



PRIDE IN EVERY EGG

Farm Pride Foods Ltd 2020 AGM CEO Presentation ***"RESILIENCE"***

22nd February, 2020

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





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Agenda

- Industry overview
 - Industry
 - Market trends
 - Observations
- The evolving business of Farm Pride
- Farm Pride Foods Ltd FY20 Results
- The 3 year journey so far and matters subsequent
- Value adding and innovation
- Moving forward



A close-up photograph of a person's hands holding several brown eggs. The person is wearing a blue and red plaid shirt and green overalls. The background is blurred, showing green foliage. A dark blue banner with the text 'Industry overview' is overlaid on the bottom right of the image.

Industry overview



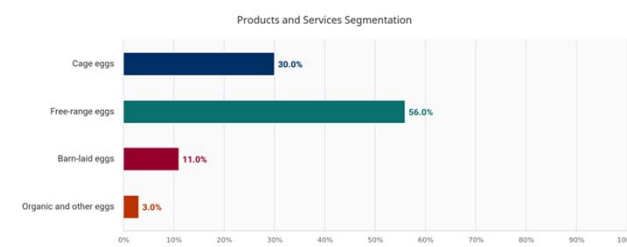
Industry overview

Key industry metrics



Source: IBIS World Egg Farming in Australia Report May 2020

Share of category by egg type



2020 INDUSTRY REVENUE
\$867.6m

Egg Farming
Source: IBISWorld

Market segmentation



2020 INDUSTRY REVENUE
\$867.6m

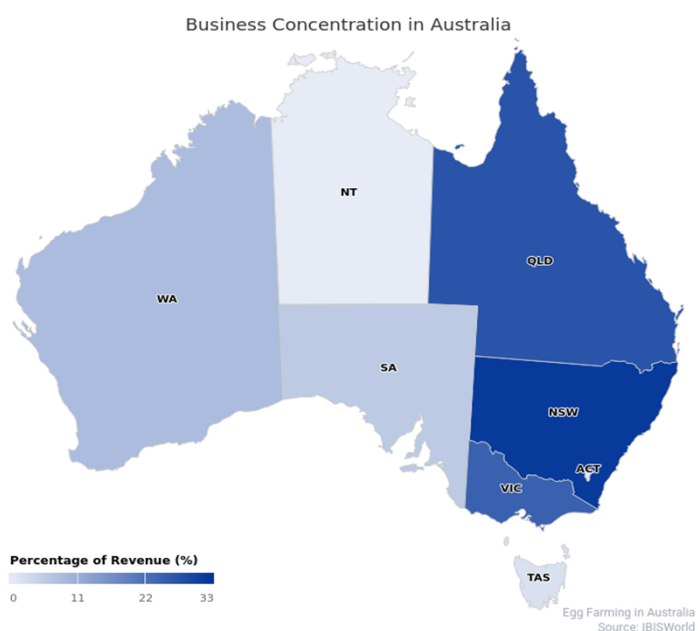
Egg Farming
Source: IBISWorld

Source: IBIS World Egg Farming in Australia Report May 2020



Industry overview

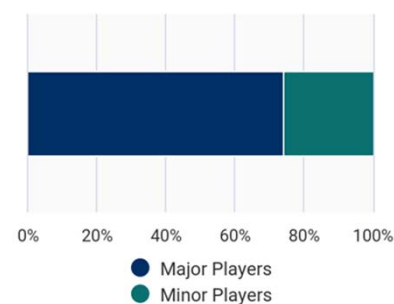
Concentration of egg market



Source: IBIS World Egg Farming in Australia Report May 2020

Market player concentration

Market Share Concentration



Egg Farming
Source: IBISWorld

Major players - share



35.4% Sunny Queen Farms
30.5% Pace Farm
8.2% Farm Pride Foods
25.9% Other

Egg Farming
Source: IBISWorld

- The east coast states represent over 85% of egg sales in step with population
- Market share of the total business is highly concentrated across 5-6 suppliers
- FRM share has dropped approx. 3% given AI event impact on supply

