



## ASX ANNOUNCEMENT

### Half Year 2019 Results Highlights Presentation

I enclose the Half Year 2019 Results Highlights Presentation to be discussed on the Half Year Result 2019 Conference Call scheduled for 11:00am today.

A handwritten signature in blue ink, appearing to read "B. G. Kelly", is positioned above the printed name.

Brett Kelly  
Company Secretary

27 February 2019

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For further information please contact

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# 1H FY2019 Half Year Results Presentation

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





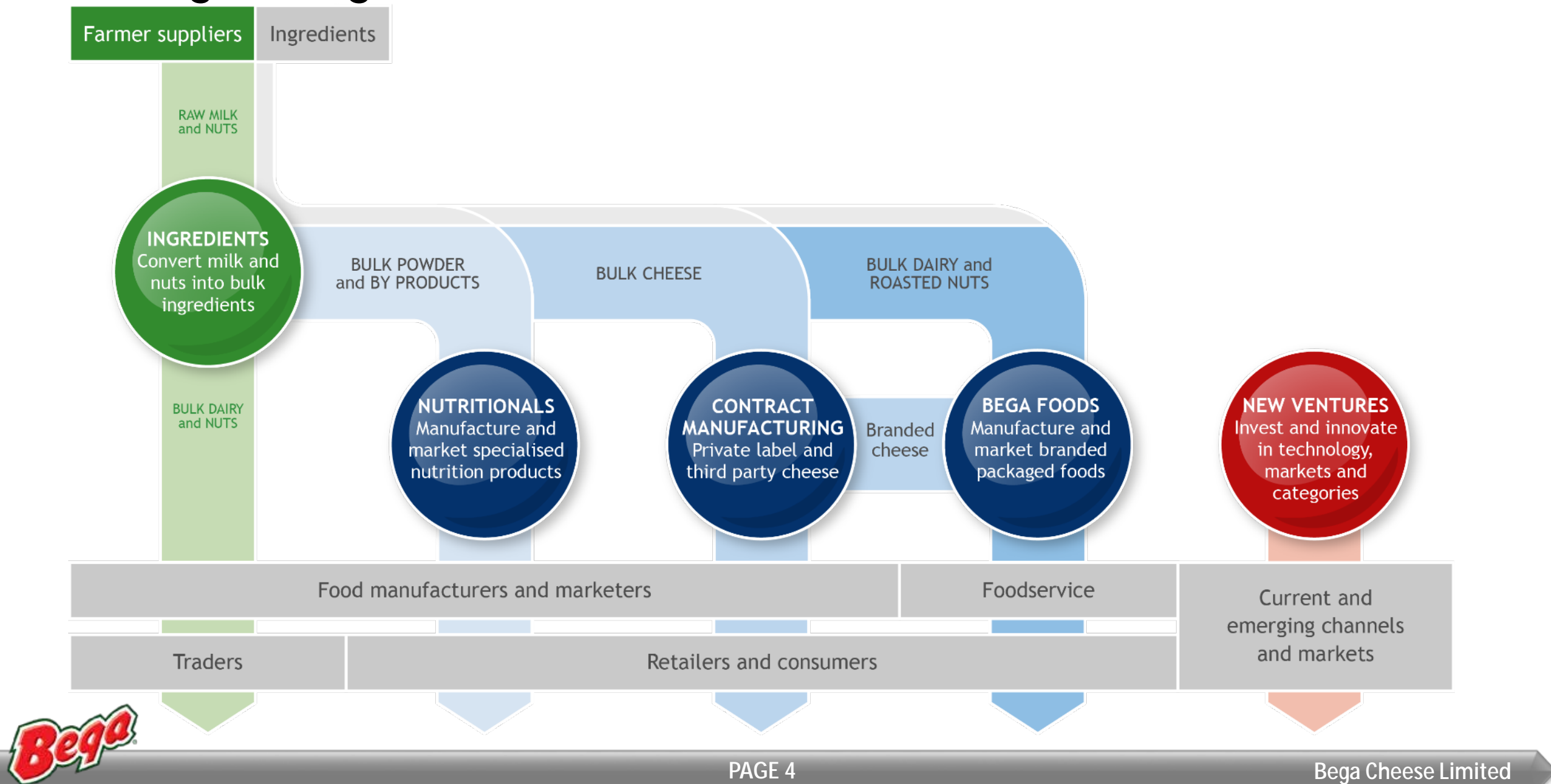
Barry Irvin  
Executive Chairman

# Value Proposition



- High quality infrastructure
