



Inghams Group Limited
FY2017 Results Presentation

22 AUGUST 2017



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01

Group highlights

Group highlights

Volume growth and financial performance ahead of prospectus forecasts

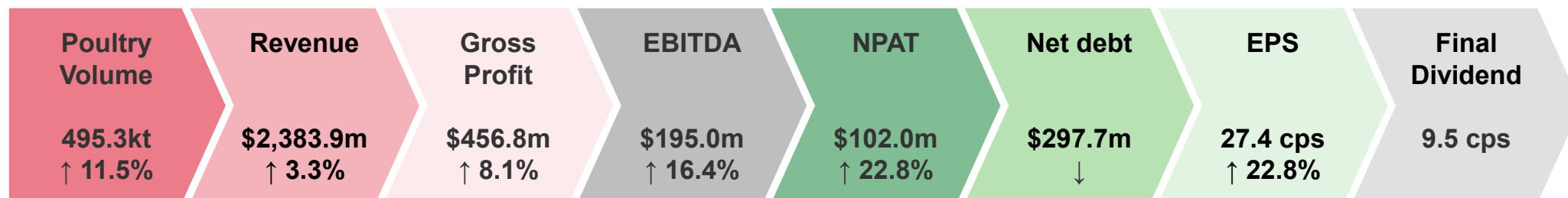
Highlights

- > Strong volume growth in Australia driven primarily through Retail and QSR channels
- > Chicken remains the competitive protein, supporting the drive by customers to deliver value
- > Improved New Zealand performance in the second half
- > Volume growth translated to profit despite the supply chain challenges of rapid growth
- > Strong cash flow generation reducing net debt

Strategy progress

- > Project Accelerate initiatives delivering as expected
 - first phase automation benefits flowing through in Primary Processing plants
 - good progress on labour efficiency, procurement and other initiatives
- > Continued progress in extending key customer contractual coverage
- > Further investment in capability – key people, IT and capital assets
- > Capital investment in capacity and efficiency on track
 - commissioned South Australia hatchery and breeder expansions
 - commenced construction of new SA feed mill and secured investor funding
 - new Queensland distribution centre to be operational in H2 FY18

Financial highlights – Pro forma FY17 vs FY16



Financial performance

- > Total Poultry volume growth of 11.5% (core chicken and turkey products 7.5%)
- > Pro forma Revenue growth of 3.3% (reflecting volume increase, feed deflation and mix change)
- > Pro forma EBITDA growth of 16.4% to \$195.0m
- > Pro forma NPAT growth of 22.8% to \$102.0m (and statutory NPAT of \$59.1M)
- > Profit on sale offset by restructuring costs
- > Pro forma Net Debt of \$297.7m (Pro forma Leverage ratio 1.5x)
- > Pro forma Earnings Per Share (EPS) of 27.4 cents (+22.8%)
- > Final dividend of 9.5 cents per share (70% of pro forma NPAT for the post IPO period)

Pro forma Segment Information – Australia

\$ millions	Actual FY2017	Prospectus FY2017	Var.	%	Actual FY2016	Var.	%
Australia							
Poultry volumes (kt)	421.8	404.6	17.2	4.3%	371.9	49.9	13.4%
Feed volumes (kt)	442.0	452.3	(10.3)	(2.3)%	432.3	9.8	2.3%
Revenue	2,022.6	2,003.3	19.3	1.0%	1,955.2	67.4	3.4%
EBITDA	158.8	153.1	5.7	3.7%	132.2	26.6	20.1%
EBITDA %	7.9%	7.6%	0.3%		6.8%	1.1%	



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FOR A SUCCULENT TASTY CHICKEN

Summary: Australia

- > Poultry volume growth excluding ingredients of 8.8%
- > Profit improvement delivered despite challenges created by strong volume growth in the integrated supply chain
- > Operations more settled as we enter FY18, with improved farming performance, yields and operational efficiency, supported by Project Accelerate benefits

Retail

- > Chicken remains the competitive protein with continued growth in retail volumes
- > Now cycling customer investment in EDLP
- > Further extended supply contract coverage including a range of cost pass through mechanisms

QSR & Food Service

- > Continued growth in QSR market volumes
- > Increased competition in Further Processed segment