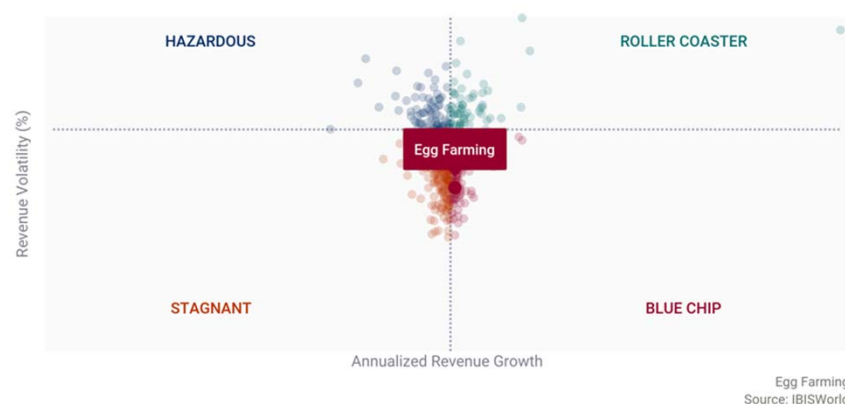
Source: IBIS World Egg Farming in Australia Report May 2020



Industry overview

Volatility of egg market

Volatility vs. Growth



- The egg market is volatile
- Supply fluctuations, feed prices, animal disease, shifts in demand and legislative changes all influence revenue volatility.
- The egg industry is highly capital intensive with investment increasing over the last 13 years with the advent of cage free farming
- Capital investment will continue to increase in the next 5 years as cage free dominates the category

Source: IBIS World Egg Farming in Australia Report May 2020

Capital intensity

Capital Intensity Ratios



Egg Farming
Source: IBISWorld

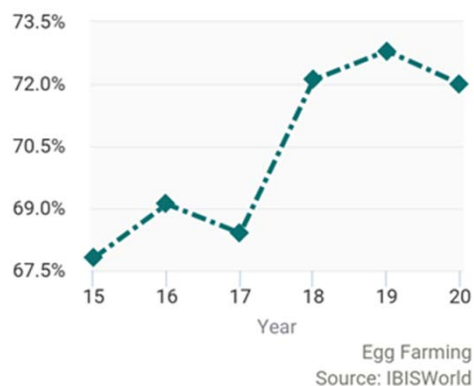
Source: IBIS World Egg Farming in Australia Report May 2020



Industry overview

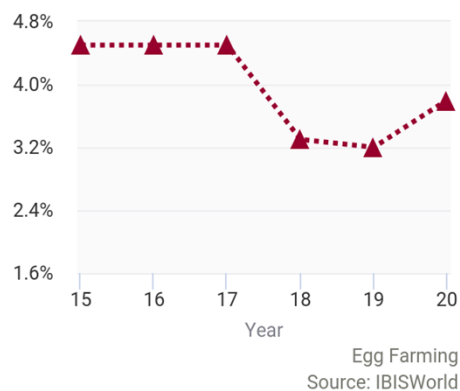
Purchasing costs rising

Purchases as a Share of Revenue 2015-2020



Profit declining

Profit as a Share of Revenue 2015-2020



- Rising costs driven by feed (drought), consumables (new laying systems e.g. CF and FR) and compliance
- Some cost reprieve in 2020 with declining wheat and feed prices
- Profits in general decline and future earnings will be further exacerbated with transition to more expensive cage free farming systems

Source: IBIS World Egg farming in Australia Report May 2020

Source: IBIS World Egg farming in Australia Report May 2020



Industry overview

Key market trends (now and mid term 2 - 4 years)

- Per capita egg consumption growing and should continue to grow, cheap source of protein
- Key margin determiners remain
 - Historical supply fluctuations – typically over and under supply (demand pretty constant apart from COVID impact)
 - Retailer category realignment – evolution to cage free eggs – downward price pressure
 - Feed and wheat costs – driven by environmental conditions e.g. drought
 - Cost of capital to provide necessary infrastructure to meet retailer cage free requirements
- Compliance requirements per animal welfare and safe farming methods, biosecurity and workplace safety continue to increase, adding cost with limited opportunity to offset in price
- Cage-free evolution now clearly timetabled with supermarkets stating by 2025 completely cage free – Key focus on Barn Laid development
- Cage egg capacity in market will decline in line with this timetable. Flow over of excess cage stock into the box or non supermarket channels will continue until market re-alignment completed.
- Supply and pricing will remain volatile in this part of the market



Industry overview

Key market trends cont' (now and mid term 2 - 4 years)

