NZX/ASX Market Release

15 December 2016

Tegel Group Holdings Limited – Interim Results for the 26 weeks ended 23 October 2016

Tegel Group Holdings Limited advises that the attached presentation will be given during an investor call by Tegel Group Holdings Limited starting at 10.30am NZT today.

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About Tegel Group Holdings Limited

Tegel Group Holdings Limited (NZX/ASX: TGH) processes approximately 53 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), and in selected channels in international markets. Its brands are Tegel, Rangitikei and Top Hat.

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

Tegel Group Holdings Limited FY17 Interim Results Presentation

Good morning everyone, I'm Phil Hand and it is my pleasure to welcome you on the call today to discuss our interim results. Thank you for making the time to join us.

With me here is Peter McHugh our CFO. Peter and I will be discussing our FY17 interim results for the 26 weeks ended 23rd October 2016. The result was lodged on the NZX and ASX and to our Tegel investor website this morning and the pack included the Interim Report and the slide presentation to which we will be referring throughout this call.

Agenda

Turning to our agenda on slide 3, first I will run through an overview of the first half highlights with Peter looking in further detail at the financials before handing back to me to run through our strategic imperatives and how we see the second half of the year. We will then be happy to receive any questions at the end of the call.

H1'17 Financial Highlights

So turning now to slide 5 of the presentation. Firstly, we are pleased to report a number of highlights of the interim results compared to the first half of FY16. These include continued increases in volume, revenue and Net Profit after Tax.

Looking at our poultry volumes, domestically these increased by 8.4% over the comparative period with export volumes remaining solid for a total volume increase of 6.9%. This partly reflects the gains we are making in terms of market share.

Meanwhile domestic revenues were up 4.8% and export revenues were down slightly as they were boosted in the comparative period by promotional activity from both Hungry Jacks and Subway in Australia which were not repeated in H1.

So while volume and sales were particularly pleasing, against a backdrop of sustained softened domestic pricing from a temporarily oversupplied market which we flagged earlier, Gross Profit and underlying EBITDA were impacted being down 3.9% and 4.0% respectively against H1'16.

As a result of the restructure of our balance sheet following our IPO earlier this year, we have benefited from reduced interest expense resulting in Net Profit After Tax of $15.1 million compared to $6.0 million in the first half of FY16.

As a result of the very favourable NPAT (adjusted for amortisation of customer contracts), the Board has declared an interim dividend of 3.45 cents per share as anticipated.

Peter will speak in more detail about the financial results shortly.

Strategic Objectives

Now on to slide 6. These results have been achieved through delivering our core strategies whereby Tegel continues to further develop export markets, whilst maintaining its leadership position in the domestic business. Just to remind you of our key strategies for continued growth which we have previously outlined.

- First, developing new product initiatives aimed at growing the overall volume and value of domestic poultry consumption; such as our Tegel Free Range products including meal maker and further processed convenience products;

- Second, increasing the sales of value added products by delivering solutions for evolving consumer preferences, for example pre-prepared meal solutions;
- Third, growing sales in current export markets to new and existing customers through expanding the product range offered and new product development; and
- Fourth, identifying and entering new export markets, for example the Philippines.

H1'17 Operational Highlights

So turning now to slide 7 and our half year operating highlights and how these map to our strategic objectives. First off, we grew our domestic market share by 2% which is an excellent result. Through the year to date we invested in the Tegel brand, with new pack designs and corporate branding. This effort culminated in media campaigns launched in November to provide growth across our existing product and new product ranges. I'm sure many of you will have now seen our new advertisements on TV, internet, radio, billboards and bus stops here in New Zealand. It has been some time since we last embarked on a media campaign and it's great to see the Tegel brand out in the wider market and early customer feedback has been very encouraging.

In addition, we have increased our investment in new product development. This is driving additional growth through sales of higher priced value added meal solutions such as chicken kebabs, free range products and ready to cook meals.

Looking at our exports, the recent announcement that allows more of our products to be exported to Australia will allow us to accelerate our export sales over the next few years and we will do so in a very considered approach in terms of identifying product gaps and sustainability of margins. We anticipate our first raw poultry sales into Australia in the second half of this financial year.

Pleasingly we saw continued growth from our existing customers in Dubai, both in the Retail and Foodservice channels.

Through entering new offshore markets with strategic partners we were pleased to recently announce we secured our first sales orders into the Philippines.

Underlining the strategic focus, the business has continued to invest in agriculture and processing assets that are supporting sales growth, efficiency gains and savings. For example we installed a breast deboner in New Plymouth and because this quickly demonstrated its capability we have brought forward the same investment in our Henderson plant into the FY17 financial year. During the period we also invested in a new state of the art breeder farm in Christchurch.

I'll now hand over to Peter McHugh who will run through the financial results in more detail.

