



## **ASX ANNOUNCEMENT**

### **Half Year 2021 Results Highlights Presentation**

I enclose the Half Year 2021 Results Highlights Presentation to be discussed on the Half Year Result 2021 Conference Call scheduled for 11:00am today.

24 February 2021

---

For further information please contact

Brett Kelly  
Company Secretary  
Bega Cheese Limited

02 6491 7777

[www.begacheese.com.au](http://www.begacheese.com.au)



# The Great Australian Food Company

Great Food  
Great People  
Great Aspirations  
Greater Good



## 1H FY2021 Results Presentation

Barry Irvin – Executive Chairman

Paul van Heerwaarden – CEO

Pete Findlay – CFO

# Key message

- ▶ Strong financial performance, balance sheet strengthening
- ▶ Continuing to manage the impact of COVID-19
- ▶ Volatile international dairy commodity market
- ▶ New lactoferrin capacity completed and commissioned
- ▶ Operational Performance Review outcomes implemented
- ▶ National dairy production stable
- ▶ Good performance in Australian retail market
- ▶ Completion of Lion Dairy and Drinks acquisition on 25 January 2021

# Transformation to becoming 'The Great Australian Food Company'

FIRST TRANSFORMATION

**2001**

SEEKING NEW OPPORTUNITIES

Cooperative founded in 1899

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

SECOND TRANSFORMATION

**2007**

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 expansion
- > Long term supply arrangement with Kraft
- > Long term nutritionals supply agreement with Mead Johnson

THIRD TRANSFORMATION

**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

**Dairy strength enhanced by new categories**

- > Major Australian brands (Vegemite)
- > Major dairy manufacturer
- > Significant consumer goods infrastructure
- > Dairy and food strengthened by combination, market and channel penetration
- > Heritage, reputation and relationships underpin business strength and growth opportunities
- > Opportunity to add further to product portfolio

**2021**

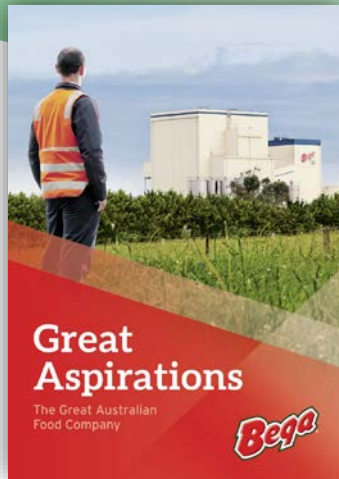
ACCELERATING GROWTH

**Customer and consumer focussed organisation**

- > Heritage Australian dairy brands in high returning categories
- > Unique national cold chain distribution network
- > Continuous improvement and rationalisation of manufacturing footprint
- > Aligning our manufacturing footprint with milk supply
- > New strategic alliances



# Bega values



# Performance highlights

- ▶ Revenue decreased by 4.5% to \$708 million
- ▶ Statutory EBITDA increased 68% to \$65.8 million
- ▶ Normalised EBITDA increased by 51% to \$73.0 million
- ▶ Working capital decreased by 5% to \$168.3 million
- ▶ Net debt pre capital raise decreased by 21% to \$247.5 million



# Revenue analysis

- ▶ Increase in international branded sales
- ▶ Increase in lactoferrin sales
- ▶ Increase in dairy toll manufacture (not reflected in revenue)
- ▶ Conclusion of milk supply guarantee arrangements (Koroit)
- ▶ Decrease in global dairy commodity prices and appreciation of Australian dollar
- ▶ Decrease in contract manufacture volumes
- ▶ Margin improvement reflects changed product mix



# Key measures

1H FY2020 Key Measures	1H FY2021 \$'000	1H FY2020 \$'000
<b>Statutory performance</b>		
Revenue	707,733	741,151
EBITDA	65,810	39,262
EBIT	40,826	17,688
PAT	21,707	8,545
EPS (cents per share)	9.6	4.0
<b>Normalised performance</b>		
EBITDA	72,989	48,464
EBIT	48,005	26,890
PAT	29,735	14,986
EPS (cents per share)	13.2	7.0

- ▶ Bega Foods and Koroit acquisitions meeting earnings expectations
- ▶ Margin improvement reflecting business diversity and product mix
- ▶ PAT impacted by 39% effective tax rate
- ▶ First half performance does not reflect likely full year performance
- ▶ Positioned for further transformation and growth following LD&D acquisition



