

A roasted chicken is the central focus, presented on a rustic wooden platter. The chicken is golden-brown and glistening, surrounded by fresh rosemary sprigs, thyme, and several slices of roasted lemon. The platter is set against a background of a red heart shape.

**INGHAM'S**<sup>®</sup>

*Heart of the Table*

# Inghams Group Limited

## 1H FY2017 Results Presentation

15 FEBRUARY 2017



# Important notice and disclaimer

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01

Group highlights

# Group highlights

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## Strong volume growth and financial performance in line with prospectus forecast

### Highlights

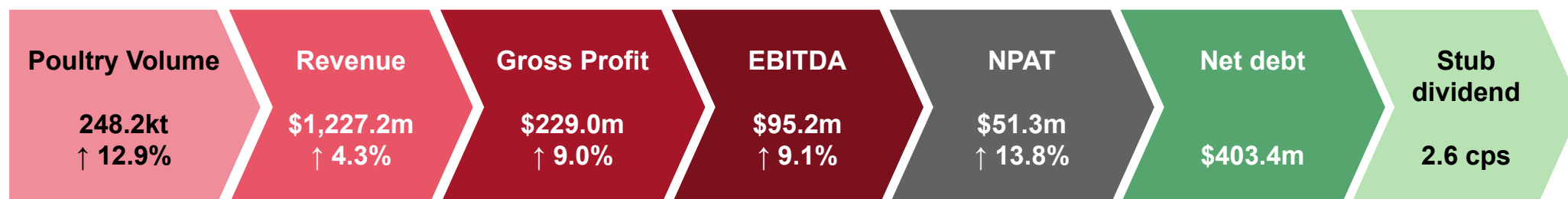
- > First half performance in line with prospectus forecast
- > Strong volume growth in Australia driven primarily by Retail and QSR customers
- > Chicken remains the competitive protein, supporting the drive by customers to deliver value
- > Results delivered despite challenging New Zealand market conditions, driven by oversupply
- > Volume growth translated to profit increase despite the supply chain challenge of rapid growth

### Strategy progress

- > Project Accelerate initiatives delivering as expected
  - first phase automation projects operational in Primary Processing plants
  - closure of the Cardiff plant in NSW complete, and volumes transferred
  - good progress on labour efficiency, procurement and other initiatives
- > Continued progress in extending key customer contractual coverage
- > Further investment in capability – operations, category, marketing and new product development (NPD) resources
- > Capital investment in capacity and efficiency on track, with activity peaking in 1H
  - commissioned South Australia hatchery and breeder expansions



# Financial highlights – Pro forma 1H FY17 vs 1H FY16



## Financial performance

- > Total Poultry volume growth of 12.9% (growth in core chicken and turkey products of 9.0%)
- > Pro forma Revenue growth of 4.3% (reflecting volume increase, feed deflation & mix change)
- > Pro forma EBITDA growth of 9.1% to \$95.2m
- > Pro forma NPAT growth of 13.8% to \$51.3m (and statutory NPAT of \$9.0M)
- > Pro forma Net Debt of \$403.4m (a decrease from net debt level at listing)
- > Stub dividend of 2.6 cents per share (65% of NPAT for the stub period)

# Segment information – Australia

\$ millions	Pro forma 1H FY2017	Pro forma 1H FY2016	Variance	%
<b>Australia</b>				
Poultry volumes (kt)	211.9	183.2	28.7	15.6%
Feed volumes (kt)	228.0	210.8	17.2	8.1%
Revenue	1,041.5	991.5	50.0	5.0%
<b>EBITDA</b>	<b>77.5</b>	<b>68.5</b>	<b>9.0</b>	<b>13.1%</b>
EBITDA %	7.4%	6.9%	0.5%	



## Summary: Australia

- > Poultry volume growth excluding ingredients of 10.5%
- > Strong growth creates challenges in an integrated supply chain
- > Balancing strong demand for key lines with clearance of 'fallout' lines
- > Absorbing processing volumes via overtime and extended hours
- > Managing a high degree of change, implementation of Project Accelerate and capital projects

## Retail

- > Growth experienced across the retail customer base
- > Customers investing in EDLP on chicken SKU's as the competitive protein
- > Rollout of brand refresh and new packaging
- > Increased innovation and NPD activity
- > Further extended supply contract coverage

