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BELLAMY'S AUSTRALIA

# Dairy Day 2016

First NZ Capital | Credit Suisse  
6 April 2016

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# Bellamy's is positioned for continued growth

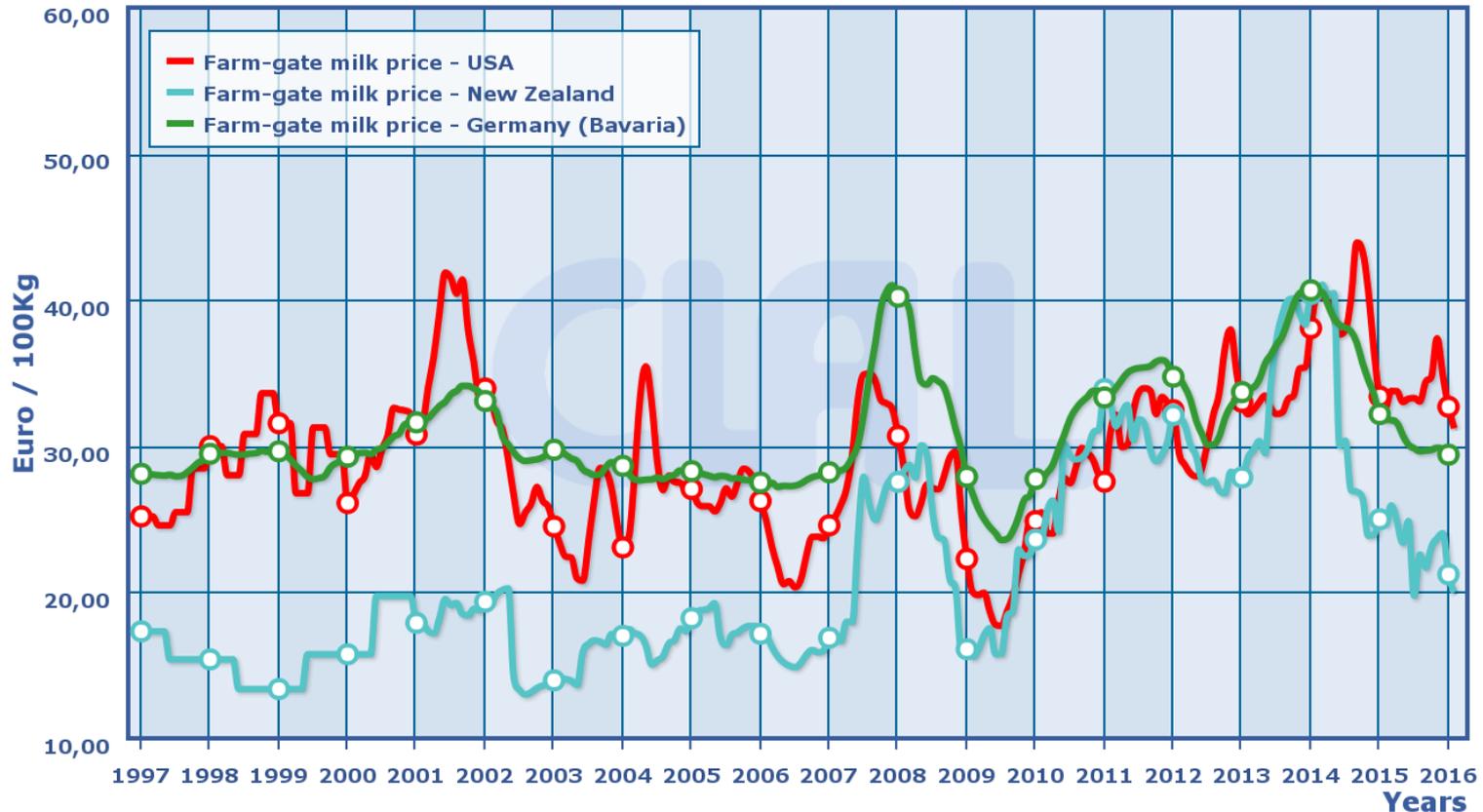
- Demand has never been a constraint to Bellamy's growth
  - Global infant formula market >US\$50bn (2014) growing at 7% pa
  - New channels provide greater access to global markets
- Bellamy's has de-constrained supply to support future growth
  - Focus on developing our global supply chain
  - Ingredient supply in place to underpin increased production
  - Working with Australian dairy farmers to support transition from conventional to organic farming, while underpinning long term supply
- Organic vs conventional milk sectors are very different
  - Organic milk pricing is relatively stable
  - Farmers are converting their farms to organic

“The organic milk sector provides more attractive stable long term returns for dairy farmers.”

