



Patties Foods Ltd
ABN 62 007 157 182



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24 August 2015

Announcements Officer
Company Announcements Office
Australian Stock Exchange Limited
South Rialto Tower
525 Collins Street
MELBOURNE VIC 3000

Patties Foods Limited (PFL) - Full Year 2015 Results Market Briefing

Please find attached, the market briefing regarding PFL's full year results for the period ended 30 June 2015.

The information contained in this announcement should be read in conjunction with the announcement on 24 August 2015 of PFL's year end report announcement, Appendix 4E, Appendix 4G and financial report for the year ended 30 June 2015.

Yours faithfully

CLINTON ORR
Company Secretary

For further information refer to www.patties.com.au or contact either:

Steven Chaur
Managing Director/Chief Executive Officer
03 8540 9100

Robin Donohue
Acting Chief Financial Officer
03 8540 9100



Patties



Nanna's



FULL YEAR RESULTS 2015

Market Briefing
August 2015

Focused

Energised

Rethink

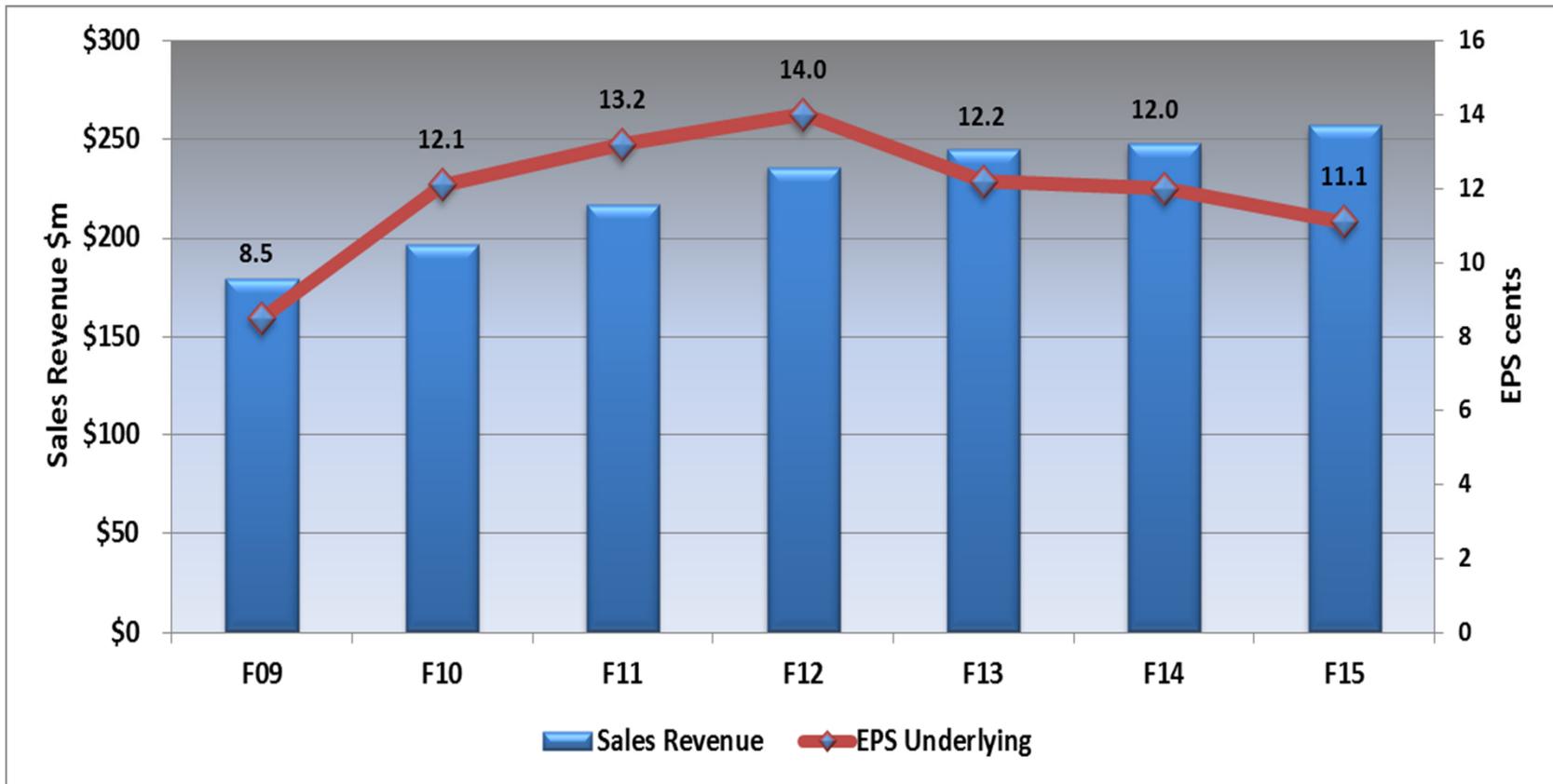


Steven Chaur - Managing Director and CEO
Robin Donohue - Acting Chief Financial Officer



The Leading
Australian Owned Branded
Frozen Food Company

Solid performance from core savoury business despite the significant impact of the Frozen Berries recall



- Total Company revenue grew by +3.7% to \$256.9m despite the effects of the frozen berries recall.
- In-Home channel grew at +7.6%, Out of Home channel remains flat but growing strongly in P&C channel.