## QSR & Food Service

- > Very strong volume growth with key QSR customers
- > Foodservice volumes flat
- > One key QSR agreement remains under negotiation

## Wholesale

- > Weak East Coast wholesale pricing in 1H as excess 'fallout' cleared
- > Export volumes remain < 2%, primarily for clearance

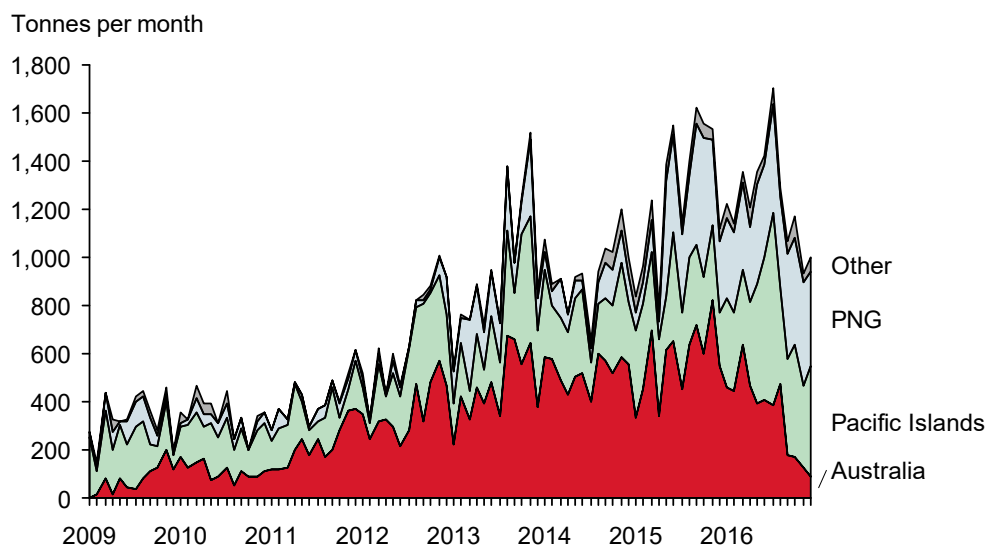
## Third party feed sales

- > Strong growth in line with 1H forecast
- > One third party customer lost at end of 1H

# Segment information – New Zealand

\$ millions	Pro forma 1H FY2017	Pro forma 1H FY2016	Variance	%
<b><u>New Zealand</u></b>				
Poultry volumes (kt)	36.3	36.5	(0.2)	(0.6%)
Feed volumes (kt)	69.1	77.4	(8.3)	(10.7%)
Revenue	185.8	185.5	0.3	0.1%
<b>EBITDA</b>	<b>17.7</b>	<b>18.8</b>	<b>(1.1)</b>	<b>(5.8%)</b>
EBITDA %	9.5%	10.1%	(0.6%)	

## Total NZ chicken industry – exports by destination country (Monthly, Jan 2009 – Dec 2016)



Source: Statistics NZ, <http://www.stats.govt.nz/infoshare/TradeVariables.aspx>

Note: All financial numbers are in AUD



## Summary: New Zealand

- > Challenging trading conditions due to market oversupply
- > Revenue and Poultry volumes flat on pcp
- > Reducing industry export volumes appears to be driving domestic oversupply
- > Good operational performance and strong Free Range sales via Waitoa helping offset margin impacts

## Third party feed sales

- > Third party chicken feed sales in line with expectations
- > Lower dairy feed volumes and margins due to low FY16 milk prices



