

# Freedom Foods Group Limited

## FY 2016 Management Presentation September 2016



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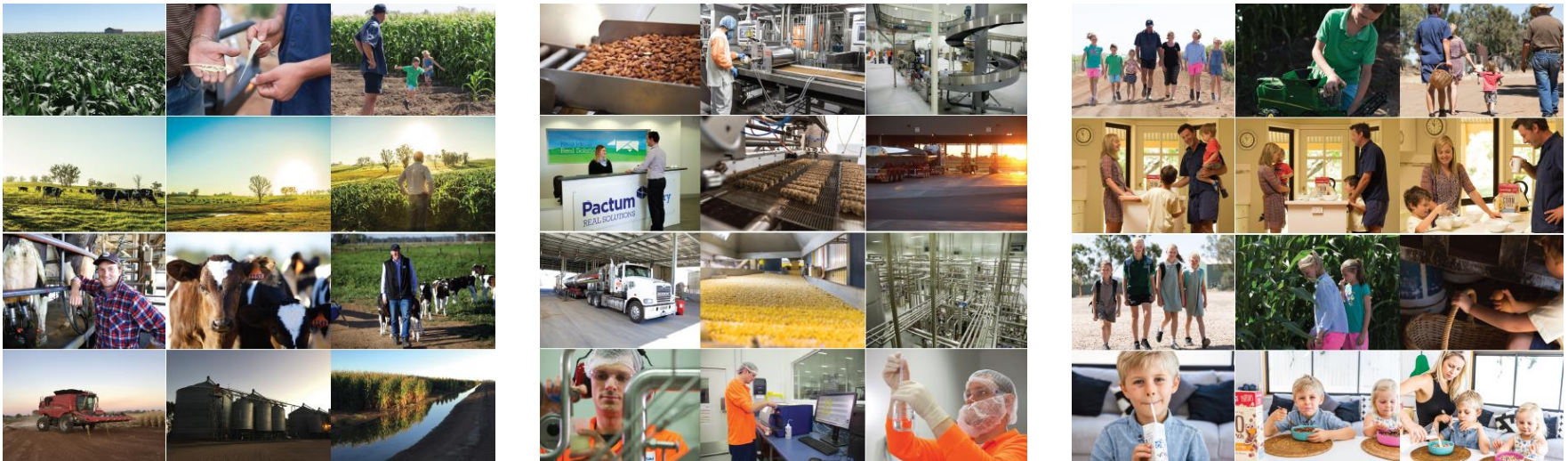
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# Our Mission Statement



# A Truly Unique Capability Targeting Diverse Categories



## Making Food Better

### Ingredients

FREEDOM FARMERS (paddock to plate)  
Long term partnerships that secure supply and ensure quality

### Product Categories

**Dairy**  
(Milk, Evap, Cream & Flavoured)

**Non-Dairy**  
(Stock, Nut & Flavoured Drinks)

**Cereal**  
(Allergen Free & Nut, Cluster & Flakes)

**Snacking**  
(Muesli Bars, Paste Bars, Extruded & Bites)

### Manufacturing Sites

**Shepparton**  
(1L, 330ml, 250ml, 200ml Aseptic UHT)

**Taren Point**  
(1L, 330ml, 250ml, 200ml Aseptic UHT)

**Darlington Point Mill**  
(Oats, Gluten Free Grains, Flour, Maize & Popping Corn)

**Leeton**  
(Only Allergen Free Cereal & Bar facility Aust)

**Dandenong**  
(Expert Oat Cluster & Bar manufacturer)

### People & Delivery

World class R+D, Operations, Sales & Marketing teams to deliver products for Freedom Brands & Co-Manufacture brands here in Australia and exported around the world



# FY 2016 Results Overview



# FY 2016 Results Overview

*Strategically well positioned to build scale in key food & beverage platforms with long term sales and earnings growth from Australia and other key international markets*



- A successful year investing in the Company's capabilities to deliver profitable growth consistent with its medium term plan, with net sales growth of 86%, reflecting:
  - Sales growth across all key category platforms in Australia, China and North America;
  - Strong growth in new value added Cereal and Bars, plant based beverages, including branded and non-branded sales in the growing Almond and value added plant milk categories;
  - Acceleration of growth in sales of Australia's Own Kid's Milk in China in partnership with Shenzhen JLL, with the brand now the leading imported Kid's Milk brand in China;
  - Sales contribution from Darlington Point Mill and Popina Foods; and
  - Consolidation of PDG Shepparton operations from 1 January 2016.