- Iconic brands
- Well established operating model
- Diversified and balanced customer portfolio
- Strong supplier relationships and reputation
- Continued business growth

# The Bega Integrated Business Model



# Key Messages



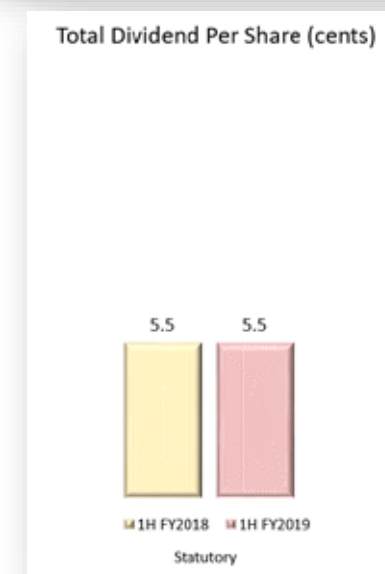
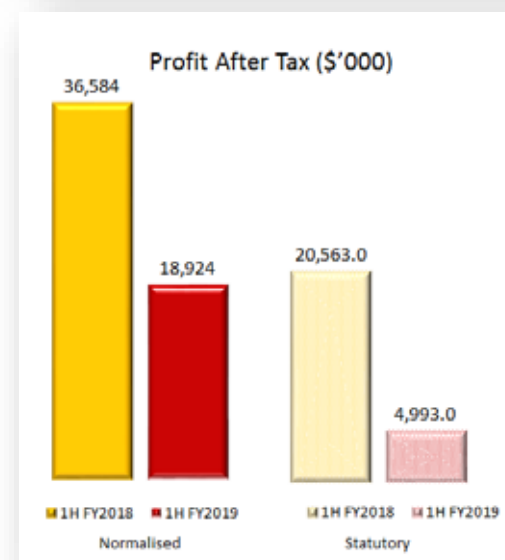
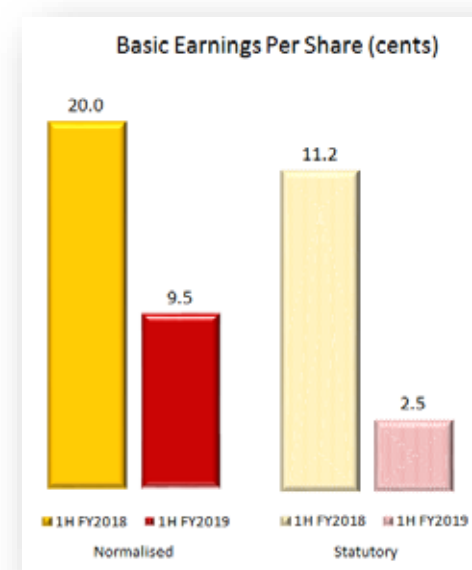
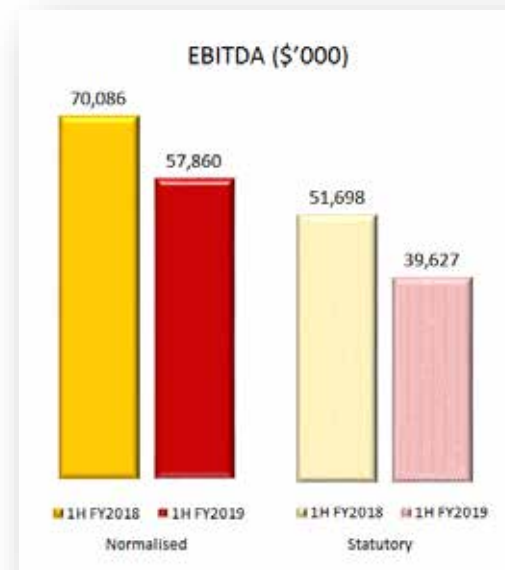
- Acquisition of Koroit
- Successful milk acquisition program
- Lactoferrin investment
- Contract manufacturing mozzarella and cheddar
- Coburg closure
- Bega Foods business stabilising
- Challenging first half
- Sales timing impacting 1H performance and inventory levels
- Drought impacting farm gate milk price and volumes
- Maintain full year outlook at lower end of range





