



Patties Foods Ltd
ABN 62 007 157 182

Operations

161-169 Princes Highway
Bairnsdale VIC 3875
PO Box 409
Bairnsdale VIC 3875
Phone: 03 5150 1800
Admin Fax: 03 5152 1135
Sales Fax: 03 5152 1054
info@patties.com.au
www.patties.com.au

Corporate Office

Chifley Business Park
Level 2, 1 Joseph Avenue
Mentone VIC 3194
PO Box 115
Dingley VIC 3172
Phone: 03 8540 9100
Fax : 03 9551 3393
Info@patties.com.au
www.patties.com.au

24 February 2015

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

Patties Foods Limited (PFL) - Half Year Results Market Briefing

Please find attached, the market briefing regarding PFL's half year results ended 31 December 2014 to be presented during the coming weeks.

The information contained in this announcement should be read in conjunction with the announcement on 24 February 2015 of PFL's half year report and PFL's most recent annual financial report.

Yours faithfully

A blue ink signature of Clinton Orr, written in a cursive style.

CLINTON ORR
Company Secretary

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

Steven Chaur, Managing Director and Chief Executive Officer
03 8540 9100.



Patties



Nanna's





HALF YEAR RESULTS 2015

Market Briefing
February 2015

STEVEN CHAUR
Managing Director and
Chief Executive Officer

MICHAEL KNAAP
Chief Financial Officer

Focused

Energised

Rethink



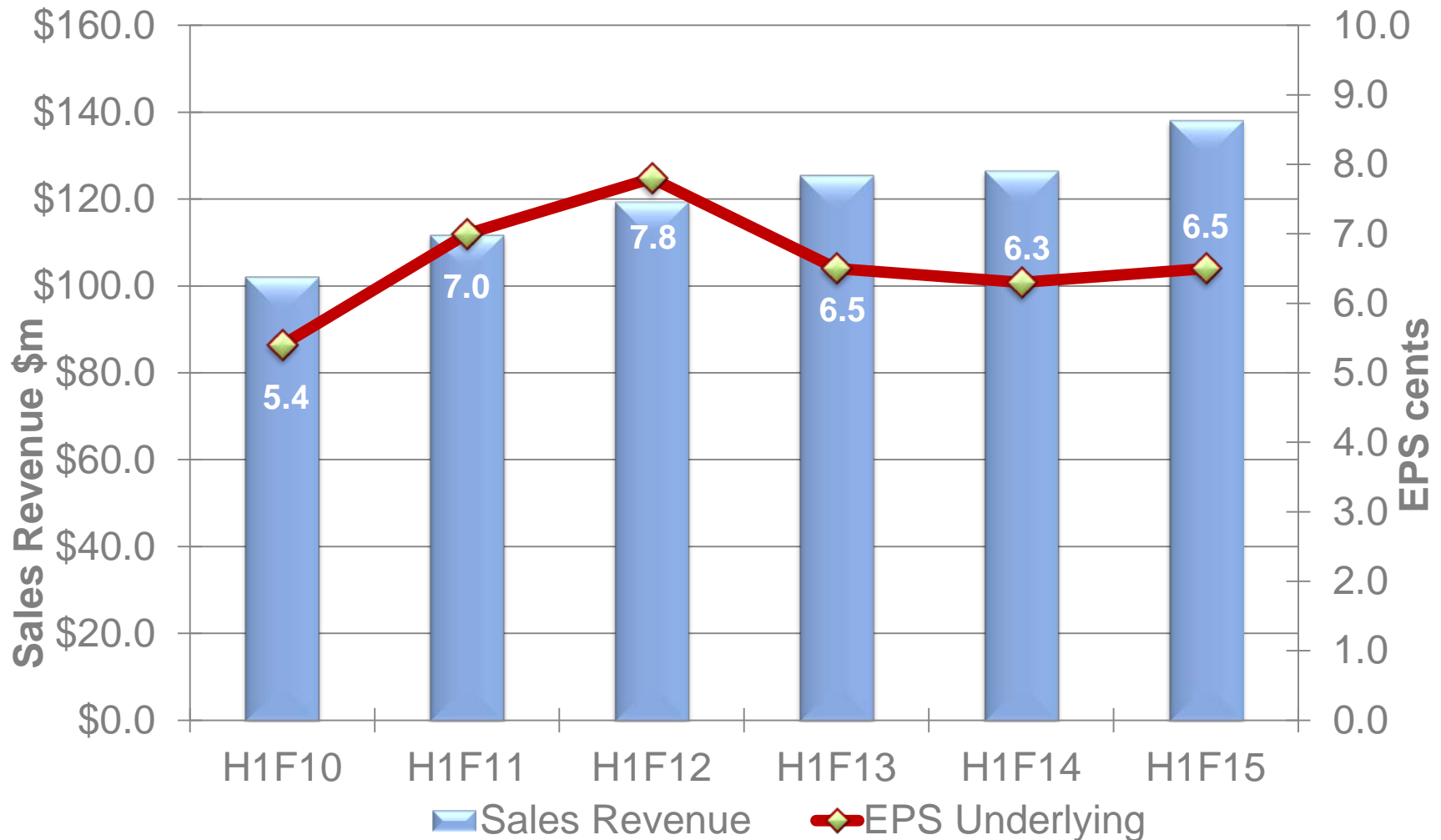
Patties



Nanna's



Solid revenue growth driven by investment in branded growth initiatives



Executive Summary: Key Points (excl. Subsequent Event)



Revenue

- Growth in Net Sales of \$11.5m (+9.1%) driven by solid branded growth.
- FOUR'N TWENTY brand remains the leading national savoury brand with growth of +5% supported by significant marketing campaigns and field sales focus.
- Branded sales growth from Patties (+6.4%), Herbert Adams (+6.7%), Nanna's fruit pie (+24.6%), Nanna's frozen fruit (+49.3%)
- Market leadership has been maintained across all Savoury and Sweet categories whilst all the Savoury brands in the In-Home channel increased market share.