# Reconciliation of normalised result

Consolidated Period Ending 27 December 2020	Per Financial Statements \$'000	Acquisition Costs \$'000	Legal Costs \$'000	Normalised Outcome \$'000
Revenue	707,733	-	-	707,733
Cost of sales	(564,734)	-	-	(564,734)
<b>Gross profit</b>	142,999	-	-	142,999
EBITDA	65,810	6,337	842	72,989
Depreciation, amortisation and impairment	(24,984)	-	-	(24,984)
EBIT	40,826	6,337	842	48,005
Net finance costs	(4,979)	1,610	-	(3,369)
<b>Profit before income tax</b>	35,847	7,947	842	44,636
Income tax expense	(14,140)	(508)	(253)	(14,901)
<b>Profit for the period</b>	21,707	7,439	589	29,735
Basic earnings per share - cents	9.6			13.2

# Balance sheet

	1H FY2021 Dec \$m	FY2020 Jun \$m
Cash	251.2	22.9
Trade and other receivables	97.8	117.4
Inventories	296.2	257.4
Property, plant and equipment	435.0	446.0
Intangible assets	545.8	548.1
<b>Total Assets</b>	<b>1,664.9</b>	<b>1,423.4</b>
Trade and other payables	225.6	253.4
Borrowings (net of costs)	98.6	247.3
<b>Total Liabilities</b>	<b>439.5</b>	<b>609.4</b>
<b>Net Assets</b>	<b>1,225.4</b>	<b>814.0</b>
<b>Net (Cash)/Debt</b>	<b>(145.1)</b>	<b>231.3</b>

- ▶ Balance sheet reflects proceeds of capital raise
- ▶ Net debt leverage ratio pre capital raise reduced from 2.9 to 2.0
- ▶ Capital expenditure reduced following completion of lactoferrin plant and ERP system

# Cash flow

	1H FY2021 Dec \$m	1H FY2020 Dec \$m
Receipts from customers	787.2	867.0
Payments to suppliers	(763.0)	(814.6)
Interest and other costs of financing paid	(5.0)	(6.2)
Income tax paid	(12.3)	(8.2)
<b>Operating activities</b>	<b>6.8</b>	<b>38.1</b>
<b>Investing activities</b>	<b>(10.7)</b>	<b>(32.2)</b>
Repayment of borrowings	(148.6)	(29.4)
Net proceeds from issue of shares	392.6	-
<b>Financing activities</b>	<b>232.2</b>	<b>(11.0)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>228.4</b>	<b>(5.1)</b>



# Our consumer brands

- ▶ Spreads category growth of 9.4% for the six months to December to a year ago
- ▶ Bega category growth of 13.6% and market share increased to 30.9%
- ▶ Sales of Bega Simply Nuts has doubled with market share of naturals increasing to 21%
- ▶ B honey has grown 11.4% share in Coles after six months in market
- ▶ Launched Vegemite squeezy for new usage occasions and to increase consumption
- ▶ Export revenue increased 14% to \$270 million