# FY 2016 Results Overview (cont'd)

- Significant progress in our investment in building world class manufacturing capabilities, people, new product development, quality and systems, including construction of a new UHT processing facility at Ingleburn in Sydney, to drive material ongoing earnings benefits over the medium term
- Consolidation of Dairy operations at Shepparton (PDG) from 1 Jan 2016, reflecting an expected increase in sales and earnings contribution to the Company in the medium term. The Shepparton operations achieved sales for 6 months, since consolidation of \$37 million, reflecting new contracts and increasing demand in Australia, China and SEA
- As part of our long term dairy milk supply strategy, we became a 10% shareholder in Australian Fresh Milk Holdings (AFMH), with the acquisition of Moxey Farms, Australia's largest single-site dairy operation, in July 2015. The business is profitable and made a contribution to earnings in the full year
- Successful capital raising initiatives including an entitlements issue and placement in November 2015 to existing and new shareholders raising \$65 million, and the sale of the Company's investment in a2MC to provide for reinvestment into core operating businesses, generating cash of \$90 million and a net profit of \$25 million. Total net profit over the last 4 years from the realisation of our investment in a2MC has been over \$85 million before tax
- At 30 June 2016, the Company had cash on hand of \$63.9 million



# Operating EBITDA (Underlying vs Statutory)

12 Months to 30 <sup>th</sup> June 2016 (A\$ million)	2016	2015
<b>Underlying Operating EBDITA before significant items</b>	<b>23.0</b>	<b>16.4</b>
<i>Significant Items expensed to profit:</i>		
Market price and exchange rate impact on purchases of Almond inputs	1.5	1.2
<b>Underlying Operating EBDITA<sup>(1)</sup></b>	<b>21.5</b>	<b>15.2</b>
Other Costs not representing underlying performance <sup>(2)</sup>	(2.2)	(2.8)
Employee Share Option Expense (non cash)	(0.4)	(0.4)
<b>Statutory EBDITA<sup>(1)(3)</sup></b>	<b>18.9</b>	<b>12.1</b>

1) Operating EBDITA is a non-IFRS measure as contemplated in ASIC Regulatory Guide 230 Disclosing non-IFRS financial information (RG230). Operating EBDITA is used by management and the directors as the primary measures of assessing the financial performance of the Group and individual segments

2) Other costs in FY 2015 comprised once off marketing costs associated with product launch and costs associated with the commissioning of the new nutritional snack equipment reducing manufacturing recoveries and gross margin during the period

3) Statutory EBDITA excludes gains from a2MC and Fair Value as well as Popina Foods and Darlington Point Mill Acquisition Costs

- Operating EBDITA of \$21.5 million (41% increase) reflecting:
  - Increased contribution from Cereal and Snacks operations
  - Part year contribution from the acquisitions of Popina Foods and DP Mill
  - Consolidation of the PDG Shepparton operation from 1 Jan 2016
  - Partially offset by a decrease in contribution from Specialty Seafood
  - Expensing of ~\$1.5m of increased USA and Australian sourced Almond input costs (reflecting adverse market price movements and exchange rate)
  - Marginal decrease in loss in North America

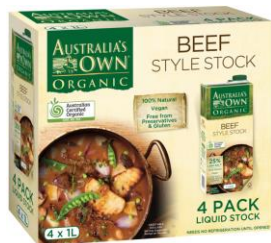
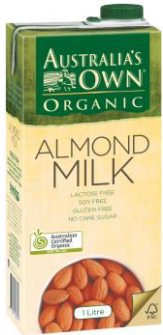


# Plant based Beverages Business Group



# Branded Portfolio

*Remains the Largest Supplier of Almond Milk Beverages via Australia's Own, Blue Diamond and Private Labels*



- Volume growth reflecting increased sales of Australia's Own and Blue Diamond Almond Breeze brands in retail, food service and convenience
- Almond Milk became the largest non-dairy category: 39% of the retail non-dairy category (33% at July 2015), overtaking Soy (total share of 38%, compared to +50% in prior years)
- Almond and related blends expected to continue to grow share within retail and other channels, reflecting a similar trend in North America
- Financial returns impacted by increased Almond inputs (reflecting exchange rate and market pricing)
- Recent reduction in global market prices for Almond is expected to provide an improvement in financial returns over the next 12 months, although limited by a requirement to source from US for Almond Breeze and limited supply of organic almonds for the Australia's Own product range
- Significant supplier of liquid stocks to retailers and other brands → increased sales and distribution from Australia's Own UHT liquid stocks

# Branded Portfolio

*Building New Channels Through Innovation in Coffee Milk Application  
 → Strong Brand Recognition and Sales Achieved within this Higher Margin Channel*



DAIRY

LACTOSE FREE

ALMOND

SOY

COCONUT



THE WORLD'S FIRST MILK BRAND ESPECIALLY DESIGNED FOR USE WITH ESPRESSO BASED COFFEE



*Fine Food Australia (Sep 2015)  
 Best New Food Service Product*



*Validated & Designed In Australia  
 with the world's hottest emerging  
 coffee professionals*