Profit

- Underlying NPAT of \$9.0m increasing by \$0.2m (+3.0%) on last year.
- Reported NPAT of \$8.2m reducing by \$0.6m (-6.1%) on last year.
- Margins impacted due to increased raw material (meat) pricing.
- Effective cost control whilst increasing the investment in consumer marketing by +\$1.0m vs. 1H14.
- Significant item of \$792k post tax as a result of a major organisational restructure.

Balance Sheet

- Maintained a solid Balance Sheet with net debt to equity ratio of 55.9%
- Balance sheet absorbed a temporary tactical increase in inventory holdings as net debt increased and cash from operations decreased.

Strategy

- In line with the Strategic Growth Roadmap presented, solid progress has been made in relation to this plan:
 - Organisational review – overhead cost reduction, business process improvement, leaner organisation.
 - Bakery operational efficiency improvements – improved performance, capital implementation, Continuous Improvement & people structure.
 - Marketing Investment in driving our core brands – TV media, majors sponsorships, sports venue sales, Point of Purchase sales support.
 - Development of a clear innovation pipeline around 'fewer-bigger-better' launches and pushing into Premium consumer segments
 - Developing a high focus on Out of Home channel growth - retention of key P&C customers, store level brand activation, new products, major customer contracts, pie warmer management, pursuing new routes to market.
 - Development of innovation pipeline and successful launch of a number of new products in past 3 months, such as FOUR'N TWENTY Real Chunky; Herbert Adams 8-hour Slow Cooked pies; Patties Pie Bites; Chefs Pride Dessert Sauces

Subsequent Event - Voluntary and Precautionary Frozen Berries Recall



Following notification from the Victorian Health Department on the 13th February 2015 of potential Hepatitis A contamination, on the 14th of February 2015, Patties Foods Limited (PFL) initiated the first of three voluntarily recalls on products in the Frozen Berry category.

- **The voluntary and precautionary recalls were in the interest of public safety.**
- PFL has not to date identified a potential link to Hepatitis A through its' normal product testing regime.
- PFL continues to work proactively with the Health Authorities and has initiated a rigorous supplementary testing process specifically around Hepatitis A, with a view to determining whether as a matter of fact its products are the source for the identified cases.

Areas of potential financial impact on asset values and future earnings include principally:

- Redundant inventory.
- Out of pocket costs and expenses associated with the product recalls and supplementary product testing.
- Loss of future earning and intangibles impairment.

These areas need to be balanced against avenues of potential recovery.

At 31st December 2014 there was \$1.7m of inventory on hand with best before dates in the range of the recall product, the realisable value of which cannot be currently determined.

The net potential financial impact is therefore impossible to ascertain at this early stage, although it is possible that ultimately the impact could prove to be material.

We are tirelessly working on the tactical management of the issue whilst we establish strategies to recover and ensure that total business impact is minimised.

Underlying NPAT growth in 1H15 despite the pressures of rising commodity cost.



- Underlying NPAT growth in 1H15 of +3.0% vs. PCP, vs FY14 underlying NPAT decline of -2.0% vs. PCP.
- Revenue growth of +9.1% driven by strong core branded growth driven by Four'n Twenty, Patties, Herbert Adams & Nanna's.
- Gross margin pressure experienced through commodity input costs increases, primarily meat. Strategies were initiated to recover the input cost pressures on profitability over the full year.
- Effective cost control with flat base operating expenses, notwithstanding an increase in logistics costs (supporting growth and tactical inventory holdings), and increase in consumer marketing investment (\$1.0m).
- The significant item of \$1,131k pre-tax and \$792k post-tax is as a result of an organisational restructure delivering more efficiency and lowering the future cost base.
- Effective tax rate of 26.6% versus last year, 28.6% as the benefits of R&D concession increase.
- Reduced interest costs reflecting the lower cost of funds and a comparable average debt profile.
- Stable underlying ROE at 12.3% versus last year, 12.2%.

