

Farm Pride Foods Ltd 2019 AGM CEO Presentation "Managing for Value"

21st November, 2019

Presented By: Daryl BIRD, CEO, Farm Pride Foods Ltd





Agenda

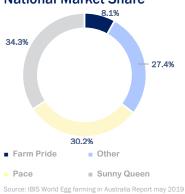
- Industry & Market overview
- The Business of Farm PrideOur new mission
- Farm Pride Foods Ltd FY19 Results
- A difficult trading year
- Buttressing the business
- Moving Forward
- Pride in every egg



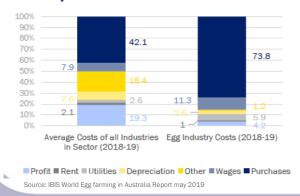


Industry overview

National Market Share



Industry Costs

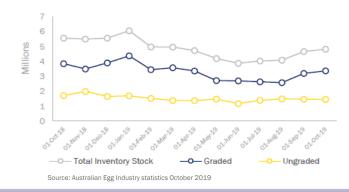


Egg consumption per capita

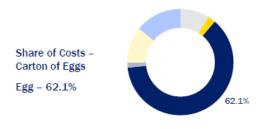
Year	Consumption (units)	(% change)
2013-14	213.3	N/C
2014-15	221.3	3.8
2015-16	226.0	2.1
2016-17	231.0	2.2
2017-18	244.8	6.0
2018-19*	247.1	1.0

* Estimate - Source: Australian Eggs Limited and Ibisworld.

National Egg Industry Inventory



Egg Production Costs



rn





Source: IBIS World Egg farming in Australia Report may 2019



Market overview

EGG PRODUCTION - AUSTRALIA

518.08m

DOZEN EGGS 2019 FY

(Source: Australian Eggs)

GROSS VALUE OF EGG PRODUCTION (FARM GATE EQUIVALENT)

2019 FY

(Source: ABS, cat. no. 7503)

MAJOR SUPERMARKET GROCERY CHAINS

MILLION DOZENS

(Source: AZTEC)

MAJOR SUPERMARKET GROCERY CHAINS SALES FARMING SYSTEM MARKET SHARE (Source: AZTEC)	
(Source: ALTES)	

	VOLUME	VALUE
Cage eggs	40%	30%
Free Range eggs	47%	56%
Barn-Laid eggs	11%	11%
Specialty eggs	2%	3%

GROWTH BY SEGMENT IN DOZENS (000s) AND PERCENTAGE OVER FY 2019 (Source: AZTEC)

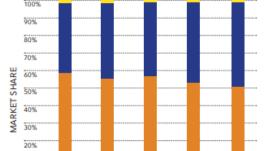
TENGETHINGE OF ELLT TEO IT (SOUTHERED)			
Free Range eggs	000s	%	
Cage eggs	92,553	-7%	
Free Range eggs	109,997.1	5%	
Barn-laid eggs	24,596.6	15%	
Specialty eggs	3,600.8	3%	

MAJOR SUPERMARKET GROCERY CHAINS EGG SALES BRANDING MARKET SHARE – 2019 FY (Source: AZTEC)

	VOLUME	VALUE	
Private label	50%	44%	
Proprietary labels	50%	56%	

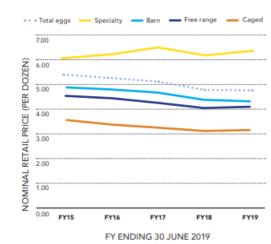
GROCERY VOLUME SHARE OF EGGS BY SEGMENT

Specialty ● Free range ● Barn ● Caged 100%



FY 2017 FY ENDING 30 JUNE 2019

NOMINAL RETAIL PRICE OF EGGS BY SEGMENT



EGG CONSUMPTION

FY 2016

EGGS PER CAPITA (MAT) - AS AT JUNE 2019

FY 2018

(Source: Australian Eggs)

+2 eggs per capita Vs PY

Source: Australian Egg Industry Annual Report 2019

10%

FY 2015





Farm Pride

History

- · Farm Pride has proudly supplied quality fresh eggs since 1937.
- · Today we are ASX listed.
- · Our 200 employees grade, pack and process over 9 million eggs a week.

Farm Pride National Segments Share

National Egg Market Breakdown \$ Revenue (000's) Ex Factory/Farm Gate

- · These eggs, along with value added egg products, are sold to leading brands nation-wide.
- · We also proudly export our products to Asia.