*Validated & Endorsed  
 in Asian Markets*

# Branded Portfolio

## Building New Channels Through Innovation in Petrol & Convenience

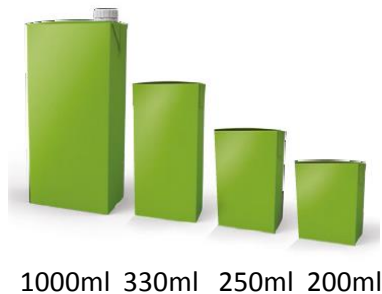


- Further innovation in plant and dairy based products for food service and P&C channels, are expected to lead to increased sales and profitability and build the Company's distribution capabilities in these growing non-retail channels

# Non Branded Portfolio

## *Largest Supplier of UHT Private Label Milk*

- The Company is a significant supplier of plant based beverages and liquid stock products to retailers and other brands, reflecting a total category approach that leverages our manufacturing platform and provides a strong base of earnings to further invest into our brands
- During the year, volumes for retailer and other branded products increased over the prior year period
- Additional customers were secured during the year including entering into medium term contracts for supply to retailers
- The Company believes its continued investment in product development and leading manufacturing capability in plant based beverages provides for significant long term growth in supporting retailer and other branded products



# New UHT Facility at Ingleburn, South West Sydney

*Largest Investor in UHT Technology and Capacity in Australia*



## **Capabilities**

- 1<sup>st</sup> stage installed UHT carton capacity expected to be ~80m litres (vs. ~50m litres at Taren Point)
- New facility will provide for significant expansion in capacity and efficiency improvements compared to current operations, including providing a materially more efficient and lower cost production, warehousing and logistics solution compared to current arrangements
- Expected to positively impact earnings during FY 2018

# New UHT Facility at Ingleburn, South West Sydney (cont'd)



## Timing

- Dec 2016: Completion of core building works (slight delays due to wet autumn/winter months)
- Mar 2017: Equipment installation. Transfer of operations from existing Taren Point site staged over 6 months to ensure continuity of supply
- From July 2017: Installation of UHT PET plastic bottle capability expansion of branded product range into various channels + sales of premium dairy formats



# Dairy Beverages Business Group





# Shepparton UHT Operations

*Largest supplier of contract packed milk brands to China → Recognition of PDG as a Supplier of Choice in UHT Dairy*

## **Long Term Supply Agreement with Local Retailers**



Woolworths  coles

## **Established Key Relationships with Major Dairy Manufacturers and Brand Owners in China and SEA**



蒙牛®



光明乳业  
BRIGHT DAIRY



新希望乳业  
new hope dairy

品渥 PINLIVE



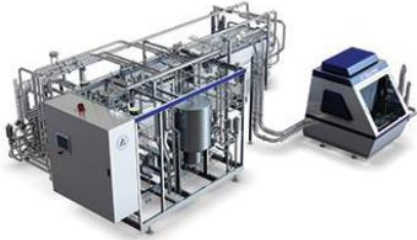
- PDG commenced operations in April 2014 at Shepparton VIC as a JV between Pactum and ACM
- FFG increased shareholding in PDG to 50%<sup>(1)</sup> resulting in PDG being consolidated between 1 Jan – 30 Jun 2016, providing greater financial transparency
- Dairy operations achieved sales in FY 2016 of \$37 million, with the business set to experience a significant step up in sales in FY 2017, reflecting new contracts and increasing demand in Australia, China and SEA
- Our customer requirements are expected to grow beyond initial volumes as demand increases, with Australian milk products providing the highest quality and safety at a comparative cost advantage compared to locally sourced milk in their respective home markets
- The \$AUD depreciation and China FTA provide further competitive advantage in the medium to long term

*(1) Effective 1 Jan 2016 by converting convertible notes issued to it as part of its original investment*



# New Capacity at Shepparton

## *Largest Investor in UHT Technology and Capacity in Australia*



- **Portion Pack**: Installation of additional portion pack capacity (250ml Prisma and 220-330ml formats), taking total installed capacity to ~120m litres / 290m packs p.a.
- **1 Litre**: Commissioned additional 1L capacity to meet as demand for 1L format has exceeded current capacity. The capacity increase, along with increased processing capability and upgrades to downstream packaging, will significantly improve efficiencies
- **Cream**: Invested in new capabilities to process and package value-add milk derivatives including cream in UHT formats. Expected to contribute to sales and earnings growth from FY 2017
- **Drinking Yogurt**: Progressing installation of UHT drinking yoghurt processing capability in a range of UHT packaging formats. The Company has significant demand for UHT Drinking Yogurt from its existing China based customers including opportunities to sell the product under the Australia's Own and So Natural brands in China and SEA. Expected to contribute to sales and earnings growth from FY 2017