# Financial Performance

- Revenue \$0.65 billion up 6%
- Normalised EBITDA \$57.9 million
- Statutory EBITDA \$39.6 million
- Normalised net profit after tax \$18.9 million
- Statutory net profit after tax \$5.0 million  
(impacted by higher effective tax rate due to corporate activity)
- 1H FY2019 dividend 5.5 cents per share
- Normalised earnings per share 9.5 cents
- Statutory earnings per share 2.5 cents



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



# Strategic Focus



- Sustainable and diversified milk supply
- Execute lactoferrin expansion
- Ingredients product mix and infrastructure utilisation
- Diversify nutritional customer base and product range
- Leverage consumer goods capability
- New ventures and innovation





Paul van Heerwaarden  
CEO

# Delivering to Strategy



- Koroit acquisition
- Milk procurement program
- Lactoferrin expansion
- Organic and goat milk usage in infant formula
- New product launches in spreads category
- Third party manufacturing agreement (cheddar and mozzarella)
- PCA integration into Bega Foods
- Coburg rationalisation
- Continuous improvement programs



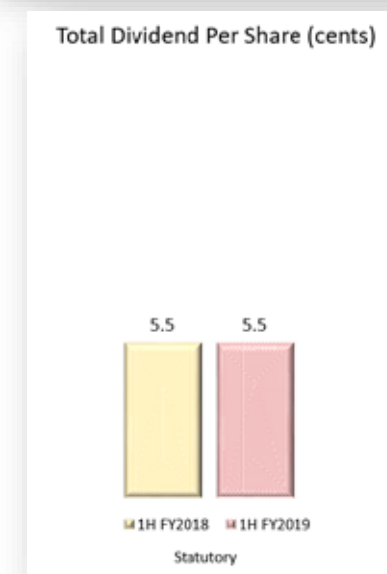
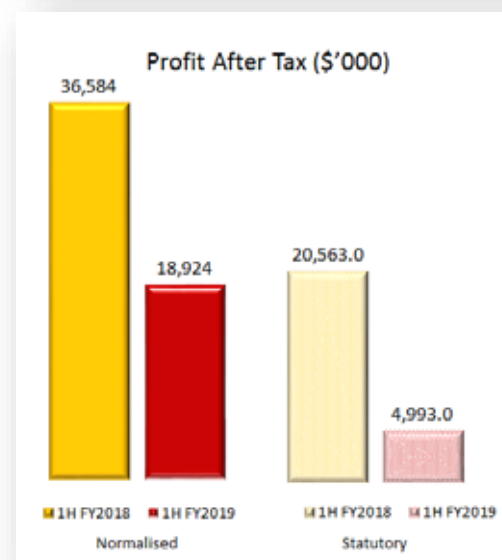
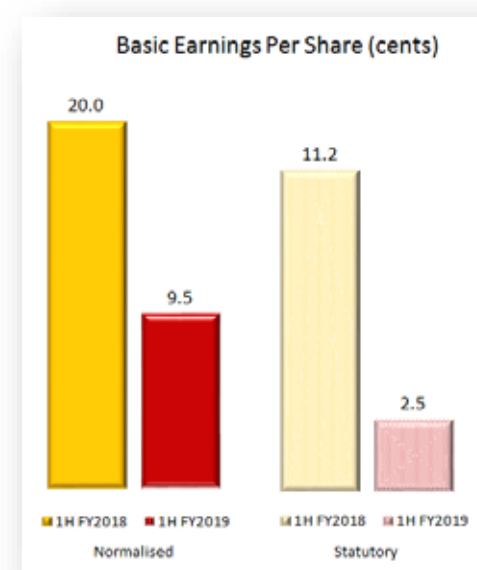
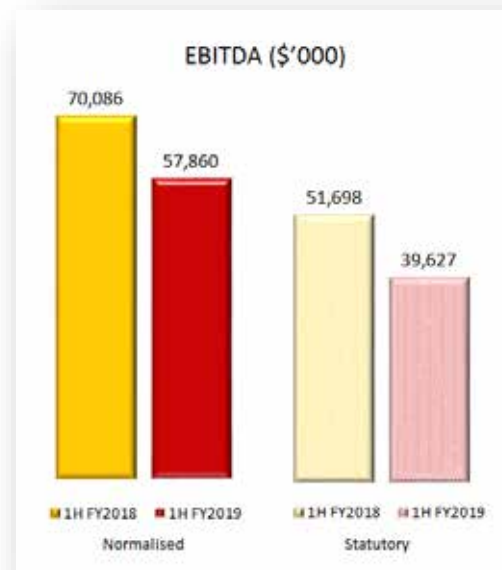
# Business Highlights and Challenges



