *25.9* | *(1.4)* | *(5.4)* |
| **EBITDA** | **197.0** | **220.4** | **(23.4)** | **(10.6)** |
| *EBITDA % Revenue* | *13.0* | *15.9* | *(2.9)* | *(18.0)* |
| Depreciation & Amortisation | (135.6) | (136.1) | 0.5 | (0.4) |
| **EBIT** | **61.4** | **84.3** | **(22.9)** | **(27.2)** |
| Net finance expense | (37.4) | (33.2) | (4.2) | 12.7 |
| Tax benefit/(expense) | (6.8) | (12.7) | 5.9 | (46.5) |
| **NPAT** | **17.2** | **38.4** | **(21.2)** | **(55.2)** |
| Underlying EBITDA | 210.2 | 222.4 | (12.2) | (5.5) |
| Underlying NPAT | 26.6 | 39.7 | (13.1) | (33.0) |
| Underlying EBITDA (pre AASB 16) | 83.5 | 99.7 | (16.2) | (16.2) |
| Underlying NPAT (pre AASB 16) | 33.7 | 48.1 | (14.4) | (29.9) |

# BALANCE SHEET

## HIGHER FEED COSTS AND AVERAGE SELLING PRICES INCREASING WORKING CAPITAL

- **Inventories**: Increased $12.0M due largely to an increase in Biological assets during the period, reflecting higher cost of feed
  - Feed inventories declined marginally due to reduction in physical purchases, offset by cost increases
- **Receivables**: Increased $51.0M due to higher seasonal sales, higher ASP and annual insurance prepayment
- **Payables**: Trade payables increased largely due to an increase in the inventory procurement payable as a result of an increase in the underlying cost of feed
- **Right-of-use Assets**: Declined $57.1M, mainly attributable to a reduction in Contract Growers, due to amortisation offset by additions, CPI increases and lease extensions.
- **Lease Liabilities**: Decreased $61.6M due to lease payments offset by additions, CPI increases and lease extensions
- **Net Debt**: Increased by $26.9M mainly due to higher working capital
- **Tax balance**: Increased mainly due to deferred tax asset relating to the timing differences arising from the movements in provisions, employee benefits and inventories

| $M | Dec-22 | Jun-22 | Variance |
|---|---|---|---|
| Inventories/Biologicals[1] | 396.0 | 384.0 | 12.0 |
| Receivables[1] | 274.6 | 223.6 | 51.0 |
| Payables | (465.2) | (455.5) | (9.7) |
| **Working Capital** | **205.4** | **152.1** | **53.3** |
| Provisions | (146.2) | (138.3) | (7.9) |
| **Working Capital & Provisions** | **59.2** | **13.8** | **45.4** |
| Property, Plant & Equipment | 476.2 | 477.3 | (1.1) |
| Right-of-use Assets | 1,262.3 | 1,319.4 | (57.1) |
| Other Assets | 3.0 | 13.3 | (10.3) |
| Lease Liabilities | (1,342.0) | (1,403.6) | 61.6 |
| **Capital employed** | **458.7** | **420.2** | **38.5** |
| Net Debt | (294.2) | (267.3) | (26.9) |
| Net Tax balances | 10.0 | 5.3 | 4.7 |
| **Net Assets** | **174.5** | **158.2** | **16.3** |

1. Provisions within Inventories and Trade Receivables have been reclassed to 'Provisions'

# CASHFLOW

## CASH CONVERSION IMPACTED BY HIGHER WORKING CAPITAL

- **Cash conversion ratio**: declined to 74.8% due to an increase in Biological assets as the higher cost of feed cycles through the asset class, and an increase in Trade Receivables due to ASP growth for both total poultry (+8.5%) and external feed sales
- **Non-cash items**: reversal of previously recognised Cleveland facility lease liability
- **Capital expenditure**: 1H23 spend of $23.5M includes $5.4M on the WA Primary Processing facility water treatment plant and $9.3M on NSW Breeder Triangle
- **Dividends Paid**: final FY22 fully franked dividend of 0.5 cps
- **Proceeds from settlement of derivatives**: proceeds resulting from aligning interest rate hedging to extended debt facility maturities
- **Tax paid**: of $9.8M, lower than PCP due to lower earnings

