### Bega Cheese Limited

FY2017 Full Year Results
23 August 2017















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Barry Irvin – Executive Chairman Paul van Heerwaarden – CEO Colin Griffin – CFO

# Key Messages



- § Creating a great Australian food company
- § Key strategic transactions
  - § Mondelez Grocery Business
  - § Mead Johnson
- § Successful capital raising
- § Revenue growth 3%
- § EBITDA growth 250% (normalised 7%)
- § Profit growth 382% (normalised 4%)
- § EPS growth 381% (normalised 4%)
- § Business stability in a volatile environment



### **KEY HIGHLIGHTS**

2017



REVENUE (\$'000)



1,226,663

1,195,967



PRODUCTION VOLUME (TONNES)



236,928

238,156

EBITDA (\$'000)



70,620 NORMALISED

228,850 STATUTORY 65,405 STATUTORS

PROFIT AFTER TAX (5'000)



30,331 NORMALISED

138,748 STATUTORY 28,779

STATUTOR

BASIC EARNINGS PER SHARE (CENTS)



19.9 NORMALISED

90.9 STATUTORY 19.1

18.9

TOTAL DIVIDEND PER SHARE

(CENTS)



10.0

9.5

Normalised results exclude the impact of significant events occurring during the year.

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# Reconciliation of Statutory to Normalised Result



Consolidated Period Ending 30 June 2017	Per Financial Statements \$'000	Inventory Losses \$'000	Bega Foods Acquisition Costs \$'000	Sale of Nutritional Assets \$'000	Asset Impairments \$'000	Normalised Outcome \$'000
Revenue	1,226,663	-	-	-	-	1,226,663
Cost of sales	(1,072,436)	8,085	-	-	-	(1,064,351)
Gross profit	154,227	8,085	-	-	-	162,312
EBITDA	228,850	8,085	11,518	(177,833)	-	70,620
Depreciation, amortisation and impairment	28,023	-	-	-	3,347	(24,676)
EBIT	200,827	8,085	11,518	(177,833)	3,347	45,944
NET finance costs	(2,789)	-	-	-	-	(2,789)
Profit before income tax	198,038	8,085	11,518	(177,833)	3,347	43,155
Income tax expense	(59,290)	(2,425)	(3,455)	53,350	(1,004)	(12,824)
Profit for the year	138,748	5,660	8,063	(124,483)	2,343	30,331
Basic earnings per share - cents	90.9					19.9

## Balance Sheet (extract)

	FY2017 \$m	FY2016 \$m
Cash	475.5	9.7
Trade and other receivables	168.5	143.7
Inventories	167.9	192.4
Property, plant & equipment	196.8	219.9
Total Assets	1,056.3	586.7
Trade and other payables	169.3	156.0
Borrowings (net of costs)	215.3	62.7
Total Liabilities	485.6	258.8
Net Assets	572.7	327.8
Net Cash / (Debt)	260.2	(53.1)

### Cash Flow



	FY2017 \$m	FY2016 \$m
Receipts from customers	1,274.9	1,241.1
Payments to suppliers	(1,203.8)	(1,175.9)
Interest and other costs of financing paid	(3.2)	(3.8)
Income tax paid	(10.7)	(3.3)
Operating activities	57.1	59.0
Investing activities	151.3	(39.6)
Financing activities	257.5	(20.0)
Net increase/(decrease) in cash and cash equivalents	465.9	(0.6)

<sup>§</sup> High cash position as a result in delay in Mondelez Grocery Business settlement (Scheduled 30 June actual 4 July)

### **Operations Review**



- § Sales
  - § Growth in food service including mozzarella and cream cheese
  - § Transitioned private label customers
  - § Stabilised nutritionals
- § Operations
  - § 237,000 tonnes of production
  - § Capital expenditure \$40.8 million focused on efficiency and capacity
  - § Significant increase in mozzarella production
  - § 6.5% reduction in energy use per tonne
- § Environment and safety
  - § Bega Cheese sustainability report issued March 2017
  - § Continued success with on farm environmental management program