17%

■ Retail Supermarket Share

■ Non Supermarket Share Box Product Value Added

Oritain

- · In 2016 we partnered with origin certification experts Oritain.
- · This partnership means we can now scientifically prove the origin, back to the shed of a farm, of our Farm Pride branded free range eggs at any point in the supply chain until processing and cooking.
- This both reduces our exposure to substitution fraud and adds value to our investment in free range farms.
- Today we manage 11 farms in our national network and approx. 7 external suppliers



Product Plan











492,000



The business of Farm Pride

New long term vision – key tenets

- Promote a culture of sustainable commercial success
- Promote accountable and transparent performance
- Establish a greater awareness of trading and market environment
- Engrain integrity and respect as a hallmark of our business and to develop sustainable relationships with our trading partners
- Invest in and develop our people
- Empower our people to make smarter and more agile decisions
- Be proud of our business
- Manage our assets for sustainable shareholder value and for the long term



A revitalised purpose and vision



 Developed by the senior executive team

Our new corporate positioning, reinforcing our new mission -

- Communicated and rolled out Company wide
- Linked to redefined business metrics
- Being practiced and reinforced everyday





Farm Pride Foods Ltd - Headline Results FY19

	Result	Vs L
Revenue	\$86.641M	1
Underlying EBITDA	\$1.092M	•
Profit after tax	(\$3.858M)	1
Net assets	\$43.285M	•
Net debt	\$14.667M	1
Earnings per share	(6.90 cents)	1



Farm Pride Foods Ltd - Headline Results FY19

(\$'000)	2015	2016	2017	2018	2019
Revenue	91,341	93,765	97,778	86,116	86,641
Earnings before Interest & Tax (EBIT)	7,218	11,485	12,232	858	(5,324)
EBIT Depreciation and Amortization (EBITDA)	12,190	15,988	15,713	5,386	1,092
Net Profit before tax (NPBT)	7,218	11,485	12,232	858	(5,324)
Net profit after tax (NPAT)	5,053	8.127	8,481	503	(3,858)
Operating cash flow	9,233	13,687	7,661	505	1,812
Net debt	5,571	1,139	332	12,023	14,667
Net assets	28,942	38.159	46,640	47,143	43,285
Current Assets/Current Liabilities	1.3	1.4	2.0	1.6	0.83
Debt ratio (Total Liabilities/Total Assets)	2.4	3.2	4.0	2.8	2.6
Interest cover	12.5	38.7	104.8	16.3	1.5
Earnings per share	\$0.09	\$0.15	\$0.15	\$0.09	(\$0.069)
Shares on issue	55,180,175	55,180,175	55,180,175	55,180,175	55,180,175



A difficult trading year

- Our results show how difficult trading has been these last 12-18 months
- Drought, and the ensuing impact of high wheat and feed prices, the cyclical over-supply of eggs, and various structural changes to the market, including the continuing evolution of cage to cage free and the rise and rise of own label representation in supermarkets have conspired to undermine Farm Pride's bottom line.
- These impacts have been felt by all egg marketers industry wide.
- The continuing need to develop our cage free farming assets has meant it necessary to continue and maintain necessary investment to remain relevant as a key supplier to supermarkets.
- Our borrowings position has moved accordingly and in line with this investment



A difficult trading year cont.'

Key messages past trading year

- The impact of drought continues, and wheat prices continue to remain higher than usual.
- Supermarket retailers will continue the push from cage to cage free eggs. Momentum will build steadily over the next 2-3 years. Farm Pride, as with other major suppliers in the industry, will need to continue to invest in new farms and infrastructure to support this transition.
- The additional impact of recent Salmonella outbreaks on the east-coast in March have exacerbated the cyclical under-supply conditions and further reduced availability of retail and pulp eggs. This will have some impact on the price we pay for externally supplied eggs and our margin at cost of goods level.
- The continuing development of retailer 'own brands', now upwards of 50% share of the retail egg category by volume, will compete with proprietary brand ranging and act to keep downward pressure on wholesale prices.



A difficult trading year cont.'

Key messages past trading year

- The new management team have completed a full review of the business and market
- A 3 year, 3 phase business plan has been developed to provide a sustainable roadmap for our mid term vision (1-3 years)
- Initially, and as a priority key legacy and external market issues have been identified, understood and interventions applied to buttress and de-risk the business





Buttressing the business against unfavorable conditions

Key initiatives implemented to 'buttress' the business against prevailing and historical cyclical conditions; and to provide solid foundations for sustainable investment, growth and profitability

Sales margin

Unprofitable channels and customer positions exited and actively price taking

CRM

Engagement with retail supermarket customers on more strategic and long term supply level

Talent capacity

- Recruitment of key commercial and farm leadership personnel
 - To drive more efficient business analysis, decision making, risk management and cost oversight
 - To provide necessary capability and capacity to drive performance returns on a sustainable level