Executive Summary – Key points



Revenue

- Group sales increased by +3.7% or \$9.2 million, from the previous corresponding year, to \$256.9m.
- The In Home and Out of Home savoury brands all maintained market leading positions, notwithstanding some market share loss due to a competitive market place.
- Branded growth from FOUR'N TWENTY (+5.1%), Patties (+7.6%), Herbert Adams (+11%) and Nanna's (+19%) supported by new products, packaging innovation, field activation and; marketing campaigns.
- FOUR'N TWENTY brand remains the leading national savoury pastry brand.
- Market leadership has been maintained across all Savoury and Sweet pastry categories.

Profit

- Underlying NPAT of \$15.4m reducing by \$1.3m on last year.
- Underlying NPAT of \$15.4m in line with the market guidance provided in June 2015 of approximately \$15.0m.
- Reported NPAT of \$2.10m decreasing by \$14.6m on last year.
- Profit Margins declined with increased input costs. These were offset through more effective purchasing, improved manufacturing performance and wholesale price increases.
- Continued effective cost control with flat operating expenses whilst investing in sustainable growth initiatives.

Balance Sheet

- Total net cash flow generated from operating activities in FY15 was \$5.3m.
- Net Debt increase of \$10.5m to \$74.2m

Strategy

- Management have refreshed the Group's Strategic Framework. Having implemented the first phase of the Group's strategic plan with the restoration of basic operating conditions, the Group are now focused on driving growth.
- Investment in growth initiatives includes:
 - Innovation through new savoury products/ packaging solutions that increase consumption and drive new distribution.
 - Capitalising on our multi-sales channel business model and growing profitable channels.
 - Continuing to deliver improved manufacturing efficiencies, lower conversion costs and the highest quality products.
 - Investing in marketing and manufacturing technology in our icon brands.





Savoury Growth but Fruit Significantly Impacts

- Net Profit After Tax (NPAT) for the year was \$2.1m vs. \$16.7m prior year after accounting for the frozen berries recall and impairment of Frozen Fruit Business.
- The underlying NPAT of \$15.4m exceeds the market guidance provided in June 2015 of \$15.0m.
- A more comparable underlying NPAT of approximately \$17.0m versus \$16.7m FY14 would have been achieved, after allowing for the reduced margin from the lower post recall sales of Frozen Fruit in the second half.
- Revenue growth of +\$9.2m was driven by strong branded savoury growth from FOUR'N TWENTY (+5.1%), Patties (+7.6%), Herbert Adams (+11%) and Nannas sweet pastry (+19%).
- Gross Margin declined due to increased input costs. These costs were offset by improved manufacturing performance, stronger beef procurement and sales price increases.
- Effective cost control with flat base operating expenses versus pcp, despite an increase in logistics costs, brand marketing spend and investment in various branded innovation launches.
- Underlying EBITDA margin to sales reduced from 13.7% to 12.6%.
- Underlying effective tax rate of 25.5% versus last year of 27.8%.
- Stable interest costs reflecting a strong internal control on debt management and improved average cost of funds.
- Reduced ROE at 11.4% versus last year 12.4%.

(\$m)	Jun-15	Jun-14	+/-
Net Sales Revenue	256.9	247.7	+9.2
Cost of Goods sold	172.1	161.2	+10.9
Gross margin	84.8	86.5	-1.7
Operating expenses	52.5	52.6	-0.1
EBITDA (underlying)	32.3	33.9	-1.6
Depreciation & Amort.	8.4	7.9	+0.5
EBIT (underlying)	23.9	26.0	-2.1
Interest	3.7	3.7	+0.1
NPBT (underlying)	18.8	22.4	-3.6
Tax	3.4	5.7	-2.3
NPAT (underlying)	15.4	16.7	-1.3
Significant Items (After Tax)	13.4	0.0	+13.4
NPAT (reported)	2.1	16.7	-14.6
EPS	1.5	12.0	-10.5
EPS (underlying)	11.1	12.0	-0.9
ROE (underlying)	11.4%	12.4%	-0.3%
Net Asset Backing (cents)	96	99	-2
DPS (cents)	5.0	7.1	-2.1