# So Natural and Vitalife

## Company Brands Building Through Online Channels into China



### Key Milestones

- 2014: So Natural sales through offline speciality channel distributors
- 2015: So Natural (1L format) launch on JD.com and other distributors
- Since Sep 2015: So Natural brand became the fastest growing 1L dairy product on JD.com's cross border trading platform, establishing a strong consumer franchise based on quality, price and delivery
- 2<sup>nd</sup> half 2016: Further growth albeit slightly impacted by the regulatory delays on the inclusion of UHT on the China cross border "positive list", with delayed promotional plans impacting on order rates during May and June
- Since July 2016: Continued sales growth of "So Natural" and "Vitalife" UHT products through cross border ecommerce channels with the major online retailers JD.com and Tmall
- 2016 new launches:
  - Portion pack variants and introduction of other formats to build further brand capability
  - Other non dairy products including Cereal variants

# Australia's Own for China

## Continued Strong Growth Trajectory into 2016 making it the Largest Imported Kid's Milk Brand in China



- Licence partnership with Shenzhen JLL
- Commenced production of our “Australia’s Own” branded “Kid’s Milk” to support its launch in China in February 2015
- Volumes developed throughout 2015, with a strong increase in the 2<sup>nd</sup> quarter of FY 2016, as the product started to gain acceptance with consumers, particularly in large format retail supermarkets in the key provinces targeted
- With significant ongoing marketing investment including point of sale promotion, sampling and sponsorship of leading children’s TV programmes
- From late 2016, the Kid’s Milk product will utilise milk sourced only from the Company’s Moxey Farm operation
- Building off the strong consumer uptake for the brand in the 3-7 year age bracket, the business is developing plans for launch of products in the 7-12 year age bracket and for infant nutrition

# Australia's Own Infant Formula

## *Australia's Own "Gold" and "Diamond" for Step 1 to 3 will bring best of class in formulation and nutrition*

- Sep 16: Launch of Infant Formula (IF) Everyday (Gold) and Premium (Diamond) product range
- The IF products will initially be offered in Australia and China through a direct to customer model, leveraging off the Company's increasing cross border sales channel capabilities and integration with domestic Chinese distributors
- The IF strategy is being developed as part of a longer term plan to build the "Australia's Own" brand as a leading high quality imported brand of choice for Children's Nutrition in China
- With the initial launch through e-commerce channels, the brand will be well positioned for a transition of a "Chinese regulated" product into offline China market channels from 2018, through JLL's sales, marketing and distribution platform in China
- This IF range is expected to breakeven in FY 2017, reflecting start up investment, with sales and earnings contribution from FY 2018



# Australia's Own Infant Formula



# Non Branded Portfolio

*Continue to service our clients locally and internally on all their dairy requirements*

- The Company is a significant supplier of dairy milk products to retailers and other brands, reflecting a total category approach that leverages our manufacturing platform and provides a strong base of earnings to further invest into our brands
- During the year, volumes for retailer and other branded products increased over the prior year period
- Additional customers were secured during the year including entering into medium term contracts for supply to retailers



**Love'in Farm Fresh Milk  
for IDP, Vietnam**



**Premium Weidendorf UHT Milk  
for Pinlive, China**



**Woolworths' Private Label UHT  
Dairy Milk Range**

# Nutritionals Platform

*A brand new nutritionals platform to be established adjacent to the existing Shepparton UHT site, providing synergies and creating an integrated dairy processing platform into the future*

- Since the HY results announcement, the Company has progressed design and feasibility work for a specialised nutritionals platform aligned to our increasing dairy capabilities across the group
- The nutritionals platform will provide for industrial grade protein standardisation and separation including casein, lactoferrin, alpha-lactalbumin and whey protein isolate
- The market for dairy ingredients is projected to witness growth in the upcoming years due to increasing awareness about the health benefits of nutritional food products
- It is envisaged that a number of dairy nutritional ingredients could be utilised in current and new product formats manufactured by the Company in Cereals, Snacks, Dairy and Non-Dairy products for both our branded products and for other customers branded products
- The Company's IF product range would utilise the Dairy nutritionals components
- Subject to the requisite local government approvals, the Company is targeting an initial 1<sup>st</sup> stage capability to be in operation during 2018, with the potential for a material contribution to sales and earnings from FY 2019



# Value Added Supply Chain – Dairy Milk

*Moxey Farms – Australia's largest single-site dairy operation delivering 75 million litres of milk per year*

Australian Fresh Milk Holdings (AFMH)



- In July 2015, AFMH acquired Moxey Farms, a fully integrated dairy farming operation in the Lachlan Valley, 340km west of Sydney
- Since acquisition, Moxey has expanded from 3,700 milking cows (~50m litres) to 5,000 milking cows (~75m litres of milk p.a. largely from a2 cows) as part of a \$28m expansion (new state-of-the-art rotary processing dairy, cow barns, effluent management, expansion of land holdings including water and irrigation capabilities)
- It is envisaged that the Company will require a growing proportion of this new output for its Australia's Own Kid's Milk and other dairy product formats, with production to occur at Ingleburn
- A further expansion of Moxey Farms is being considered to take the farm to its expected maximum capacity of 7,000 milking cows including acquisition of additional dairy farm sites
- FNP equity accounts its 10% share of AFMH in the period