Buttressing the business against unfavorable conditions

Accountability Management restructure with greater focus on accountability and effective management of assets and with specific focus on egg supply forecasting and supply chain New Product Development program implemented and to support business 'innovation' stance **Innovation** moving forward Tighter controls over debtors, creditors and expenditure (Opex/Capex) to reduce waste and Cash flow maximise use of capital Business refunding process commenced February 2019 and successfully completed July 2019, **Funding** providing necessary funding and with reduced covenants to support mid-term business development **Productivity** Focus on ingredient business productivity and efficiency – greater yield Forward wheat contracting program established for FY20 and particularly new crop **RISK**





3 Year, 3 phase plan initiated – "Managing For Value"

Strategy & initiatives – 3 distinct phases 2019 – 2021+

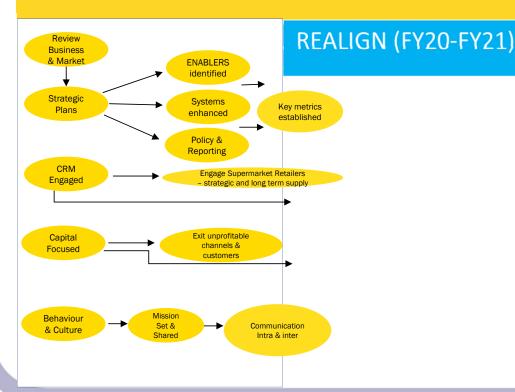
Short Term



"Managing For Value" - sets an 'all of company' paradigm to provide for a long-term, sustainable and systematic process of developing, operating, maintaining, upgrading, and disposing of assets in the most cost-effective manner (including all costs, risks and performance attributes).



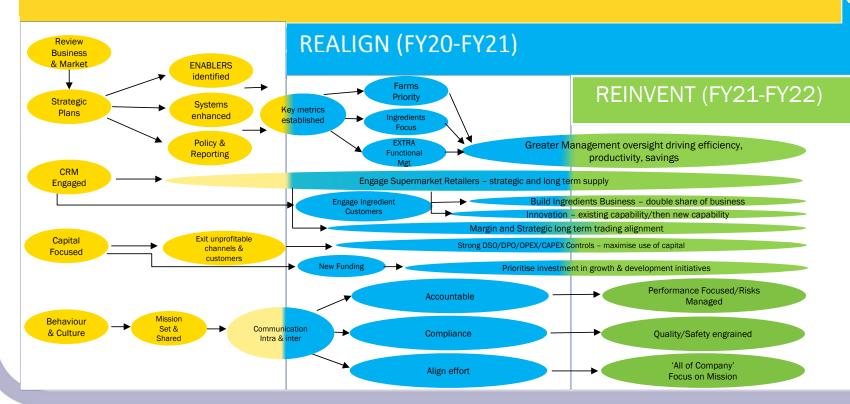
An evolving roadmap to success in 3 distinct phases



REINVENT (FY21-FY22)

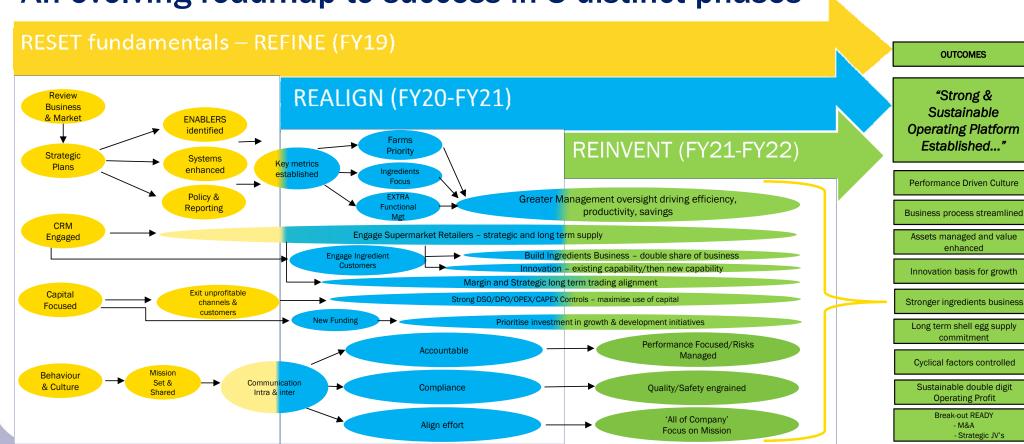


An evolving roadmap to success in 3 distinct phases





An evolving roadmap to success in 3 distinct phases





Moving forward next 12 months

Our new Mission and key tenets of expected business behaviours and accountability have been rolled out company wide and to ensure we position Farm Pride FIRST in everything we do!