Wholesale & Export

- > Improved Wholesale pricing as market rebalances post EDLP launches in FY16 / FY17
- > Export volumes remain < 2%, primarily for clearance

Pro forma Segment Information – New Zealand

\$ millions	Actual FY2017	Prospectus FY2017	Var.	%	Actual FY2016	Var.	%
New Zealand							
Poultry volumes (kt)	73.5	73.7	0.2	(0.3)%	72.3	1.2	1.7%
Feed volumes (kt)	123.2	125.3	(2.1)	(1.7)%	129.6	(6.4)	(4.9)%
Revenue	361.3	371.7	(10.4)	(2.8)%	353.5	7.8	2.2%
EBITDA	36.2	37.0	(0.8)	(2.2)%	35.3	0.9	2.5%
EBITDA %	10.0%	10.0%	0.0%		10.0%	0.0%	



Summary: New Zealand

- > Improved trading conditions and performance in H2
- > Poultry volume growth in 2H offset 1H weakness
- > Strong Free Range sales via Waitoa
- > Continued improvement in operational performance
- > Further Processed sales continue to grow on the back of regular promotional activity and NPD
- > Commenced targeted exports of Waitoa premium product to Hong Kong
- > Completed Ingham's brand refresh

Third party feed sales

- > Third party chicken feed sales in line with expectations
- > Dairy feed volumes improving on the back of milk price recovery

Note: All financial numbers are in AUD

Note: Total Poultry volumes includes core chicken and turkey products in addition to ingredients



02

Financial results

Pro forma Profit & Loss

\$ millions	Actual FY2017	Prospectus FY2017	Var.	%	Actual FY2016	Var.	%
Poultry volumes (kt)	495.3	478.3	17.0	3.6%	444.2	51.1	11.5%
Feed volumes (kt)	565.2	577.6	(12.4)	(2.1)%	561.9	3.3	0.6%
Total Revenue	2,383.9	2,375.0	8.9	0.4%	2,308.7	75.2	3.3%
Gross Profit	456.8	458.4	(1.6)	(0.4)%	422.4	34.4	8.1%
EBITDA	195.0	190.1	4.9	2.6%	167.5	27.5	16.4%
Depreciation & amortisation	(41.6)	(42.2)	0.6	1.4%	(34.4)	(7.2)	(20.9)%
EBIT	153.4	147.9	5.5	3.7%	133.1	20.3	15.3%
Net financing costs	(16.3)	(15.4)	(0.9)	5.8%	(18.0)	1.7	9.4%
Tax expense	(35.1)	(33.7)	(1.4)	(4.2)%	(32.0)	(3.1)	(9.7)%
Net profit after tax	102.0	98.8	3.2	3.2%	83.1	18.9	22.8%
Gross profit %	19.2%	19.3%	(0.1)%		18.3%	0.9%	
EBITDA %	8.2%	8.0%	0.2%		7.3%	0.9%	
Pro forma earnings per share (cents) ¹	27.43	26.56	0.87	3.3%	22.33	5.10	22.8%

A reconciliation to Statutory EBITDA of \$160.3m and Statutory NPAT of \$59.1m is set out in the Appendix

Volume & Revenue Growth

- > Strong growth in Australian poultry volume
- > NZ volumes flat across the year but growth in 2H as market dynamic improved
- > Revenue growth primarily reflects volume growth and deflationary effect of reduced feed prices

EBITDA +16.4%

- > Project Accelerate and other cost out initiatives continue to deliver margin improvement
- > Other expenses including Distribution and SG&A are up on prospectus due to increased sales volumes and additional STIP accrual
- > Profit on sale of properties offset by restructuring expenses as we continue to implement our strategy
- > Australian operations were stretched in FY17 due to rapid volume growth, now rebalancing

NPAT +22.7%

- > Net financing costs includes set up costs for the inventory financing facility
- > Underlying interest expense impacted by the timing of cash flows