# Value Added Supply Chain – Dairy Milk (cont'd)

*Collectively the combined Moxey Farm and Perich Group's Leppington Pastoral Company dairy milk production is the largest dairy milking operation in Australia*



# Cereal & Snacks Business Group



# Strategic Platform Established

*The Cereal, Snack and Milling business is now strategically positioned to build a significant growth platform in multiple products, channels and distribution*

- Significant investment in product development capabilities will deliver an exciting innovation pipeline of new products in Cereal and Nutritional Snacks in new formats for multiple channels and geographies
- Key acquisitions have accelerated the business plan and provided value adding scale benefits to the footprint
- Incremental capex will expand product suite, increase capacity, lower cost base, create more efficiencies

## Leeton Manufacturing Facility

- Legacy cereal and snacks manufacturing facility
- Australia's only allergen free facility – gluten, nuts, dairy and non-GMO
- Offering: Integrated allergen free cereal and snacks operation



3<sup>rd</sup> Party Brands

## Dandenong Manufacturing Facility

- Acquired in December 2015
- Formerly known as Popina Foods
- Offering: Integrated oats and cluster format cereal and snacks operation
- New oven and packaging upgrade in Sep 16 → Doubling capacity. Earnings impact from FY 2017
- Upgrade of snacking capability for increase throughput and DDP (paste extrusion) technology will be made prior to Dec 2016



3<sup>rd</sup> Party Brands



# Dandenong Manufacturing Facility

## Largest Oat Cluster Supplier with Over 60% Share



- Completed acquisition of Popina Foods during December 2015
- Popina Foods (now Freedom Foods Group Dandenong) is a recognised leader in cluster format cereal and snacks in Australasia, based in Dandenong VIC
- Significant strategic addition to the Company, fast tracking our ability to expand our brand and category segment offering in oat based products in Australia and into Asia, and for the first time allow the Company to access manufacturing capability in both allergen free (Leeton) and nut based capabilities (Dandenong) on a cost competitive basis
- Additional integration opportunities in milling and ingredients supply to Dandenong have also been identified
- The purchase price for Popina Foods was approximately \$35 million. The acquisition delivered sales and earnings for a 6 month period in FY 2016. It will be accretive to earnings in its 1<sup>st</sup> full year of operations in FY 2017 and is expected to provide further operational efficiencies in the medium term

# Branded Portfolio – Australia

## Number 1 Health Food Cereal Brand with +40% Market Share and Growing

- Freedom Foods branded products delivered sales growth in its Cereal and Snacks segments compared to the prior year period → growth in new format combination products such as Active Balance, Oat and Muesli products
- Traditional format products (i.e. Corn Flakes, Rice Puffs) experienced declines. To combat this, the business invested along with our retail partners in additional promotions → driving the Freedom Foods brand back into growth in the Health category as the business entered FY 2017
- The new Crafted Blends cereal range introduced in 2015 was expanded during the 2<sup>nd</sup> half of FY 2016 to include a range of cluster style combination cereals. Significant additional ranging of an expanded Crafted Blends range will be in retail store in the 1<sup>st</sup> half 2017, as the business works on delivering more innovation and product differentiation to the Health category
- Arnold's Farm brand achieved growth in its oat based cereal products through its exclusive distribution in Woolworths supermarkets. The brand offering will be expanded during FY 2017 with expanded range of cereals and a complementary snacking offering

### Existing Range



# Branded Portfolio – Australia

## New Range



# Branded Portfolio – Australia (cont'd)

## The Freedom Foods business is seen as a Core Category Leader in the Health Food Section

- Our expanding innovation, product range and format capability through our manufacturing capabilities provides a unique opportunity to build the Freedom Foods brand as a leading and trusted brand for healthier tasty cereal and snacks options
- Key drivers of growth in the Cereal and Snacks business:
  - ✓ Tasty & Functional
  - ✓ Portable & Convenience
  - ✓ Combination Format
  - ✓ 3.5 – 5.0 Star Rating
- Since the relaunch of our “nut free” nutritional snack bar range in 2015, the business has experienced growth in both health and mainstream supermarkets channels. Strong growth in the 2<sup>nd</sup> half supported by more increasing consumer recognition and improved promotional frequency
- Significant additional ranging of expanded “nut free” range will be in retail stores in 1<sup>st</sup> half 2017

### Existing Range





# Branded Portfolio – Australia (cont'd)

## New Range



# Branded Portfolio – China

*“Arnold’s Farm” brand was the No. 1 Cereal Product on Tmall International during the promotional period and one of the Top 3 selling products in Tmall*