Balance Sheet and Capital Management



- The debt to equity ratio has increased to 54.7% from pcp 47.5% as a result of increased net debt of \$10.5m.
- The Group retains external bank financing capacity of \$88.4m. These facilities mature in January 2018 and are sufficient to meet the current planned organic operational and investment needs of the Group.
- Total net cash flow generated from operating activities in FY15 was \$5.3m (FY14: \$23.2m).
- The total dividends to shareholders for the year was 5.0c consisting of a final dividend of 5.0c. This results in a reduced (underlying basis) in the dividend payout ratio to 45% (FY14: 59%). There was no interim dividend paid due to caution around the uncertainty caused by the frozen berries recall.
- Stable working capital position as we focus on effective working capital management whilst ensuring profit optimisation.

Balance sheet strength & improvement is an enabler to support strategic growth initiatives.

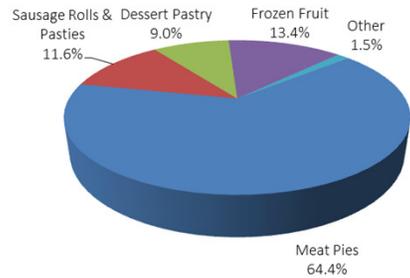
Balance Sheet (\$m)	Jun-15	Jun-14	+/-
Current Assets	103.0	91.9	+11.1
Total Assets	248.2	244.0	+4.2
Current Interest Bearing Securities	2.5	2.5	+0.0
Other Current Liabilities	32.1	36.7	-4.6
Non Current Interest Bearing Securities	72.3	61.3	+11.1
Other non-current liabilities	7.3	6.4	+0.9
Total Liabilities	114.2	106.9	+7.3
Net Assets	134.0	137.1	-3.1
Equity	68.8	68.7	+0.1
Retained Profits and Reserves	65.2	68.4	-3.2
Total Equity	134.0	137.1	-3.1
Capital Management (\$m)	Jun-15	Jun-14	+/-
Net Debt	74.2	63.7	-10.5
Leverage Ratio (Net Debt to underlying EBITDA)	2.30	1.87x	+0.4
Underlying Interest Cover (EBIT/Interest)	6.38	7.1x	+0.4
Net Debt to Equity Ratio	54.7%	47.5%	-7.3%
Cash Flow (\$m)	Jun-15	Jun-14	+/-
Cash Flow from operations	5.3	23.2	-17.9
Net cash flow from investing activities	-10.5	-9.1	-1.4
Net cash flow from financing activities	5.8	-12.3	+18.1
Net cash flow movement	0.6	1.8	-1.2
Closing cash balance	0.1	0.1	-0.0
Free cash flow	-5.2	14.1	-19.3



Multi Channel National Business Mix⁽¹⁾

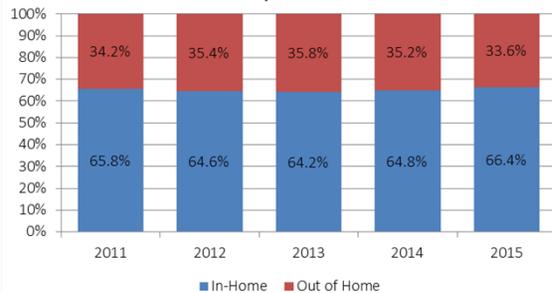


Mix of Business by Product Category



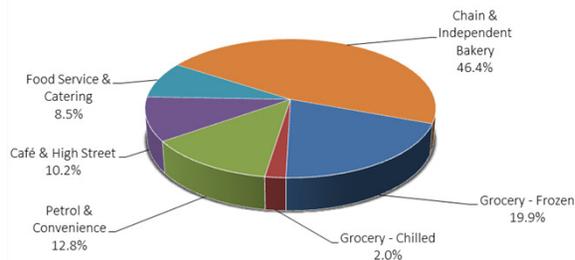
- PFL’s business strength remains in savoury pastry products
- Meat pies remain our core business through our icon and loved national brands
- The Frozen Fruit business represents approximately 13% of income and less of EBIT

Net Income by Business Channel



- PFL has a good business mix between In-Home (grocery) and Out of Home markets
- Grocery growth in 2015 including additional Private Label business
- Out of Home channel remains a focus for profitable future company growth
- The Petrol & Convenience channel for hot savouries grew at +3.8% in FY15⁽²⁾

Australian Savoury Market Value \$M 2015 (est.)