| $M | 1H23 | 1H22 | Variance |
|---|---|---|---|
| **EBITDA** | **197.0** | **220.4** | **(23.4)** |
| Non-cash items | (10.4) | 3.1 | (13.5) |
| **EBITDA excluding non-cash items** | **186.6** | **223.5** | **(36.9)** |
| Changes in operating working capital[1] | (54.2) | (39.6) | (14.6) |
| Changes in operating provisions | 7.9 | 2.7 | 5.2 |
| **Cash flow from operations** | **140.3** | **186.6** | **(46.3)** |
| Capital expenditure | (23.5) | (24.0) | 0.5 |
| Proceeds from sale of assets | 0.0 | 3.8 | (3.8) |
| Dividends received from investments | 0.4 | 0.2 | 0.2 |
| **Net cashflow before financing & tax** | **117.2** | **166.6** | **(49.4)** |
| Dividends paid | (1.9) | (33.5) | 31.6 |
| Shares purchased / sold | (0.5) | (0.5) | 0.0 |
| Proceeds from settlement of derivatives | 7.5 | 0.0 | 7.5 |
| Interest paid / received | (10.1) | (7.3) | (2.8) |
| Interest & principal – AASB 16 Leases | (129.8) | (119.0) | (10.8) |
| **Net cashflow before tax** | **(17.6)** | **6.3** | **(23.9)** |
| Tax paid | (9.8) | (31.0) | 21.2 |
| Amortisation borrowings / forex | 0.5 | 0.3 | 0.2 |
| **Net (increase) / decrease net debt** | **(26.9)** | **(24.4)** | **(2.5)** |
| ***Cash Conversion Ratio*** | ***74.8%*** | ***83.5%*** | ***(871.2) bps*** |

1. Working capital adjusted for financing and non-operating items

# CAPITAL MANAGEMENT OUTCOMES

## DISCIPLINED APPROACH TO CAPITAL MANAGEMENT DURING BUSINESS RECOVERY PHASE

| Cashflow from operations | Cashflow from strategic activities | Cashflow from interest and tax |
|---|---|---|

**Strong cash generation**

Cashflow from operations of $140.3M, a decline of $46.3M on PCP due to a decline in 1H EBITDA pre AASB 16 on lower trading performance, higher Business Transformation costs, and an increase in Working Capital due to growth in Biological assets (cycling higher feed costs) and Trade Receivables (ASP growth for total poultry and external feed sales)

**Sustaining capital[1]**
Annual spend range of approximately 75-90% of depreciation pre AASB 16

Capex spend of $14.2M (53% of depreciation pre AASB 16)

**Maintaining a strong balance sheet**
Target leverage[2] (underlying pre AASB 16) of 1.0x to 2.0x

- Leverage of 2.5 times, above top of target range due to lower rolling 12-month EBITDA result
- Extended key debt facilities for a further 2 years to November 2025

**Reliable dividends to shareholders**
Dividend payout ratio 60-80% of Underlying NPAT

Interim dividend of 4.5 cps, representing a payout ratio of 63% of Underlying NPAT

**Investing in growth opportunities & major projects**
Where aligned with strategy and expected to deliver returns in excess of specified hurdles

Growth and major project capex of $9.3M on NSW Breeder Triangle

**Additional returns to shareholders**
Capital returns / special dividends / share buybacks

**Maximise shareholder value**
Over time the objective is to deliver a return on invested capital in excess of WACC

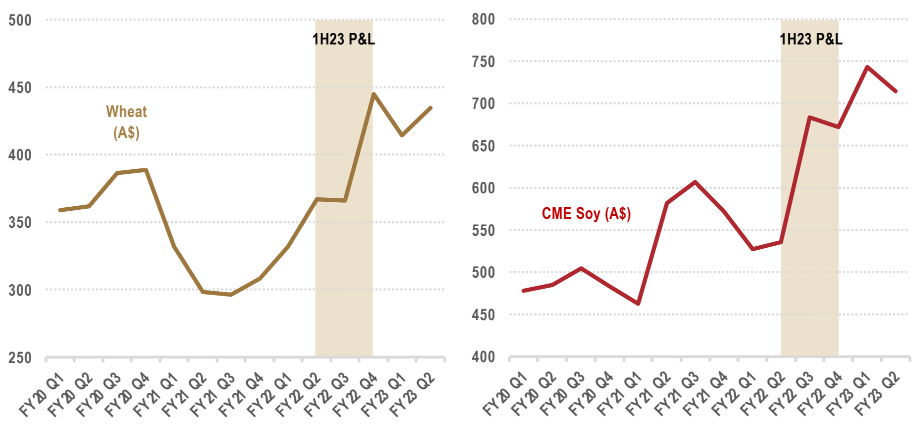
1. Sustaining capital includes maintenance, replacement, regulatory and stay-in-business capital
2. Leverage = Net Debt / LTM Underlying EBITDA pre AASB 16, Net Debt comprises of borrowing facilities less cash and cash equivalents