- Nov 2015: Launched an online flagship store to promote the “Freedom Foods” branded product portfolio to Chinese consumers
- Following early success, FNP and Tmall built a joint business plan to accelerate development of a number of key products within the cluster and oat porridge category under the Freedom Foods brands
- Sales have progressed well since, with further growth achieved and increasing brand recognition. A number of new formats have been developed specifically for the Chinese consumers and is now building into the more significant promotional period between Nov – Jan
- The demand for high quality Australian origin oats will also be further developed through consumers accessing product through China’s cross border free trade zones and the China FTA that will reduce tariffs on oat based products over the next 5 years
- With its growing dairy platform established on key online channels in China, Freedom Foods will utilise this expanding sales and distribution capability to accelerate its Cereal platform to establish a leading position in this rapidly expanding retail channel

# Branded Portfolio – North America

## Top 10 Cereal Brand in Specialty and Natural Channels in USA



- Sales increased 21% to A\$1.9 million with the net loss decreasing marginally to \$857k (including \$300k due to FX impact) as the business continues to invest to build a sustainable market share within the retail and wholesale price point parameters
- Contributes to ~10% of Leeton Cereal production output
- 5,000 distribution points established (30 Jun 2016). Significant new ranging achieved (800 Kroger stores, 350 Target stores, other retailers)
- Developed a more localised sales and marketing resource over the past 6 months → expected to significantly expand distribution and build scale over the medium term, beyond the Allergen Free offering
- New initiatives in North America:
  - Introduction of Crafted Blends range
  - Unique offering in collaboration with CSIRO
  - Testing its specialised “coffee milk” offering in targeted cities
- Actively considering options for increased scale including potential for partnerships and acquisitions

### Retailer Relationships



# Non Branded Portfolio

*Continued investment in product development and leading manufacturing capability in Cereal and Snacks provides for significant long term growth in supporting retailer and other branded products in Australia, China and North America*

- Significant supplier of cereal, snack and grain based ingredients to retailers and other brands, reflecting a total category approach that leverages our manufacturing platform and provides a strong base of earnings to further invest into our brands
- In FY 2016:
  - Volumes for brand owners and retailers increased over the prior year period
  - Additional customers were secured including entering into medium term contracts for supply to key customers
  - Secured its first significant supply of cereals and oat based products to a major brand owner in China. In this instance, the Company's quality and manufacturing capabilities aligned to reducing tariffs under the FTA secured the opportunity against supply from European markets

# Darlington Point Mill (DP Mill)

*Largest supplier of popping corn in Australia with over 40% share*



- August 2015: Completed the \$8.5m acquisition of DP Mill based in the Riverina district of NSW (~32kms from our Leeton facility)
- Operates an established grain processing facility for the supply of milled flours and popping corn, while also processing gluten free and non-GMO grains, with existing customers in food service and processing markets in Australia as well as export markets
- Delivered sales and earnings contribution in FY 2016 and will be accretive to earnings in its 1<sup>st</sup> full year of operations in FY 2017, with further operational efficiencies expected in the medium term
- Various upgrades since acquisition in particular investing in people and systems for managing production, quality, receipt and dispatch
- Seeing increased demand for Popping Corn and Maize flour products
- Existing milling operations relocated from our Leeton facility to the Mill, providing for increased warehousing capabilities at Leeton
- At final stages of a feasibility study to process oats at the DP site (procurement, storage, processing). Targeting 1<sup>st</sup> stage from 2018

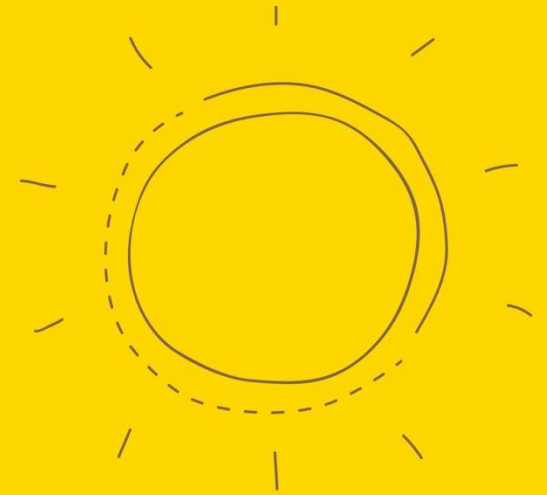
# Freedom Farmers

*Aiming to be a fully integrated paddock to plate provider to ensure full quality control of our supply chain*



- As part of ensuring best quality and growth in supply of key grains to our Freedom Foods Group production facilities, the business expanded its Freedom Farmers platform, with a number of key farmer groups engaged to build the Company's specialised grains supply platform over the coming years that will guarantee our strategy of being an integrated paddock to plate provider
- Australian sourcing of all key grain based ingredients will be a key source of competitive advantage for the Company
- During the HY, the Company managed for the first time seed and planting processes under contract with its Freedom Farmers for Popping Corn, Maize and Buckwheat to be delivered through 2016
- Additional contracts are being put in place for 2016 plantings, for delivery in 2017
- The impact of these plantings and subsequent crops will see changes to working capital requirements in the coming years

