NZX / ASX Market Release

11 June 2018

Tegel Group Holdings Limited – FY18 Results for the 52 weeks ended 29 April 2018 and Target Company Statement

Tegel Group Holdings Limited advises that the attached presentation will be given during an investor call by Tegel Group Holdings Limited starting at 10.00am NZT today.

The conference call will be hosted by Phil Hand, Chief Executive Officer and Peter McHugh, Chief Financial Officer who will discuss the FY18 financial results. David Jackson, Independent Chairman of Tegel, will also present on the Target Company Statement and will provide shareholders information on Bounty's takeover offer.

To participate in the call, please join the event conference 5-10 minutes prior to the scheduled start time using one of the following numbers:

New Zealand Local Access: +64 (0) 9 9133 622
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About Tegel Group Holdings Limited

Tegel Group Holdings Limited (NZX/ASX: TGH) processes approximately 58 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 Results and Target Company Statement Investor & Analyst Conference Call Script

Monday 11 June 2018

Slide 1: Tegel Group Holdings Limited FY18 Full Year Results And Target Company Presentation

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

With me here is Peter McHugh and together we will be presenting Tegel's results for the 52 weeks ended 29 April 2018. We'll mainly compare against the 52 weeks ended 23 April 2017 with some reference to the 53 weeks ended 30 April 2017. We'll also give a brief look ahead to the FY19 financial year.

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

You will also have noted that we lodged our Target Company Statement to the Exchanges this morning. Tegel is currently the subject of a Takeover from Bounty Holdings New Zealand Limited. The Target Company Statement released today forms part of this process and in reference to this we also have Tegel Chairman David Jackson here on the conference call who will make his address following the results presentation.

Slide 3: Agenda

Turning to our agenda on slide 3, first I will run through the key highlights for the year. Peter will then look in detail at the financials before handing back to me give an overview of what we can expect for FY19. David will then present the Target Company Statement and the Independent Directors recommendation to shareholders for the Takeover. We will then be happy to receive any questions at the end of the call.

Slide 5: FY18 Highlights: Resilient Financial Performance, Significant Agriculture Investment

So turning now to slide 5 of the presentation.

Tegel has yet again recorded its highest ever volumes and revenues.

Poultry volumes grew to almost 100 thousand tonnes with a stronger second half performance and revenue grew to $615 million.

During the year we invested in the agriculture side of our business as we respond to the evolving preferences of our consumers. We expanded our agriculture capability and our Free Range capacity increased by 169% to now represent 23% of our farming capacity.

In early March we updated the market for our FY18 earnings and the impact that a number of non-repeating costs would have on the result. Both Underlying EBITDA and Net Profit After Tax came within the ranges that were flagged and were $70.2 million and $26.1 million respectively.

In total, the non-repeating costs mainly from industry compliance, Ex-cyclone Gita and organisational restructuring were approximately $10 million and within the range we flagged.

The Board has declared a final dividend for the FY18 year of 4.10 cents per share. This is consistent with the final dividend of FY17 and brings the total to 7.55 cents per share for the year.

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

Slide 6: FY18 Highlights: Delivering On Key Domestic Growth Strategy

Now looking at some of our operating highlights for the year on Slide 6.

In the domestic market, we held our market share which if we apply to the 'share of plate' meat consumption - that is, poultry, beef, pork and sheep - in New Zealand, incredibly, Tegel is producing 25% of all the meat consumed domestically.

This underpins our strong domestic story where we continue to see steady consumption growth.

Towards the end of the financial year we rolled out a new look for our Rangitikei brand and I'll cover this a little further on.

With Free Range driving growth in domestic sales we continue to innovate on products and providing meal solutions. This aligns with our purpose of helping families eat well every day.

Meanwhile we continue to see the benefit of our ongoing investment in the Tegel brand.

In export, we are strengthening our position in our established markets. In Australia, the strategy to diversify across channel and customer mix and reduce customer concentration is starting to deliver results. This has partly offset the loss of volumes from a QSR customer that we have referred to previously. The transition is progressing well, though slower than forecast and thereby impacting our margins. We grew volumes in Retail and Foodservice channels, adding customers across all channels including QSR and we introduced 41 new products into Australia alone.

The Pacific continued its strong performance with volumes and revenue well ahead of last year.

During the year we completed a brand refresh for our products going into the UAE. The assurance offered by Tegel's consistently high quality products drives shoppers to choose Tegel over other options.

On the operations side of the business, the year can certainly be characterised as challenging. We are very proud of our teams as they resolved the many disruptions and difficulties we faced.