(\$m)	Dec-14	Dec-13	+/-	%
Net Sales Revenue	138.1	126.5	+11.5	+9.1%
Cost of Good sold	91.9	81.6	+10.3	+12.6%
Gross margin	46.2	44.9	+1.2	+2.8%
Operating expenses	28.3	27.1	+1.2	+4.5%
EBITDA (underlying)	17.9	17.9	+0.0	+0.1%
Depreciation & Amort.	4.0	3.9	+0.1	+3.8%
EBIT (underlying)	13.9	14.0	-0.1	-1.0%
Interest	1.8	2.0	-0.2	-10.8%
NPBT (underlying)	12.1	12.0	+0.1	+0.8%
Tax	3.1	3.2	-0.1	-3.1%
NPAT (underlying)	9.0	8.8	+0.2	+3.0%
NPAT (reported)	8.2	8.8	-0.6	-6.1%
Underlying EPS (cents)	6.5	6.3	+0.2	+3.2%
Underlying ROE	12.3%	12.2%	+0.1%	+0.8%
Net Asset Backing (cents)	101	96	+4.5	+4.7%
DPS (cents)	0.0	3.2	NA	NA

Balance Sheet and Capital Management



- Maintain a solid Balance Sheet and Conservative Gearing with Net Debt to Equity ratio of 55.9%.
- Balance Sheet and Cash Flows impacted by inventory increase of \$11.9m as a result of:
 - Taking significant inventory positions on input costs to defend against appreciating market prices.
 - Higher finished goods inventory position to manage planned oven upgrade in the bakery.
- As a result of the inventory position and other capital investments:
 - Net Debt increased by \$15.0m to \$78.7m at 31 December 2014.
 - Cash flow from operations was -\$3.1m
- Renewed finance facility with 3 year term expiring Jan 18, comfortable covenants and an interest rate hedge on 50% of total debt.
- We will continue to focus on effective working capital management whilst ensuring profit optimisation.
- Deferment of the decision on the FY15 fully franked interim dividends. Prudent approach due to the uncertainties around the potential but as yet unknown effects resulting from the voluntary frozen berry recall.

Balance sheet absorbed temporary tactical working capital requirements.

Balance Sheet (\$m)	Dec-14	Jun-14	+/-	%
Inventory	56.9	45.0	+11.9	26.4%
Other Current Assets	44.3	46.9	-2.6	-5.5%
Total Assets	256.7	244.0	+12.7	5.2%
Current Interest Bearing Securities	2.5	2.5	+0.0	0.0%
Other Current Liabilities	29.6	36.7	-7.1	-19.3%
Non Current Interest Bearing Securities	76.5	61.3	+15.2	24.8%
Other non-current liabilities	7.3	6.4	+0.9	14.1%
Total Liabilities	115.9	106.9	+9.0	8.4%
Net Assets	140.8	137.1	+3.7	2.7%
Equity	68.8	68.7	+0.1	0.1%
Retained Profits and Reserves	72.0	68.4	+3.6	5.3%
Total Equity	140.8	137.1	+3.7	2.7%
Capital Management (\$m)	Dec-14	Jun-14	+/-	
Net Debt	78.7	63.7	-15.0	
Leverage Ratio (Net Debt to underlying EBITDA)	2.32x	1.87x	-0.5	
Interest Cover (EBIT/Interest)	7.2x	7.1x	0.1	
Net Debt to Equity Ratio	55.9%	47.5%	-8.4%	
Cash Flow (\$m)	Dec-14	Dec-13	+/-	
Cash flow from operations	-3.1	12.8	-15.9	
Net cash flow from investing activities	-6.6	-2.3	-4.3	
Net cash flow from financing activities	9.9	-8.6	+18.5	
Net cash flow movement	0.1	1.9	-1.8	
Closing cash balance	0.3	-1.8	+2.1	
Free cash flow	-9.7	10.5	-20.2	