# Conventional milk pricing is volatile

## Historical comparative overview on Farm-gate Milk prices in Bavaria (D), the US, New Zealand

Processed by CLAL



Source: [http://www.clal.it/en/?section=confronto\\_latte3](http://www.clal.it/en/?section=confronto_latte3)

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# Organic milk pricing is more stable

## Germany - Historical comparative overview between Organic Milk price and Farm-gate Regular Milk price

Source: BMELV



Source: [http://www.clal.it/en/?section=latte\\_bio\\_germania](http://www.clal.it/en/?section=latte_bio_germania)

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# Global organic milk volumes

- Global organic milk pool is estimated at approx. 4,500m litres pa
- More than half global organic milk pool is produced in Europe and UK
- Australian organic milk pool is estimated to be 40m litres pa
  - <0.4% of national milk pool

# Transitioning to organic farming is not a simple process

- Conversion process takes up to 3 years
- In order to be certified organic a farmer needs to demonstrate:
  - No use of synthetic or chemical fertilisers, herbicides and pesticides
  - No GMO in the farm, feed or the actual livestock
  - Ensuring all farm inputs are either certified organic or approved as a farm input under organic principles
  - Ensure all feed is 100% organic – the farm must be certified organic and any grains fed to cows also certified organic
  - The use of any antibiotics is not permitted
  - A demonstrated commitment to the principles of organic farming including no overstocking, caring for groundcover and soil
  - A written Organic Management Plan which covers whole of farm planning

## Conventional dairy farmers are transitioning to organic

- More consistent and stable pricing environment
- Higher organic prices compensate for higher input costs
- In many good operations, yields are maintained after the initial conversion process
- Potential to achieve higher farm profitability with margins per unit of production often higher for organic farms
- Potential to increase land values
- Producing organic milk for infant formula can mean that seasonal farming is possible with lower requirement to manage a flat milk curve

“Bellamy’s key strength is a strong and deep understanding of the complex global organic ingredient supply chain.”

# Bellamy's global organic supply chain

- Strong relationships with multiple organic suppliers globally (mainly located across Europe)
  - Shared long term vision that ensures our suppliers grow as Bellamy's grows
- Consistent access to 4 key organic dairy ingredients
- Identified and built strong relationships with organic dairy farms, co-ops and milk companies
  - Leveraging Bellamy's in-house organic procurement capabilities
- **Bellamy's is working closely with conventional dairy farmers and organic suppliers in Australia and offshore to support farm transitions to organic**

# Bellamy's has a flexible approach to production

- Two key production pathways:
  - Full service – Bellamy's provides artwork and specifications, develops and maintains all key ingredient supplier relationships
  - Toll Manufacturing – Bellamy's provides ingredients, raw materials, and packaging
- A flexible production business model:
  - 15 contract packing and manufacturing facilities engaged across Australia
  - Infant formula produced with
    - Tatura Milk Industries (part of Bega Cheese): 6 year agreement to 2021
    - Fonterra: recently signed 5 year agreement, with first deliveries to be received in Q1 FY17

# Bellamy's supply chain supports increased volume

- Historic revenue growth has mainly come from added volume
  - Price increases were only implemented in November 2015
- Now producing at Fonterra
  - Will substantially lift volumes from Q1 FY17
- Medium/long term supply chain strategy in place
  - Global relationships and agreements support medium term supply requirements
  - Working with dairy farmers to convert to organic and increase longer term supply

“Global demand growth is not slowing, while new distribution channels underpin further market penetration.”