02

Financial results





# Pro forma Profit & Loss

\$ millions	Pro forma 1H FY2017	Pro forma 1H FY2016	Variance	%
Poultry volumes (kt)	248.2	219.8	28.4	12.9%
Feed volumes (kt)	297.1	288.2	8.9	3.1%
<b>Total Revenue</b>	<b>1,227.2</b>	<b>1,177.0</b>	<b>50.2</b>	<b>4.3%</b>
Gross Profit	229.0	210.1	18.9	9.0%
<b>EBITDA</b>	<b>95.2</b>	<b>87.3</b>	<b>7.9</b>	<b>9.1%</b>
Depreciation & amortisation	(18.3)	(16.5)	(1.8)	10.9%
<b>EBIT</b>	<b>76.9</b>	<b>70.8</b>	<b>6.1</b>	<b>8.6%</b>
Net financing costs	(7.9)	(9.5)	1.6	16.8%
Tax expense	(17.7)	(16.2)	(1.5)	(9.3%)
<b>Net profit after tax</b>	<b>51.3</b>	<b>45.1</b>	<b>6.2</b>	<b>13.8%</b>
Gross profit %	18.7%	17.8%	0.9%	
EBITDA %	7.8%	7.4%	0.4%	
Pro forma earnings per share (cents) <sup>1</sup>	15.83	14.63	1.20	8.2%

*A reconciliation to Statutory EBITDA of \$61.5m and Statutory NPAT of \$9.0m is set out in the Appendix*

## Volume & Revenue Growth

- > Strong growth in Australian poultry volume
- > NZ volumes flat in response to oversupply
- > Revenue growth primarily reflects volume growth and deflationary effect of reduced feed prices
- > Growth in Australian third party feed volumes

## EBITDA +9.1%

- > Strong volume increase provides an operational challenge
- > Australian operations stretched due to volume increase and corresponding need to rebalance production and mix
- > Project Accelerate initiatives delivering as expected, with higher volume, increased automation and reduced network footprint

## NPAT +13.8%

- > Net financing costs lower due to lower interest rate on new facilities, and reducing net debt

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



# Pro forma Cash flow and Balance Sheet

\$ millions	Pro forma 1H FY2017	Pro forma 1H FY2016	Variance
<b>EBITDA</b>	<b>95.2</b>	<b>87.3</b>	<b>7.9</b>
Non-cash items	(0.3)	(3.5)	3.2
Changes in working capital	(15.9)	(12.4)	(3.5)
Changes in provisions	0.2	0.1	0.1
<b>Cash flow from operations</b>	<b>79.2</b>	<b>71.5</b>	<b>7.7</b>
<b>Cash conversion ratio</b>	<b>83.2%</b>	<b>81.9%</b>	<b>1.3%</b>
Capital expenditure - Inghams	(60.4)	(31.3)	(29.1)
3rd party capital (for recovery) <sup>1</sup>	(7.9)	-	(7.9)
Insurance & third party capital <sup>2</sup>	(7.8)	-	(7.8)
Proceeds from sale of assets	1.1	6.5	(5.4)
<b>Net cash flow before financing &amp; tax</b>	<b>4.2</b>	<b>46.7</b>	<b>(42.5)</b>

\$ millions	December 2016	June 2016	Variance
Total Assets	996.1	925.7	70.4
Pro forma Net Debt	403.4	366.9	36.5
<b>Net Debt/LTM EBITDA</b>	<b>2.3</b>		

## Cashflow

- > Improved operating cashflow over 1H FY2016
- > Working capital increase due to trade debtors, driven by increased trading with major customers, normal seasonal build, and timing of half year close
- > Reduced inventories reflecting strong sales

Working capital	Dec-16	Jun-16	Variance	Jun-15
Receivables	259.9	221.3	38.6	226.7
Biological assets	112.1	115.3	(3.2)	110.9
Inventories	144.5	159.6	(15.1)	138.3
Payables	(241.3)	(236.9)	(4.4)	(224.9)
<b>Total</b>	<b>275.2</b>	<b>259.3</b>	<b>15.9</b>	<b>251.0</b>

## Capital program

- > Capital investment program at peak in 1H FY17
- > Third party capital costs yet to be recovered

1. 3<sup>rd</sup> party funding agreements still to be finalized  
 2. Third party capital agreements in place, funds to be received



03

Strategy update

# Ingham's – A World Class Food Company

An infographic titled "A WORLD CLASS FOOD COMPANY" set against a red background. At the top, a group of diverse people are shown enjoying a meal outdoors. Below this, a winding road leads through a landscape of green hills and blue buildings, representing the company's operations. Six callout boxes, each with a red heart icon and a specific value, are placed along the road. At the bottom, the company's purpose is stated.

