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19 November 2015

Announcements Officer  
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**PATTIES FOODS LTD (PFL)**  
**Chairman's Address – Annual General Meeting 2015**

Please find attached the Chairman's address which will be delivered to shareholders at the Annual General Meeting today.

The attached document will be posted to the Patties Foods' website once release to the market.

Yours faithfully

A handwritten signature in blue ink, appearing to read "Clinton Orr".

Clinton Orr  
**COMPANY SECRETARY**



**Patties**



**Creative Gourmet**





Australia's Favourite Food

*How we're making a good company great*



**Annual General Meeting 2015**



Australia's Favourite Food

*How we're making a good company great*



## **Annual General Meeting 2015**

**Mark Smith – Chairman**

It is a pleasure to be with you today, to discuss the business performance for 2015 and other relevant matters.

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## Overview



**Patties**



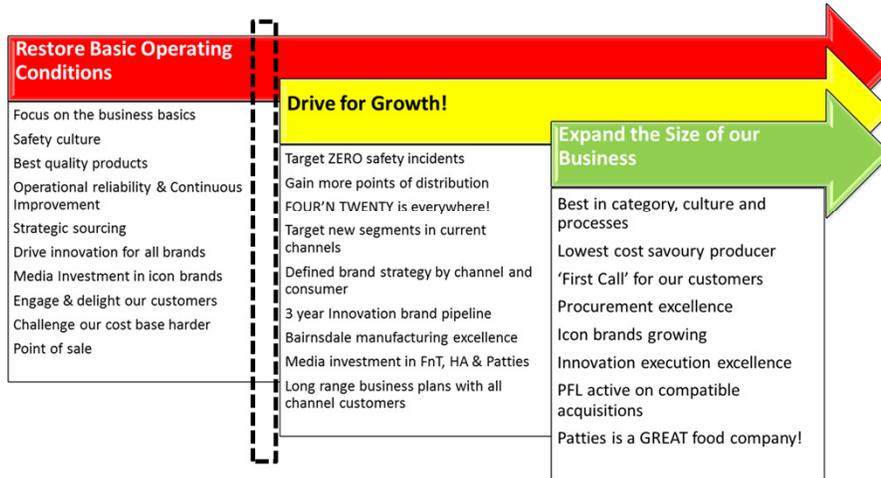
*“Patties Foods Iconic Australian brands deliver quality, convenient, great tasting food”*



Today, I will provide an overview of our strategy and operational performance for the 2015 financial year.

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# Strategic Roadmap



Our refreshed Strategic Growth Roadmap was implemented in 2015, which has at its centre, the drive for sustainable profitable growth of our core brands, and a rigorous focus on competitiveness, productivity and cost control.

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## Patties Foods Business Fundamentals

- Patties Foods remains focused on driving earnings growth and building shareholder value.
- We continue to invest in:
  - people
  - safety
  - innovation and technology
  - leverage manufacturing
  - sales and distribution capability.



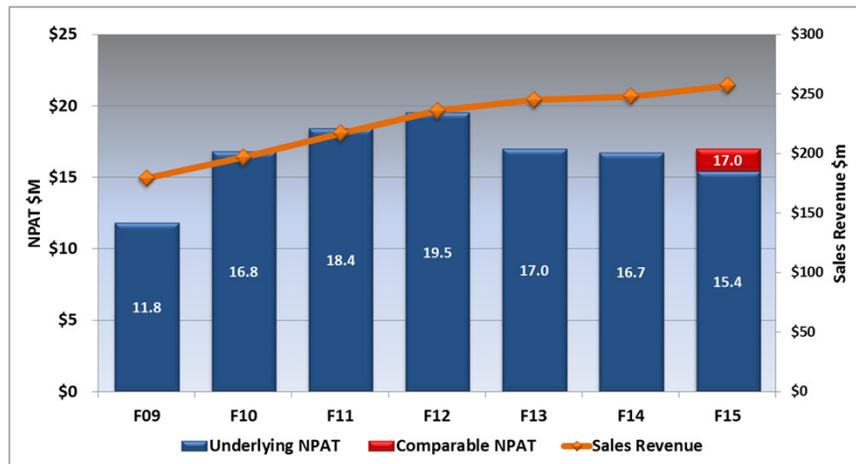
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Patties Foods, with its sound business fundamentals, and stable of iconic market leading brands, remains focused on driving earnings growth and building shareholder value.

