



BEGA CHEESE LIMITED ANNOUNCES RECORD INCREASE IN MILK INTAKE AND DELIVERS ON STRATEGY BUT COMES AT A COST IN THE 1H FY2019 RESULT

Bega Cheese Limited (ASX:BGA) (Group) today announced its interim financial results for the half year ended 30 December 2018.

Result Announcement

Key measures

	1H FY2019	1H FY2018	Change	
	\$m	\$m	\$m	%
Milk intake (million litres)	645	456	189	41%
Production (mt)	149,486	136,825	12,661	9%
Working capital	379.3	258.1	121	47%
Normalised performance				
Revenue	649.2	613.5	36	6%
EBITDA	57.9	70.1	(12)	-17%
EBIT	38.5	56.5	(18)	-32%
PAT	18.9	36.6	(18)	-48%
EPS (cents per share)	9.5	20.0	(11)	-53%
Statutory performance				
EBITDA	39.6	51.7	(12)	-23%
EBIT	20.2	38.1	(18)	-47%
PAT	5.0	20.6	(16)	-76%
EPS (cents per share)	2.5	11.2	(9)	-78%

Overview

The Executive Chairman Barry Irvin in commenting on the 1H FY2019 result said “The first half of the 2019 financial year has been very important and successful from a strategic perspective albeit the business has been impacted by some short-term challenges. The positives that build on the business’s long term strategy include our acquisition of the Koroit Facility in western Victoria in August 2018 and the very successful milk acquisition program that followed. The Koroit Facility acquisition has been further enhanced by the announcement that Bega Cheese will invest \$34 million on the construction of a lactoferrin facility on that site. We have also entered into a third party cheddar and mozzarella toll manufacturing agreement allowing us to continue to grow our business whilst avoiding additional capital expenditure and retire less efficient assets.”

Barry went on to say “The impact of the higher farm gate milk prices as a result of increased competition for milk due to the drought significantly reducing milk supply has been material in our business but stood us in good stead in retaining and attracting supply. In addition to milk price pressure, a lag in the timing of sales has impacted first half performance and inventory levels, leaving us with higher working capital and borrowings which will normalise over the coming months. Our focus is on creating efficient and cost-effective operations and leveraging our brands locally and overseas. We remain confident in the overall strategy of our business and expect to be at the lower end of our previous guidance of normalised EBITDA of \$123-130 million.”

Revenue

Revenue for the Group totalled \$649.2 million for 1H FY2019, being an increase of 6% on 1H FY2018. Provided below are the key factors impacting revenue in the period:

- acquisition of Saputo Dairy Australia Pty Ltd's dairy processing facility at Koroit in western Victoria (Koroit Facility) contributing net revenue of \$65.0 million from 17 August 2018, compared to nil in the Prior Period
- a decrease in revenue from our consumer packaged cheese business, timing of ingredients sales and a decrease in sales of infant nutritional canned products compared to the Prior Period due to sales timing.

Statutory Profit

The Group generated a statutory earnings EBITDA of \$39.6 million, being down on the Prior Period by (\$12.1) million or 23%, and statutory PAT of \$5.0 million, being a decrease of 76% compared to the Prior Period.

Normalised Profit

The Group incurred several one-off transaction costs relating to the acquisition of the Koroit Facility and other corporate activity totalling (\$18.6) million before tax, which have been normalised in the result for the period. The Group normalised EBITDA of \$57.9 million was down on the Prior Period by (\$12.2) million or 17%, and normalised PAT of \$18.9 million, was down on the Prior Period by (\$17.7) million or 48%.

Bega Cheese segment (normalised)

The Bega Cheese segment generated normalised EBITDA of \$31.5 million, being down on the Prior Period by (\$0.3) million or 1%, and normalised PAT of \$1.4 million, being down on the Prior Period by (\$8.2) million or 85%.

Other key financial metrics relating to the normalised Bega Cheese segment for the period were as follows:

- the Bega Cheese segment includes the activities of the Koroit Facility with effect from 17 August 2018
- revenue totalled \$473.5 million, being an increase of 12% on the Prior Period, driven by the acquisition of the Koroit Facility and PCA
- milk intake from direct suppliers including the Koroit Facility increased by 126% across the Bega Cheese manufacturing sites to 422 million litres
- the average cost per litre of milk from traditional Bega segment suppliers and energy and insurance costs increased compared to the Prior Period, which were in a large part offset by the EBITDA contribution of the Koroit Facility
- net interest costs for the Bega Cheese segment, which carries most of the interest-bearing debt on behalf of the Group, increased by \$7.5 million primarily due to increased and transitional inventory as a result of the Koroit Facility acquisition.

Tatura Milk segment (normalised)

The Tatura Milk segment generated normalised EBITDA of \$27.3 million, being down on the Prior Period by (\$11.0) million or 29%, and PAT of \$18.1 million, being down on the Prior Period by (\$8.8) million or 33%.

Other key financial metrics relating to the Tatura Milk segment for the period were as follows:

- revenue totalled \$209.1 million, being 2% below the Prior Period, with net sales revenue from nutritionals being below and dairy ingredients in line with the Prior Period
- milk intake from direct suppliers totalled 223 million litres, being a decrease of 6%, reflecting significant adverse drought conditions in Northern Victoria compared to the Prior Period
- milk intake from third parties totalled 25 million litres, being a decrease of 40%, which was also as a result of the drought, together with an escalation in competition for milk resulting in a higher cost per litre of spot milk compared to the Prior Period
- consistent with the Bega Cheese segment, Tatura Milk has experienced an increase in the average cost per litre of milk from suppliers and energy and insurance costs

Cash Management and Net Debt

The Group statutory net cash outflow from operating activities was (\$128.3) million in 1H FY2019, compared to net cash inflow of \$5.4 million in 1H FY2018.

Net working capital was \$379.3 million at 30 December 2018, being an increase of \$172.6 million from 30 June 2018 and \$121.2 million from 31 December 2017. The main factor contributing to the increase was the additional inventory and additional milk intake through the Koroit Facility. This is expected to normalise by 30 June 2019.

Net debt totalled \$468.1 million at the end of 1H FY2019, being an increase of \$222.6 million from 30 June 2018. This increase in net debt was largely the result of:

- payment for acquisition of the Koroit Facility and related transaction costs, net of proceeds from capital raisings
- the increase in working capital primarily from the Koroit Facility acquisition.

Dividend

Bega Cheese declared an interim dividend of 5.5 cents per share, being in line with the interim dividend of the Prior Period. The interim dividend will be paid on 16 April 2019. The Group's Dividend Reinvestment Plan (DRP) will be activated for this dividend.

Forecast Guidance Issued 19 December 2018

In assessing the 1H FY2019 normalised performance it is relevant to consider an update issued to the market on 19 December 2018. At this time the Group announced that the overall reduction in the Australian milk supply pool has created significant competitive farm gate milk pricing pressure. The outlook for Bega Cheese's financial performance in FY2019 is expected to be impacted by this competitive pressure. As a result, Bega Cheese has issued a forecast normalised EBITDA in the range of \$123.0 to \$130.0 million for FY2019, compared to the FY2018 normalised EBITDA of \$109.6 million.

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