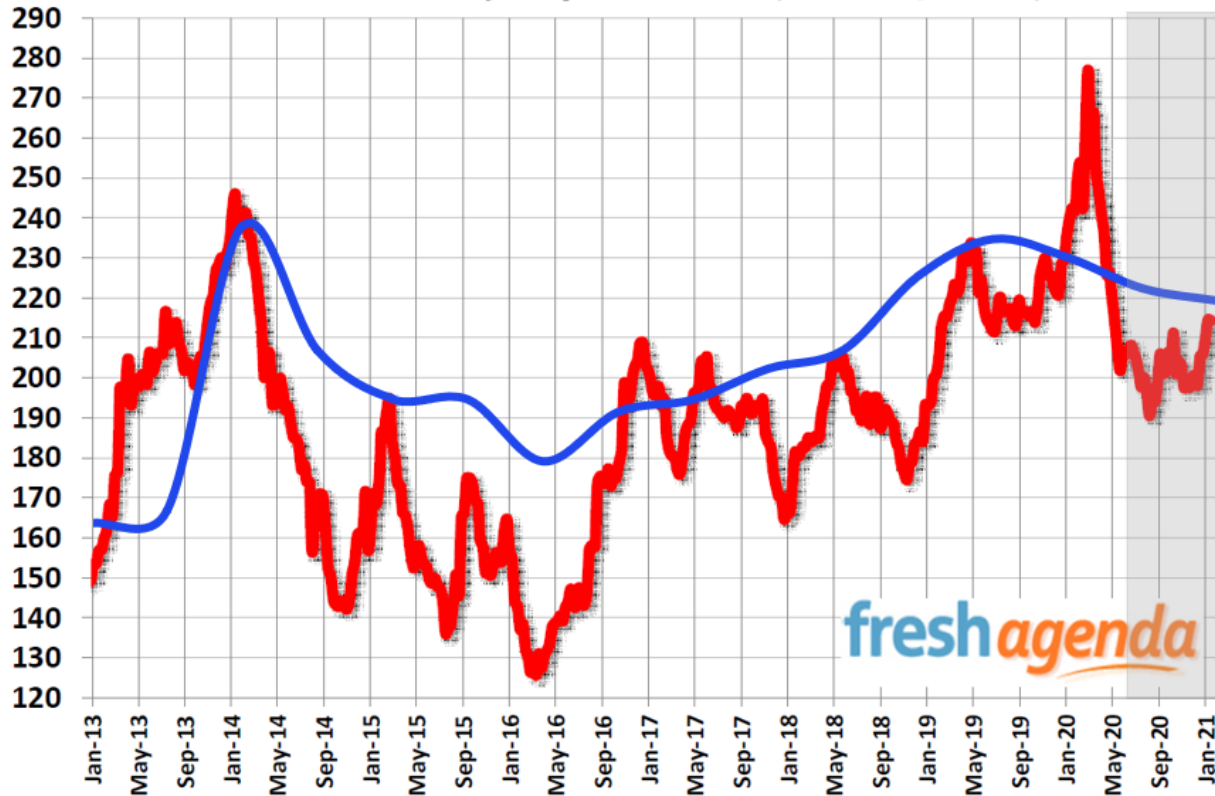
# Dairy nutritionals

- ▶ Continued growth in new channels particularly Indonesia
- ▶ Significant sector challenges reflecting changed market and delivery channels in China
- ▶ Reduced demand from several longer term customers
- ▶ Subsequent to 1H FY2021 Reckitt Benckiser advised they are exiting Derrimut nutritional canning facility
- ▶ Bega service contracts to RB includes compensation for loss of future earnings
- ▶ Bega considering implications of RB exit and any potential opportunities
- ▶ Downward pressure on lactoferrin pricing due to additional global capacity



# Dairy commodity and farm gate milk prices

Australasian dairy export index (Jan 2013-now)



- ▶ Significant dairy commodity price decrease immediately following COVID-19
- ▶ Consistent improvement in global pricing offset by appreciating Australian currency
- ▶ Stable national dairy supply
- ▶ Continued competitive procurement environment
- ▶ Announced 10c per kg milk solids step up 23 February 2021

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

Source: freshagenda

— Bega Cheese southern farm gate milk price trend

FY2020 opening milk price \$6.75 per kg milk solids

FY2021 opening milk price \$6.40 per kg milk solids

# Operations review



- ▶ Total production increased 0.5% to 155,170 tonnes
- ▶ Total milk processed including toll arrangements increased by 1.6%
- ▶ Tolling arrangements improving plant utilisations and efficiencies
- ▶ Direct milk intake decreased;
  - ▶ Conclusion of milk supply guarantee at Koroit
  - ▶ Strong competition for milk particularly in northern Victoria
- ▶ Continuous improvement program achieving lower cost, improved capacity and solids utilisation
- ▶ Successfully commissioned new lactoferrin facility at Koroit
- ▶ Development of new whey, skim and cheese products
- ▶ Implementation of DuPont safety leadership and engagement

# Lion Dairy & Drinks acquisition

- ▶ Acquisition completed 25 January
- ▶ Implementing 100 day transition plan
  - ▶ Organisational re-structure
  - ▶ Procurement program
  - ▶ Milk management and manufacturing integration
- ▶ On track to achieve synergy target for FY2022
- ▶ Business improvement and growth initiatives prioritised
- ▶ Market and trading conditions in line with expectations
- ▶ LD&D business performance highly seasonal