1. Pro forma net profit after tax / post IPO weighted average shares outstanding

Pro forma Cash Flow and Balance Sheet

\$ millions	Pro forma FY2017	Prospectus FY2017	Pro forma FY2016	YoY Variance
EBITDA	195.0	190.1	167.5	27.5
Non-cash items	(6.6)	1.0	(0.3)	(6.3)
Changes in working capital	15.9	2.9	(11.0)	26.9
Changes in provisions	1.5	(2.0)	-	1.5
Cash flow from operations	205.8	192.0	156.2	49.6
Cash conversion ratio	105.5%	101.0%	93.3%	12.2%
Capital expenditure – Inghams	(90.5)	(85.0)	(76.8)	(13.7)
3rd party capital (for recovery) ¹	(4.8)	-	-	(4.8)
Proceeds from sale of assets	20.7	-	6.6	14.1
Net cash flow before financing & tax	131.2	107.0	86.0	45.2
\$ millions	June 2017		June 2016	Variance
Total Assets	1,082.5		925.7	156.8
Pro forma Net Debt	297.7		366.9	69.2
Net Debt / LTM EBITDA	1.5		2.2	0.7

Cashflow

- > Operating cash conversion 105%
 - ~100% excluding impact of inventory financing facility
- > Net Debt to EBITDA reduced to 1.5x
- > Working capital reduction since 1H due to improved trade debtors and payables, partially offset by normal seasonal inventory build
- > Inventory financing facility initiated in early June 2017

Working capital	Jun-17	Dec-16	Jun-16	YoY Var.
Receivables	231.5	259.9	221.3	(10.2)
Biological assets	112.5	112.1	115.3	2.8
Inventories	156.5	144.5	159.6	3.1
Payables	(257.1)	(241.3)	(236.9)	20.2
Total	243.4	275.2	259.3	15.9

Capital program

- > Capex includes ~\$7m due to customer requirements
- > Third party capital yet to be recovered relates to SA feed mill and SA breeder farm expansion
- > Asset sales relate to Mornington hatchery and the closed Cardiff processing plant