- Innovation in shell egg is minimal and unlikely to change. Limited opportunity to value add.
- Retailers will continue to grow 'own label' range at expense of brands
- Consolidation of supply base will continue particularly small mid tier players
- Opportunities for innovation of egg based products to serve home and out of home experience driven by media reality and changing consumption patterns to more home consumption (COVID)
- Free range will continue to grow in step with market 4% P/a +/-
- The impact of opportunistic diseases now more prevalent with free range farming practices



Industry overview

Observations

- The industry can be summed up as **VUCA**

Volatile
Uncertain
Complex
Ambiguous

- Industry earnings in FY21 will be down
 - Continuing 'over' and then 'under' supply conditions impact margins
 - Wheat while lower than previous years still relatively high for most suppliers – cost margins being eroded by sales margins
 - COVID impacts markets, drives discounting
- Retailers confirmed next phase cage free evolution – Barn Laid focus into 2025
- Compliance continues to increase – cost not necessarily recoverable in price
- Additional capex investment to meet Barn Laid volumes set out by retailers – not fully recoverable necessarily in future Barn Laid price



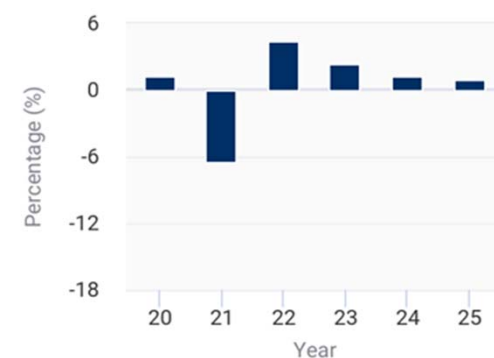
Industry overview

Observations cont'

- Box market supply to remain congested for next 2-3 years
- Retail will be even more competitive next 12 months as retailers sure up future supply to meet 2025
- Industrial and foodservice customers will start to join the free range party
- Incidence of disease becoming more prevalent, possibly also due to greater monitoring and diligence by authorities with better reporting – a need to apply greater bio security efforts by growers
- **Managing as many of the market variables remains critical**
- **Innovation and new product development can remove much of the fluidity exposure in our business**

Earnings

Industry Outlook 2020-2025



Egg Farming
Source: IBISWorld



The evolving business of Farm Pride

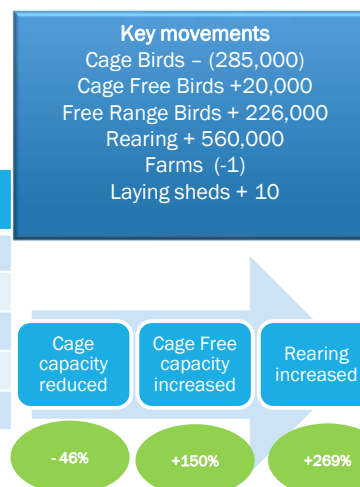


Farm Pride farming today (pre AI) and tomorrow (post AI)

Current farm structure Pre AI

- Today we manage 11 farms in our national network
- Sale of Pittsworth Farm, Qld by end Q3 FY21 (6 sheds, cage free unpopulated)

Farm model	Sheds	*Birds	Birds net of non operational sheds
Cage	10	630,000	
Barn	*8	'40,000	
Free Range	*38	*668,000	630,000
Total laying	56	1,388,000	1,348,000
Rearing	3	330,000	



*Includes 6 sheds at Pittsworth non operational
 *Theoretical capacity of sheds and not allowing for annual shed rotations
 *Includes 2 free range sheds at Mooroopna which are currently non operational
 *No allowance for Pittsworth sheds

Source: FRM Management Review 2020

Future farm structure post AI and asset sale FY22

- Tomorrow we manage 10 farms in our national network
- With vertically integrated and dedicated rearing capability at Lethbridge
- Additional Free Range capacity through returning farms post AI and Mooroopna renovation
- Additional cage free capacity through returning sheds at Lethbridge

Farm model	Sheds	*Birds	Birds net of non operational sheds
Cage	6	345,000	
Barn	3	60,000	
Free Range	37	856,000	
Total laying	46	1,261,000	
Rearing	11	*890,000	

Additional cage free capacity current farms post FY22

Farm model	Sheds	*Birds	Birds net of non operational sheds
Barn	Up to 12	300,000	300,000
Free Range	Up to 12	360,000	360,000