# Baby food and formula market

- Global baby food market is estimated to reach US\$72.7bn by 2020, growing at 6.4% CAGR from 2015 – 2020 (source: Allied Market Research, 2016)
  - Infant formula is the largest segment
  - Baby foods is the second largest segment
- Global infant formula market exceeds US\$50bn annually (2014) with a growth rate of 7% pa (source: Zenith International, 2015)
- Chinese infant formula market estimated at A\$22bn in 2016 and is forecasted to grow at approx. 8% over the next 3-5 years (source: Bellamy's estimates, Nielsen)
- Bellamy's is well prepared to capitalise on the increased popularity of e-commerce channels, particularly in China
  - Flagship stores open on major on-line trading platforms – T-mall, JD.com, VIP.com

# Australian Made and Certified Organic



- Bellamy's is an established, recognised brand in the baby food and formula category across Australia and Asia
  - Easily recognised on the shelf through well designed packaging that reinforces the core brand values of Australian made and Certified Organic
  - Trusted as a credible, authentic food company by families across Australia, New Zealand and Asia
- **The most important differentiator of the Bellamy's brand and product suite is that our products are 100% Australian made, 100% certified organic AND we provide a complete product range of formula and food from birth to toddler**

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# Bellamy's distribution channels in Asia

## Australia

Supermarkets  
Pharmacies  
Baby Stores  
Health Food  
Online

## Singapore

Supermarkets  
Pharmacies  
Baby Stores  
Health Food  
Online retailers

## China & HK

Mother and Baby  
Stores  
Online Platforms

## Malaysia

Supermarkets  
Pharmacies

## Vietnam

Local  
Supermarkets

## New Zealand

Supermarkets



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# Australian market opportunity

- Domestic market continues to represent majority of sales
- Extending our reach
  - Now with 4,000 distribution points in Australia (FY15: 3,000 distribution points)
- Online store making product readily available to domestic market
  - Exceptional growth in domestic online sales
- Increased prices in infant formula market
  - Balancing cost increases for organic ingredients



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# China market opportunity – strong demand for “Australian Made”

- Increased sales to retailers through agency with SIIC and multiple distributors
- Retailers embracing online phenomena
  - Offering customers their own retail platform
- T-mall flagship store our formal channel for Bellamy’s e-commerce into China
- Continue to monitor cross border traders
- **Well placed to benefit from anticipated changes to packaging and brand/product manufacturing regulations**



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# Online channels – effective route to China market

- Our formal channel for Bellamy's e-commerce into China
- Now in the top 15 brands for formula
- Still remains multiple cross border traders who purchase products from Australian stores and sell these through e-commerce platforms
  - Continuing to monitor this market closely



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# China tax changes unlikely to impact demand profile for Bellamy's product

- New taxes on certain cross border e-commerce into China come into effect from 8 April
  - Imported food & beverage via a bonded warehouse (via free trade zones) will be subject to 70% of normal VAT, ie 11.9%, while “parcel” tax will be removed (was 10%)
    - So... **larger purchases will only attract an additional 1.9% tax**, and "smaller" purchases (<500RMB) will have 11.9% tax imposed
  - Imported F&B via direct shipping will now be subject to an additional 5% “parcel” tax, with “smaller” purchases <333 RMB remaining exempt
- **New taxes are not expected to materially change the price of imported products** (if suppliers look to pass on changes to consumers)
- Bellamy's has a variety of distribution channels and will continue to supply product into China
- Based on online price movements over the last 12 months (eg Tmall), Chinese consumers appear to be price inelastic and online/offline pricing differential is > new tax

# SE Asia market opportunities

- Continued, strong demand for “Australian Made” and organic products in Asia
  - Continued improvement in segment sales growing market share
- Singapore
  - Doubled market share and continuing to grow
  - Market share now at 3%
  - Continuing to develop infrastructure to further develop this market
- Malaysia and Vietnam
  - Remain committed to building our footprint across South East Asia