1. Third party capital agreements in place, funds to be received



03

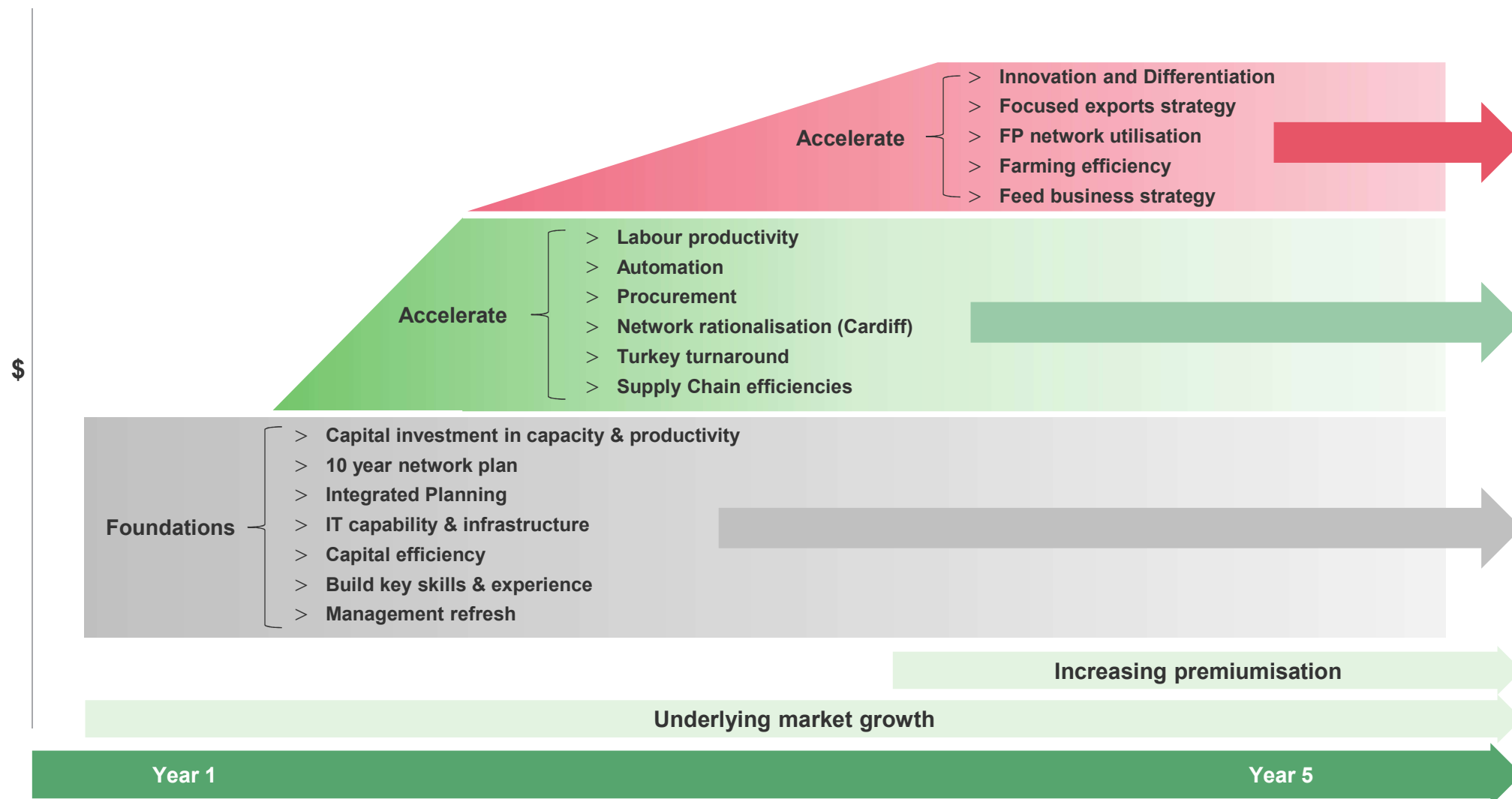
Strategy update

Ingham's – A World Class Food Company



Project Accelerate

Implementation of the multi year transformation project is well underway



The growth benefits from Project Accelerate are designed to allow Ingham's to remain competitive, mitigate inflation in costs and contribute to profit growth

Project Accelerate and capital investment update

Project Accelerate

- > **Automation** projects delivering benefits in improved processing yields and reduced costs
 - FY18 automation focus on New Zealand and FP Plants, plus identified plant debottlenecking initiatives
- > **Labour productivity** improving as key multi-year EBA agreements approved and progressively implemented
 - Now seeing a reduction in overtime and extended hours from FY17 levels
- > **Procurement** benefits delivered with additional cashflow improvement (e.g. Inventory Financing)
- > Other Accelerate initiatives in **supply chain** and **turkey** have delivered as planned
- > Increasing focus on next wave opportunities in farming, feed, further processing and measured export growth

Investing for growth

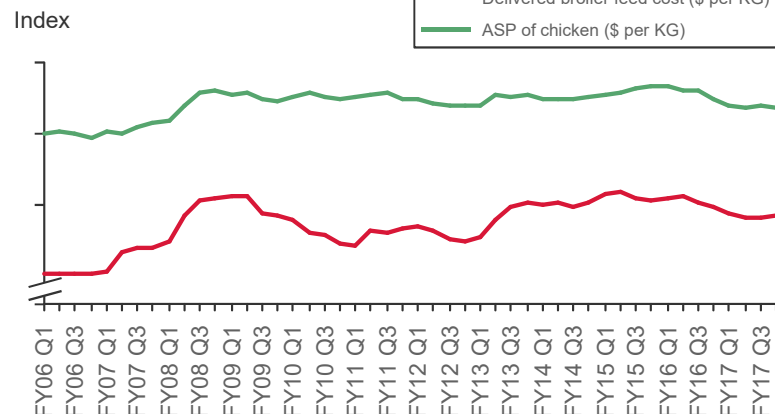
- > Ongoing South Australian projects on schedule (breeder network and feed mill)
- > Planned investment in Western Australia to support production self sufficiency
- > New Zealand breeder network expansion underway and hatchery options being reviewed
- > Improvements in farming and primary processing allow the deferral of some capacity expansion

Other

- > Sale and leaseback process for the SA Feed mill completed in June 2017
- > FY17 properties sold – Cardiff (NSW), Mornington (VIC)
- > FY18 expected sales – Wanneroo (WA), Leppington (NSW)