- Continued revenue growth
- Record milk intake
- Drought impact and milk price
- Koroit integration on target
- Inventory management
- Timing of nutritionals and ingredients sales
- Input cost increases (energy, insurances)
- Kraft and Fonterra legal cases

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# 1H FY2019 Results

Consolidated Period Ending 31 December 2018	Per Financial Statements \$'000	Koroit Acquisition Costs \$'000	Koroit Fair Value Adjustments \$'000	Legal Costs \$'000	Other Costs \$'000	Normalised Result \$'000		Change from prior period \$'000	%
Revenue	649,164	-	-	-	-	649,164		35,697	5.8
Cost of sales	(528,274)	-	2,648	-	-	(525,626)		(49,546)	10.4
<b>Gross profit</b>	<b>120,890</b>	<b>-</b>	<b>2,648</b>	<b>-</b>	<b>-</b>	<b>123,538</b>		<b>(13,849)</b>	<b>-10.1</b>
Other income and expenses	(81,263)	10,842	-	2,194	2,549	(65,678)		1,623	-2.4
<b>EBITDA</b>	<b>39,627</b>	<b>10,842</b>	<b>2,648</b>	<b>2,194</b>	<b>2,549</b>	<b>57,860</b>		<b>(12,226)</b>	<b>-17.4</b>
<b>EBIT</b>	<b>20,223</b>	<b>10,842</b>	<b>2,648</b>	<b>2,194</b>	<b>2,549</b>	<b>38,456</b>		<b>(17,994)</b>	<b>-31.9</b>
Finance costs	(11,706)	357	-	-	-	(11,349)		(7,459)	191.7
Profit before income tax	8,517	11,199	2,648	2,194	2,549	27,107		(25,453)	-48.4
<b>Profit for the half year</b>	<b>4,993</b>	<b>8,757</b>	<b>1,854</b>	<b>1,536</b>	<b>1,784</b>	<b>18,924</b>		<b>(17,660)</b>	<b>-48.3</b>
Basic earnings per share - cents	2.5					9.5		(10.5)	





# Balance Sheet

	1H FY2019 Dec \$m	1H FY2018 Dec \$m	FY2018 Jun \$m
Cash and cash equivalents	40.6	18.7	21.7
Trade and other receivables	285.1	215.5	200.6
Inventories	398.8	272.5	232.1
Property, plant and equipment	443.6	307.5	323.6
Intangible assets	520.8	413.3	411.5
<b>Total Assets</b>	<b>1,735.7</b>	<b>1,250.4</b>	<b>1,215.8</b>
Trade and other payables	304.6	229.9	225.9
Borrowings	508.7	292.1	267.1
<b>Total Liabilities</b>	<b>908.4</b>	<b>616.1</b>	<b>583.8</b>
<b>Net Assets</b>	<b>827.4</b>	<b>634.3</b>	<b>632.0</b>
Net Debt	(468.1)	(273.4)	(245.4)