# EXTERNAL FEED MARKET OBSERVATIONS

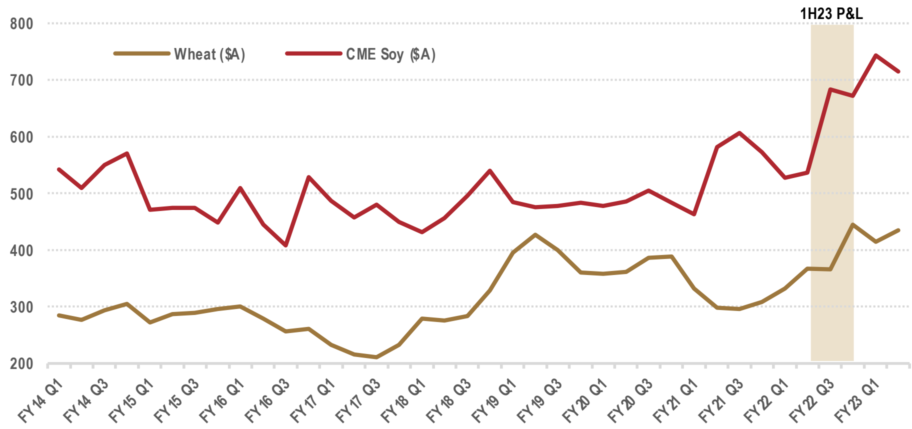
## FEED COSTS HAVE INCREASED SUBSTANTIALLY DUE TO VOLATILITY IN INTERNATIONAL MARKETS

- Delivered feed cost contains cereal grains, protein meals, vitamins and minerals. Feed cost also includes transport and milling cost
- Grain imported into New Zealand operations is purchased from the international market

**Spot wheat price[1] & spot CME[1,2] soymeal futures (as observed by Ingham's)**
**$A per metric tonne**




**Long term wheat & soymeal pricing[1,2]**
**$A per metric tonne**




**Wheat**

- Global supply remains tight. Despite the limited resumption of exports from Ukraine uncertainty surrounding trade flows from the Black Sea region remain
  - Dry seasonal conditions continue to negatively impact a number of key major wheat-exporting countries, such as Argentina and the United States
  - While wheat prices stabilised during 1H23, wheat pricing (in AUD terms) at the end of the half is observed as being 18.5% higher versus 2Q FY22
- Extensive rains and flooding in Eastern Australian wheat growing areas only resulted in minor crop damage limiting price discounts for lower quality wheat
- ABARES forecasting a new wheat production record of 36.6 million tonnes

**Soymeal**

- Pricing remains elevated versus historical levels reflecting continuing poor growing conditions in North and South America; all-in costs have increased in AUD terms once higher freight and logistics costs are included - CME pricing data does not include freight and logistics costs
  - Soybean pricing (spot CME in AUD terms) at the end of 1H FY23 is observed as being 24% higher versus the prior corresponding period – CME data above does not include transport and logistics costs
- Demand is expected to remain strong in 2022-23

1. Quarterly spot price data is based on the average of daily observations during the period and is shown for illustrative purposes only. Ingham's actual consumption prices will differ due to the purchase of delivered grain/soymeal as well as level of forward cover of between 3 – 9 months.
2. Chicago Mercantile Exchange

# SEGMENT PERFORMANCE

ANDREW REEVES

CEO & MANAGING DIRECTOR

# AUSTRALIA

## REDUCED FARMING PERFORMANCE AND COST GROWTH PARTIALLY OFFSET BY PRICE GROWTH & EFFICIENCY PROGRAMS

- **Core poultry volume** declined 0.3% driven mainly by lower bird numbers processed as a result of a shortage of high-quality eggs, attributable to a small reduction in fertility levels from the performance of breeding roosters, resulting in a reduction in Day Old Chick (DOC) numbers
- **External Feed volumes** continue to decline, with volume reduction of 3.6% due to customers transition away from WA feed mill in preparation for its closure
- **Revenue** growth of 9.6% reflecting:
  - Total poultry average selling prices increased 8.5% as higher input costs were progressively passed on across all channels
  - External feed prices increased 29.6%, reflective of the steep increase in commodity prices
- **Underlying EBITDA:**
  - Operational efficiency programs continue to provide positive offset to rate of cost growth
  - Cost of sales increased due to combination of lower farming performance and higher feed costs (+$44.7M[1]); increased packaging and ingredients costs (+$10.7M[1])
  - Higher supply chain costs ($25.1M[1]) largely due to impact of increased fuel and freight costs