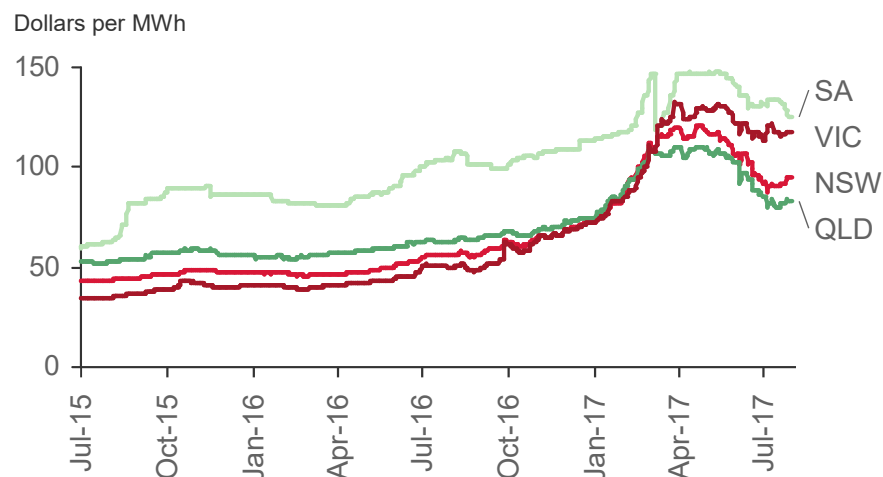
Feed and electricity pricing update

ING feed costs vs average selling prices (FY06 – 17)[^]



- > Feed prices have been moving higher in recent months
- > Over 60% of Australian poultry volumes include feed pass through mechanisms and cost adjustments
- > Market pricing expected to move in line with feed price movements as per historical trends
- > Our forward coverage extends approximately 9 months (similar to that previously communicated)

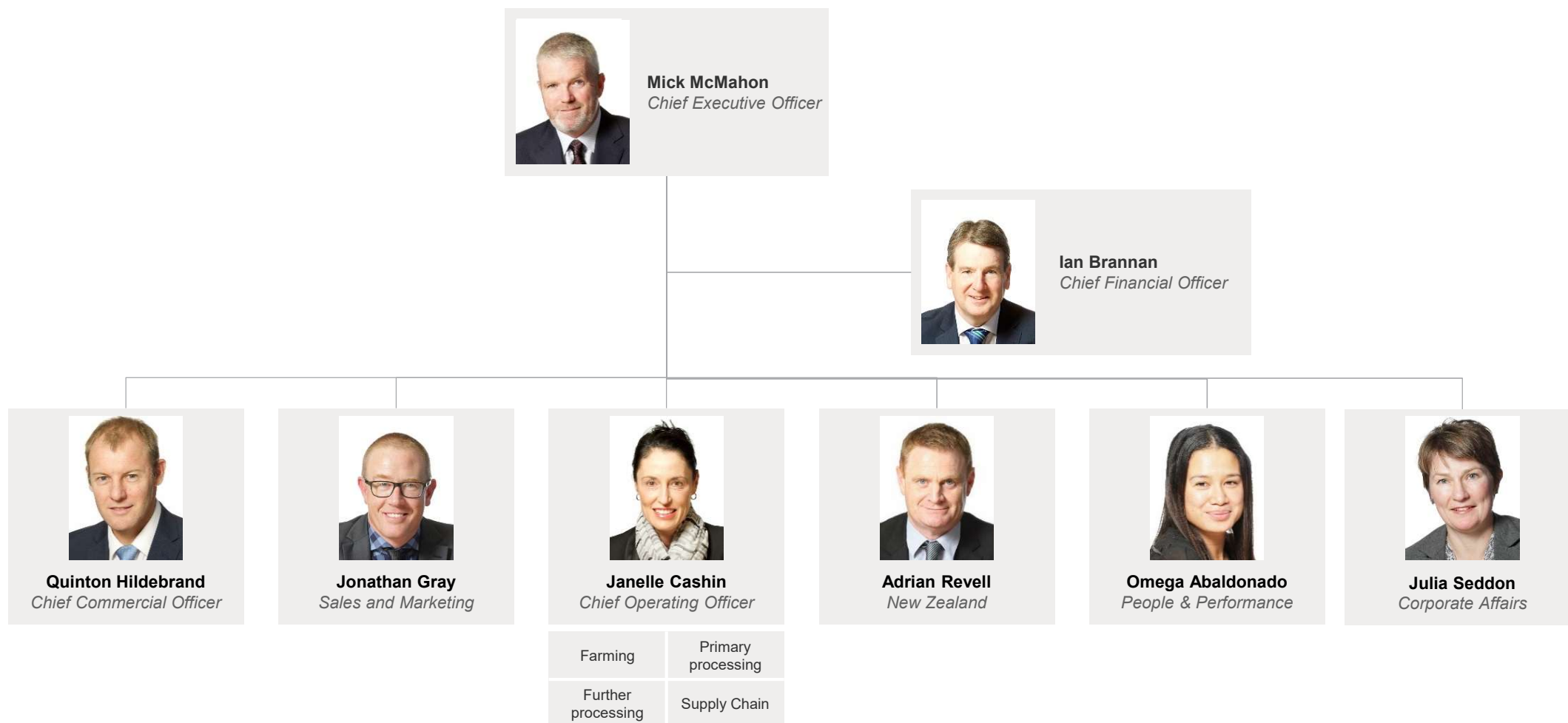
Wholesale electricity futures price by state (FY18 contract)*