- PFL estimates the Australian Market for savoury pastries at over \$1.4Bn in retail sales
- Supermarkets have 20% share of this total savoury pastry market
- PFL currently holds approximately 25% market share and leads in the channels it competes in
- The market opportunity indicates strong potential to further grow our business domestically with our core savoury offers and brands

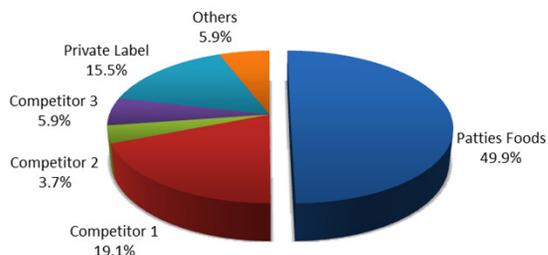
(1) Source: Patties Foods Limited
 (2) Source: AZTEC 5th July 2015



In-Home: PFL Maintains Market Leadership

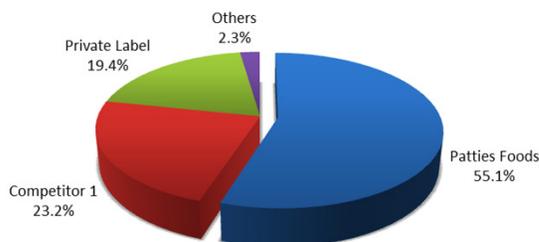


Grocery Frozen Savoury - Market Share % FY15



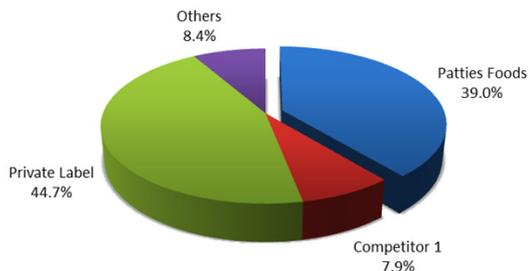
- PFL’s maintains its branded leadership at 49.9% in a competitive grocery market
- PFL is growing at +6.7% in FY15 relative to the Frozen Savoury Category at +4.0%
- FOUR’N TWENTY grew +1.4%; Herbert Adam’s +21.7% and; Patties brand +12.9%
- Market size \$291M in retail sales value, growing at+4.0% MAT and +6.7% in the last Quarter to Jul15

Grocery Frozen Dessert Pies - Market Share % FY15



- PFL’s maintains its branded leadership at 55.1% of total Dessert Pies
- Nanna’s packaging relaunch and new products grew our share in FY15
- Market size \$32M in retail sales value, growing at+3.0%

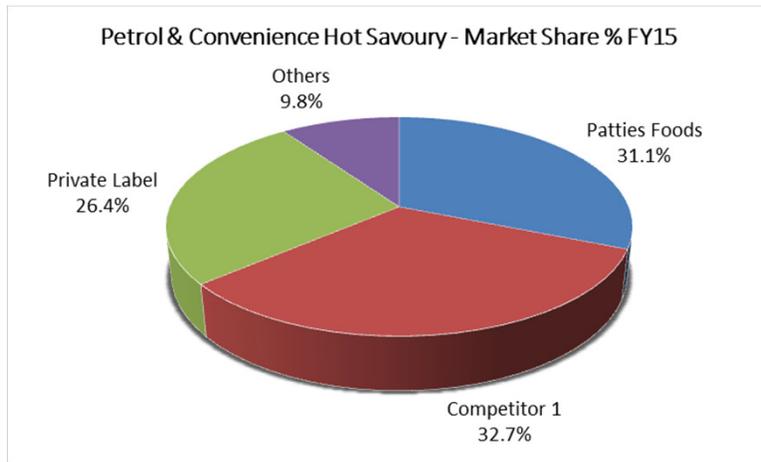
Grocery Frozen Fruit - Market Share % FY15



- PFL’s maintains its branded leadership at 39% of total Frozen Fruit
- Category growth of +7.6% MAT but -15.4% for the last Quarter to Jul15
- Market size \$128M in retail sales value



Petrol & Convenience: PFL retains market leadership



- PFL remains the market leader in the Petrol and Convenience channel with a total brand share of 31.1%
- Total market share of PFL brands & Customer brands (produced by PFL) is 53.5%
- Market size \$114M in retail sales value, growing at +3.8% MAT and +7.6% in the last Quarter
- PFL was successful in securing a number of key national accounts exclusively and; voted by the Industry⁽¹⁾ as “Supplier of the Year”

SOURCE: Aztec retail scan data by value MAT June 2015

(1) Awarded by Australian Association of Convenience Stores (AACS) for the 'Food on the Go' category



FOUR'N TWENTY: A Legend is Ignited



Brand Net Income Growth: **+5.1%**

Brand awareness

- New national TV campaign launched
- Paint the Town Yellow success with new and visible point of sale merchandising
- Fox Footy TV and game day activity featuring AFL and NRL legends