§ 15% reduction in TRIFR

# Dairy commodity price and farm gate milk price







Export trend index - global commodity prices/Australian currency impact source freshagenda

Bega Cheese southern farm gate milk price trend

FY2015 Milk price \$6.00 per Kg MS FY2016 Opening and closing milk price \$5.60 per Kg MS FY2017 Opening milk price \$5.00 per Kg MS FY2018 Opening milk price \$5.50 per Kg MS

- § FY2017 milk supply stable
- § 654 million litres direct milk intake
- § Strong performance in context of 7% decline in national production and 15% decline in northern Victorian production
- § New suppliers added in FY2017 further additional supply in FY2018

## Investing in Infrastructure







**NEW SOUTH WALES** 

DERRIMUT 11 Benn Court Derrimut VIC 3030 Austrelia



COBURG 10-16 Allenby Street Coburg VIC 3058 Australia

PORT MELBOURNE

1 Vegemite Way
Port Melbourne VIC 3207 Australia



PORT MELBOURNE 664 Lorimer Street Port Melbourne VIC 3207 Australia



Murray Valley Highway Strathmerton VIC 3641 Australia



BEGA CHEESE MANUFA 11-13 Lagoon Street Rene NSW 2550 Australia



BEGA HEAD OFFICE AND PROCESSING & PACKAGING PLANT 23-45 Ridge Street Bega NSW 2550 Australia

- § Capital expenditure \$40.8 million
- § New automated shred and slice lines
- § Cream cheese increased capacity and packaging
- § Management information system implementation

# Investing in People



- § Adam McNamara appointed General Manager Bega Foods
- § Over 220 marketing, sales, operations, technical and administrative employees added to the team
- § Strong combination of research and development and commercialisation teams
- § Significant new capability in marketing and expanded sales team
- § New thinking for both businesses
- § Significant numbers of employees engaged in training and professional development programs

### Bega Cheese Transformation



FIRST TRANSFORMATION

200

SEEKING NEW OPPORTUNITIES

#### Cooperative founded in 1899

- > Industry deregulation 2001
- Bega based co-op with strong regional brand
- Main focus was cheddar manufacture, process and pack
- Long term Australian supply and license agreement with Fonterra
- Developing international sales opportunities

SECOND TRANSFORMATION **BUILDING RELEVANCE** Acquire Tatura Diversify and grow customers and markets > Exposure to strong dairy region > Entry Into nutritionals, cream cheese and powders

> Diversification into export markets

> People and capabilities

2008/09

#### **GROW AND DIVERSIFY**



Acquire Strathmerton and Coburg

### Increased capacity and further diversify customer base

- > Cut, pack and processing scale
- Cheddar and mozzarella manufacturing expansion
- Long term supply arrangement with Kraft
- Long term nutritionals supply agreement with Mead Johnson

2011

STRUCTURED
FOR THE FUTURE



#### Strength for Growth

- > Capital restructure
- > Value release for farmers
- Well structured for corporate activity
- Acquisition of the remaining stake in Tatura
- Investment in capacity and increased focus on nutritionals and high value dairy products
- > Well established B2B business
- Developing foodservice and consumer businesses

FOURTH TRANSFORMATION

2017

**NEW BUSINESS PLATFORM** 



#### Strength in dairy enhanced by new categories

- Major Australian brand owner (cheese and Vegernite)
- > Major dairy manufacturer
- Significant consumer packaged goods infrastructure
- Dairy and food strengthened by combination, market reach, channel penetration
- Heritage, reputation and relationships underpin business strength and growth opportunities
- Opportunity to add further dairy and non dairy to product portfolio.