| $M | 1H23 | 1H22 | Variance | % |
|---|---|---|---|---|
| **Core Poultry volumes (kt)** | ***202.8*** | ***203.4*** | ***(0.6)*** | ***(0.3)*** |
| Total Poultry volumes (kt) | *255.2* | *254.9* | *0.3* | *0.1* |
| Feed volumes (kt) | *118.9* | *123.3* | *(4.4)* | *(3.6)* |
| | | | | |
| Revenue | 1,295.9 | 1,182.6 | 113.3 | 9.6 |
| **EBITDA** | **168.8** | **183.1** | **(14.3)** | **(7.8)** |
| EBITDA (% Rev) | *13.0* | *15.5* | *(2.5)* | *(16.1)* |
| **Underlying EBITDA** | **181.9** | **185.1** | **(3.2)** | **(1.7)** |
| Underlying EBITDA (% Rev) | *14.0* | *15.7* | *(1.7)* | *(10.5)* |
| | | | | |
| **Underlying pre AASB 16** | | | | |
| **Underlying EBITDA** | **74.6** | **80.6** | **(6.0)** | **(7.5)** |
| Underlying EBITDA (% Rev) | *5.8* | *6.8* | *(1.0)* | *(15.1)* |
| **Underlying Gross Profit** | **212.5** | **203.2** | **9.3** | **4.6** |
| Underlying Gross Profit (% Rev) | *16.4* | *17.2* | *(0.8)* | *(4.7)* |

1. Volume adjusted

# NEW ZEALAND

## LOWER VOLUMES DUE TO PRODUCTION CONSTRAINTS, WITH PRICE INCREASES REFLECTING COST INFLATION

- **Core poultry volumes** declined by 2.4%, with lower sales reflecting an adjustment to egg settings due to significant labour constraints during the period, and $CO_2$ supply constraints impacting Further Processing production and product mix
- Total poultry **net selling prices** increased 14.1% (NZD) and external feed net selling prices increased 37.0% (NZD)
- **Operating environment** challenges during 1H due to shortages in both labour and $CO_2$
  - Improvements in labour availability levels as 1H progressed
  - Converted Auckland plant to nitrogen in November
  - Kapuni $CO_2$ plant temporarily shut down during December January, constraining production volumes at our Cambridge FP facility. Cambridge to be converted to nitrogen in late Feb 2023
- 1H23 feed cost[1] increased $13.2M; packaging & ingredients (+$2.0M); fuel/freight (+$4.3M); intercompany Royalty charge (+$1.2M) due to higher revenues (on which royalties are calculated)
- Financial and operating performance has been showing an improving trend in Q2

| $M | 1H23 | 1H22 | Variance | % |
|---|---|---|---|---|
| **Core Poultry volumes (kt)** | ***32.9*** | ***33.7*** | ***(0.8)*** | ***(2.4)*** |
| Total Poultry volumes (kt) | *39.6* | *41.0* | *(1.4)* | *(3.4)* |
| Feed volumes (kt) | *37.0* | *45.6* | *(8.6)* | *(18.9)* |
| | | | | |
| Revenue | 215.3 | 205.5 | 9.8 | 4.8 |
| **EBITDA** | **28.2** | **37.3** | **(9.1)** | **(24.4)** |
| *EBITDA (% Rev)* | *13.1* | *18.2* | *(5.1)* | *(28.0)* |
| **Underlying EBITDA** | **28.3** | **37.3** | **(9.0)** | **(24.1)** |
| *Underlying EBITDA (% Rev)* | *13.2* | *18.2* | *(5.0)* | *(27.5)* |
| | | | | |
| **Underlying pre AASB 16** | | | | |
| **Underlying EBITDA** | **8.9** | **19.1** | **(10.2)** | **(53.5)** |
| *Underlying EBITDA (% Rev)* | *4.1* | *9.3* | *(5.2)* | *(55.6)* |
| **Underlying Gross Profit** | **42.3** | **45.8** | **(3.5)** | **(7.6)** |
| *Underlying Gross Profit (% Rev)* | *19.6* | *22.3* | *(2.7)* | *(11.9)* |