**INGHAM'S**  
*Heart of the Table*

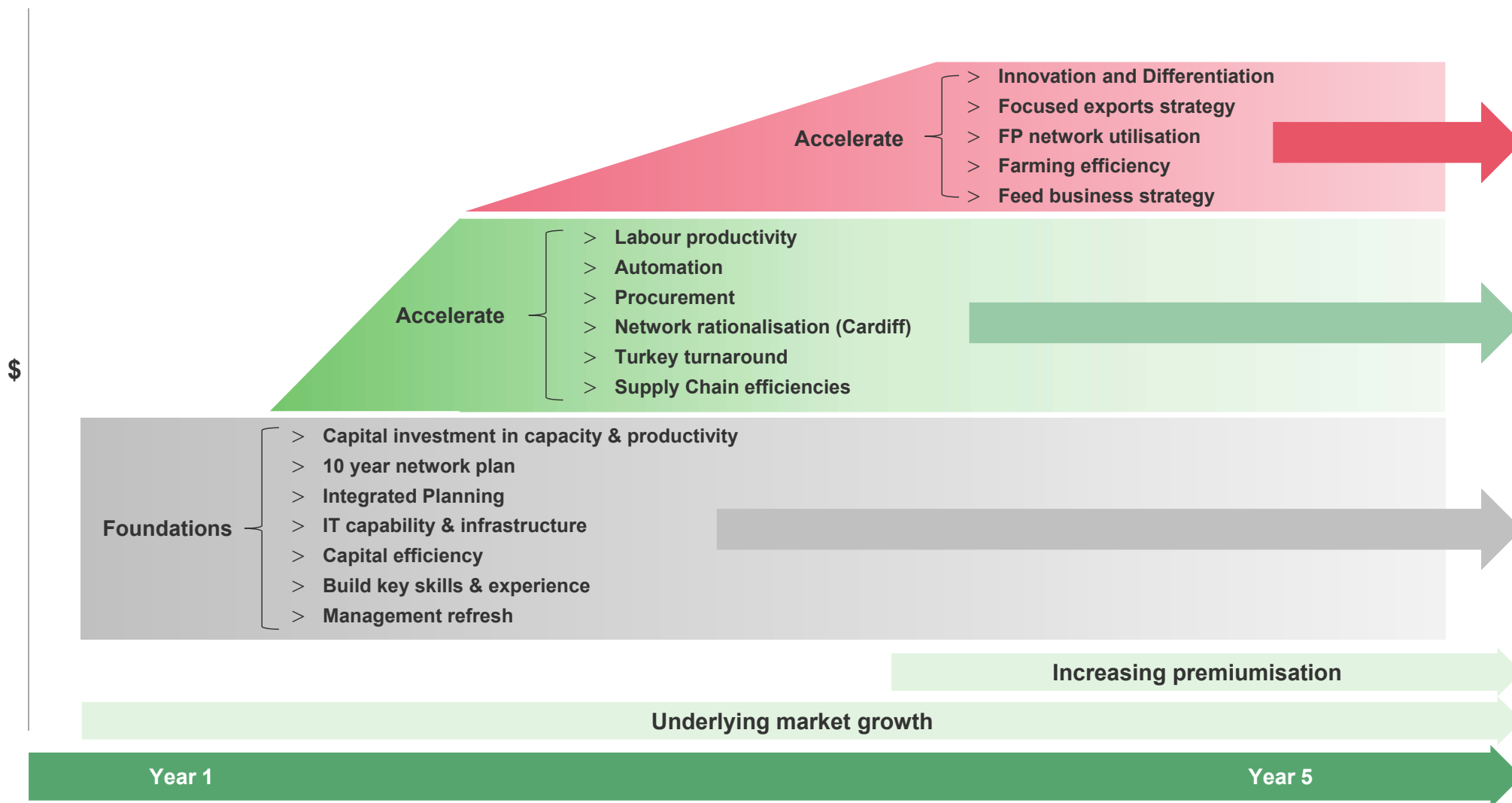
**A WORLD CLASS FOOD COMPANY**

- HIGH PERFORMING PEOPLE**  
We aim to outperform
- INTEGRITY**  
Conduct ourselves with the highest ethical standards
- CUSTOMER SERVICE**  
Exceed our customers' expectations
- OPERATIONAL EXCELLENCE**  
Strive for world class operations
- SAFETY**  
Act safe, be safe, stay safe
- QUALITY**  
Deliver quality in all that we do