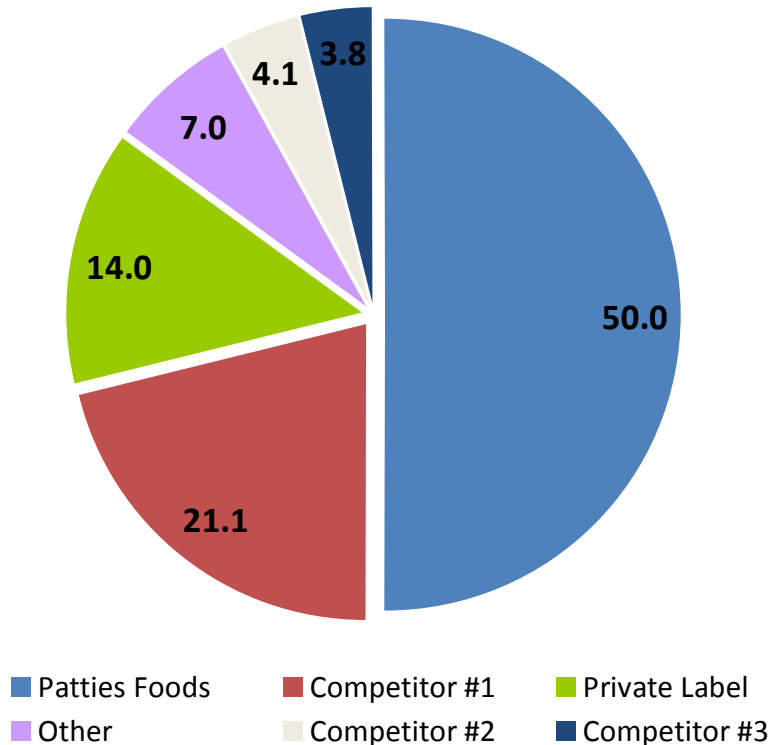
Focused
Energised
Rethink

In-Home Savoury and Fruit Pie

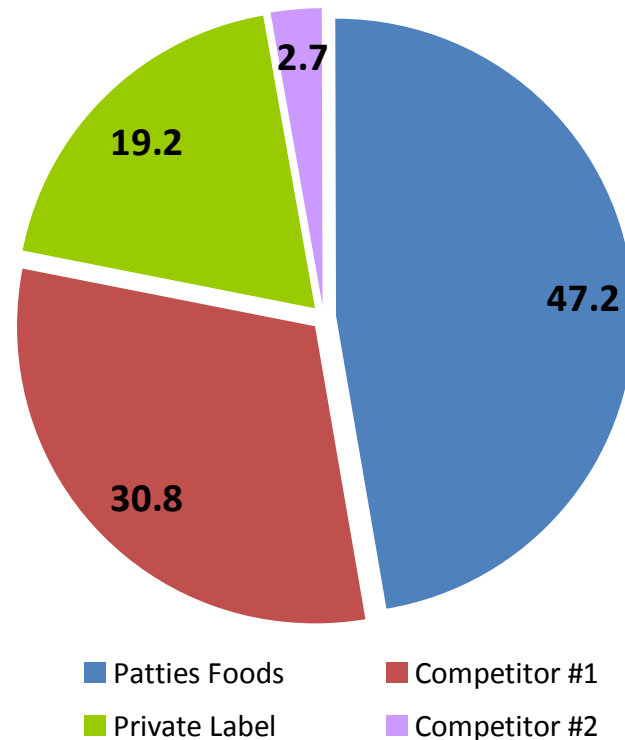
PFL maintains market leadership



National excluding Aldi Value Share of Frozen Savoury (%)



National excluding Aldi Value Share of Fruit Pies (%) Pies



Patties Foods deliver market share growth in the Savoury category whilst we maintained Market leadership in Savoury & Sweet

SOURCE: IRI Aztec Retail scan data

HALF YEAR RESULTS – FEBRUARY 2015

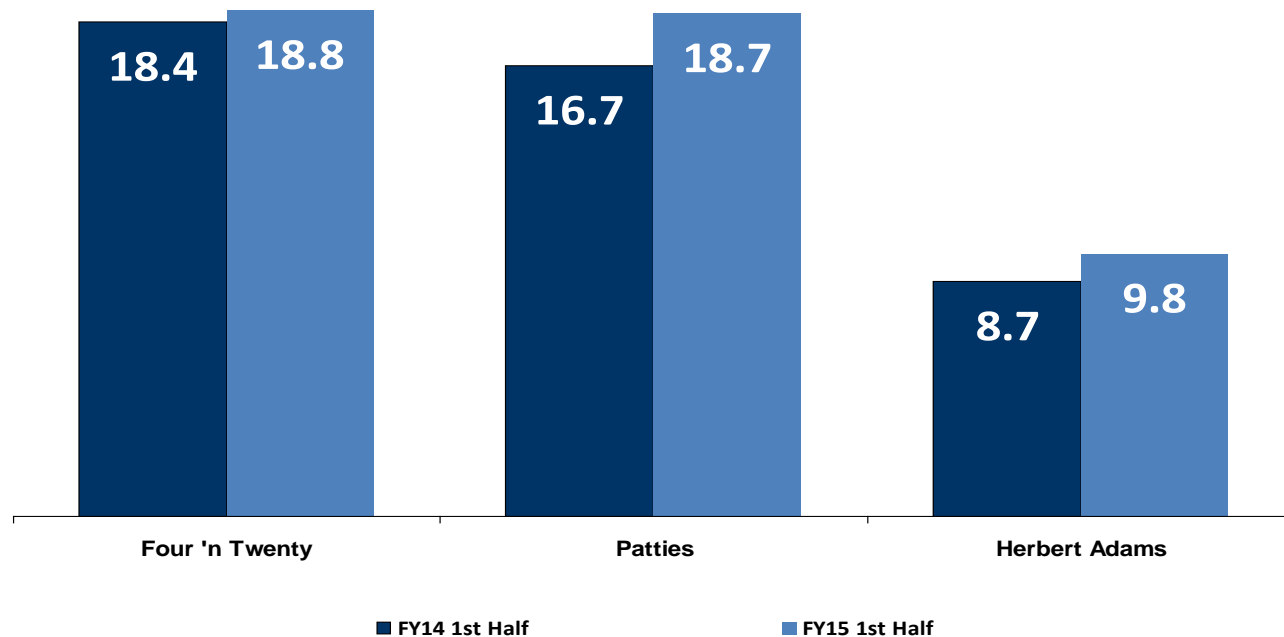
Focused
Energised
Rethink

In-Home Savoury

Multi brand strategy delivers market share growth



PFL Brand Shares (Value) in Frozen Savoury Category (Excl. Aldi)