1. Volume adjusted

# OPERATIONS UPDATE

**ANDREW REEVES**

**CEO & MANAGING DIRECTOR**

# NORTHERN NEW SOUTH WALES BREEDER TRIANGLE

## INVESTING IN FUTURE NETWORK CAPACITY AND RESILIENCE

- Located in the Casino area in Northern NSW, the 'triangle' will service the Queensland market (~3hrs from Brisbane)
  - Close to existing Inghams owned breeder farms, enabling sharing of resources and other efficiency synergies
- Investment made to meet growing capacity requirements and avoid potential capacity bottlenecks that might arise over time
  - Owned and operated by Inghams, maintaining control of operations
- The rearing farm has come on-stream, with the first egg-producing farm due to commence operations in April 2023, followed by the second production farm in November 2023
  - Expected to produce approximately 700,000 eggs per week when fully operational
  - Yorklea rearing farm grows birds that go to the 2 egg-producing farms
- Total investment to date: $30M

# INVESTING IN AUTOMATION

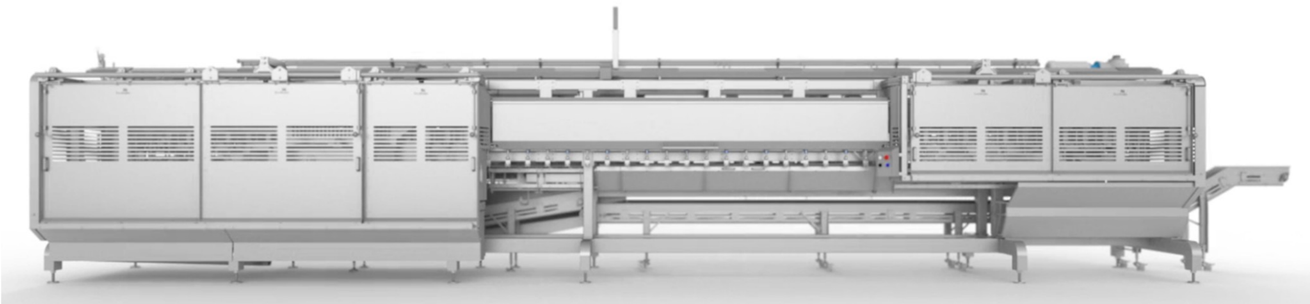
## DIRECT STREAM INJECTION (DSI) WATERJET CUTTERS

- $30M to purchase four DSI 888 portion cutting machines and associated equipment, spread across FY23 – FY25, with installation expected through FY24 and FY25
  - Significant efficiency and cost benefits expected to be realised
- Network plan recognises growth in whole muscle, portion-controlled products as QSR's and Retail Customers continue to expand their whole muscle poultry offerings and move away from formed burgers
- Inghams currently utilises five earlier-model machines across its operations - the new technology will provide higher throughput, yield and capacity outcomes
  - New machines will an uplift in capacity, future proofing the network to ensure Inghams maintains the capability to meet the shift in consumer demand, including to 'dinner done', convenience and tray pack
- Augmenting our capability with stand-alone slicer/dicers at Murarrie and Bolivar to process stir-fry and diced products, releasing additional capacity on the DSI's

# INVESTING IN AUTOMATION

## AUTOMATED LEG DEBONING INVESTMENT

- Network plan identified a reduction in whole leg and drumstick sales, and an increase in requirement for deboned thigh and drumstick meat, which attract higher margins
- Inghams currently utilises various semi-automatic processes to harvest leg meat - these processes are manually intensive with limited throughput
- $17M over two years to purchase four Foodmate Ultimate Leg Deboning machines
  - Replaces the current semi-automatic processes at three sites, and to create capacity for future demand
  - Installation planned for FY24
- New system large variations in leg sizes, using an X-Ray measuring system to precisely measure each leg, automatically adjusting in real-time, enabling precision cutting which ensures very high yields and minimum labour for trimming
- Provides cost savings, higher yield and throughput outcomes, and improved product quality. Also provides opportunity to increase production of other value-add products and new customer opportunities



# NEW ZEALAND ACQUISITION

## ACQUISITION OF BROMLEY PARK HATCHERIES

- Conditional purchase of the poultry meat business and assets of Bromley Park Hatcheries (BPH) for NZ$8.6M[1]
  - Ingham's to acquire the BPH business, working capital and fixed assets associated with the business, with 3rd party lessor to acquire land and facilities and to enter into a long-term lease with Inghams