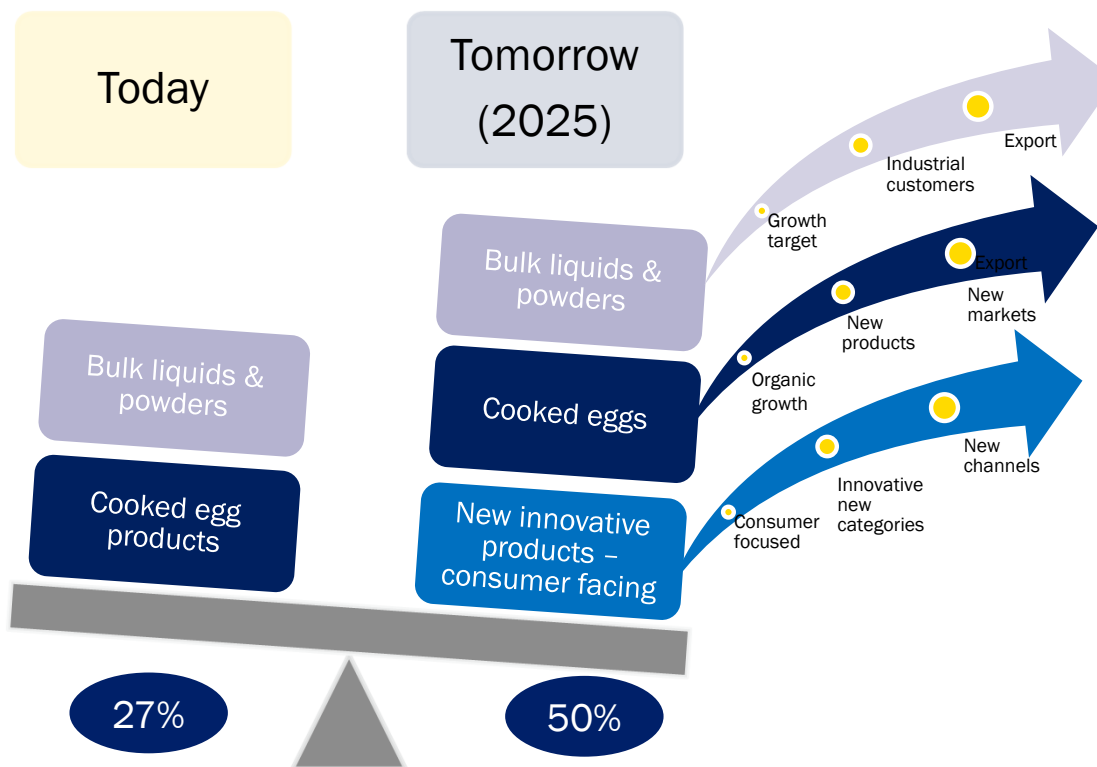
*Theoretical capacity of sheds and not allowing for annual shed rotations
 *Theoretical requirement for annual rearing is 860,000 birds post AI



Farm Pride value added (ingredients) today and tomorrow

Ingredients and value added business

- Unique capability in egg industry
- Key margin driver
- Key driver of innovation (production and value adding of key raw material)
- Key driver of modernity and market relevance – new consumers/new sales channels
- Key driver and user of future internal egg capacity
- Key to Farm Pride's future sustainability
- Balance for retailer influence in market



Source: FRM Management Review 2020



Farm Pride Foods Ltd FY20 Results



Farm Pride Foods Ltd – Headline Results FY20

Revenue

\$90.37M



4.25% YOY growth

- Realigned shell eggs supply focus from box to retail - solid retail customer growth achieved +7% YOY
- Ingredient sales impacted by COVID Q4, with large sales declines in Foodservice channel – (7% decline YOY)

EBITDA

(Underlying)

\$2.672M



244% YOY growth

Net Cash used

\$3.66M



14%

- Good price increases achieved for shell eggs in retail
- Wheat price recovers from drought highs
- Tighter cost control
- Reduced rebates & discounts
- Logistics savings flow
- Improving productivity – farms

Net Debt
(\$19.44M)



34%

EPS

0.039 cps



44%

Net Profit
After tax
(\$2.169M)



44%

- Debt refinanced
- Cost of debt establishment high
- Additional debt to cover WC and Capex needs

- Improvement in NPAT despite 300% increase in cost of financing
- Result driven by Operating Profit improvement