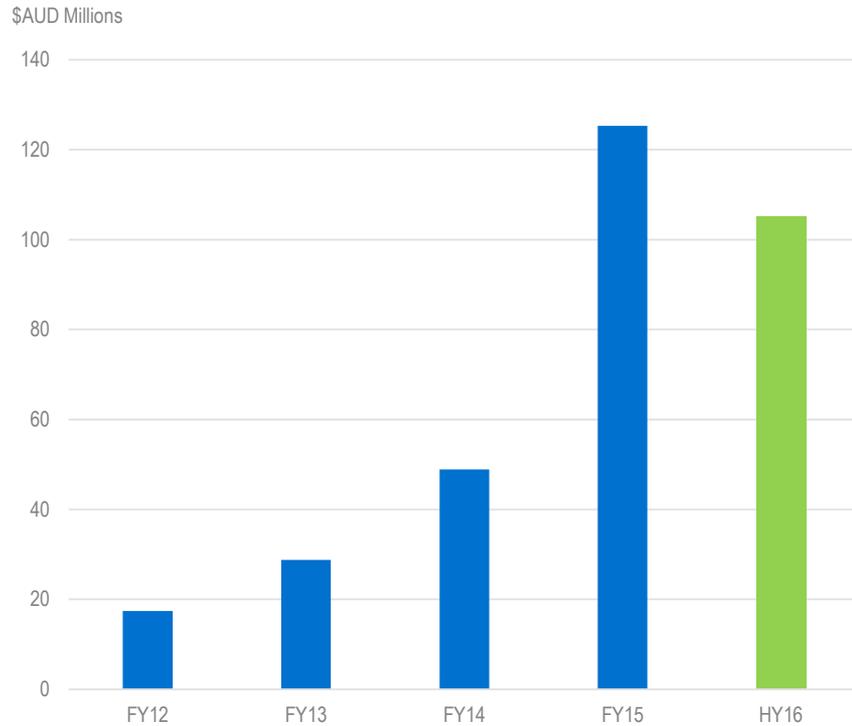
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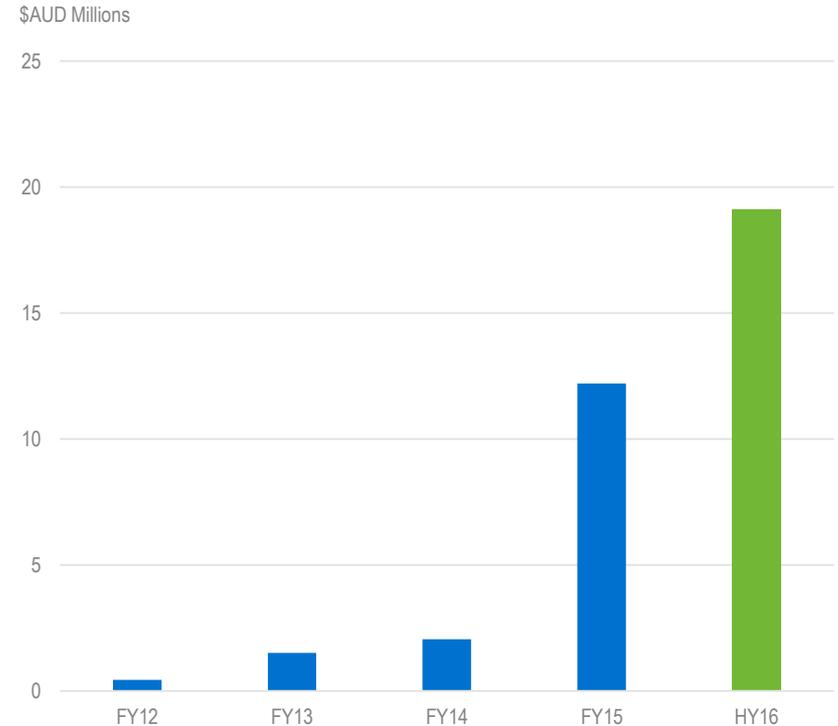
“Bellamy’s is well positioned to continue its strong growth trajectory.”

# A track record of strong growth

## Revenue



## EBIT



\* FY12 & FY13 Pro forma historical pre IPO results

# Outlook

- FY 16 Group revenue expected to be in the range of A\$240m - A\$260m
- Margins expected to be broadly in line with 1H16
- Further building footprint across SE Asia
- Further investment in marketing and sales distribution
- Global supply chain initiatives support continued Australian and Asian demand growth
- Well positioned for potential regulatory changes in China
- Continuing growth in demand for Bellamy's products



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# Q&A

# Appendix

# Bellamy's infant formula range

- Only certified organic infant formula produced in Australia
- Three infant formula products:
  - Step 1: Infant formula – suitable from birth to 12 months
  - Step 2: Follow on formula – suitable from 6 to 12 months
  - Step 3: Toddler milk drink – from 12 months +
- Two variants of each product are produced
  - One made for Australian and export markets
  - Other suitable for China only (designed to meet different labelling and compositional requirements of the Chinese regulators)



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# Bellamy's organic baby food