# Lion Dairy & Drinks transaction overview

## Transaction overview

- ▶ Bega Cheese Limited (“**Bega**”) has entered into a binding agreement to acquire Lion Dairy & Drinks Pty Ltd (“**LD&D**”) for \$534 million<sup>1</sup>
  - ▶ Implies EV / EBITDA multiple of 10.9x pro forma normalised LTM Sep-20 EBITDA<sup>2</sup> of \$56 million and 6.3x post synergy realisation<sup>3</sup>
- ▶ In addition to the acquisition price, Bega expects to incur stamp duty and acquisition transaction costs (\$42 million), capital raising and debt funding costs (\$11 million), upfront transition costs (\$21 million), additional transition and separation costs (\$60 million)

## Lion Dairy & Drinks

- ▶ One of Australia’s leading branded dairy and beverages companies with a portfolio of iconic brands holding #1 and #2 category share positions
- ▶ Large-scale, well-invested national manufacturing capability as well as Australia’s largest national cold chain distribution network
- ▶ LTM Sep-20 revenue of \$1.6 billion and pro forma normalised EBITDA<sup>2</sup> of \$56 million (post-AASB 16) excluding synergies

## Acquisition rationale

- ▶ Creates large-scale dairy and foods business with increased branded portfolio. Achieving 2023 branded portfolio target ahead of schedule
- ▶ Highly complementary Consumer Packaged Goods (“**CPG**”) capability
- ▶ Significant expansion of domestic distribution network, with a focus on route channel
- ▶ Strengthens core dairy footprint
- ▶ Substantial synergy opportunity (estimated at \$41 million per annum)
- ▶ Financially compelling returns for shareholders

<sup>1</sup> Net acquisition price represents gross sale price of \$560 million less a \$26 million deduction for IT separation costs (net of tax)

<sup>2</sup> Represents post-AASB 16 pro forma normalised EBITDA, including Vitasoy JV: 49% of NPAT and a management fee, and 75% of Capitol Chilled Foods (Australia) (“**CCFA**”) earnings

<sup>3</sup> Including \$41 million of base case synergies. EV / EBITDA multiple on post-AASB 16 basis. EV including \$78 million finance lease liabilities





# Lion Dairy & Drinks highlights



**Attractive portfolio of Milk-Based Beverages, Yoghurt, Juice, White Milk, Plant-Based Beverages, Culinary and other brands**

**Some of Australia's iconic dairy and beverage brands with #1 and #2 market share positions in its core categories**

**Australia's largest national cold chain distribution network**

**Large-scale, well invested national manufacturing capability across 13 sites**

**Pro forma LTM Sep-20 net revenue of \$1.6 billion and EBITDA of \$56 million<sup>1</sup> excluding synergies**



# Brand portfolio

 Milk Based Beverages	 White Milk	 Yoghurt	 Juice and Drinks	 Dairy Foods	 Spreads and condiments	 Water Ice	 Nutritionals
      Jacaranda	      	       	      	       	    	     	   



# Combined manufacturing footprint

- 8 ● White Milk and Milk Based Beverages
- 1 ● Milk Based Beverages Hub
- 3 ● Cheese
- 2 ● Dairy powder and fats
- 1 ● Peanuts
- 2 ● Juice
- 1 ● Yoghurt
- 1 ● Spreads
- 1 ● Plant-based – Joint Venture



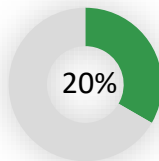
# Growing and diversifying our branded business

## Pre 2017

### Limited investment in brands

Fonterra responsible for Bega brand in Australia  
Long established international branded presence via distributors  
Minimal direct investment in supporting brands  
Reliance on large contract manufacturing relationships

Branded sales

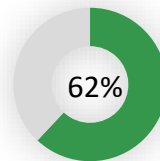


## Now

### Building brand growth engine

Extension of Bega brand into new categories  
Vegemite acquisition  
Developing sales and marketing capability  
Re-investment in brand portfolio and innovation  
Strengthening international presence

Branded sales



## Our focus

Increase brand organic growth rate

Improve branded margins

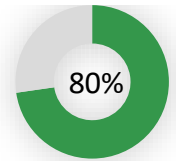
Expand brand portfolio

## 2023

### Strong brand platform for future growth

Strong portfolio of brands  
Balanced top and bottom line brand growth  
Strong brand capability extended across multiple geographies and categories