**Background**

- BPH own and operate a number of breeder farms as well as a hatchery in NZ
- Inghams currently use BPH as a 3rd party supplier of Day Old Chicks (DOCs), providing 10-15% of Inghams DOCs

**Benefits**

- Provides the opportunity for Ingham's NZ to become self-sufficient in respect of its DOC requirements
- Purchase avoids the longer lead time and associated risks of a breeder greenfield build
- Reduces network risk and improves hatchery contingency with a modern hatchery, whilst providing for future growth

**Transaction requirements & timeline**

- Requires Commerce Commission and Overseas Investment Office approval
- Finalisation and settlement expected in 1Q FY24

1. Subject to normal working capital adjustments on completion

# SUMMARY

## OPERATIONS RECOVERING WELL BUT SOME MARKET-WIDE HEADWINDS REMAIN

- Poultry is an attractive and growing sector with a significant consumer price advantage over red meat and seafood alternatives – poultry is a strategic focus area for our key customers, reaffirming our optimism for the category over the medium to longer term
- Transitioning from FY22 operational challenges with recovery ongoing
  - Focus is on returning the business operations and performance to full recovery; processing activities running to normal schedules producing a full product range
  - Implemented initiatives to address the reduced 1H farming performance - improving performance trend early 2H23, and it will be later in 2H before the benefits of more chickens are seen and the financial benefits accrue
  - Business Transformation[1] program has been postponed for the medium-term following completion of the design phase, focusing management effort with investment prioritised on high returning projects that will support the further recovery and future growth of the business
- General inflation and cost headwinds in FY23
  - Pricing of key feed ingredients stabilised in 1H but expected to remain elevated versus longer-term levels due to tight global supply and increased logistics costs
  - Cost of sales increases from inflationary pressures on input costs, which are expected to continue to increase across the business in 2H23, including labour, fuel/distribution, ingredients, packaging, $CO_2$ and utilities
- Group ASP has grown strongly, increasing 8.5% versus the prior corresponding period, and 10.7% versus 2H22
  - Remain focused on ensuring pricing offsets ongoing feed cost and general inflationary pressures and will pass on further price increases as required
- Opened new Victorian DC in August; Northern NSW breeder farm commenced operations in November
- Investing in automation and our network, future proofing the business through improved capability to meet current and future consumer requirements
- Continuous improvement program major focus area in FY23 and beyond – approximately 300 projects identified or underway
- Leverage expected to improve as low 2H22 earnings are replaced in the rolling 12-month earnings measure
  - Capital expenditure expected to progressively return to normal run-rate, with new investment focused on driving capacity and capability, including automation
- Investor day to be held following release of Inghams FY23 results (targeting 4Q 2023)

1. Refers to business processes, ERP and IT transformation

# APPENDIX

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# AASB 16 LEASE IMPACT

**Balance Sheet:**

- Land and Buildings: Ingham's has a large leased property portfolio. Average term remaining on the portfolio is 12.6 years
- Contract Growers: are classified as a right-of-use assets due to the fixed and capital component of the fee structure. The variable component of the payments are not captured by this standard. Average remaining term of contract grower leases has reduced to 2.5 years

**Profit & Loss:**

- AASB 16 leases impact to EBITDA is $126.7M of rental expense "add backs" split between cost of sales $115.6M, distribution $8.4M and sales & admin $2.7M
- AASB 16 EBITDA increased $4.0M due to new leases, grower extensions, modifications and CPI rental increases
- AASB 16 NPAT improved $1.3M due to new leases, grower extensions and modifications

| Balance Sheet $M | 1H23 | AU | NZ | 1H22 |
|---|---|---|---|---|
| Land & Buildings | 832.2 | 714.8 | 117.4 | 849.4 |
| Growers | 409.1 | 336.4 | 72.7 | 494.7 |
| Equipment | 21.0 | 19.2 | 1.8 | 3.3 |
| **Right-of-use Assets** | **1,262.3** | **1,070.4** | **191.9** | **1,347.4** |
| **Lease Liability** | **(1,342.0)** | **(1,142.1)** | **(199.9)** | **(1,420.3)** |
| **Capital Employed** | **(79.7)** | **(71.7)** | **(8.0)** | **(72.9)** |
| Tax | 28.4 | 26.2 | 2.2 | 20.8 |
| **Net assets** | **(51.3)** | **(45.5)** | **(5.8)** | **(52.1)** |