New products in 2015

- New SLAMs launched targeting 'on the go' snacking and permissible sharing (kids, females, teens)
- Real Chunky Slow Cooked pies extended to 6 skus in OOH channel
- 'STACKED' ultra chunky 4 pack pies launched to drive In-Home traditional pie sales
- 'Australia' shaped pie launched for major events and linked to fundraising

Activation highlights

- Sponsorship of Port Adelaide Power to drive sales in South Australia and nationally
- New SLAM van 'utes' in each state to support customer activation, major event sampling and summer period consumer activity
- Our iconic Pie Boys continue to be a highlight at the MCG, including opening of the new MCG Pie Shop selling our products
- 'Groove in the Moo' national music festival activation successfully leads the brand into Summer activity and targeting young consumers
- Highly visible stadium signage around Australia
- 5,000 pie warmer assets in market today

THE GREAT AUSTRALIAN TASTE



FOUR'N TWENTY: A Legend is Ignited

THE GREAT AUSTRALIAN TASTE



New TV campaigns during 2014/15

New FOUR'N TWENTY 'SLAM vans' are a major drawcard at sampling activities nationally



National Pizza Hut co-promotion successful and a first for the brand & category. On going sales of SLAMs on PH menu



FOUR'N TWENTY "Australia" shaped traditional meat pie launched to leverage unique sales for major seasonal events & public holidays



- New FNT STACKED (3 skus) in In-Home channel to drive Traditional pie sales
- New FNT SLAMs (3 skus) launched into P&C, Major venues, Schools channel to drive snacking amongst teens
- FNT Real Chunky (1+5 new skus) in OOH channel to drive premium sales and gain incremental P&C business



- Music Festivals and outdoor sampling feature as Summer Activation for the brand to deseasonalise winter sales
- Port Power sponsorship is driving additional sales in Adelaide market and cementing the brand's profile nationally as the 'Footy brand'



Patties: Focussed on Finger Foods & Snacking



Brand Net Income Growth: +7.5%

- Remains strong market leader with 42% share of party savoury products
- Patties Pie Bites & Patties Savoury Bites successfully launched in FY15 – Pie Bites have captured 6.7% share of the In-Home Party segment in FY15

Brand awareness

- TV campaign to support Pie Bites launch in 1H15
- National magazine advertising
- In store sampling & point of sale in grocery to drive impulse purchases
- Digital support – Facebook
- Shopper activation and database marketing through major retailers

New products in 2015

- Patties Pie Bites Hawaiian flavour
- Patties Mini Pizza Bites

Activation highlights

- Focus on end user activation in Foodservice market
- Pubs, clubs and catering customers snacking solutions
- Owning seasonal entertaining activation with major retailers

Patties®



Patties: Focussed on Finger Foods & Snacking

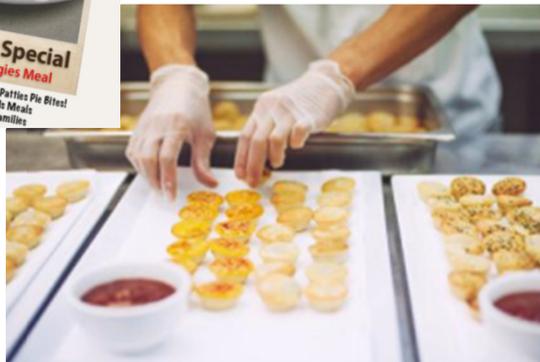
Patties



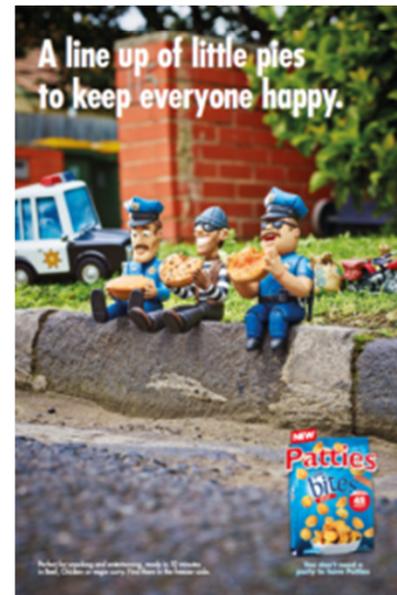
Strong activation in the In Home channel through point of sale, consumer promotions and product sampling



National women's magazine advertising supported the Pie Bites launch during F15



Strong 'meal deal' activity in Out of Home with Patties Savoury Bites to encourage increased consumption during key entertaining periods



New Patties Pie Bites Hawaiian Pizza 750g launch was well accepted by the In-Home channel



Herbert Adam's : Leads New Technologies



Brand Net Income Growth: **+10.5%**

- Brand share of single serve segment increased to 12.9%, + 3.1 share points and growing at +34.8%
- Slow -Cooked chunky range has captured a 4.8% share of the IH single serve segment and grown the chunky pie segment to 16.6% (+\$2.7M RSV) vs. FY14.