FY20 Headline results

Other developments and attainment

Commercial

- Margin & contribution
 - Feed and key commodity procurement and risk management
 - Price movement positive
 - Cost control, monitoring and reporting
 - Procurement savings flow through - logistics
 - Flock performance – Business Intelligence System (BI)
 - Targeted capex
- Productivity gains – processing and manufacture

Operational

- Staff safety and well being remained #1 operational priority
 - COVID
 - AI
 - Everyday safety – major ongoing safety PR campaign
 - 23% drop in reportable incidents across the group Vs prior year

- Development of management talent and capability
 - Supply chain and procurement – additional resources and enhanced systems to better anticipate and manage supply fluctuations and drive cost out initiatives
 - Retailer category realignment – evolution to cage free eggs – downward price pressure
- Quality, compliance and bio-security
 - All quality and compliance certificates maintained
 - All environmental and operating licences maintained
 - Additional and dedicated technical support for farms
- Performance and productivity
 - Farms – introduction of business management tool to feedback and performance manage our flocks productivity and quality
 - Processing – focus on grade out yield and difot
 - Difot to key customers running consistently 98% +
 - Carton Packaging – focus on additional manufactured volumes through external customers
 - Soft rollout of new Carton Pack business branding and contract manufacture offer



Farm Pride Foods Ltd – Headline Results FY20

(\$'000)	2018	2019	2020
Revenue	86,116	86,641	90,327
Earnings before Interest & Tax (EBIT)	858	(5,324)	(3,099)
Earnings before interest, tax, depreciation and amortization (EBITDA)	5,386	1,092	2,672
Net Profit before tax (NPBT)	858	(5,324)	(3,099)
Net profit after tax (NPAT)	503	(3,858)	(2,169)
Operating cash flow	505	1,812	6,882
Net debt	12,023	14,667	19,441
Net assets	47,143	43,285	41,116
Current Assets/Current Liabilities	1.6	0.83	1.27
Debt ratio (Total Liabilities/Total Assets)	2.8	2.6	1.8
Interest cover	16.3	1.5	1.2
Earnings per share	\$0.09	(\$0.069)	(\$0.039)
Shares on issue	55,180,175	55,180,175	55,180,175

- Revenue UP
- Earnings EBITDA UP
- Net profit loss after tax DOWN
- Cashflow from ordinary activities UP
- Net debt UP
- Borrowings interest costs UP



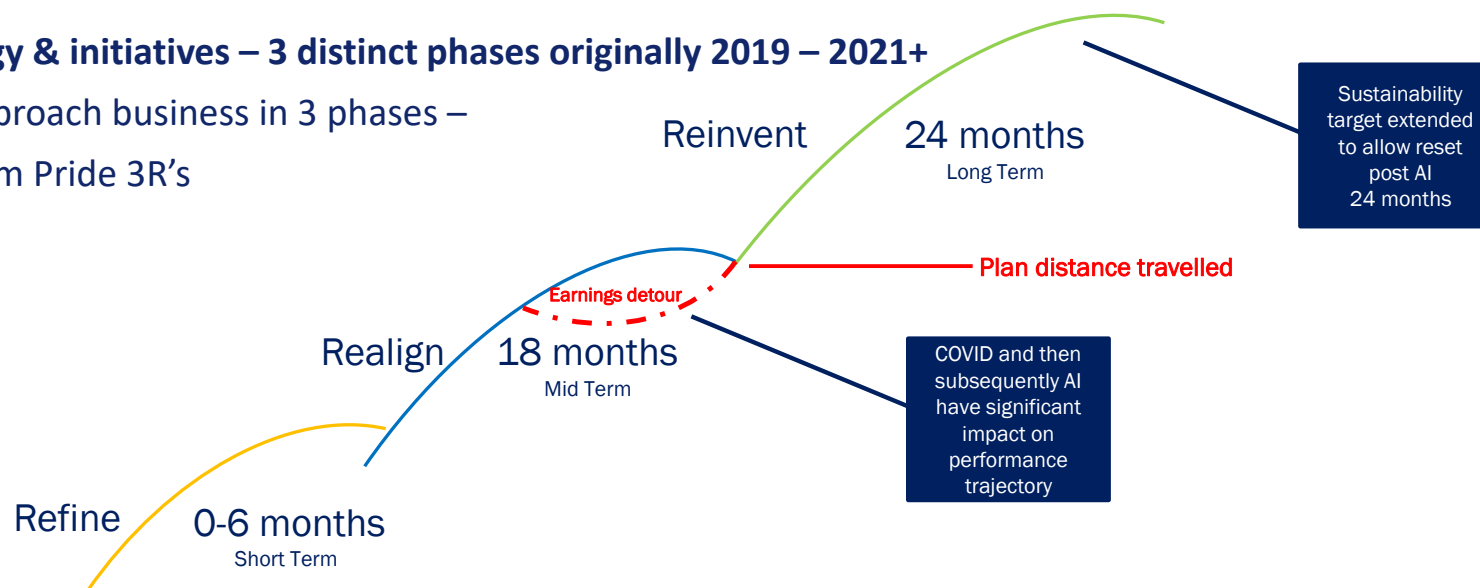
The 3 year journey so far
and matters subsequent