- Key cost out and productivity projects focused on:
 - ✓ Freight & Logistics
 - ✓ Egg separation yield...targeting and achieving 13% better yield of raw egg into ingredient plant
- Carton Packaging business growing toll pack sales and positioning as profit center
- Targeted capex program (reduced by 40% vs PY) and primary focus on improving farm capacity and productivity
- Key business metrics set and cascaded through business units
- Key metric reporting weekly and monthly dashboards launched and shared



Architecture of Eggs

Farming System

If Free Range; Density

Egg Size

Pack Size

Free Range, Barn, Cage eggs

10.000, 1.500 or <1.500 hens per ha

M. L. XL. J

6pk, 12pk, 18pk, 30pk

Price

*Cage \$ 3.35, Barn \$4.50, Free \$4.90, Organic \$6.40

Value: Private Label Branded National

Premium: **Branded Local**

Summary

- · Lack of innovation in category after significant move to cage free farming systems
- · Cage free system now 55% of the category.
- BARN and FREE RANGE +40% cost of production CAGE eggs.
- · Lower stocking density further increase cost of production due to addition land requirements.
- Private label +50% volume sold.
- · Margin mix Private Label v Branded items
- · Limited national ranging, inability to invest and promote in brands

*IRI Retail AU Price \$/Unit MAT 29/09/19 = \$4.37 01/10/17 = \$4.37 (Average)



Future Architecture of Eggs



Future places we will play and develop innovation

Farming System

If Free Range: Density

Egg Size

Pack Size

Free Range, Barn, Cage eggs

10,000 1,500 or < 1.500 nens per ha

M, L, XL, J

6pk 12pk, 18pk, 30pk

Price =

Drive higher margins through innovative and premium offers

Value: Private Label Branded National

Premium: Branded Local

Premium Innovative: Functional & Demographic

Opportunities

Smaller Store formats. Metro and Inner City.

- · More frequent smaller shops for fresher food.
- · 6 packs become for important.

Premium Products perceived benefits for health or high quality.

- · Need to develop these sub-segments in eggs,
- · Functional and demographic egg purchase opportunities.

Let's build this space!



Moving forward next 12 months - Sales & Marketing

- The business has engaged with our retail customers more closely and has successfully secured additional volumes and on a longer term supply basis
 - ✓ New Private Label business Coles and Woolworths
 - ✓ New supply destinations (WW & Coles) Qld, Tasmania, Southern NSW
- Farm Pride has secured price relief at retail level and continues to seek further price increases
- The sales effort to drive our higher margin ingredient business has been increased egg supply dependent
 - ✓ New highly experienced sales management Ingredient business
 - ✓ Solution based sales and business development approach
 - ✓ Innovation initially via Premium, functionally focused and demographically targeted products
- New Farm Pride shell egg packaging livery and design rolled out
 - ✓ Additional Farm Pride brand ranging in Woolworths Tasmania and Southern NSW
 - ✓ Now packed in Company made egg cartons



New Contemporary packaging for Farm Pride











Supported by targeted social and digital campaigns









Moving forward next 12 months - Farms

- Farms FIRST initiative rolling out "Our chickens come before our eggs..."
 - Farm specific development programs focused on:
 - ✓ Bird welfare and husbandry
 - ✓ Farm asset value enhancement
 - ✓ Staff training and development
 - ✓ Bio security
 - ✓ Productivity performance higher yield





- Key cost alignment projects focused on:
 - ✓ Feed design, effectiveness and cost
 - ✓ Feed acquisition, storage and delivery
 - ✓ Flock handling and management during shed changeover
 - ✓ Vaccination regime



Moving forward next 12 months - Farms cont.

- National farm network structure reorganised into 3 distinct geographic clusters for more efficient management
- Assessments of specific farming assets such as Pittsworth and Mooroopna for future positioning being undertaken
- Cage free farm capacity being expanded
 - ✓ Additional Free Range Shed in Northeast Victoria completed and birds populated November 2019
 - ✓ New leased Free Range Farm in Southwest Victoria operational 3 x FR sheds @ 1500 density
 - ✓ Farm Pride's flock planned to grow at 6-8% in FY20 to meet new business growth needs



Moving forward next 12 months - Farms cont.

- High focus on externally contracted egg suppliers in FY19/20 to augment internal supply to meet new business evolution (18-24 months) and to preserve capital
 - Engaging new suppliers (cage free)
 - Focusing on strategic geographic hubs to provide logistical efficiencies





Our 3 year mission has only started, but, "We believe, that if we have pride in every egg we produce and value add, our customers will be 100% satisfied with every Farm Pride egg they buy, cook and consume."