Brand awareness

- In store PoS in grocery to drive impulse purchases
- Shopper activation and database marketing

New products in 2015

- RSPCA Chicken and Chorizo pie 2x200g
- 8hr Slow Cooked Lamb & Rosemary pies 2x200g
- Slow Cooked Pulled Pork pie 2x200g
- Packaging refresh to drive premium positioning
- Extension of brand into Supermarket Chiller

Activation highlights

- Digital media support
- Magazine editorial and PR
- Silver Medal – Sydney Royal Easter Show 'Great Aussie Pie' Competition



Herbert Adam's : Leads New Technologies



Our award winning Herbert Adams 8-Hour Slow Cooked premium pies continue to drive incremental PREMIUM category growth with the addition of a NEW Lamb & Rosemary at the end of H2

New Chicken and Chorizo pie launched in to IH and OOH channels extending Herbert Adams' core pastry range. Made with premium RSPCA Approved chicken and authentic chorizo sausage.



The In Home channel welcomed back an old favourite with the relaunch of Herbert Adams Traditional Shepherd's pie.



Nanna's Sweet Pastry : A Much Loved Classic



Brand Net Income Growth: **+19.0%**

- Reversal of downward sales trend due to packaging relaunch, product improvements and new products
- Remains the market leader in In-Home Fruit Pies segment with 55.5% share

Brand awareness

- Major packaging overhaul refreshes brand and attracts new consumers
- In store PoS in grocery to drive impulse purchases
- Shopper activation and database marketing with major retailers

New products in 2015

- New Lattice top lid introduced on all Nanna's Apple Pies
- Nanna's Crumble Cakes launched in two flavours
- Nanna's Donuts launched into the P&C channel, extending the brand out of supermarkets and gaining a 2% national market share in a few months of the \$54m On the Go Sweets category

Activation highlights

- National magazine editorial and PR
- Sales resilience during the frozen berries recall indicates consumers still love the brand and are loyal to our offer

Nanna's®

Nanna's **CREATING**
SWEET MOMENTS 



Nanna's Sweet Pastry : A Much Loved Classic

Nanna's



New packaging refresh across the range in F15 helped the brand grow by +19%, attracting new consumers and

New Nanna's Donuts impulse range was launched in Out of Home channel capturing incremental share for the brand in P&C and offering the market a competitive alternative



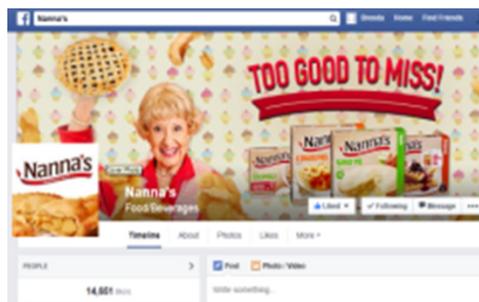
Launch of Nanna's Crumble Cakes in 2H15 well accepted by customers and showing good early incremental category growth



Advertising in national women's magazines over the year to drive premium positioning and attract lapsed consumers



Digital marketing strategy continues with Facebook and on line recipe activity



Product quality improvement in Nanna's brand sweet pies includes high focus on quality and food safety. Change to a 'lattice' top across our range has seen strong growth in sales rates



Frozen Fruit Update

Nanna's

Creative Gourmet

Patties
FOODS

Brand Net Income Growth: -6.6%

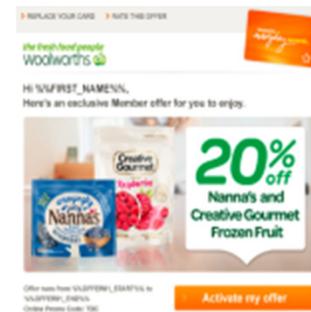
- Nanna's Frozen Fruit: -11.0% NI growth vs. FY14
- Creative Gourmet Fruit: +1.2% NI growth vs. FY14
- Patties Foods still remains the market leader in In Home Frozen Fruit category with 39% share, Nanna's 25% and Creative Gourmet 14%

Fruit Recall

- February to April 2015 was a major focus for the company
- Precautionary recall undertaken on Nanna's Mixed Berries/Raspberries 1kg, Creative Gourmet 300g/500g Mixed Berries and Chef Pride 1kg value range (Foodservice channel)
- Independent testing did not find any direct scientific link to the Hepatitis A outbreak and our Nanna's or Creative Gourmet brands
- Every batch of product continues to be sold on a 'positive release' test regime to all customers. We continue to have nil detection of Hepatitis A

Recovery Program

- The recall publicity affected sales of the total Australian frozen berries market. The category sales are now in recovery but progress is slow
- Communication activities have been undertaken with customers and consumer to re-engage category trust and sales recovery
- PFL continues to actively participate in the Frozen Fruit category and as the Australian market slowly recovers, the Company will monitor and review progress.