**OUR PURPOSE:**  
*To be at the Heart of Every Table.*

# 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 update (1 of 2)

## Investment in automation

- > 1H focus on securing benefit of significant FY16 investment which has supported the ability to accommodate strong growth in volumes
- > Installation and commissioning of first phase automation projects complete in major Australian Primary plants
  - Murarrie and Bolivar in particular
  - focused on world class 'deboning' equipment
- > Further automation program to include
  - further deboning and automated portioning equipment in Australian Primary plants
  - New Zealand automation at Te Aroha
  - further case packing and palletising capability
  - automation initiatives in Further Processing Plants
- > Complimented by continued investment in
  - tray packing and top lidding capability
  - live bird handling systems
  - other plant debottlenecking initiatives



Thigh outlet deboner



Robotic palletiser

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

# Project Accelerate update (2 of 2)

## Labour productivity improvements

- > Productivity improving EBA agreements at key Primary plants in Bolivar, Te Aroha (NZ), Murarrie and Somerville approved by employees (Somerville pending FWC approval)
- > Program of EBA negotiations at smaller plants and sites continues
- > Improving capability in detailed labour planning and management
- > Above budget volume increases absorbed in part by extended hours and overtime



## Other Accelerate initiatives

- > Cardiff closure completed and volume transferred to key plants
- > Procurement Phase 1 and Phase 2 initiatives implemented with benefits in line with expectations
- > Procurement Phase 3 underway focused on services
- > Turkey business delivering improved profit, supported by ongoing planning, capacity rationalisation and cost reduction initiatives
- > Supply Chain initiatives progressing to plan



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

# Investing for growth

## Capacity

- > Key South Australian projects well underway
  - SA hatchery: expansion completed / commissioned
  - SA breeder network: expansion on schedule
  - Hamley Bridge (destroyed during 2015 SA fires) rebuilt and now operational
  - SA feed mill: civil works underway
- > New Zealand projects progressing
  - second Hatchery: preferred site identified
  - NZ breeder network: preferred location identified. Tendering civil works



## Capability

- > Further automation initiatives focused on Primary and Further Processing
- > IT Data Centre upgrade and shift to cloud services architecture now complete
- > Roll-out of proactive maintenance capability and supporting systems
- > Continued investment in enhancing skills and capability across the business







04

Outlook



# Outlook

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- > Reconfirm FY17 prospectus forecast of \$98.8M pro forma NPAT based on current trading outlook
- > Australian volume growth is expected to be broadly in line with the prospectus forecast for the full year
  - will start to cycle a number of EDLP launches in the 2H and volume increases are expected to moderate
- > Strong volume increases through the supply chain and consequent rebalancing of operations remains a challenge in Australia
- > Progress continues on extending key customer contractual coverage. One key QSR customer agreement remains under negotiation
- > Challenging New Zealand trading conditions likely to continue in 2H FY2017
- > Project Accelerate implementation and investment is continuing and expected to contribute to earnings growth over future years
- > Pro forma net cashflow expected to be in line with prospectus forecast
- > Reconfirm intention to pay fully franked dividends of 65 – 70% of pro forma NPAT