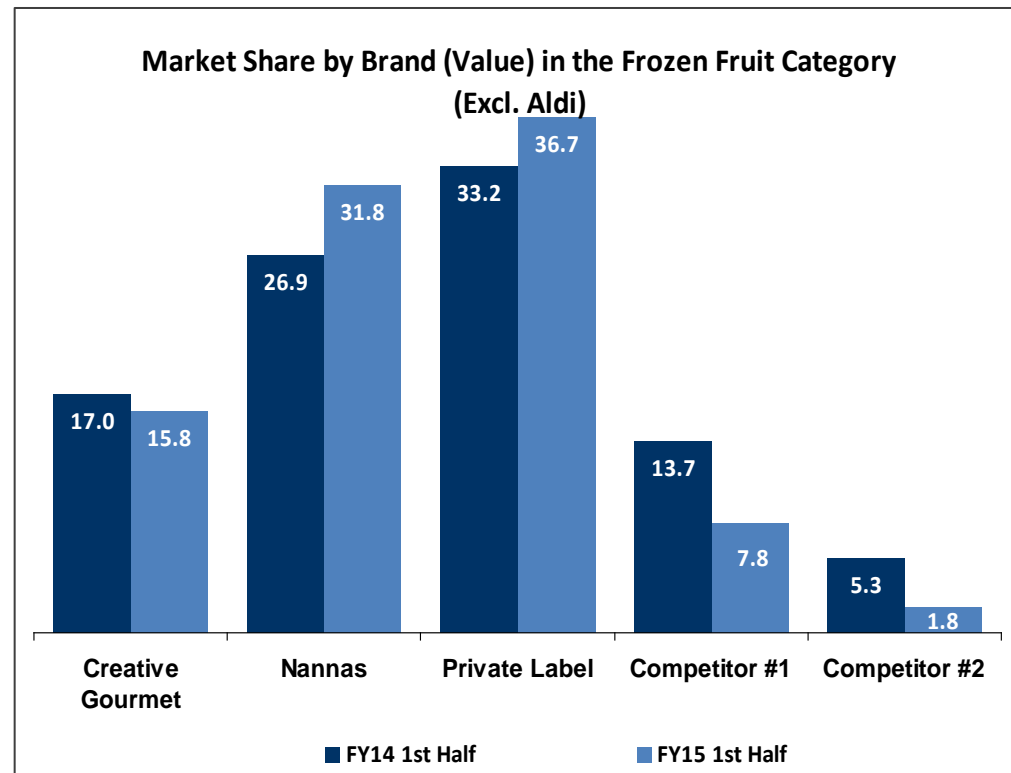
SOURCE: IRI Aztec Retail scan data

- Four'n Twenty remains the Market leader with 0.4% market share gain.
- Patties Brand +14.6% growth, resulting in +2pt gain. (Pie Bites are the key driver of growth.)
- Herbert Adams +14.1% growth resulting in +1.1pt gain. (Slow Cooked is the key driver of growth.)

In-Home Frozen Fruit Category - Category Profile

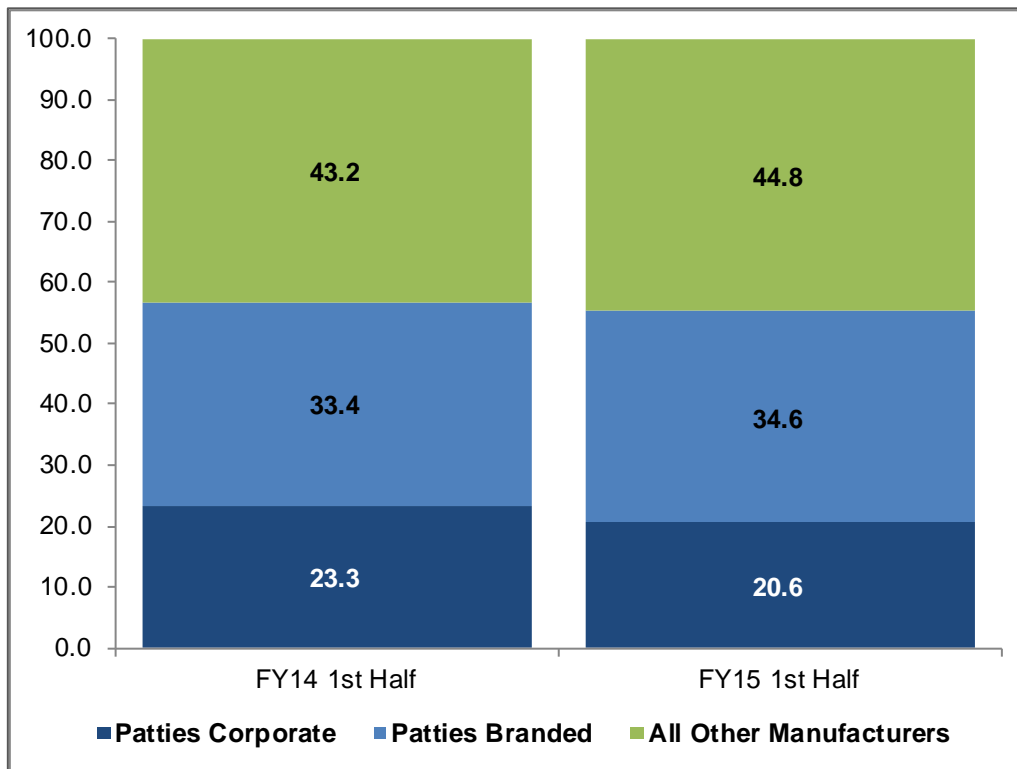


- The market share and sales performance of our brands and the category were strong in 1H15.
- The Frozen Fruit portfolio represents approx. 10% of the company's overall Gross Profit
- We are tirelessly working on the tactical management of the product recall issue whilst we establish strategies to recover and ensure that total business impact is minimised.



