



NZX / ASX Market Release

6 December 2017

Tegel Group Holdings Limited – Interim Results for the 26 weeks ended 29 October 2017

Tegel Group Holdings Limited advises that the attached presentation will be given during an investor call by Tegel Group Holdings Limited starting at 10.30am NZT today.

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For investor queries please contact:

Peter McHugh
Chief Financial Officer

Aleida White
Investor Relations Manager
+64 9 977 9119
investorrelations@tegel.co.nz

For media queries please contact:

Bridget Beaurepaire
Corporate Affairs & Communications Manager
+64 9 977 9244

About Tegel Group Holdings Limited

Tegel Group Holdings Limited (NZX/ASX: TGH) processes approximately 55 million birds per year, across vertically integrated operations in Auckland, Christchurch and New Plymouth. It is New Zealand's leading poultry producer, processing approximately half of New Zealand's poultry, and also manufactures and markets a range of other processed meat products. Tegel produces a range of products across its core business (e.g. fresh and frozen whole chickens, fillets and portions), and value added convenience products (e.g. fresh value added, cooked and smoked small-goods and frozen further processed products), which are sold through three key sales channels domestically (Retail grocery, Foodservice / Industrial and Quick-Service Restaurants (QSR)), and in selected channels in international markets. Its brands are Tegel, Rangitikei and Top Hat.

For more information go to: www.tegel.co.nz



Tegel Group Holdings Limited

FY18 Interim Results Investor & Analyst Conference Call Script

Wednesday 6 December 2017

Slide 1: Tegel Group Holdings Limited FY18 Interim Results Presentation

Good morning everyone, I'm Phil Hand and it is my pleasure to welcome you on the call today to discuss our FY18 Interim Results. Thank you for making the time to join us.

With me here is Peter McHugh and together we will be presenting our results for the 26 weeks ended 29 October 2017. We'll compare the result against the 26 weeks ended 23 October 2016 and we'll also look ahead to the second half of the FY18 financial year.

The result was lodged on the NZX and ASX and to our Tegel investor website this morning and the pack included the Interim Report, the relevant Stock Exchange disclosures and the slide presentation to which we will be referring throughout this call.

Slide 3: Agenda

Turning to our agenda on slide 3, first I will run through the key highlights for the half year. Peter will then look in detail at the financials before handing back to me to run through what we can expect for the remainder of the financial year ahead. We will then be happy to receive any questions at the end of the call.

Slide 5: FY18 Interim Highlights: Continued Solid Financial Performance

So turning now to slide 5 of the presentation.

We are pleased to report continued growth both in total volumes and revenues. This was achieved against a backdrop of the continuation of much of what we saw in FY17 with strong domestic competition. Meanwhile we are successfully expanding our export markets, particularly our customer base in Australia. Volumes for the FY18 first half were 48.7 thousand tonnes, up 1% compared to the first half of last year. Revenues were \$302 million, up 2% over the prior half year. Gross Profit was also up 2% to \$70.3 million with an improved Gross Profit margin of 23.3%.

Underlying EBITDA and NPAT were both solid for the six months despite the impact of additional investment to drive growth, particularly in Australia as we expanded the export sales team, incurred higher distribution costs and established new product lines in new channels. At \$34.6 million for H1'18, Underlying EBITDA was \$0.5 million below H1'17 and our NPAT earnings of \$14.8 million were also slightly below H1'17.

As a result of the stable NPAT, adjusted for amortisation of customer contracts, the Board has declared an interim dividend for the first half of 3.45 cents per share. This is consistent with the interim dividend in the first half of FY17.

Peter will speak in more detail about the financial results shortly.



Slide 6: FY18 Interim Highlights: Delivering Strategy

Now if we look at some of our operating highlights for the half year on Slide 6.

Pleasingly we are well on track to achieving our strategic targets that we set out for the full year.

On the domestic front, as we maintain our share of the market, we continue to see steady consumption growth. The changing trends of New Zealanders looking for increasingly convenient meal solutions is being reflected in growth in QSR and Foodservice channels. The benefit of our strategy is that we are across all channels.

We are closely monitoring pricing and are looking for any opportunities through product mix whilst maintaining market share.

Our ongoing investment in the Tegel brand is producing lasting positive results and our product innovation continues particularly in the free range product and value added meal solution space.

In our export markets, the strategy to diversify across channel and customer mix in Australia and reduce customer concentration is starting to deliver results.