3 Year, 3 phase plan initiated – “Managing For Value”

Strategy & initiatives – 3 distinct phases originally 2019 – 2021+

- Approach business in 3 phases – Farm Pride 3R's





The journey so far...

Solid signs of recovery and as per plan, then detour for COVID and subsequent event AI

- COVID impact on foodservice sales back end Q3 and into Q4
- Ingredient Sales decline of 30% almost immediate impacting group revenue by approx. 7%
- Despite this business continues to perform well with strong shell sales
- Farm productivity strongest since FY18 in Q4



- Business fundamentals solid and improving
- Business buttressed
- Operating profit stable at 4.85%
- Wheat price reducing on improving drought conditions
- New funding established with WC headroom for business enabling capex
- Flock performance programs implemented
- Procurement savings evaluated and initiated
- Continuing development of supporting business process to drive measurement and efficiency

- COVID impact continues
- Avian Influenza event July '20
- 33% of flock destroyed within 3 weeks of initial outbreak
- Major sales interruption from Q1 onwards
- COVID lock down makes management of crisis difficult and complex
- Retailers forced to replace lost volume from FRM via competitors – demand for eggs ex COVID still strong
- Reimbursement for crisis costs received from Gov't, but does not replace lost revenues and one time only payment

A close-up photograph of a person's hands holding several brown eggs. The person is wearing a blue and red plaid shirt and green overalls. The background is blurred, showing green foliage.

**Value adding and
innovation**



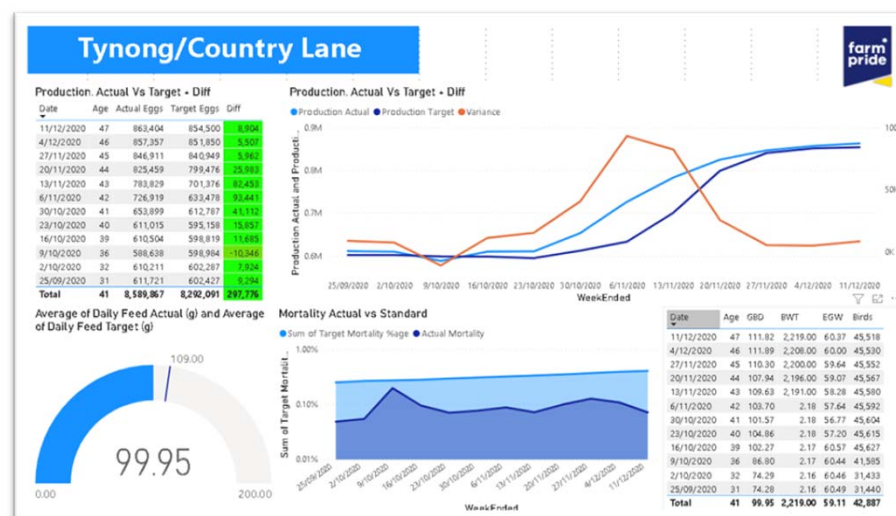
Value adding and innovation

- Achieving a strong innovation footing for the business in the next few years remains a key imperative
- Converting our egg raw materials from our farms and other sources, using our internal capability and capacity provides Farm Pride the best chance of generating better than industry returns
- Innovating the forms in which eggs are consumed and delivered to consumers is not beyond us and indeed plays to a latent strength we have with our value adding infrastructure
- Pre AI, we had achieved much of the balance in our egg in shell business required to provide the necessary requirements to meet cage free transition and provide us a balanced portfolio of retail sales
- COVID and then AI momentarily stalled our innovation trajectory, but we have now re-tasked and restructured our Technical efforts to accelerate new product development and in line now with a realigned raw material supply chain given the reductions in our flock size, but with a more significant focus on cage free development
- We have continued to invest in supporting systems for better farm management, hen welfare, biosecurity, compliance and flock performance