- > Electricity supply contracted into 2018, continuing to review procurement options in a volatile market
- > Focus is on addressing cost rise through offsetting initiatives across the supply chain, supported by Accelerate initiatives
- > Will also benefit from the completion of more efficient greenfield sites (e.g. breeder farms, SA mill, WA mill) and DCs over time
- > All industry participants face similar challenges as indicated by recent market price rises

Simplified organisation structure

Organisation structure will continue to evolve in line with strategy implementation





04

Outlook

Outlook

- > Strategy implementation remains on track
- > Growth in Australian poultry volumes expected to be closer to historical average as we cycle EDLP initiatives
- > Continuing to optimise and rebalance the supply chain following rapid volume growth in FY17
- > Improved New Zealand 2H performance has continued into FY18
- > Accelerate benefits are expected to continue to underpin cost reduction and profit improvement
 - help offset increases in electricity costs, supported by energy efficiency and recovery via market pricing
- > Some further asset sales are expected as we continue to implement the Accelerate strategy
 - will support cash flow, further debt reduction and help offset any ongoing restructuring costs
- > Progressing a strategic review of commercial stockfeed business (third party feed sales)
- > Capex levels expected to reduce from FY17 peak



Appendix

Reconciliation of Statutory results to pro forma

\$ millions		FY2017	Prospectus FY2017	FY2016	
Statutory EBITDA		160.3	154.5	106.6	
IPO transaction costs	1	28.0	28.9	0.4	1. Removal of costs of listing on ASX in November 2016
Advisory fees	2	1.2	1.0	3.1	2. Relates to fees for services charged by TPG entities that will not be incurred post listing
Write off legacy LTI scheme	3	4.2	4.5	-	3. Relates to the remaining share based payments expense recognized in FY17 relating to the legacy LTI scheme
Transformation & relocation costs	4	6.1	6.4	59.6	4. Consulting and other costs in relation to the transformation program and the costs relating to the relocation of head office incurred in FY16
Full period public company costs	5	(1.0)	(0.9)	(2.2)	5. Adjustment to include a full period of public company related costs and replacement LTI scheme
53 rd Week		(3.8)	(4.3)	-	6. Payment for the early termination of interest rate swap contracts and write off of deferred borrowing costs resulting from refinancing as part of the listing
Pro forma EBITDA		195.0	190.1	167.5	7. Adjustment to reflect the interest and financing costs for the capital structure in place as a result of the listing
Statutory NPAT		59.1	52.7	25.2	8. Removal of 53rd week
IPO transaction costs	1	19.6	20.2	0.3	
Advisory fees	2	0.8	0.7	2.2	
Write off legacy LTI scheme	3	4.2	4.5	-	
Transformation & relocation costs	4	4.3	4.5	41.8	
Full year public company costs	5	(0.8)	(0.8)	(1.6)	
Cost of exit from finance facilities	6	12.5	15.3	-	
Capital structure adjustment	7	4.5	4.0	15.2	
53 rd Week	8	(2.2)	(2.3)	-	
Pro forma NPAT		102.0	98.8	83.1	