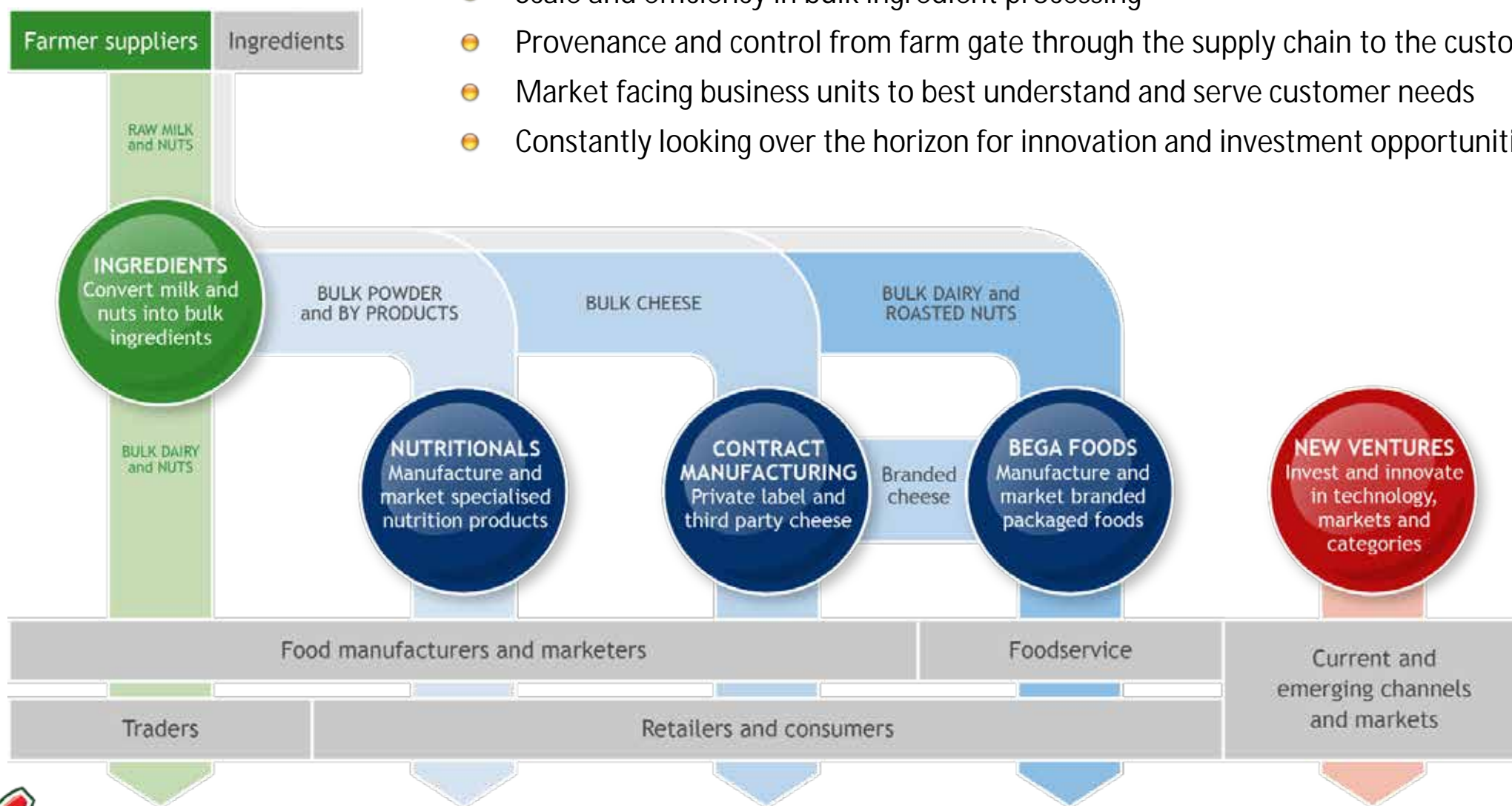
- Balance sheet growth with acquisition of Koroit
- Capital raising of \$202 million and increased borrowings
- Increased inventories primarily due to Koroit transition and increased milk volumes