Targeted offers to lapsed heavy and medium weight frozen fruit buyers were sent out to encourage them to repurchase post recall

Digital marketing remains a core platform to communicate with frozen fruit consumers

Patties
FOODS

Bakery Operations are Best in Class



Highlights

- Strong food industry experienced leadership group in place across the site
- New Value Stream Manufacturing (VSM) model was implemented during FY15 driving end to end improvement gains against key measures on each production line
- Our 'Make Right First Time' focus is ensuring consistent production quality
- Continuous Improvement activity in FY15 delivered over \$2.8M in operational and procurement benefits
- Line reliability and production uptime has been a key focus to deliver improved recoveries
- Pie Line 2 robotic automation is fully stabilised, running smoothly and delivering the expected benefits over FY15



Capital Expenditure

- Successful commissioning of category leading Sous Vide cooking equipment for Slow Cooked products, which will significantly increase our capability to pursue new growth opportunities
- A new tunnel oven was installed over the December shut down increasing pie line capacity with improved product consistency, reduced waste and maintenance cost savings.



3-Stage Growth Program... Progress



Restore Basic Operating Conditions

- Focus on the business basics
- Safety culture
- Best quality products
- Operational reliability & Continuous Improvement
- Strategic sourcing
- Drive innovation for all brands
- Media Investment in icon brands
- Engage & delight our customers
- Challenge our cost base harder
- Point of sale

Drive for Growth!

- Target ZERO safety incidents
- Gain more points of distribution
- FOUR'N TWENTY is everywhere!
- Target new segments in current channels
- Defined brand strategy by channel and consumer
- 3 year Innovation brand pipeline
- Pairnsdale manufacturing excellence
- Media investment in FnT, HA & Patties
- Long range business plans with all channel customers

Expand the Size of our Business

- Best in category, culture and processes
- Lowest cost savoury producer
- 'First Call' for our customers
- Procurement excellence
- Icon brands growing
- Innovation execution excellence
- PFL active on compatible acquisitions
- Patties is a GREAT food company!

- The company has made strong progress over FY15 against its “Restore Basic Operating Conditions” phase in year 1 of the Plan
- A clear Strategic Plan has been developed to deliver profitable future growth in our core savoury business model and icon brands
- Our focus on In-Home and Out of Home as separated sales & marketing channels is delivering innovation growth and sales penetration
- Major improvements have been achieved in our Bakery operational efficiencies, capacity bottleneck elimination and plant reliability

Outlook Statement



Patties Foods is a vibrant food company with strong growth prospects derived from a multiple sales channel business model, supported by a best-in-class automated bakery operation and category leading brands.

We remain committed to driving earnings growth and building shareholder value through:

- Capitalising on our multi-sales channel business mode.
- Being recognised as an innovative, strategic business partner with all our customers.
- Making ongoing marketing and technological investment in our icon brands.
- Growing through premium, innovative new products and packaging that increase consumption, drive new distribution and create new eating occasions.
- PFL continues to actively participate in the Frozen Fruit category and as the Australian market slowly recovers, the Company will monitor and review progress.
- Continuing our drive on improved manufacturing efficiencies, a safer workplace, lower conversion costs and the highest quality food products.
- Disciplined management of overhead cost growth across the business.