SOURCE: IRI Aztec Retail scan data

Out-of-Home (Hot Pastry) Branded Leadership in Petrol and Convenience



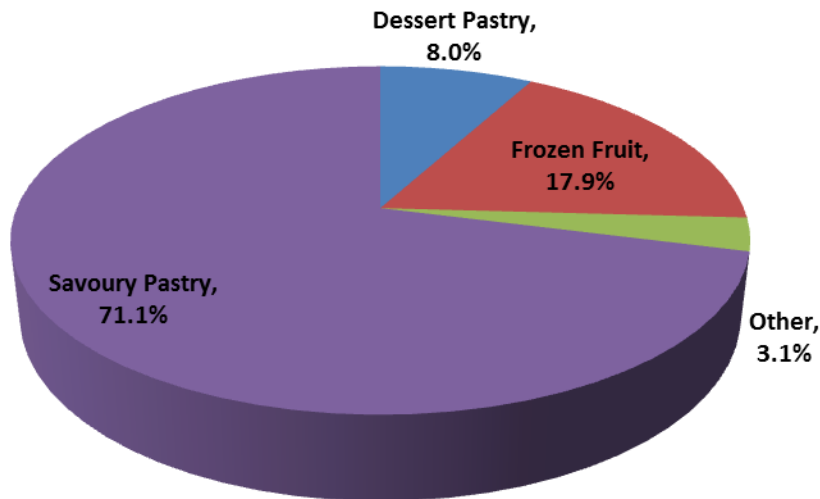
SOURCE: IRI Aztec P&C scan data

- The channel is currently growing at +1.7%.
- PFL remains the market leader in the Petrol and Convenience channel with a total market share of **55.2%**
(PFL brands & customer brands produced by Patties)
- Successfully retained & gained substantial national supply contracts in 1H15
- A major FOUR'N TWENTY brand activation program has been implemented for FY15
 - Focussed new product innovation
 - Pie warmer distribution = more sales
 - Increased brand communications
 - In market 'path to purchase' signage
 - Focused business retention
 - New customer identification
 - Customer growth plan alignment

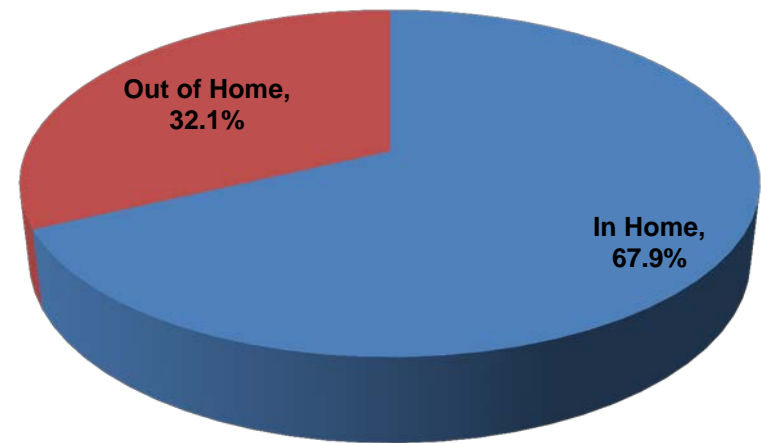
PFL Operates in Multiple Categories & Channels



Mix of Revenue by Product Category



Mix of Revenue by Sales Channel



Patties Foods is a multi-channel / multi-category company

- Strategic organisational review undertaken in 1H15 – Implemented in September.
- Good transition with business effectiveness enhanced
- Rationale driven by;
 - Operational cost reduction; key commodity cost mitigation
 - Improved decision flow; speed to market on innovation
 - Stronger core brand activation in all channels
- Focus on 4 areas;
 - Administration – reduced complexity and process duplication; overhead cost reduction
 - Sales – split of sales organisation into two clear business streams
 - Marketing – improved focus on brand and OOH channel growth
 - Bakery operations – indirect labour reduction; Value Stream led bakery management; Efficiency
- Sustainable overhead savings being realised after a non-recurring significant item (restructuring costs)

Bakery Performance Improvement



- Re-introduction of Continuous Improvement philosophy
 - » Improved consistency of product quality
 - » Reduction in wastes – line downtime, labour inefficiency, giveaway
 - » Line reliability and maintenance focus has delivered improving OEE* rates
 - » High focus on up skilling of operators and standardisation of process
- Value Stream based bakery leadership structure implemented for end to end production line accountability and performance improvement
- New Pie Line 2 tunnel oven successfully commissioned on time, on budget (December 2014) delivering capacity improvement, quality and reliability
- All production lines showing positive improvement in scheduling efficiency, OEE and mechanical reliability
- Pie Line 2 robotic automation is now settled and operating reliably.



OEE = Overall Equipment Efficiency = machine uptime x line speed x quality of production

FOUR'N TWENTY - GROWING



Our 'Paint the Town Yellow' program in all sales channels is creating new distribution points and igniting incremental product sales



Real Chunky Slow Cooked beef pies launch in the Out of Home channel is reigniting a passion for the brand



FOUR'N TWENTY remains the pie of choice for Australia's favourite sporting venues



FOUR'N TWENTY Brand Highlights

- ✓ +5.0% sales growth vs. 1H14, with growth in the Distributor channel of +9.6%
- ✓ Regained In-Home national market leadership
- ✓ Is the fastest growing savoury brand in P&C over the past Quarter at +3.8% vs. 0.9% market

More new products coming!