Financial Overview

Thanks very much Phil and good morning everyone.

Turning firstly to slide 9.

Compared to the first half of last year, overall revenue was up 4.0% driven primarily by strong domestic volumes from contract gains made in FY16 and in the first half of FY17. Gross Profits fell by 3.9% as the anticipated fall in margin in the first half took effect. However, we are expecting some recovery of prices in the second half of this financial year.

In terms of our cost of sales, the cost per kilo remained unchanged from H1'16 to H1'17 even with the increase in volumes produced.

Expenses within the business were well controlled at 3.7% lower than H1’16. Our overall Net Profit After Tax was $15.1 million. This was $9.1 million higher than the comparative period mainly as a result of the change in capital structure. In H1’16, the business incurred net finance costs of $17.8 million while in the current half, these were reduced to $3.5 million.

Adjusting the bottom line for a number of items including depreciation, net finance costs, IPO related costs, fair value adjustments and foreign exchange, resulted in an Underlying EBITDA of $35.1 million which was down 4% on the comparative period.

The interim dividend is 3.45 cents per share.

Volume And Revenue

Turning now to slide 10 and looking at the volumes and revenue in a bit more detail. Our interim results show that total volumes and total revenue grew by 6.9% and 4.0% respectively. In terms of channel split the key financial highlights included:

- Domestic volumes up 8.4% for the first half. This was mainly from higher retail and QSR sales which resulted in an increase in domestic revenue of $9.9 million or 4.8%. We are pleased to report that the one significant contract up for renewal this year has been agreed earlier than expected and at increased revenue.
- Export volumes were flat year on year and revenue was slightly lower due to the mix of products sold and the timing of promotions which Phil has already mentioned. We anticipate export growth both with existing and new customers and / or territories. Both the positive changes to imports into Australia and continuing new product development will allow Tegel to accelerate its long term export plans which is for export revenues to represent some 25% of total revenue in five years.
- Other revenues grew by $2.7 million or 10.6% mainly as a result of higher feed sales.

Summary Balance Sheet

Slide 11. Our balance sheet continues to be strong, with solid working capital, enabling us to consider both internal and external growth opportunities.

Impacting the level of current assets, our inventory levels were higher than the end of April 2016. This was mainly due to the timing of feed purchases and finished goods. It is reflective of the increase in sales volumes and it will support higher sales as we move into our busy Christmas and summer season.

Tegel’s IPO in May of this year resulted in $284 million of capital raised and we repaid borrowings of $130 million. We negotiated new arrangements for our borrowing facilities which includes a facility of $120 million and a working capital facility of $40 million. These expire in November 2018.

Cash Flow And Capex

Moving now to Cash Flow and Capex on Slide 12. Overall we had a net increase of $5.1 million in cash. During the half we reduced our liabilities through supplier repayments and we made payments relating to the public listing of Tegel.

Our current focus remains to invest internally to meet the growth in volumes and sales. We expect to invest up to $28 million in capital expenditure during FY17, of which $17 million is for growth and profit improvement projects. This follows on from capital expenditure of $25 million in FY16 of which $16.3 million was for growth and profit improvement projects. Following on from Phil’s comments we brought forward capital expenditure such as the breast deboner in Henderson as the business case warranted early installation of this equipment. This means an increase of $4.0 million against the PFI full year forecast.

Interim Dividend

As Phil mentioned, the Board is pleased to declare its first dividend as a listed company. The fully imputed interim dividend for the first half of 2017 of 3.45 cents per share will be paid on 27 January 2017.

Tegel's dividend policy remains unchanged. As previously communicated and looking beyond 2017, it is the Board's intention to target a dividend payout ratio in the range of 60-75% of annual NPAT excluding the expense relating to the non-cash amortisation of customer contracts.

Stronger H2'17

I have covered off the first half numbers and so turning to Slide 14 where I'll now cover off how we see the second half. In the 2017 financial year, we see that the profit results will be more heavily weighted towards the second half than we have seen in previous years. This is due to:

- There being an extra trading week in FY17 resulting in 27 weeks in the second half;
- The full six month impact of a number of contracts which we won in the first half. These included the lower north island KFC contract and various retail contracts;
- Anticipated pricing improvement in the second half due to sales channel and product mix. A planned pricing realignment is to recover increased compliance, regulatory and feed costs (due to foreign exchange);
- The full six month benefit of capital improvement projects implemented in the first half including the breast deboner, new cut up machinery and new agricultural assets;
- The rebranding advertising started in November with all packaging upgraded over coming months; and
- Our usual summer seasonality.

Meanwhile we continue to have new product launches.

For the full year, all of the above will be partially offset by the domestic pricing softness. The result will also be impacted by increased freight costs following the Kaikoura earthquake.