During the half year we added new customers across Retail, Foodservice and QSR. This included key launches into the Retail market in Australia totalling an incremental 11 new products. These products are across frozen value added and chilled categories including cooked and smoked products. They include products that have proven highly successful domestically such as the ready-to-eat Meal Maker range.

It has been particularly satisfying to see the significant national distribution of our product range for our largest new Retail customer and our promotional efforts gaining traction for sales.

We have further expanded our Australia office to ensure we have a dedicated team who can provide the right support to our increasing customer base. In addition, we are incurring higher distribution costs from delivering products to a wider distribution network across the country. However as our products start to gain traction we will see costs being optimised through scale.

In our other export markets, the Pacific Islands delivered another strong performance with growth in volumes and revenue, while in the Middle East we have further built on our position by launching new products as well as channel expansion.

In August of this year, we continued to increase our international presence with the launch of Tegel into one of the major supermarket chains in Bahrain. The fundamentals are attractive for us to do business in this market as an estimated 80% of their meat consumption is chicken, accounting for approximately 46kg per person each year. This compares to 39kg per person in New Zealand. Tegel's products resonate well as our offering is for the supply of premium products made from 100% breast meat. This quality is increasingly being sought by the discerning local consumer as well as by western expat communities. Early indications are very positive.

Peter will provide a breakdown of the more detailed domestic and export volumes and revenues shortly.

On the operations front, the half year has not been without its challenges. In agriculture, we incurred additional compliance costs. These costs related mainly to higher labour costs as we work with the industry to align catching procedures on poultry farms.



Today we'd also like to let you know about some changes we have made to our executive team. In order to ensure we have the right organisational structure to successfully deliver our long term strategy we have created a new national role of GM – Operations. Ed Campion, who as some of you will know has been head of South Island Operations, has been appointed to this new position. Regrettably the restructure has resulted in the three GM Regional Operational roles being disestablished. This will see the departure of David Taylor from our Henderson production site and Martin Baker based in New Plymouth from the business. Both David and Martin have almost 15 year histories with Tegel and I would like to take this opportunity to thank them for their hard work and commitment.

At the end of October, Bridget Coates was appointed to the Board as an independent Director. Bridget comes to Tegel as a current and former director on a number of global reaching and listed company Boards. In addition she has a strong track record in driving international business growth through innovation, relationships, brands and marketing and we are very delighted to welcome her to the Tegel Board.

Meanwhile we have maintained our capex programme investing in agriculture and processing assets that are supporting sales growth, efficiency gains and savings. We have commenced our New Plymouth hatchery expansion and I'll touch on where we are in the development of our breeder and broiler farms shortly.

When potential land purchases become available which are strategically close to our operations we ensure that we assess each opportunity for value enhancement to our business. One such opportunity arose during the half year. Pleasingly we acquired the land and buildings which are positioned adjoining our feedmill in New Plymouth. This will allow us to expand capacity at that site in line with our growth aspirations.

We remain focused on cost saving initiatives and continuous improvements with further rollout of our SIMPLIFY! programme.

Slide 7: FY18 Interim Highlights: Free Range Advertising Campaign Raising Awareness And Gaining Credibility

So now on to slide 7. Building on the success of our brand refresh last year, we have maintained our advertising campaigns. A recent campaign focused on raising awareness of our free range offering.

For the first time we have started to tell our farming story. As you may be aware we have over 130 farms around New Zealand. We're incredibly proud of our farmers and we enjoy a close working relationship. Together we produce poultry in a sustainable way with a minimal impact on our environment relative to other proteins. We also enjoy a world class feed conversion ratio due to the combined efforts of our feed team and our farmers as well as a favourable growing environment.

Part of our free range advertising campaign involved telling a-day-in-the-life story of one of our free range farmers through an online video. By giving an insight into our farming practices and animal welfare we are providing greater transparency and are continuing the journey to enhance understanding of our poultry farming as being cage free, no added hormones and New Zealand raised.

Alongside this we launched our Free Range TVC as an extension of our brand campaign. The campaign also includes bus shelters, magazine advertising and advertorial and digital display activity promoting our great and expanding range of free range products.



Slide 8: FY18 Interim Highlights: Responding To Free Range Poultry Growth

On slide 8, as we look at the parts of our business which are providing the best opportunities for growth, we are responding to the changing needs of some of our consumers. Increasingly we are seeing that people are becoming more aware of wanting to know what is in their food and there is a willingness to pay more for ethical and sustainably produced food. As a result there is greater demand for free range chicken and we are delivering significant growth in this area, ahead of the market.