# **Group Sales**



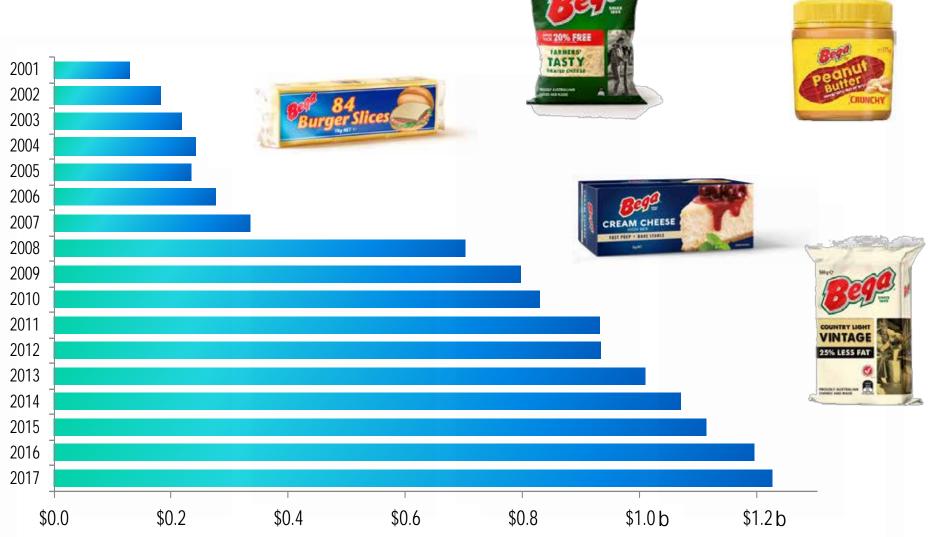












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### Mondelez Grocery Business Overview



- § Cultural fit Heritage, community, customers
- § Diversifies Bega Cheese into complementary markets and categories beyond dairy
- § Enhances our skills and capability to continue to evolve
- § Complements our significant knowledge of lean and innovative food manufacturing processes
- § Acquisition facilitates growth and extends our capabilities.









## Bega Foods Business Overview



Leading grocery and cheese products with 66% of revenue derived from products with #1 positions<sup>1</sup>

Vegemite, an iconic Australian brand recognised as 'Australia's Favourite Breakfast Food' and found in over 90% of Australian pantries

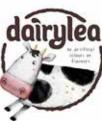
Leadership in spreads category with a strong combination of Vegemite, peanut butter, other nut and cheese spreads

6.3ha of land and buildings comprising a unique and scalable production facility at Port Melbourne, Victoria

Pro forma net revenue of \$310m and EBITDA of between \$40m to \$45m2







# Strong Marketing Properties and Branding















### Mead Johnson Transaction

- § Long term nutritional partnership strengthens Bega Cheese's relationship with one of its key customers
- § Sale of one spray dryer at Tatura and the infant formula finishing plant at Derrimut, Melbourne
- § Sale proceeds of \$200 million:
  - § \$180 million received in April 2017
  - § \$10 million received in June 2017
  - § Balance of \$10 million due by 31 December 2017
  - § Used to fund MDLZ Grocery Business acquisition by reducing debt funding required
- § Secures revenue streams via a 10 year access and service agreement





### Where we are Today?



### A stable business growing in dairy and building in food

- § Completing the MDLZ Grocery Business acquisition on 4 July 2017
- § Brand portfolio including iconic Australian brands Bega and Vegemite
- § Company of choice for dairy farmers with strong milk supply growth
- § Stability in dairy nutritionals business
- § Growing high value dairy ingredients business
- § International and Australian food service and retail channels well developed
- § Potential new corporate opportunities emerging in dairy and food

### Our focus



### Creating a great Australian food company

- § Protect the strengths, reputation and returns of the existing businesses
- § Manage volatility in changing markets and maintain a globally competitive supply chain
- § Leverage and grow the iconic brand portfolio
- § Expand channels and markets for our products
- § Build on sales strength and operational knowledge of the combined business
- § Optimise cashflow
- § Invest for efficiency and optimisation of infrastructure
- § Maintain a strong balance sheet
- § Remain agile and well positioned to identify and execute corporate opportunities





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