# Specialty Foods Business Group



# Specialty Foods

*Brunswick Sardines Maintained its No. 1 Brand Leadership Position in Australia and NZ*



## **Brunswick**

- During 2<sup>nd</sup> half of FY 2016, Sardine supply from Canada was constrained due to weather conditions that impacted fishing quotas
- This significantly impacted the availability of supply and the Brunswick range was restricted in meeting normal sales promotions
- Supply has recommenced since and the Company intends to maintain a dual supply base for Atlantic sourced Sardines to reduce exposure to a single fishing area

*Brunswick Sardines are wild caught in waters of the Northern Atlantic. They contain the goodness of Omega-3, protein and calcium and are packed in a number of tantalizing flavours for the ultimate sardine experience.*



# Specialty Foods (cont'd)



## *Paramount*

- Paramount Salmon brand performed well during the period
- While commencing Salmon inventory reduced our exposure to AUD / USD exchange rate decline, the last 9 months of the year was impacted by unfavourable exchange rate on the balance of purchasing in Salmon and Sardines
- Tight management of sales promotions and reduced promotional spend negated some of the FX impact on gross margin

## *Outlook*

- Remains focused on positioning for growth through 2016 through category leadership of the Specialty Seafood channel, including new product opportunities aligned to consumer demand for convenience and superior health benefits
- Continue to utilise the procurement power of Bumble Bee Foods (North America), who secured 2015 inventory requirements through priority access to salmon and sardine catch volumes

# Corporate & Group Management



# Talent & Technology

*Significant investments in people, talent and capability in areas of retail sales, marketing & innovation, quality systems, operations, financial and compliance*

- For our expanding capital projects initiatives, we increased our capability to manage and install our key projects that will provide for ongoing capability at our sites, reducing reliance on 3<sup>rd</sup> party providers
- Appointment of a Chief Financial Officer whom commenced on 1 September 2016
- Well progressed on a complete transformation of its IT / ERP systems
- Oct-Dec 2016: Upgrade from its existing 1<sup>st</sup> generation platform to a new cloud based ERP system
- This system will be integrated through all aspects of the Company (sales, marketing, operations, supply chain and quality), allowing us the capability to further analyse its business, significantly increase productivity and provide for growth either organically or by acquisition
- The Company intends to be a leader in utilising digital technologies to further automate and streamline its operations



# Capital Management

## *Strong Cash Flow with Prudent Capital Management Policies in Place*

### Capital Raising

- Nov 2015: Completed a capital raising comprising a pro-rata accelerated non-renounceable entitlement offer and institutional placement
- The offer raised a total of \$65 million, with the institutional component being significantly oversubscribed with strong demand from a broad range of high quality institutional investors including existing institutional shareholders
- The funds raised from the capital raising are being utilised in the funding of the Company's growth strategy including the acquisition of Popina Foods, construction of a new UHT processing facility at Ingleburn as well as providing the Company with additional balance sheet flexibility for future growth opportunities

### Disposal of a2MC Holding

- Oct-Nov 2015: Disposal of its entire shareholding in The a2 Milk Company (a2MC) in 2 block trades generating net proceeds of ~A\$90m
- The Company realised its investment in a2MC on the basis that the opportunity cost arising from the market value of the funds employed in the holding would be better utilised being applied to activities and businesses in respect of which the Company has either 100% ownership or controlling interests
- Total profit since the original investment in 2007 was A\$85 million (425% return)

# Capital Management (cont'd)

## Cash & Liquidity (as at 30 June 2016)

- Net debt of \$39.9 million comprising cash of \$63.9 million and total borrowings of \$103.8 million (term facilities, equipment finance leases, working capital facilities), implying a net debt to equity ratio of 13.9%
- Cash Flow from Operations was \$13.4 million (an increase of \$5 million from FY 2015), reflecting increased sales offset by increases in working capital requirements associated with inventory build for the changing mix of business in beverages and new product launches
- Invested \$63.1 million in capex (relating to Leeton operations, DP Mill, Dandenong, Shepparton and Ingleburn) funded by cash

## Dividends

- Final fully franked dividend of 2.25 cents per ordinary share (an increase of 0.75 cents from FY 2015) bringing the total dividend declared in FY 2016 to 4.0 cents per ordinary share (a 33% increase from 3.0 cents in FY 2015)
- Record date of 2<sup>nd</sup> November 2016 and payment date of 30<sup>th</sup> November 2016
- The Company's Dividend Reinvestment Plan (DRP) remains open

# Outlook

## *“Australia’s Own” and “Freedom Foods” brands will increasingly be at the forefront of driving our returns from our innovation and manufacturing capabilities*