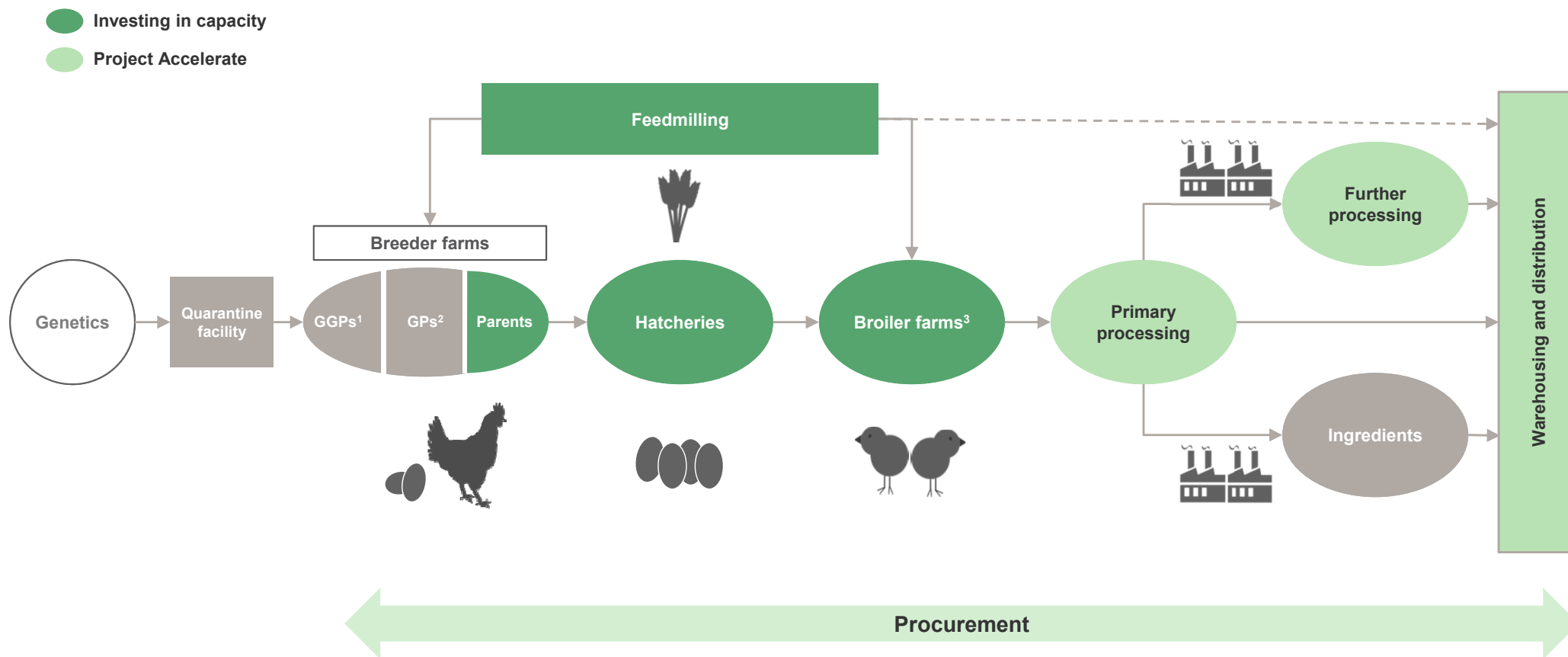
Appendix

# Reconciliation of Statutory results to pro forma

\$ millions		1H FY2017	1H FY2016	
<b>Statutory EBITDA</b>		<b>61.5</b>	<b>63.0</b>	
IPO transaction costs	①	28.0	-	1. Removal of costs of listing on ASX in November 2016
Advisory fees	②	1.2	1.6	2. Relates to fees for services charged by TPG entities that will not be incurred post listing
Write off previous LTI scheme	③	2.2	1.7	3. Relates to the remaining share based payments expense to be recognized in FY17 relating to the previous LTI scheme
Transformation & relocation costs	④	3.3	22.1	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)	(1.1)	5. Adjustment to include a full period of public company related costs and replacement LTI scheme
<b>Pro forma EBITDA</b>		<b>95.2</b>	<b>87.3</b>	
<b>Statutory NPAT</b>		<b>9.0</b>	<b>19.6</b>	
IPO transaction costs	①	19.6	-	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
Advisory fees	②	0.8	1.1	7. Adjustment to reflect the interest and financing costs for the capital structure in place as a result of the listing
Write off previous LTI scheme	③	2.2	1.7	8. Adjustments to normalise certain tax related charges half on half
Transformation & relocation costs	④	2.3	15.5	
Full year public company costs	⑤	(0.8)	(0.8)	
Cost of exit from finance facilities	⑥	12.6	-	
Capital structure adjustment	⑦	4.5	8.0	
Tax adjustments	⑧	1.1	-	
<b>Pro forma NPAT</b>		<b>51.3</b>	<b>45.1</b>	

# For reference: Vertically integrated operations

Complex supply chain supported by integrated planning and optimisation



Note: Time-frames are indicative and relate to chicken.

1. Great Grand Parents. Not owned or operated by Ingham's
2. Grand Parents. Not owned or operated by Ingham's
3. The majority of broiler farms are operated by contracted third party growers.