# The Bega Integrated Business Model

- Scale and efficiency in bulk ingredient processing
- Provenance and control from farm gate through the supply chain to the customer
- Market facing business units to best understand and serve customer needs
- Constantly looking over the horizon for innovation and investment opportunities



# Bulk Ingredient and Nutritional Products



- Lactoferrin product supply capacity increases
- Strong global lactoferrin pricing
- Increased innovation and new customer demand
- Slower first half in infant formula and GUMP

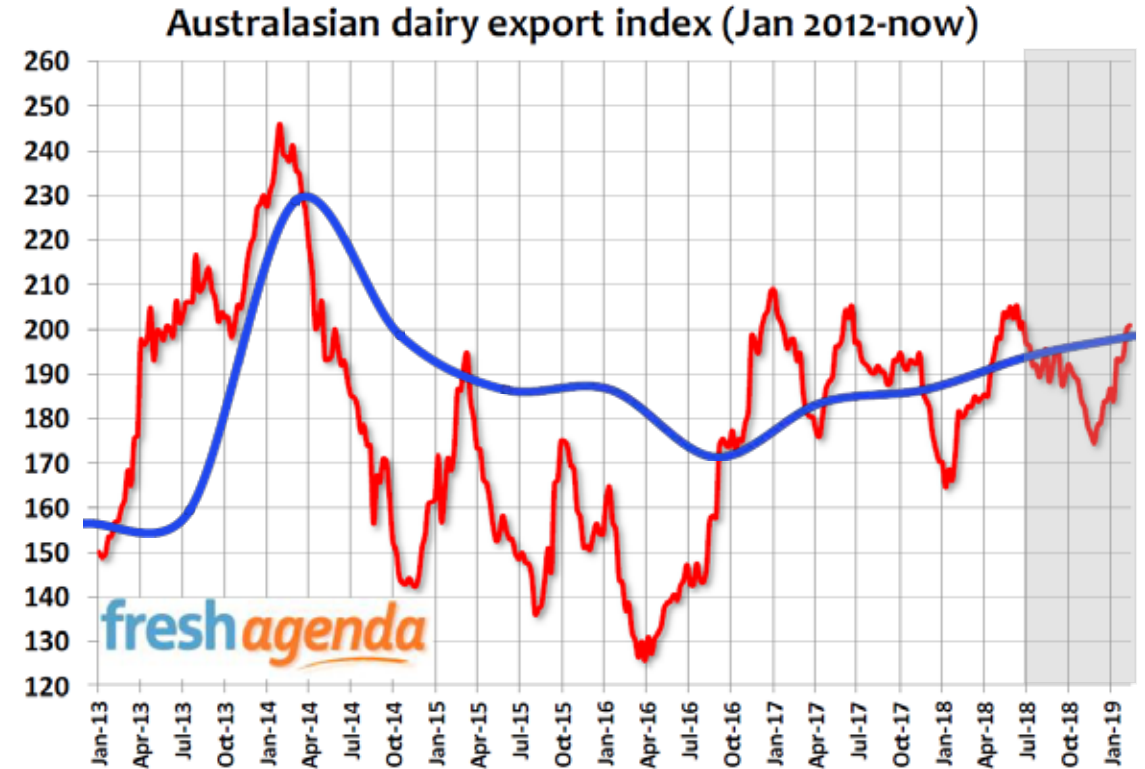


- Bega's milk supply increased 55% to 641 million litres
- Expansion domestic and international customer base
- Skim milk powder global price improvement
- Downward pressure on global fat price