We continue to invest in people, safety, innovation and technology, and leverage our strong manufacturing, sales and distribution capability to drive growth for our core brands.

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## Financial Overview



- Increasing revenue despite the effects of the frozen berries recall

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In the 2015 Financial year, Patties Foods Ltd. performed solidly, despite the significant impact of the Frozen Berries recall.

The recall was the primary reason for the approximately \$14.6m reduction in Net profit after tax (NPAT) compared with the previous year.

However, it is important to note that total company revenue grew by \$9.2m or 3.7%, despite the effects of the frozen berries recall.

This indicates that the Savoury business performed solidly, with all core brands growing revenue and profit. This positive result for core brands was driven by more effective marketing, product and manufacturing innovation, channel focus and expense control.

Net Profit After Tax (NPAT) for the 2015 financial year was \$2.1m compared with \$16.7m in the 2014 financial year, after taking a Non Cash Impairment charge of \$10.3m against the Frozen Fruit Intangible Assets, and an inventory provision against slow moving fruit of \$3m.

An underlying Net Profit After Tax (NPAT) of \$15.4m was achieved.

A more comparable underlying NPAT of approximately \$17.0m versus \$16.7m in the 2014 financial year would have been achieved, after allowing for the reduced margin from the lower post recall sales of Frozen Fruit in the second half.

As anticipated, the Frozen Fruit category continues to have a significant impact into the first half of this financial year versus the first half of the last financial year (FY15) which was before the recall of February 2015.

As we advised previously and as you will see on the chart, the reduced margin from the lower post recall sales of Frozen Fruit in the second half of FY15 was \$1.6M adverse to the previous year.

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## Margins

- Effective cost control with flat base operating expenses
- An additional \$1.6m was invested in Brand Marketing and related Innovation activity support
- A major Company reorganisation delivered in excess of \$3m savings in overheads and over \$2.8m in further operational and purchasing savings.



Whilst margins were adversely impacted by substantial increases in beef prices and other input costs, these cost increases were partially offset by improved manufacturing performance, improvements in Beef Procurement, and Sales price increases.

Effective cost control was demonstrated with flat base operating expenses compared with prior year, despite an increase in logistics costs

An additional \$1.6m was invested in 2015 in Brand Marketing and related Innovation activity support.

A major Company reorganisation delivered in excess of \$3m savings in overheads, and was able to deliver over \$2.8m in further operational and purchasing savings.

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## Total Dividend

- No interim dividend paid due to caution around the time of the frozen berries recall
- Final dividend of 5.0 cents per share with a Payout Ratio of 45%.



There was no interim dividend paid due to caution around the financial impacts of the frozen berries recall at the time.

The total dividend per ordinary share for the 2015 financial year is 5.0 cents per share, compared with 7.1 cents per share in the 2014 financial year (FY14), representing an underlying pay-out ratio of 45% compared with 59% in the 2014 financial year (FY14).

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## Safety



Safety Culture is a top priority, and the Board is pleased with progress in 2015 of the safety and injury management strategies that were implemented throughout the business.

Of particular note is the improvement in hazard and incident reporting with Safety Walks, now a regular activity across the business.

The overall impact of the safety and injury management strategies has resulted in a significant reduction in our Workcover premium in FY16.

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### Core Brand Focus



Strong Revenue Growth in Icon Brands

Our focus on driving for growth is evident with all of our core brands growing sales revenue in 2015, versus the prior year:

- Four'N Twenty ..... + 5.1%
- Patties ..... + 7.6%
- Herbert Adams ..... + 10.5% and;
- Nanna's Sweet Pastry Products .....+ 19%

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## Innovation Success



There were successful launches of innovative new products across all brands, including installing the latest sous vide or slow cooked technology for our Herbert Adams Slow Cooked and Four'N Twenty Real Chunky Range, placing us at the forefront of product and Manufacturing innovation in our category.

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## Operations

### Highlights

- Continuous Improvement activity in FY15 delivered over \$2.8M in operational and procurement benefits
- Pie Line 2 robotic automation is fully stabilised, running smoothly and delivering the expected benefits over FY15
- Continued capital investment in the Bakery



It is pleasing to report that our world class Bakery in Bairnsdale had a productive year.

Pie Line 2 packaging automation equipment ran smoothly and delivered the expected benefits over the FY15 year.

This follows on from the stable running of the robotic packaging equipment in FY14.

Steven will expand on other highlights in the Bakery, including capital expenditure.