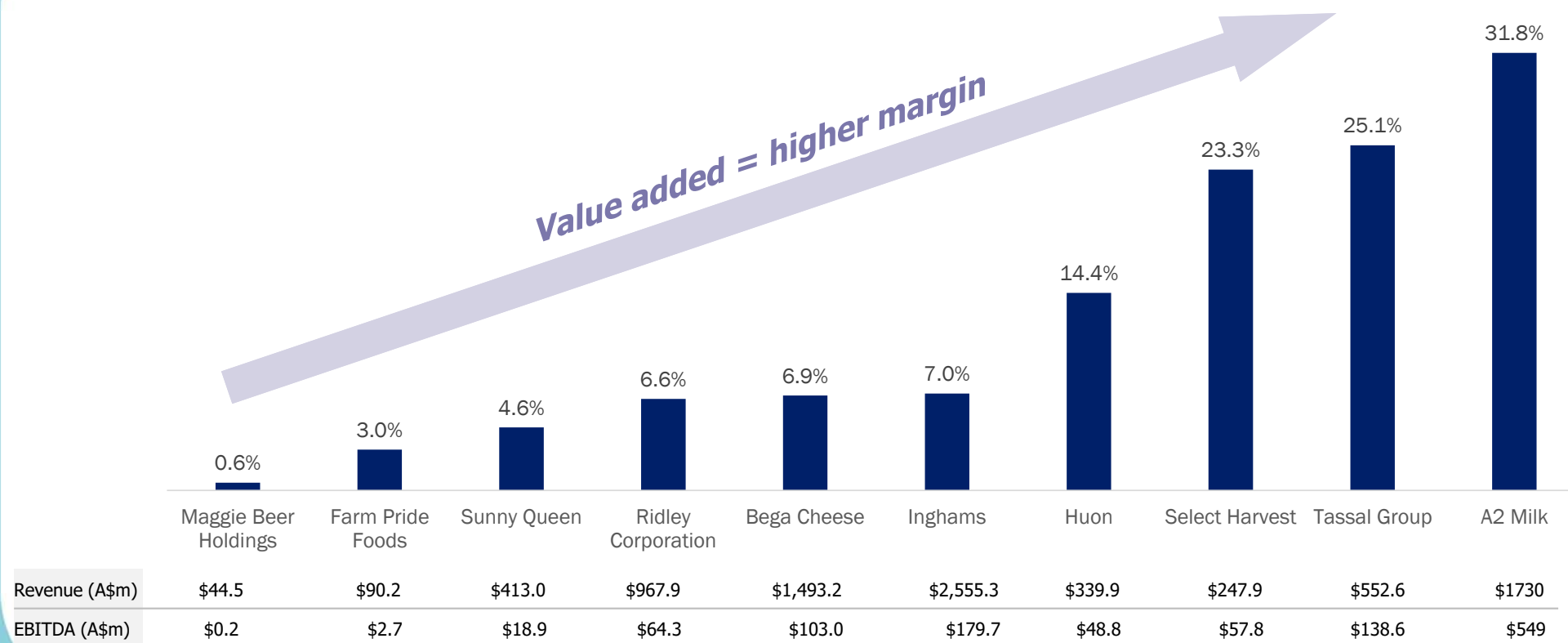
Value adding and innovation cont'

- Our new farm business intelligence management system (Power BI) is a good example of the sophistication we are now applying to managing our flocks for higher performance
- Power BI is an automated tool which provides live time data from each farm and shed in one convenient portal
- Provides the farm management and teams instant performance feedback on all key inputs e.g. water, environment, feed, weight, mortalities, egg yield and performance etc.
- The program has been extensively rolled out across all our farms and is being used daily and reported weekly





Value adding a key to higher earnings...