# Dairy Commodity and Farm Gate Milk Price

- Milk supply competition strong particularly in northern Victoria
- National milk supply lower 5.1% primarily due to impact from drought
- Domestic milk prices are a premium to commodity returns
- Butter prices decreased 30% and SMP prices improved 6% in 1H FY2019.
- SMP intervention stocks in Europe now sold down
- Dairy commodity prices continue to firm in the 2H FY2019



— Export trend index – global commodity prices and Australian currency impact

Source: freshagenda

— Bega Cheese southern farm gate milk price trend

■ FY2018 Opening milk price \$5.50 per Kg MS

■ FY2019 Opening milk price \$5.85 per Kg MS



# Branded and Third Party Packaged Product



- Expanded range of retail products available following acquisition of Koroit
- Secured private label butter and powder sachet contracts
- Expanded export product portfolio and customer base
- Sector remains highly competitive



- Expansion into new categories and channels
- Collaboration with Arnott's for the new Vegemite flavoured shapes
- New product development (natural peanut butter, gluten free Vegemite)
- Integration of peanut supply chain and product range

# Domestic Retail Market



- Retail cheese category now \$1.6 billion growing at 3.7% annually
- Private label cheese now up to 49% volume share
- Bega brand growing with 15.7% market share
- Vegemite consumption soft in 1H but gaining momentum 2H
- Bega holding 60% share of peanut butter category despite competition
- Peanut butter driving spreads category performance on back of natural product
- Natural peanut butter now over 25% of peanut butter category



# Corporate Social Responsibility



- Total recordable injury frequency rate reduced by 53%
- Safety investment continues to focus on eliminating risks
- Year 2 of our behavioral safety program



- Sustainability report released, incorporating plans for 2019
- Energy management program established across all manufacturing sites
- On track to reduce our water intensity in FY2019
- Commenced plans to address; 2025 national package waste targets and modern slavery act 2018



# Infrastructure



**Bega – Ridge Street**

- Established 1997
- Cut and pack natural cheese and processed cheese



**Bega – Lagoon Street**

- Established 1900
- Milk processing into cheese and by products



**Tatura**

- Acquired in 2007
- Milk processing into cream cheese, powder, infant formula, lactoferrin and other dairy products



**Koroit**

- Acquired 2018
- Milk and nutritional powders and butter
- Milk processing into butter and powders



# Infrastructure



## Vegemite Way

- Acquired 2017
- Vegemite, Bega peanut butter, Zoosh, Dairylea and Bonox



## Strathmerton

- Acquired 2009
- Cut and pack natural cheese and processed cheese



## Kingaroy

- Acquired 2018
- Peanut processing into blanched, roasted and snack products



## Tolga

- Acquired 2018
- Processing and storage



# Business Priorities



- Manufacturing footprint and cost structure
- Milk volume and product mix
- Inventory management
- New retail product launches
- Legal cases
- ERP system implementation

# Growth Horizons



- Ongoing innovation in consumer spreads and dairy category
- Diversify nutritional product range and channels to customers
- Bionutrients  
(including lactoferrin)
- Domestic and international food service channels particularly for dairy  
(Cream cheese, mozzarella, butter and processed cheese)
- Milk pricing mechanism to support on farm profitability and growth





Barry Irvin  
Executive Chairman

# Where are we today



- Expand infrastructure and product range
- Rationalising capacity
- Record milk intake in difficult supply circumstances
- Regional supply challenges and competition
- Business integration impacting sales timing
- Challenging 1H FY2019



# Outlook



- Global dairy supply and demand more balanced
- Weather conditions impacting all raw material supply (milk, peanuts)
- Execution of lactoferrin expansion and contract manufacturing agreement contributing to FY2020
- Koroit integration at expectation
- Confident of demand and inventory sales process for 2H
- Normalised FY2019 EBITDA at bottom end of range following recent farm gate milk price increases





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