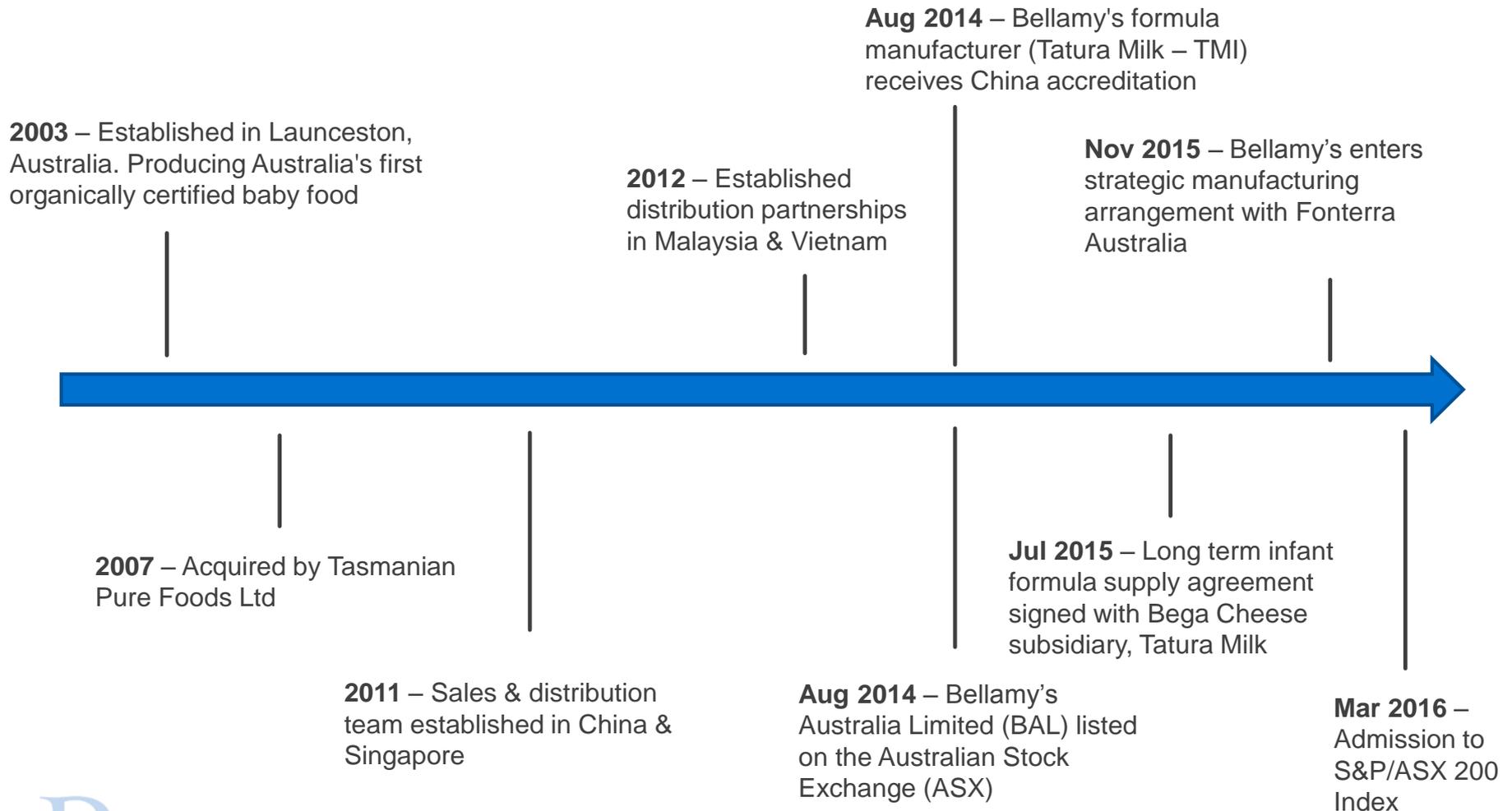
- **Over 47 unique Australian made and organic certified products, including:**
  - snacks, cereals, pastas and ready to eat pouches
- Several new products launched recently
  - customised ready to eat pouch range
  - new cereal extension range
  - new fruit bites snack range
- Pivotal to longer term strategy of building Bellamy's brand in supermarkets and through Asia



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# Operating for 13 years



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