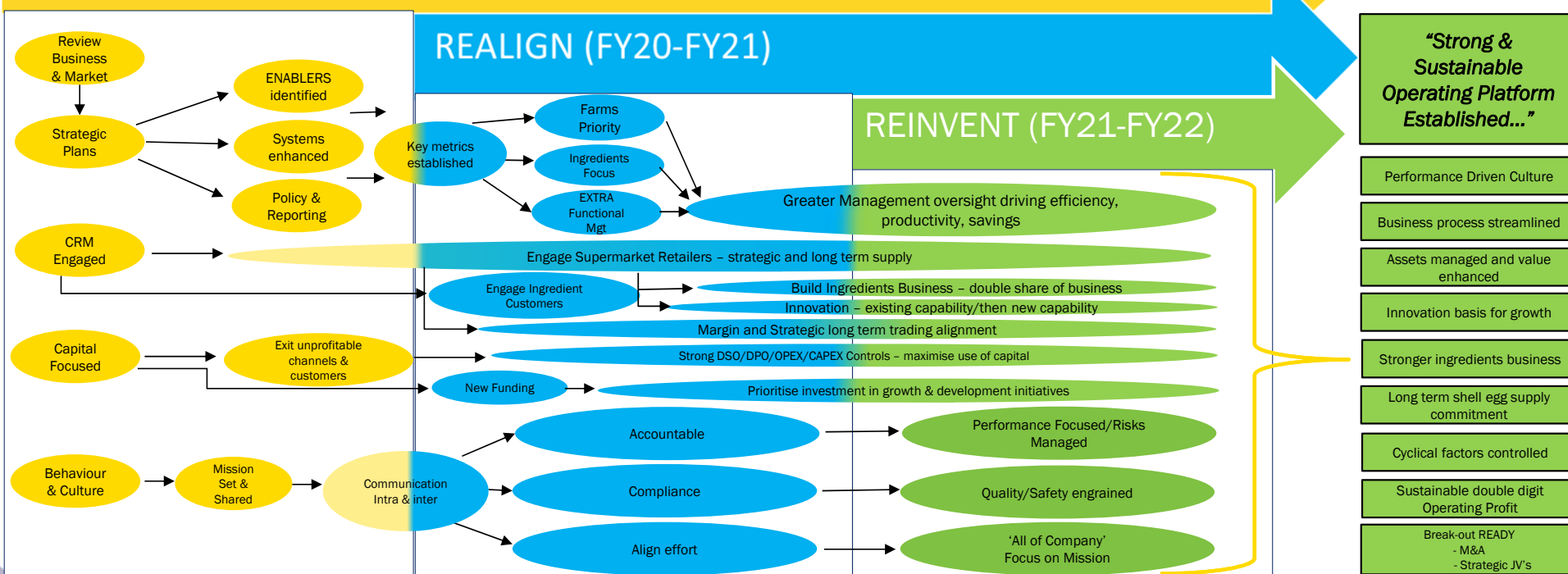


Moving forward



An evolving roadmap to success in 3 distinct phases

RESET fundamentals – REFINE (FY19)





Moving forward next 12 months (FY21-FY22)

- Key focus areas (continuing to realign and reinvent)
 - Reset and realign farm scale and operational response post AI
 - Continue to engage retail customers and seek growth opportunities around cage free transition
 - Continuing management review of initiatives to provide additional working capital and reduce debt
 - Targeted capex
 - Lethbridge cage farm conversion to dedicated rearing (continued vertical integration of key farming activities)
 - Mooroopna renovation – to provide additional free-range and/or cage free capacity as required
 - Product development and innovation – supporting internalised manufacturing capability – new products
 - Organic and incremental growth of industrial ingredients business as a priority
 - Acceleration of R&D/Innovation programs with initial new product launches planned for late H1 FY22 or earlier
 - Continue to reinforce company mission internally and with external stakeholders



PRIDE IN EVERY EGG

Our 3 year mission started well, but mother nature dealt us two significant blows – we had buttressed the business against such risk and we have now reset. We will recover, but the journey may take a little longer.

We are a resilient business, and we are taking all steps necessary to return to a growth setting and unleash the latent potential of the Farm Pride business.

Thankyou.

A person with long brown hair, wearing a grey and white striped long-sleeved shirt, is leaning over a wooden table. They are using a metal whisk to mix a yellow liquid in a clear glass bowl. To the right of the bowl is a green egg carton containing several brown eggs. A wooden cutting board and a metal whisk are also on the table. The background shows a green and white checkered pattern.

**Finish
Questions?**