| P&L Impact $M | 1H23 | AU | NZ | 1H22 |
|---|---|---|---|---|
| **EBITDA** | **126.7** | **107.2** | **19.5** | **122.7** |
| Depreciation | (108.8) | (92.1) | (16.7) | (108.8) |
| **EBIT** | **17.9** | **15.1** | **2.8** | **13.9** |
| Net finance expense | (27.9) | (24.5) | (3.4) | (25.7) |
| Tax expense | 2.9 | 2.7 | 0.2 | 3.4 |
| **NPAT** | **(7.1)** | **(6.7)** | **(0.4)** | **(8.4)** |

| Ave. Term (years) | 1H23 | AU | NZ | 1H22 |
|---|---|---|---|---|
| Land & Buildings | 12.6 | 12.5 | 13.0 | 12.7 |
| Growers | 2.5 | 2.5 | 2.7 | 3.1 |
| Equipment | 2.3 | 2.3 | 2.3 | 0.8 |

# PROFIT & LOSS RECONCILIATION

| Profit & Loss $M | 1H23 | Excluded from underlying | 1H23 Underlying | AASB 16 Leases | 1H23 Underlying (Pre AASB 16) (Reported) | 1H22 Underlying (Pre AASB 16) (Reported) |
|---|---|---|---|---|---|---|
| Core Poultry volume (kt) | ***235.7*** | | ***235.7*** | | ***235.7*** | ***237.1*** |
| By-Products volume (kt) | *59.0* | | *59.0* | | *59.0* | *58.8* |
| Total Poultry volume (kt) | *294.7* | | *294.7* | | *294.7* | *295.9* |
| Feed Volume (kt) | *155.9* | | *155.9* | | *155.9* | *161.6* |
| | | | | | | |
| Core Poultry Revenue | 1,363.3 | | 1,363.3 | | 1,363.3 | 1,264.8 |
| By-Products Revenue | 31.9 | | 31.9 | | 31.9 | 26.0 |
| Total Poultry Revenue | 1,395.2 | | 1,395.2 | | 1,395.2 | 1,290.8 |
| Feed Revenue | 116.0 | | 116.0 | | 116.0 | 97.3 |
| **Revenue** | **1,511.2** | | **1,511.2** | | **1,511.2** | **1,388.1** |
| Cost of sales | (1,140.9) | | (1,140.9) | (115.5) | (1,256.4) | (1,139.1) |
| **Gross profit** | **370.3** | | **370.3** | **(115.5)** | **254.8** | **249.0** |
| *Gross profit %* | *24.5%* | | *24.5%* | | *16.9%* | *17.9%* |
| Distribution expense | (96.4) | | (96.4) | (8.5) | (104.9) | (85.2) |
| Sales & admin | (77.3) | **13.2** | (64.1) | (2.7) | (66.8) | (64.4) |
| JV | 0.4 | | 0.4 | | 0.4 | 0.3 |
| **EBITDA** | **197.0** | **13.2** | **210.2** | **(126.7)** | **83.5** | **99.7** |
| *EBITDA %* | *13.0%* | | *13.0%* | | *13.0%* | *7.2%* |
| Depreciation | (135.6) | | (135.6) | 108.8 | (26.8) | (27.3) |
| Interest | (37.4) | | (37.4) | 27.9 | (9.5) | (7.5) |
| **PBT** | **24.0** | **13.2** | **37.2** | **10.0** | **47.2** | **64.9** |
| Tax | (6.8) | (3.8) | (10.6) | (2.9) | (13.5) | (16.8) |
| **NPAT** | **17.2** | **9.4** | **26.6** | **7.1** | **33.7** | **48.1** |

# EBITDA & NPAT RECONCILIATION

**Significant Items excluded from underlying results:**

- **Restructuring:** Business Transformation Project costs relating to program pre-implementation, design and costs associated with postponement
- **Gain on assignment of lease**: Comprises reversal of prior impairment and recognition of outstanding lease obligation in relation to Cleveland lease assignment

| $M | 1H23 | 1H22 | Var | % |
|---|---|---|---|---|
| **EBITDA** | **197.0** | **220.4** | **(23.4)** | **(10.6)** |
| Restructuring | 16.2 | 1.9 | 14.3 | 752.6 |
| Gain on assignment of lease | (3.0) | 0.0 | (3.0) | NM |
| (Profit) / Loss on sale of assets | 0.0 | 0.1 | (0.1) | (100.0) |
| **Excluded from Underlying** | **13.2** | **2.0** | **11.2** | **560.0** |
| **Underlying EBITDA** | **210.2** | **222.4** | **(12.2)** | **(5.5)** |
| *AASB 16 adjustments* | (126.7) | (122.7) | (4.0) | 3.3 |
| **Underlying EBITDA pre AASB 16** | **83.5** | **99.7** | **(16.2)** | **(16.2)** |