Branded sales



# Diversifying and value adding our milk pool

## Pre 2017

### Concentration of milk pool regions

Core dairy infrastructure located at Bega and Tatura

Each region likely to be impacted by drought conditions at the same time

Coburg cheese plant constrained

Nutritional business reliant on small number of high volume customers

## Now

### Infrastructure diversity and rationalisation

Acquisition of Koroit and divestment of Tatura dryer

Toll processing and capital efficiency

Dairy manufacturing integrated between key sites to maximise value of milk

Expanded nutritional capacity and customer base

Significant global producer of lactoferrin

## Our focus

Diversified milk regions

High value dairy ingredients directed to branded consumer goods

Dairy ingredients transformed to nutritional products

## 2023

### Majority of milk destined for value added products

Network of facilities in sustainable milk regions

Dairy products supporting high value brand portfolio

Growth in international branded consumer and food service business

Diversified Australian and international customer base

High value micronutrients

# Where are we today?

- ▶ Financial results at expectation
- ▶ Performance reflecting strategy and benefit of Bega Foods and Koroit acquisitions
- ▶ Kraft legal case concluded in Bega's favour and awaiting outcome of Fonterra case
- ▶ Organisational process review benefits being realised
- ▶ Challenges in dairy nutritional demand
- ▶ Continue to manage COVID-19 impacts
- ▶ LD&D acquisition result and integration at expectation





# Our priorities

- ▶ Ensure LD&D acquisition seamless for customers and dairy farmer suppliers
- ▶ Implement 'One Bega' program for the combined Bega/LD&D business
- ▶ Safety, people and culture focus
- ▶ Execute synergy opportunities to realise first full year target of \$36 million
- ▶ Focused investment on leading brands and market development
- ▶ Leverage and rationalise manufacturing network and product capabilities
- ▶ Continue to focus on cash generation and cost management
- ▶ Support transition of RB from Derrimut and review nutritional canning options





# Disclaimer

The following disclaimer applies to this presentation and any information provided in this presentation (Information). You are advised to read this disclaimer carefully before reading or making any other use of this presentation or any Information.

This presentation has been prepared by Bega Cheese Limited ACN 008 358 503 (Bega Cheese) on information available at the time of its preparation. The Information is in summary form and does not purport to be complete. Except as required by law, no representation or warranty, express or implied, is made as to the fairness, accuracy, completeness, reliability or correctness of the Information, opinions or conclusions, or as to the reasonableness of any assumptions.

Certain statements, particularly those regarding possible or assumed future performance, costs, returns, prices, potential business growth, industry growth or other trend projections, and any estimated company earnings or other performance measures, are, or may be, forward looking statements. Such statements relate to future events and expectations and as such involve unknown risks and uncertainties, many of which are outside the control of or unknown to Bega Cheese and its officers, employees, agents or associates. Actual results, performance or achievement may vary materially from any forward looking statements and the assumptions on which those are based, and such variations are normal and to be expected.

The Information also assumes the success of Bega Cheese's business strategies. The success of the strategies is subject to uncertainties and contingencies beyond Bega Cheese's control, and no assurance can be given that the anticipated benefits from the strategies will be realised in the periods for which forecasts have been prepared or otherwise. Given these uncertainties, Bega Cheese cautions investors and potential investors not to place undue reliance on these forward-looking statements.

The Information may be changed at any time in Bega Cheese's absolute discretion and without notice to you. Bega Cheese undertakes no obligation to revise the forward looking statements included in this presentation to reflect any future events or circumstances, except as required by law or any relevant regulatory authority.

The release, publication or distribution of this Information in jurisdictions outside of Australia may be restricted by law and you should observe any such restrictions. This Information does not constitute investment, legal, accounting regulatory, taxation or other advice and the Information does not take into account your investment objectives or legal, accounting, regulatory, taxation or financial situation or particular needs. You are solely responsible for forming your own opinions and conclusions on such matters and for making your own independent assessment of the Information. You are solely responsible for seeking independent professional advice in relation to the Information and any action taken on the basis of the Information. No responsibility or liability is accepted by Bega Cheese or any of its officers, employees, agents or associates for any of the Information or for any action taken by you on the basis of the information.