Focused

Energised

Rethink



Background Information
Patties Foods Limited



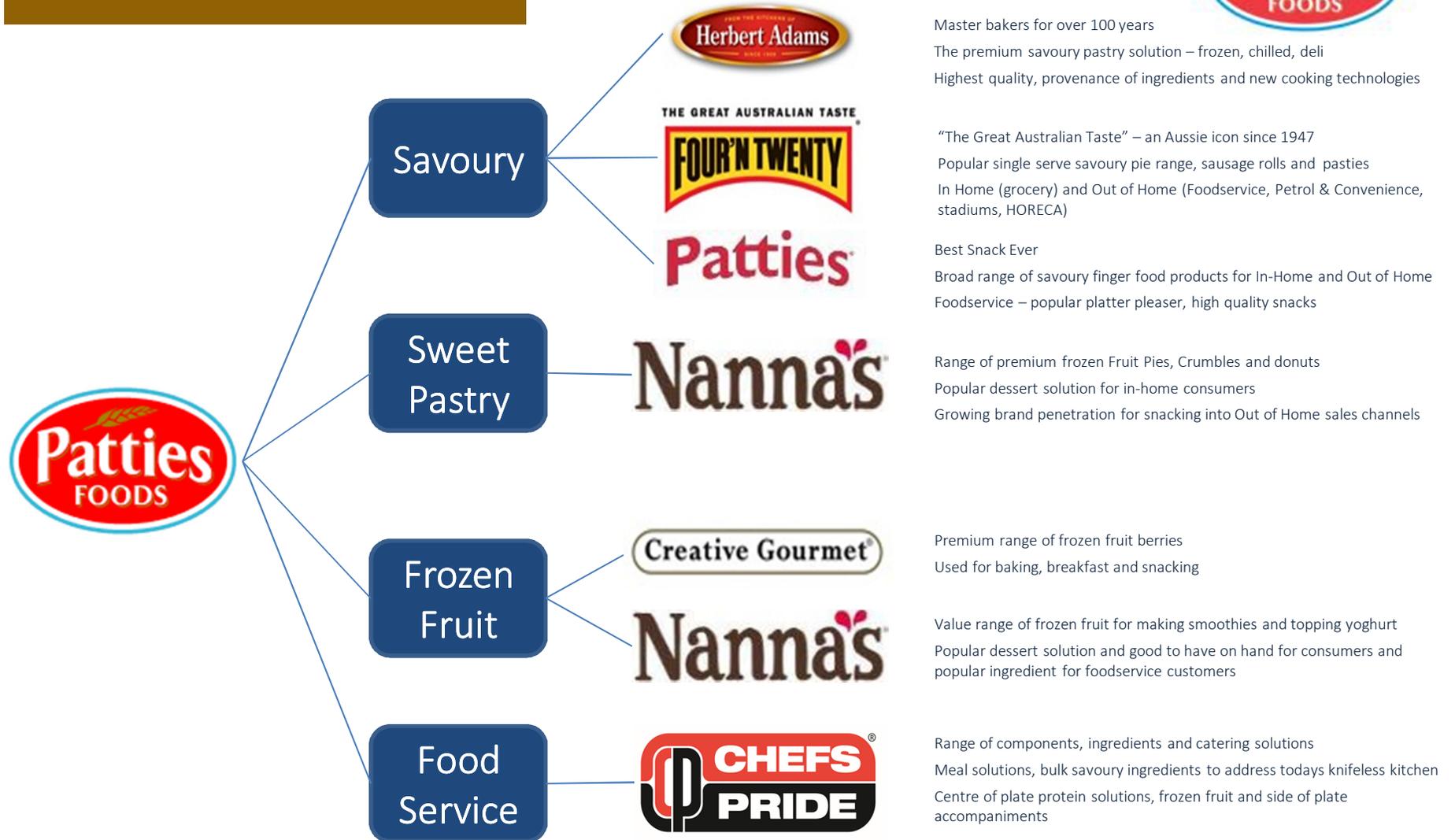
Company History



- In 1966, immigrant baker Peter Rijs and his wife Annie bought Patties Cake Shop in Lakes Entrance.
- Over time, Peter and Annie, along with their 6 sons, developed Patties into the largest savoury manufacturer in Australia with multi channel distribution throughout the country.
- In 2003, Patties acquired the FOUR'N TWENTY, Nanna's and Herbert Adam's business from Simplot Australia
- In 2006, the company became Patties Foods Limited and listed on the Australian Stock Exchange. It now has around 5,000 investors, with annual net revenues of \$260m.
- Patties Foods is now one of the largest Australian owned food manufacturing companies, producing over 450 million pies per annum, employing over 600 people and our brands are much loved everyday by consumers and customers in Australia. We also export to New Zealand and the USA.
- We are proudly based in East Gippsland Victoria, in the town of Bairnsdale and we support many local businesses



Our Brand Portfolio



Australian Frozen Savoury Pastry Industry Profile



- Estimated total market size valued at AUD\$1.4Bn in retail sales value in Australia.
- The meat pie is the 'original' fast food in Australia and is still much loved today.
- The market is characterised by many sales channels and 'on the go' consumption.
- The market is not grocery sales dependent – supermarkets represent 20% market share.
- A resilient category in uncertain economic times : affordable, quality meals and snacking.
- Innovation in the category has a positive effect on driving higher consumer demand
- Consumers seek out market leading brands to deliver quality and eating enjoyment.
- PFL is the largest national savoury pastry supplier servicing all major market channels. It has good potential to further grow into new premium savoury channels.
- Patties Foods brings strong savoury baking expertise to the market, trusted quality and decades of consumer enjoyment;
 - FOUR'N TWENTY – 69 years experience, started in Bendigo Victoria in 1946
 - Herbert Adam's Bakery – 106 years experience, started in Brunswick Victoria in 1909
 - Patties – 49 years experience, started in Lakes Entrance Victoria in 1966