Overall, these factors position us well for the second half of the year and for the longer term. However, the softer pricing experienced in the first half and into the start of the second half of the year has been at a duration we had not anticipated. This was mainly as a result of the unexpected excess volumes in the market which we had already signalled. The overall impact has been slightly greater than anticipated. So we expect that while our FY17 volumes will exceed PFI, our profitability metrics will be impacted. Our underlying EBITDA will be between $75 and $85 million. However, management continues to work on new opportunities and we expect volumes and revenue to be well ahead of FY16 as demand for our products continues to grow both in domestic and export markets.

With that, I'll now hand back to Phil.

Domestic Update

Thanks very much Peter. If you turn now to slide 16. Here we revisit our strategic objectives for the domestic channel and look ahead as to our priorities and where the business is focused.

Pleasingly, the key macro factors are still at play in the NZ context and are favourable for our business. We have a growing population, the competition for protein still lies in favour of poultry and we are seeing continued poultry consumption growth.

Internally, Tegel is focused on driving category growth through product development and having undergone the Tegel brand refresh we expect to see some upside from this investment and heightened public awareness.

Demand for free range chicken continues and we are continuing with our expansion of products within this category which we'll continue to roll out this financial year. Overall NPD contributed 860T to volumes in the first half, with NSV of $6.3 million.

The biggest single item was for Export to Australia, with the Hungry Jacks Ruffled Nugget, which replaced the Tempura Nugget.

Because our factories have the ability to produce multiple products on a daily basis, new products are very easy to introduce into the production process. Our programme of innovation continues with five new frozen value added products and five new packaged small goods already launched this year and a further 19 to be rolled out for the remainder of the year.

Tegel's new brand packaging is now across all our product ranges and you may have already seen it in your local NZ supermarkets. While Tegel is the number one recognised brand in New Zealand, there are further positive education messages for shoppers and consumers. For example, all our birds are cage free with no added hormones. The brand refresh has allowed us to emphasise some of these factors that are growing in importance for our consumers.

Brand Refresh And Advertising

And slide 17 shows a small snapshot of some of the new branding and some of our characters created for our advertising campaign. As you can see, we're incorporating those positive education messages such as cage free and linking some of our innovative new products for example, salt and pepper morsels to changing consumer needs.

Export Update

New Zealand has strict biosecurity controls, it is free of major avian diseases and has a reputation as a clean, green, premium quality food producing nation which is an ideal platform for Tegel internationally.

The newly approved raw poultry exports to Australia present a significantly increased business opportunity and we have already held customer meetings there. The total poultry market in Australia is approximately A$7.1 billion. Tegel exported some A$70 million of poultry to Australia in FY16 which is roughly equivalent to 1% market share. Our first raw poultry sales are anticipated into Australia in the second half of FY17.

With these factors in mind, Tegel's overseas exports are geared to the premium end of the market where more consumers are seeking higher quality protein and Tegel is able to meet this demand.

So developments in our existing and new markets have been exciting. For example, we launched our products into the Foodservice channel in the UAE and we have already sent our first shipment of product to the Philippines which has led to inquiries for two further products. While it's still early days for the likes of Bahrain where we have obtained market access, we are extremely encouraged by the response to date and we look forward to continuing on the positive feedback in order to increase exports to these new geographies.

Outlook

As New Zealand's largest poultry processor, and with a growing market share, Tegel remains a solidly performing business. Volume and revenue continue to grow ahead of FY16, in both New Zealand and international markets.

We are pleased with the progress of our new product launches and we are excited about the anticipated first raw product to be shipped to Australia in the coming months. Our export team has also been strengthened by some key management appointments.

Due to the successful installation of a breast deboner in New Plymouth we have approval from the Board to bring forward installing a similar line in Henderson. This will be ready and operational by the end of FY17.

As Peter outlined, we'll have a stronger second half however these tailwinds will be partially offset by the soft pricing in the domestic market which has gone longer than anticipated. In addition we expect to see increased freight costs following the Kaikoura earthquake in November.

So based on the current market conditions impacting our FY17 PFI numbers, we anticipate underlying EBITDA to be between $75 and $85 million and NPAT to be between $33 and $41 million. However we expect to exceed forecast volumes.

Finally, the Board would like to acknowledge the contribution of our people to Tegel's success. Recently we had our long service awards for employees' right across all parts of our business. We had over 80 employees receiving long service awards for 10, 20, 30 and 35 years' service. We are also very much future focused and we have added additional capability across the business to support our planned growth. The skill, effort and dedication of our employees drives the financial success we are achieving.

We are now happy to take any questions callers may have.

Questions and Answers

Summary comments following Questions and Answers

That concludes our Interim Results presentation, thank you all for joining us. Tegel is a growing business, the company is in great shape and we are excited about our future prospects.