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## High Performance Culture



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The Board and our Management team led by Steven, continue our strong focus on leading the high performance culture, and Patties Values that underpin our strong business.

Patties is an equal opportunity employer, and welcomes people from a diverse range of backgrounds.

On Diversity and inclusion, 46% of Patties workforce are women, and we report against measurable objectives for female representation in line with our policy.

- The representation of women on the senior executive team is 12%;
- The representation of women on the senior leaders group is 27%;
- The talent pipeline review shows that women represent 40% of our high potential talent pool

With respect to the Patties Board, there are currently no vacancies.

As vacancies arise, the Board will seek to appoint a female director.

We believe that embracing diversity in our workforce contributes to the achievement of our corporate objectives, and enhances our reputation.

We remain committed to providing access to equal opportunities at work, based on merit, and fostering a corporate culture that embraces, and values diversity.

In September, I had the pleasure of attending the Patties Foods business awards for achievement and it was extremely pleasing to note that 5 of the 8 award winners were high performing and high potential women within our business. **[PLAY VIDEO CLIP]**

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## Remuneration

- Board committed to aligning executive remuneration with shareholder interests
- Short Term Incentives driven by Financial Results
- Long Term Incentives are linked to Total Shareholder Return (TSR) and Earnings Per Share (EPS)
- Performance Rights remain effective



The Board believes in aligning executive remuneration with shareholder interests.

The Board reviews senior executive remuneration, including Non Executive Directors, annually, taking into account company performance, senior executive performance and comparative information from other listed companies, in similar industries and the broader market.

In FY15, the threshold level of company EBIT financial performance was not achieved, and therefore Senior executives were not entitled to Short Term Incentive payments.

With respect to the Long Term Incentive Plan (LTIP), the performance of Tranche 2 of the 2013 LTIP was assessed over the period from 1 July 2012 to 30 June 2015.

The business did not meet the performance threshold, and as a result, no Long Term Incentive payments were vested.

For the 2016 LTIP grant, as with 2015, the Board has determined that the use of Performance Rights remains the most effective ongoing long term Incentive for senior executives.

The Board also considers that the relative Total Shareholder Return (TSR) Performance Hurdle, and the Earnings Per Share (EPS) Performance Hurdle, both remain appropriate, and provide the right Balance between relative and absolute Company performance and alignment of executive and shareholders interests.

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## M&A



**Patties**



*“Patties Foods Iconic Australian brands deliver quality, convenient, great tasting food”*



The Board and Management continue to envisage good growth and profit potential for the current core brands, the core savoury category and channels, and that remains our focus.

However, if any relevant opportunities arise, we will explore potential acquisitions in the Food Segment, that meet our strategic and profitability criteria, and will drive shareholder value.

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## Outlook

- We anticipate our core savoury business to perform solidly and in line with last year.
- Frozen Fruit category continues to have a significant impact into the first half of this financial year.
- For the overall business, the Group expects underlying and reported NPAT to be in the range of \$7m - \$7.5m.
- In the second half, we anticipate seeing the further benefits of our business improvement initiatives, particularly the focus on core savoury brands and innovation.



In the current half year ending 31 December 2015, we anticipate our core savoury business to perform solidly, and in line with last year, driven by core brand sales growth, innovation, investment in Brand marketing.

As anticipated, the Frozen Fruit category continues to have a significant impact into the first half of this financial year versus the first half of the last financial year (FY15), which was before the recall of February 2015.

As we advised previously, the reduced margin from the lower post recall sales of Frozen Fruit in the second half of FY15 was \$1.6M adverse to the previous year.

For the overall business, and subject to the important Christmas trading period performance, the Group expects underlying and reported NPAT to be in the range of \$7m - \$7.5m. This means that the underlying NPAT for the core savoury business for the first half of FY16 is expected to be broadly in line with the first half of last year.

We look forward to the second half, when we anticipate seeing the further benefits of our business improvement initiatives discussed today, particularly the focus on core savoury brands and innovation.

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## Conclusion



*How we're making a good company great*



# Thank You

On behalf of the Board, I would like to thank the Management team led capably by our Managing Director and CEO, Steven Chaur, and all of our employees for their commitment, team work and collaboration.

I would also like to thank the Patties Board of Directors for their contribution and ongoing strong commitment to the Patties high performance values and strong Corporate Governance.

A special thank you to all stakeholders, including customers and suppliers, and in particular, our shareholders for their support.

Thank you, and I would now like to welcome our Managing Director and Chief Executive Officer, Steven Chaur to provide his address.

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