Tragically during the year there was a fatality at one of Tegel's contract grower farms in Canterbury. This was devastating for everyone in the business, particularly those directly involved. As a result our industry group PIANZ worked with all industry companies, including Tegel, to establish a catching practice that reduced risk to catching staff. This has been signed off by industry member companies and WorkSafe. WorkSafe is still investigating the incident and Tegel is cooperating fully with that investigation.

In February, during Ex-cyclone Gita, a tree fell on a large exposed main water pipe cutting water supply to parts of the New Plymouth district including our processing plant and feedmill located there. This resulted in parts of our plant being suspended for a number of days.

Tegel's crisis response team continually adjusted plans to address the ongoing disruption and ensured customer orders were delivered. Our employees across the business worked tirelessly throughout to get the New Plymouth plant back up and running as quickly as possible. Having the benefit of multiple plants ensured that we were able to minimise the impact to our customers.

We have continued to realign our organisational structure to better deliver our strategy. This includes bringing on the expertise of Malcolm Clack who is already familiar with the business as GM – Sales. Christine Cash now holds the newly created role of GM – Strategy and Business Development.

This follows on from the changes we made earlier in the year in the operations area where we created a new national role of GM- Operations and disestablished three regional Executive roles.

Our capex programme of investing in agriculture and processing assets to support sales growth, efficiency gains and savings continued throughout the year. This included the acquisition of land adjacent to the New Plymouth feedmill and the completion of our New Plymouth hatchery expansion.

As always, we remain focused on cost saving initiatives and continuous improvements with further rollout of our SIMPLIFY! programme.

Slide 7: FY18 Domestic Developments: Brand Investment And Innovation

Now to slide 7, where I want to touch on the importance of the Tegel brand, which we are continuing to invest in. As NZ's favourite chicken, Tegel is regarded as a trusted and iconic brand. With the largest brand footprint, it is the most preferred brand across all areas of the supermarket.

Its strengths include offering a wide range of products, having free range options, products convenient for today's lifestyles, having NZ raised chickens and offering products suitable for every occasion.

The Tegel brand is recognised for keeping up with the times, introducing appealing new products, offering something different to other brands, having superior packaging, setting the trends and growing more popular. This indicates that continued investment in new product development also resonates with shoppers.

Investment in Tegel's Free Range brand is delivering real results for us with 27% of NZ consumers having Tegel Free Range as their first choice or one of several Free Range brands they would purchase.

Free Range poultry is now worth some $60 million in NZ Grocery and commands 13% of total poultry scan sales. Having Free Range options is providing the best opportunities for growth through consumption and is margin accretive.

We also hold the Rangitikei Free Range brand under the Tegel umbrella. During the year we did significant work to redevelop and refresh the brand, driven by extensive consumer research. All Rangitikei products now have a new green look, emphasising the brands fresh, natural, minimally processed positioning within the free range category.

This change was supported by a media campaign which included billboards, digital activity, magazine ads and social media.

Slide 8: Sustainable Farming Investment: Aligning The Business For Increased Free Range Demand

Slide 8. As we continue to develop our new free range products, this year we also been very much focused on investing for that future growth and meeting the demand for Free Range.

At the Interim Results we talked about how we have started to tell our farming story for the first time. 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.

In the FY18 year we made a significant step change in aligning the business for increased Free Range demand. In total, we increased our Free Range capacity by 169% representing an additional 80,000 square metres of farm capacity. We have done this through converting a number of our farms, adding farms in the Waikato region as well as constructing new farms in New Plymouth and in Canterbury.

We have also passed a significant milestone having completed building the last of our standard grower sheds. Going forward all our grower farms will be Free Range.

Together with our farmers 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.

Offsetting some of the growth in capacity is the impact of urbanisation on some of our Auckland farms which is requiring us to expand into other regions. This leads us to our next slide on Northland.

Slide 9: Northland Future Farming: An Exciting Project For Northland

We have also been planning the future of our poultry farms in New Zealand and 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 and an exciting project for Northland.

The proposed farm will use the latest technologies. This includes the use of solar panels for electricity generation and a rain harvesting system to reduce reliance on ground water supply. The project will create 32 jobs once fully operational, with a significant number of additional jobs during the three year construction period.

To date we have held public information sessions and we are continuing to engage with the community. We believe the project will deliver significant benefits to the region, including an estimated net benefit of $2.3 million per annum to the local economy.

We are currently awaiting the outcome of the resource consent and OIO approval processes.