Our new FOUR'N TWENTY TV campaign drove brand recognition with 58% of respondents recalling the TVC and 89% remembering it as a FOUR'N TWENTY ad

HERBERT ADAMS - GROWING



Our unique recipe HA 8-Hour Slow Cooked premium pies have driven incremental PREMIUM category growth - in both In Home and Out of Home channels



New packaging is focussed on driving premium cues, ingredient provenance and meeting consumer demand for responsible sourcing

HERBERT ADAM'S Brand Highlights

- ✓ +6.7% sales growth vs. 1H14
- ✓ 3 skus 8-Hour Slow Cooked successfully launched into the In-Home and Out of Home channels
- ✓ Slow Cooked has captured +3.1% incremental share in IH to 12% category share, growing at +37.4%

More new products coming!



Competition™
2014 Bronze Medallist



Competition™
2014 Silver Medallist

HA Slow Cooked Beef & Mushroom / Beef & Pepper products received Silver Awards at the "Official Great Aussie Pie" Competition in late 2014. Our HA Slow Cooked Beef received a Bronze award.

PATTIES - GROWING



Our core Patties entertaining range has grown sales by +15% in In-Home

Patties Pie Bites in the In-Home channel has captured 3.2% incremental share (MAT Dec 2014) of the Party Savoury segment, helping the brand grow +9.1% in the latest Quarter

PATTIES Brand Highlights

- ✓ +6.4% sales growth vs. 1H14
- ✓ Remains market leader with 45% share with +9.2% growth in In Home Party category
- ✓ Patties Pie Bites & Patties Savoury Bites successfully launched – has captured 6.8% share of In Home Party segment (QTD Dec 2014)

More new products coming!



Product sampling in all sales channels remains a key focus to drive new consumer trial and major venue sales

A major national women's magazines campaign was run targeting mums during 1H15.



NANNA'S - GROWING



Nanna's new single serve donut offer show promising early growth in the Petrol & Convenience channel



Our core Nanna's Fruit Pie range was successfully relaunched with a new premium Lattice top and youthful graphics



Digital marketing and advertising in major women's magazines remains a core platform to communicate with core frozen dessert consumers



NANNA'S Brand Highlights

- ✓ Fruit Pies: +24.6% sales growth vs. 1H14
- ✓ Frozen Fruit: +49.3% sales growth vs. 1H14
- ✓ Nanna's Donuts success in Out of Home P&C channel
- ✓ Avocado 1kg launched to continue strong fruit growth
- ✓ Remains the market leader in In Home Fruit Pies segment with 49.9% share

More new products coming!



Nanna's continues its strong In-Home sales growth of its 1kg fruit range with the launch of frozen Avocado pieces in 2H15

Focused
Energised
Rethink

CREATIVE GOURMET - GROWING



CG Berries sales activation plan includes targeting peak seasonal sales periods

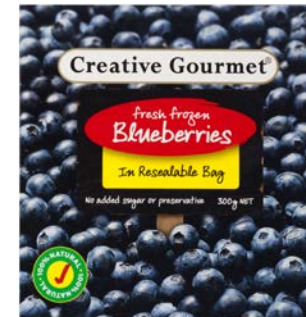


Digital marketing remains a core platform to communicate with premium frozen fruit consumers

CREATIVE GOURMET Brand Highlights

- ✓ +29.3% sales growth vs. 1H14
- ✓ CG delivers strong growth in In Home sales channel versus last year
- ✓ Successful transition from box to bag packaging
- ✓ New consumer friendly premium packaging launched in 2Q15

More new products coming!



Successful transition in 2H15 to 'packed at source' and; relaunched in new vibrant shelf friendly resealable bag packaging

Strategic Roadmap Progress – 1H15



Do what we do better

- ✓ Safety performance improving
- ✓ Simplified business model installed
- ✓ Supplier contracts renegotiated with favourable terms – ingredients, utilities
- ✓ Better than market purchasing of meat against global beef price increases
- ✓ Sales team separation delivering new business and customer engagement
- ✓ Bakery performance drive delivering reliability, higher product quality and lower cost
- ✓ Value Stream bakery leadership installed with Continuous Improvement Program relaunch
- ✓ Strategic organisational review with overhead savings achieved
- ✓ New senior leadership group harmonised to company strategy
- ✓ Mitigation of meat pricing achieved
- ✓ New PL2 oven successfully commissioned on time on budget
- ✓ Higher core brand marketing investment delivering sales growth

Drive new distribution, innovation & brands!

- ✓ \$1M additional marketing investment in core brands
- ✓ All at risk customer OOH business profitably retained with multiple year contracts
- ✓ Successful launch of 8 new product skus
- ✓ Stronger push into P&C and Out of Home channels delivering profitable brand growth
- ✓ FOUR'N TWENTY regained leadership share nationally with clear purchase activation program
- ✓ Herbert Adam's Slow Cooked driving premium category growth in In Home
- ✓ 3 year Innovation pipeline now defined
 - premium product
 - new segments
 - new channels

Grow into compatible markets & geographies

- ✓ Focus on NZ customer strategy (in home) has delivered incremental business with new skus
- ✓ Business aligned to focus on core savoury branded business as earnings growth driver

Following the successful launch of new savoury products with Patties Pie Bites; Herbert Adam's Slow Cooked pies and; FOUR'N TWENTY Real Chunky beef pie, during 2H15 we expect to see revenue growth in our savoury business continue through additional new product launches; additional marketing investment in our brands; continued strong field sales activation and; the commencement of new supply contracts to national Out of Home customers.