Summary of Provisions (per Financial Statements)

\$ millions	FY2017	FY2016	Variance
Working Capital Provisions			
Inventory	5.8	5.6	
Doubtful debts	1.4	0.1	
TOTAL Working Capital Provisions	7.2	5.7	1.5
Provisions per Financial Statements			
<u>Normal Operating Provisions</u>			
Workers compensation	24.1	23.6	
Employee benefits	76.1	80.5	
Total Normal Operating Provisions	100.2	104.1	(3.9)
<u>Other One-Off Provisions</u>			
<i>Onerous Leases</i>			
Liverpool Lease	1.8	4.4	
Cardiff Closure Onerous Contracts	-	1.8	
Total Onerous Lease Provisions	1.8	6.2	(4.4)
<i>Restructuring</i>			
Cardiff	-	10.2	
Liverpool and Other Organisational restructuring	0.6	6.7	
FY17 Head Office Restructuring	2.0	-	
Total Restructuring Provisions	2.6	16.9	(14.3)
Sub-total Onerous Lease and Restructuring Provisions	4.4	23.1	
Make Good Provision	9.9	9.9	
Other	-	0.3	
Total One-Off Provisions	14.3	33.3	(19.0)
TOTAL Provisions per Financial Statements	114.5	137.4	(22.9)

> Increased provisions for inventory / doubtful debts

> Reduction in employee benefits almost entirely related to Cardiff closure and head office restructuring / relocation (due to exit of long serving employees)

> Restructuring provisions reduced as Cardiff now closed and head office restructured and relocated from Liverpool

> Some further restructuring provision taken up as we continue to implement our strategy (in addition to restructuring costs incurred in the year)

> Remaining provisions largely relate to working capital, employee related costs and leasehold make good

Risks Summary (per Financial Statements)

Material business risks faced by the Group that may have a significant effect on the financial prospects of the Group include:

- > **Import restrictions:** Changes to import quarantine conditions in Australia and/or New Zealand that would allow additional forms of poultry to be imported could result in changes to the poultry market that would adversely impact Ingham's financial performance.
- > **Food safety and disease outbreak:** If products of Ingham's or a competitor became unsafe or were to be perceived as unsafe, reduced demand for Ingham's products or for poultry products as an industry could follow. Food safety costs can lead to significant costs being incurred for recalls or other operations to address such issues, in addition to compensation, penalties or liability claims which could be incurred. Outbreak of avian disease(s) occurring in Ingham's flock or in geographic areas in which Ingham's operates could lead to restriction on the use or transportation of affected poultry. Such disruption to supply, in addition to the other events identified here could have an adverse effect on Ingham's financial performance.
- > **Supply chain disruption:** Failure of a parent stock supplier, poor animal husbandry practices, poor feed quality or outbreak of disease could all cause a significant reduction in the volume or quality of Ingham's parent stock, limiting the Group's ability to supply sufficient volumes of product. Disruption to the supply chain such as time critical delays, failure or dispute with key suppliers or other events of disruption could have a material adverse impact on the Group's financial performance.
- > **Regulatory factors:** Ingham's requires a range of licences, permits and accreditations/certifications relating to food standards, animal welfare, workers compensation and the environment in order to continue operating successfully. Inability to secure or retain these regulatory approvals, or amendments or revoking of these approvals could have an adverse effect on Ingham's financial performance. Ongoing compliance with laws and regulations in the countries in which Ingham's operates, and ability to comply with changes to these laws and regulations are material to Ingham's business. Failure to do so would have a material adverse impact on Ingham's.
- > **Transformation projects:** Project Accelerate involves material capital investment and is expected to deliver cost savings and efficiencies to the business in future periods. Delays in the project or cost overruns, in addition to realised results differing from estimates, may negatively impact Ingham's financial performance compared to management's forecasts.
- > **Material increase in input costs:** There have been recent actual and forecast increases in a number of input costs such as utilities and commodities, ie grains and legumes. While Ingham's has a range of cost pass through arrangements in place with customers, especially in respect of feed prices, there may be instances where Ingham's is not able to pass through, or is delayed from passing through, increases in these costs to customers, resulting in the potential risk of margin erosion.