Slide 10: Strategy: Growth Underpinned By Strong Domestic Position

Now on to slide 10. As I highlighted earlier, our share of the meat consumed in New Zealand and continued consumption growth underpins our strong domestic position. With export, we will be taking a more balanced perspective given its contribution to earnings.

While looking at our strategy we have made some further changes to our Executive Team. We have also taken the opportunity to refocus our sales teams by restructuring our Australia team to be managed across New Zealand and Australia by channel. Reporting lines are now structured across Foodservice, Retail and QSR. The teams now have channel expertise being leveraged across both countries.

As I mentioned earlier, we welcome the return of Malcolm Clack who has been appointed as GM-Sales to lead the sales team domestically and in established markets covering NZ, Australia and the Pacific. Christine Cash moves into the role of GM-Strategy and Business Development, to focus on future market growth, marketing and innovation. While these changes are recent, the new structure is already getting traction.

We have also made a number of other changes to ensure we have the right organisational structure in place to deliver our long term strategy. For example in our Agriculture Operations we have appointed a National Hatchery Manager role taking responsibility for our three hatcheries. We have also created a National Feedmill Manager role and a National Livestock Manager role.

We believe these changes will result in better alignment and efficiency across the relevant areas of the business.

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

Slide 12 Financial Overview: Resilient Financial Performance

Thanks very much Phil and good morning everyone.

Turning firstly to slide 12.

First to run through the financial overview and Phil has discussed some of the key highlights already.

The year has proved challenging from an operational perspective and our teams responded well to the many events which required immediate resolution.

Overall Tegel has delivered a very resilient set of numbers for the year where the domestic business continues to grow and we transition into more channels in Australia. The numbers presented here reflect not only significant one-offs but also costs relating to investing for the future for both the domestic and export markets.

Both poultry volumes and revenue for the 52 weeks ended 29 April 2018 exceeded those of the comparative periods. Revenue was up 2.0% from the 52 weeks ended 23 April 2017 to $615 million. This improvement was driven by volume, particularly in the second half as well as improved mix of free range and valued added products.

As we reported in early March, we incurred a number of non-repeating costs during the year which significantly impacted Gross Profit. These include $4.1 million for industry compliance costs as we work with the industry to align catching procedures, $3.3 million mainly for Ex-cyclone Gita, and Restructuring Costs of $1.1 million.

Excluding the one-off adjustments to arrive at our underlying earnings, resulted in Underlying EBITDA of $70.2 million, down 2.5% from FY17 which reflects the decline in contribution from exports.

As Phil has mentioned, we continue to invest in our brand and marketing for both domestic and export markets. Partly offsetting these costs as we expand our business, were lower commodity costs in FY18.

Net Profit After Tax of $26.1 million was 17.7% below the 52 week comparative period and 23.7% below the statutory 53 week comparative period. This was mainly as a result of the one-off events we have already discussed.

The final dividend of 4.10 cents per share is the same as the amount paid last year with the total dividend of 7.55 cents per share also being the same as last year.

Slide 13: Domestic: Strong Second Half Volumes Contributing To Solid Growth Overall

Turning now to slide 13 and looking at the engine of our business.

Domestic volumes grew 3.3% overall for the year with second half volumes growing almost 5.0%. This demonstrates that increased chicken consumption continues to support all channels across our domestic business.

Revenue increased at a higher percentage than volume growth mainly as a result of a better mix of free range and value added products.

Pricing during the year remained competitive, however pleasingly, the net sales value per kilo improved year on year. We expect this trend to continue into FY19 as further mix and price improvement gathers momentum.

Slide 14: Export: Customer Transitioning In Australia

On slide 14, our export volumes and revenues were below FY17. The impact of filling the shortfall from a customer taking product in house in Australia is taking longer than anticipated.

Total exports were down by 5.0% and 11.7% on a 52 week comparative basis for volumes and revenues respectively.

In Australia we have introduced a significant number of new products into new channels. The breadth of distribution and range of products across multiple channels is very pleasing.

In our other export markets, Pacific Islands continues to grow strongly. In the UAE we completed a brand refresh as well as expanding our product range by introducing nine new products.

Slide 15: Balance Sheet And Working Capital: Robust Balance Sheet Facilitating Growth

Looking now at slide 15 and at our balance sheet. We have improved working capital compared to the prior year. As we have discussed before, the timing of our balance date can impact significantly on the level of working capital. Last year the balance date fell on the last calendar day of the month which is when our monthly receivables and payables are paid.