In addition, on the export side, new products launched to our customers are establishing and growing the premium, free range category.

Our focus on new free range product development allows us to continue to bring people up the value chain.

On the agriculture side of the business, as free range demand increases, we are constructing new free range sheds and we are also converting existing farms to free range. We are excited to report that we will have a new farm at Chertsey just south of Christchurch. Consent has been granted for an eight shed farm which will be run by a contract grower. Earthworks there have commenced and we expect the first shed to be completed in March 2018.

In Northland we are pleased to confirm that we have identified suitable land near Dargaville for a new state-of-the-art free range poultry farm. This is an exciting development for Tegel however it is still very early days as the land purchase is subject to various conditions including regulatory and Board approvals.

I'll now hand over to Peter to run through the financials in a bit more detail.

Slide 10 Financial Overview: Solid Financial Results Driven By Volume Growth And Improved Efficiency

Thanks very much Phil and good morning everyone.

Turning firstly to slide 10.

Phil has discussed some of the key highlights and here we provide the financial overview.

Overall Tegel has delivered a very solid set of numbers for the first half of the year.

Both poultry volumes and revenue for the 26 weeks ended 29 October 2017 exceeded those of the comparative period. Total poultry volumes increased to 48.7 thousand tonnes. Revenue was up 2.0% to just over \$300 million driven by volume as well as improved price/mix.

Gross Profit was also ahead, delivering an improved gross margin of 23.3%. Meanwhile in a rising cost environment, we delivered Underlying EBITDA of \$34.6 million and Net Profit After Tax of \$14.8 million which were both slightly behind the comparative period.

As Phil outlined earlier - as we roll out our export strategy, delivering a greater range of products to more locations and customers, we are investing up front in our sales and distribution to build a base for future growth. We are also continuing to invest in our brand and marketing for both the domestic and export markets. Meanwhile we are ensuring we have the right people in the right roles with the appropriate structures in place, particularly as we grow our exports. Partly offsetting these costs as we expand our business, are lower commodity costs.



During the six months we also incurred a number of non-repeating costs which we have taken below the line. These include \$700 thousand related to the Kaikoura earthquake which we have previously communicated. In addition we have taken one-off compliance costs of \$500 thousand as we work with the industry to align catching procedures.

The interim dividend of 3.45 cents per share, as you can see, is the same as the amount paid last year.

Slide 11: Domestic: Maintaining Track Record Of Growth

Turning now to slide 11 and looking at domestic volumes and revenue.

In FY17, we talked about the domestic pricing competition and the supply/demand imbalance which characterised much of that year. Since then, the pricing environment has remained competitive.

Domestic volumes were up 1.7% for the half year. This was mainly from higher volumes through QSR and Foodservice channels supported by our new product development activity. Increased chicken consumption continues to support all channels across our domestic business.

Domestic revenue for the half year was \$226.1 million, up \$8.6 million or 4.0% which was at a higher rate than domestic volume growth. Higher margin products continue to gain traction in this market impacting favourably on our overall domestic price/mix.

Slide 12: Export: Diversifying Customer Base In Australia

On slide 12, as expected, export volumes were down for the half year by 290 Tonnes while total export revenue was down by \$5.8 million compared to the first half of FY17.

This was primarily due to volumes to and revenues from Australia being lower as we flagged previously in light of a customer taking production in-house. Overall we are very pleased with our progress in Australia. Compared to this time last year, we now have more significant customers providing a greater opportunity to sell Tegel branded product. Across all our customers in Australia we launched new ranges and we are in new categories.

As a result of ongoing sales initiatives throughout the key selling period of Christmas and summer we expect to boost sales. Although it is early days for these products, we are excited about the breadth of distribution of many of our products into Australia.

In our other export markets, the growth of volumes into the Pacific Islands compared to the prior year was strong. In the rest of the world, sales were solid. In August, as Phil mentioned, we shipped our first products to Bahrain. Further afield in the UAE we continue to sell through two major supermarkets, as well as expanding our product range into new Retail customers.

Slide 13: Balance Sheet And Working Capital: Strong Balance Sheet Supporting Ongoing Growth

On slide 13 we show that we continue to have a strong balance sheet. In addition we have improved working capital compared to the year end and working capital at similar levels to H1'17. As is typical with this business - and you will have seen this in our interim results last year - the timing of our balance date can impact significantly on the level of working capital. This is why it is more appropriate to compare balance sheets year on year.