Management continue to focus on cost inflation mitigation plans for the remaining half year through wholesale price increases; reduced overheads; improved bakery production performance and reduced discretionary spending.

In addition, the net potential financial impact of the voluntary frozen berries recalls is impossible to ascertain at this early stage, although it is possible that ultimately the impact could prove to be material.

The company is diligently working on the tactical management of the issue whilst we establish strategies to recover and ensure that the total business impact is minimised.



Background Information

Patties Foods



Focused

Energised

Rethink



Patties



Nanna's



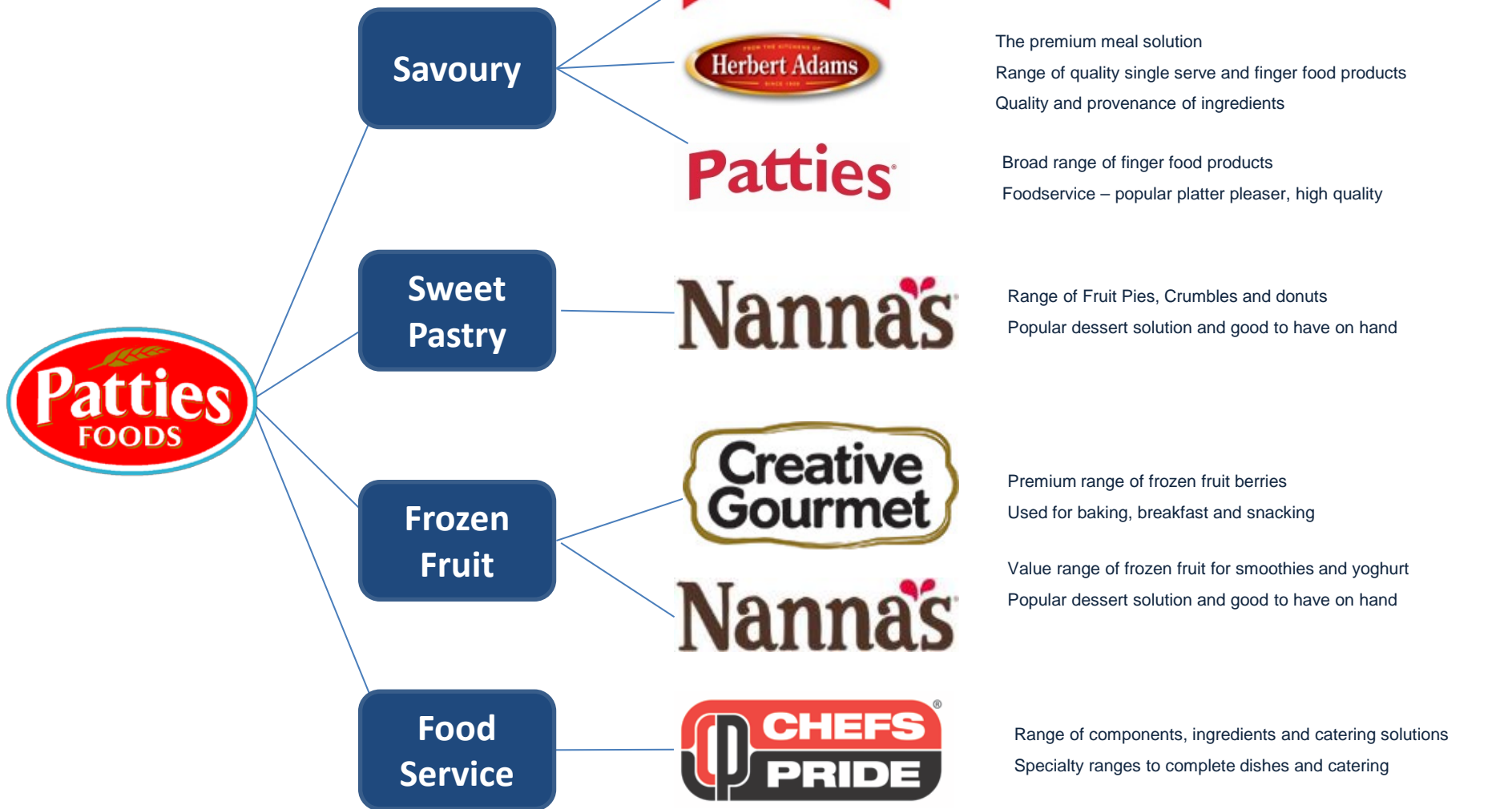
History



- 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.
- Patties Foods is now one of the largest Australian food manufacturing companies and as a public company listed on ASX has 5,000 investors, with annual revenue close to \$250m.



Brands



Frozen Savoury Category



- Resilient category in uncertain times.
- Attractive to consumers as “Australia’s favourite meal” – the meat pie.
- Our customers expect innovation to increase consumer demand.
- Our consumers want market leading brands to confirm quality proposition.
- Consumers continue to support their favourite iconic brands when new products are launched.
- PFL is a national supplier servicing all channels.