Our higher inventory levels reflect higher margin products and a wider range of products in finished goods. Meanwhile as the level of automation has increased the amount of spare parts and consumables have increased and are of a higher value.

Our non-current assets were up by $19.5 million in the year. Part of this was a result of the capital investment I will come to on the next slide.

Slide 16: Cash Flow And Capex: Capital Expenditure For Future Growth

Moving now to looking at cash flows and capex on slide 16. In FY18, we had a net decrease of $4.0 million in cash mainly due to further investment in the business.

Operating cash inflows were $41.5 million for the year, a decline of $4.1 million from the prior period mainly due to timing differences in customer receipts and supplier payments.

On investments, we made payments for the land adjacent to our New Plymouth feedmill and continued to invest in automation and upgrade our internal systems. As we readied the five new Free Range farms to Tegel standards, we incurred some capital expenditure.

As already communicated at the Interim Results, a new banking facility was negotiated, with all bank borrowings repaid and a new three year facility being advanced. Finally, the company paid $26.9 million in the financial year for dividends

Slide 17: Dividend: Consistent Payment

On to slide 17, as Phil has already noted, the Board is pleased to declare a final dividend the same as last year. The fully imputed final dividend for the second half of 2018 of 4.10 cents per share will be paid on 13 July 2018.

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

Slide 19: Commodity And Cost Headwinds: Impacting Almost Half Of Cost Of Sales, Partially Offset by Hedging

Thanks very much Peter.

So now to spend a bit of time looking at our outlook.

Before I give the forward view on Domestic and Export, it's just worth spending a bit of time looking at some of the cost headwinds we are facing in FY19 on slide 19.

Feed is one of the key cost components in our business. While we had the benefit of tailwinds on commodities in FY18, this will look a little different in the year ahead. Globally, the likes of wheat, corn and soybean meal have increased from multi-year lows.

In addition, fuel costs are rising, impacting our business on many levels.

Partially offsetting these headwinds is our ability to hedge on currencies and commodities.

Meanwhile, labour is also a key cost component of our business with an employee base that is largely waged. Although we already pay above the minimum wage in New Zealand, the increase in the minimum wage will have an impact on our business.

Slide 20: Looking Ahead: FY19 Outlook

So on to slide 20 and giving the overall picture.

We will follow our strategy by continuing to compete well both domestically and on the export front. We will drive category growth and innovate on new products while responding to the demands of our customers.

The changing trends of New Zealanders looking for increasingly convenient meal solutions is being reflected in growth across all domestic channels. Meanwhile we expect overall consumption growth to continue at the rate it has consistently done. Domestic pricing remains competitive. We will continue to monitor pricing and to identify opportunities to increase margin through product mix and mitigating cost pressures while maintaining market share.

On exports, we will strengthen our position in current markets such as in Australia where we will build on our channel synergies across Australia and New Zealand with continued customer diversification.

In the UAE and Hong Kong we will be more focused on growing our business there.

Operationally we continue to control our costs and drive efficiencies within our business through the ongoing roll out of SIMPLIFY!

And as I outlined on the earlier slide we have a number of cost pressures up ahead. It is also important to us to continue to ensure our Animal Welfare objectives are met.

In response to Bounty's Offer, and in parallel to accelerating the review and reporting of these FY18 results, management recently prepared and a sub-committee of Independent Directors reviewed an FY19 earnings range. This FY19 Illustrative EBITDA range of $65.5 million to $70.2 million is to facilitate the preparation of the Independent Adviser's Report and broader Target Company Statement. At this early stage of the financial year there are many uncertainties which could materially impact the FY19 results for Tegel. For the avoidance of doubt the FY19 Illustrative EBITDA Range does not constitute a forecast.

Finally, the Board would like to acknowledge the contribution of our people to Tegel's success. We have an incredible diversity of skills and experience right across our business. From farmers to engineers, production staff and our sales teams. All are doing their best to contribute and we thank them for it.

I'll now hand over to David Jackson our Chair who will present a few slides on the proposed Takeover by Bounty.

Slide 21: Target Company Statement

Thanks very much Phil and good morning everyone.

Before I cover off the Target Company Statement slides, I'd like to address the qualified audit opinion received on the FY18 Financial Statements. Tegel's Directors have arrived at a different opinion from the auditors relating to the valuation of goodwill for the year.