| $M | 1H23 | 1H22 | Var | % |
|---|---|---|---|---|
| **NPAT** | **17.2** | **38.4** | **(21.2)** | **(55.2)** |
| Restructuring | 11.4 | 1.2 | 10.2 | 850.0 |
| Gain on assignment of lease | (2.0) | 0.0 | (2.0) | NM |
| (Profit) / Loss on sale of assets | 0.0 | 0.1 | (0.1) | (100.0) |
| **Excluded from Underlying** | **9.4** | **1.3** | **8.1** | **623.1** |
| **Underlying NPAT** | **26.6** | **39.7** | **(13.1)** | **(33.0)** |
| *AASB 16 adjustments* | 7.1 | 8.4 | (1.3) | (15.5) |
| **Underlying NPAT pre AASB 16** | **33.7** | **48.1** | **(14.4)** | **(29.9)** |

# SEGMENT RECONCILIATION

| $M | Group 1H23 | Group 1H22 | Var | Australia 1H23 | Australia 1H22 | Var | NZ 1H23 | NZ 1H22 | Var |
|---|---|---|---|---|---|---|---|---|---|
| **EBITDA** | **197.0** | **220.4** | **(23.4)** | **168.8** | **183.1** | **(14.3)** | **28.2** | **37.3** | **(9.1)** |
| Restructuring | 16.2 | 0.1 | 16.1 | 16.1 | 0.1 | 16.1 | 0.1 | 0.0 | 0.0 |
| Gain on assignment of lease | (3.0) | 0.0 | (3.0) | (3.0) | 0.0 | (3.0) | 0.0 | 0.0 | 0.0 |
| (Profit) / Loss on sale of assets | 0.0 | 1.9 | (1.9) | 0.0 | 1.9 | (1.9) | 0.0 | 0.0 | 0.0 |
| **Underlying EBITDA** | **210.2** | **222.4** | **(12.2)** | **181.9** | **185.1** | **(3.1)** | **28.3** | **37.3** | **(9.1)** |
| AASB 16 adjustments | (126.7) | (122.7) | (4.0) | (107.2) | (104.5) | (2.7) | (19.5) | (18.2) | (1.3) |
| **Underlying EBITDA pre AASB 16** | **83.5** | **99.7** | **(16.2)** | **74.6** | **80.6** | **(5.8)** | **8.9** | **19.1** | **(10.4)** |

# DEFINITIONS

## CERTAIN NON-IFRS INFORMATION IS REFERRED TO IN THIS PRESENTATION AND ARE DEFINED BELOW

- EBITDA: Earnings before Interest, Tax, Depreciation and Amortisation
- EBIT: Earnings before Interest and Tax
- Gross Profit: Revenue less cost of sales
- Underlying Gross Profit pre AASB 16: Underlying Gross Profit excluding AASB 16 leasing impacts
- Underlying EBITDA: Underlying EBITDA excluding business transformation costs, any profit or loss on sale of assets, restructuring expenses, impairments and trading results for business sold as a going concern, inclusive of AASB 16 Leases
- Underlying EBITDA pre AASB 16: Underlying EBITDA excluding AASB 16 leasing impacts
- Underlying NPAT: Net Profit After Tax excluding business transformation costs, any profit or loss on sale of assets, restructuring expenses, impairments and trading results for business sold as a going concern after being tax effected, inclusive of AASB 16 Leases
- Underlying NPAT pre AASB 16: Underlying NPAT excluding AASB 16 leasing impacts after being tax effected
- Net Debt: Debt less cash and cash equivalents
- LTM: Last twelve months
- PCP: Prior corresponding period
- Total Poultry: includes core chicken and turkey products and by products
- Core Poultry: refers to chicken and turkey products for human consumption, excluding by-products
- Cash Conversion ratio: Cash Flow from Operations divided by EBITDA excluding non-cash items
- Working Capital (Operating): Working capital adjusted for non-operating items including but not limited to interest accruals and proceeds from sale of assets
- ROIC: Return on Invested Capital pre AASB 16
- ESG: Environmental, Social and Governance