Again this half year we had a grain boat arrive into our inventories towards the end of our reporting period resulting in higher raw materials. The level of finished goods inventories supports our usual summer seasonal demand, higher sales, as well as our export products.

Our non-current assets were up by \$12.1 million in the year. Part of this was a result of the capital investment I will come to on the next slide.

Slide 14: Cash Flow And Capex: Capital Expenditure Programme Delivering

Moving now to looking at cash flows and capex on slide 14. For the half year, we had a net decrease of \$11.8 million in cash largely due to timing of when the half year finished.

There were some key movements impacting cash for the half year. Our operating cash flows saw outflows of \$3.6 million for the half. This was an improvement on prior period outflows of \$18.2 million which included the final expenses relating to the public listing of Tegel.

In terms of financing activities, a new banking facility was negotiated, with all bank borrowings repaid and a new three year facility being advanced. Note that the working capital portion of this facility has been increased by \$10 million to \$50 million to support further export growth. Finally, the company paid \$14.6 million in the half year relating to the final dividend for FY17. No dividends were paid in the prior half year.

Our capex programme is delivering the benefits we expect. Total spend for the half year has been \$17.8 million split relatively evenly between maintenance capex and growth and productivity capex.

You'll recall that the M3 ERP project is a significant internal project. We are updating the system to improve Tegel's core capability around systems, processes and infrastructure.

As Phil has already mentioned we took advantage of an opportunity to purchase some land adjacent to our New Plymouth feedmill.

Slide 15: Dividend: Consistent Payment

On to slide 15, as Phil has already noted, the Board is pleased to declare an interim dividend the same as last year. The fully imputed interim dividend for the first half of 2018 of 3.45 cents per share will be paid on 26 January 2018.

Tegel's dividend policy remains unchanged. As we have previously said, it is the Board's intention to target a dividend payout ratio in the range of 60-75% of annual NPAT excluding the expense relating to the non-cash amortisation of customer contracts.

With that, I'll now hand back to Phil.

Slide 17: Looking Ahead: 2018 Outlook: Summer Seasonality

Thanks very much Peter.

So now to spend a bit of time looking at our outlook, before we take questions.

Tegel's performance in the first half has been solid. We have continued to be innovative on our new product development while responding to the demands of our customers. We are competing well



both domestically and on the export front without compromising our strategy. We are diversifying in our key export markets, both in terms of customer types and new countries entered.

However, as we anticipated, the half year also had its challenges. Domestic pricing remains competitive and this will continue. Being the largest poultry producer provides us with scale and we will continue to focus on maintaining market share. We expect increased poultry consumption as the population continues to grow and the competition for protein still lies in favour of poultry.

We are excited about our recently launched summer BBQurious campaign which will continue to drive growth through the summer season with new products and with continued investment in advertising.

In our export markets we'll further support the roll out of new products in Australia through promotional activity, and drive incremental growth off the initial base we accumulated in the first half.

Our export team are working hard to increase products and volumes to our Asian and new markets such as Bahrain.

Total capital expenditure will be ahead of the amount initially forecast mainly through the New Plymouth feedmill additional land acquisition which will come through this year. We will continue with our other planned projects across a range of initiatives including hatchery expansion in New Plymouth, continued brand investment and new product innovation.

We continue to control our costs and drive efficiencies within our business through the ongoing roll out of SIMPLIFY! We do however see a number of cost pressures coming through. These incremental costs include higher labour rates particularly in the production side, higher fuel costs and higher catching costs. Higher distribution costs will continue from export products particularly to Australia.

It is also important to us to continue to ensure our Animal Welfare objectives are met.

So looking at the remainder of FY18. We will continue to hold our domestic market share in a challenging domestic pricing environment. Our Australian exports have diversified into more channels and customers. We continue to work towards exceeding FY17 underlying EBITDA.

Finally, the Board would like to acknowledge the contribution of our people to Tegel's success. Recently we had our annual long service awards for employees' across all parts of our business recognising the loyalty our staff have given to our company. We had 169 employees receiving long service awards adding up to over 2,240 years of combined service. We are also very much future focused, delivering on our strategy and we are optimising capability across the business to support our planned growth. The skill, effort and dedication of our employees drives the success we are achieving. Tegel continues to be focused on delivering long term sustainable growth.

We are now happy to take any questions callers may have.

Slide 18: Questions And Answers

ENDS