The accounting standard allows for different valuation methods to be used when assessing a company's value. Based on internal modelling, the Directors have formed the view that the Discounted Cash Flows model consistently used by Tegel arrives at a better estimate of the value of the business and indicates headroom still exists and so goodwill should not be impaired. On the other hand, the auditors have arrived at a valuation which is based mainly on Bounty's effective offer of $1.271 ($1.23 plus $0.041 proposed dividend). This is only one indicator of value and the Directors believe other considerations should be made.

Also supporting the Directors view that goodwill should not be impaired is that the independent adviser's report, commissioned to assess the takeover offer for Tegel, includes a wide range of valuation modelling, the upper values of which are consistent with the company's view of goodwill. The qualified audit opinion has no impact on the takeover offer for Tegel. This is a unique set of circumstances with judgement involved in arriving at an outcome on both sides.

Slide 22: Summary Of The Bounty Takeover Offer: Details Of The Offer – Tegel Board Recommendation

So now to look at the three slides which I'll cover off on the Target Company Statement released to the market earlier today. Turning to slide 22 and the details of the Offer.

On the 28th of May, a full takeover Offer for Tegel was made by Bounty Holdings New Zealand Limited, a wholly owned subsidiary of Bounty Fresh Food, Inc. The Offer period runs until 25 August 2018 and the Offer may be declared unconditional up to 24 September 2018, unless extended under the Takeovers Code in either situation.

The Offer price is $1.23 per ordinary Tegel Share on issue. This is in addition to the final dividend of 4.1 cents per share announced today and represents a premium to recent trading.

The Offer remains subject to a number of conditions – including Bounty receiving approval from the OIO.

As of Thursday 7 June, the 50% minimum acceptance condition has been satisfied, with total acceptances of 62.4%. This includes 16.3% of Tegel Shares on issue that Bounty owns and 46.1% of Tegel Shares on issue in respect of which the Offer has been accepted including the 45.0% held by Claris.

An Independent Director Subcommittee was formed to manage Tegel's response to the Offer on behalf of the Tegel Board. The Subcommittee consisted of the three Independent Tegel Directors – namely myself, Bridget Coates and George Adams.

KordaMentha was appointed as the Independent Adviser in respect of the Offer.

Slide 23: Summary Of The Bounty Takeover Offer: Tegel Board Recommendation

Moving on to slide 23 and the recommendation of the Board.

The Independent Directors **unanimously recommend that shareholders accept the Bounty Offer**.

The reasons for this recommendation are as follows:

Firstly, the Offer price is fair and within the range assessed by both the Independent Directors and KordaMentha for the current value of Tegel Shares. In addition, the Offer represents a premium to the undisturbed historic trading price.

Meanwhile, the 50% minimum acceptance condition has already been satisfied. Therefore Bounty will have effective majority control of Tegel if the Offer is declared unconditional. This introduces additional uncertainties for any minority shareholders who elect to reject the Offer, including in respect of Tegel's future business strategy, and dividend and capital management policies (as to which the Independent Directors Committee does not have any visibility, and so cannot assess).

A further reason for our recommendation is that if Tegel remains listed following completion of the Offer, it is likely that there will be reduced liquidity impacting the ability to sell Tegel Shares. The trading price of Tegel's Shares may fall in the absence of the Offer or a superior proposal; and finally it is unlikely that there will be a competing offer given Bounty's current shareholding.

Note that there is further detail in respect of the recommendations available in the Target Company Statement.

The Independent Directors Committee advise shareholders to take independent advice in respect of their Tegel shares and to consider the Bounty Offer in conjunction with the full Target Company Statement.

Slide 24: Summary Of The Bounty Takeover Offer: Other Key Considerations

Finally on Slide 24 to cover off some other key considerations that shareholders should take into account.

There is no benefit to accepting the Offer early as it restricts flexibility. The minimum acceptance condition has been satisfied and no cash will be paid until the Offer becomes unconditional.

And to be clear, if you accept the Offer, you will still be entitled to the final dividend but if you sell your shares on market before the dividend record date of 29 June 2018, you will not receive the final dividend.

If Overseas Investment Office approval is not received by 24 September 2018, the Offer will lapse. However, the lock-up agreement between Bounty and Claris, will continue to apply if Bounty and Claris agree that it is reasonably likely that the OIO condition will be satisfied.

In these circumstances, Bounty is required to make a replacement takeover offer within 10 business days of 24 September 2018 for the shortest possible offer period under the Takeovers Code.

Finally, assuming the replacement takeover notice was served on 8 October 2018, and assuming the shortest possible timeframes under the Takeovers Code, the replacement offer period would end on 17 November 2018.

That covers off the key points of the Takeover, we are now happy to take any questions callers may have.

ENDS