- We believe the ability to control manufacturing inputs and our commitment to deliver innovation across a range of formats for our brands and our key customers will be a key strategic advantage in the medium to long term, particularly in value adding Australia’s unique agricultural base
- We continue to invest to achieve this outcome which will drive scale and generate profitability:
  - Expansion at Ingleburn → meet increasing demands for plant-based beverages
  - 50% shareholding in PDG → absorb growing Asian demand for Australian dairy products
  - Expansion into Dairy Nutritionals → build a more integrated dairy processing platform
  - Capital investment at Leeton, Dandenong and DP Mill → deliver manufacturing efficiencies
  - Continue to evaluate acquisitions that add value to and significantly accelerate and or leverage our sales, marketing and operational platforms
- Our operating profits will increase through the investment cycle, balanced against a requirement to invest in people, systems and process to manage a scaled and diversified business platform
- Overall the Company anticipates the ongoing benefits of the strategy and its multi stage capital investment programme to accelerate increased group profits and returns during 2017 and beyond

# Summary FY 2016 Financials



# Financial Summary

12 Months to 30 <sup>th</sup> June 2016	2016 \$'000	2015 \$'000	% Change
Net Sales Revenue	170,444	91,460	86.4%
EBDITA (Underlying Operating before Significant Items)	23,026	16,420	40.2%
EBDITA (Underlying Operating)	21,526	15,237	41.3%
EBDITA (Statutory)	18,926	12,086	56.6%
EBITA (Operating) <sup>(2)</sup>	15,087	9,092	65.9%
Equity Associates Share of Profit <sup>(3)</sup>	372	(42)	-
Pre Tax Profit (Operating) <sup>(4)</sup>	13,691	9,240	48.2%
Pre Tax Profit (Reported)	57,114	61,980	(7.9%)
Income Tax (Operating) <sup>(4)</sup>	2,873	5,349	(46.3%)
Net Profit (Operating) <sup>(4)</sup>	10,818	4,970	117.7%
Net Profit (Reported) <sup>(4)</sup>	50,631	56,631	(10.6%)
Final Ordinary Dividend (cps)	2.25	1.50	50.0%
Final CRPS Dividend (cps)	1.35	1.35	-
EPS (cents per share) (Fully Diluted for CRPS)	28.54	36.29	(20.7%)
EPS Operating (cents per share) (Fully Diluted)	6.06	3.17	93.0%
Net Debt / Equity	14%	27%	-
Net Assets per Share (cents)	158	120	31.7%
Net Tangible Assets per Share (cents)	119.75	106.35	12.6%

*Notes:*

- (1) Operating EBDITA and EBITA excludes pre-tax abnormal or non-operating charges and gains with an add back of non cash employee share option expense of \$448k, elimination of the gain due to the disposal of a2MC investment and the share of profit from associates.
- (2) Equity Associates is share of NPAT of Australian Fresh Milk Holdings (10% equity interest held by Freedom Foods Group) and 1% of PDG Equity accounted NPAT for period 1st July 2015 to 31 Dec 2015.
- (3) Operating Pre Tax Profit and Net Profit does not include the gain due to the sale of a2MC investment and the net share of profits from associate.



# Financial Summary by Business Units

Year ended 30 <sup>th</sup> June 2016 (A\$m)	Freedom Foods	Pactum Taren Point	Pactum Dairy Group <sup>(2)</sup>	Specialty Seafood	Freedom Foods NA	Other	Total
Net Sales Revenue <sup>(1)</sup>	86.7	56.0	36.6	12.4	1.9	(23.2)	170.4
Operating EBDITA	10.6	11.3	2.0	2.0	(0.9)	-	25.1
Investment and Other Income <sup>(3)</sup>	-	-	0.2	-	-	0.4	0.6
Equity Associates <sup>(4)</sup>	-	-	-	-	-	0.4	0.4
Corporate Costs <sup>(5)</sup>	-	-	-	-	-	(4.5)	(4.5)
<b>Group Operating EBDITA</b>	<b>10.6</b>	<b>11.3</b>	<b>2.2</b>	<b>2.0</b>	<b>(0.9)</b>	<b>(3.7)</b>	<b>21.5</b>
Net Sales Change (YOY %)	+80.0%	+15.2%	NA	-3.1%	+21.0%	-	-
Net Sales Change (YOY \$m)	38.5	7.4	36.6	(0.4)	0.3	-	-
Operating EBDITA Change (YOY %)	+217.4%	+8.6%	NA	-20.1%	+5.1%	-	-
Operating EBDITA Change (YOY \$m)	7.3	0.9	2.0	(0.5)	0.05	-	-
Operating EBDITA Margin (%)	12.3%	20.2%	5.5%	16.3%	NA	-	14.7%
Operating EBDITA Margin Prior Year (%)	7.0%	21.4%	NA	19.8%	NA	-	-

Notes:

- (1) Net Sales Revenue Total is after intercompany elimination of sales (Pactum Taren Point to Freedom Foods \$20.6m and Freedom Foods to Pactum Taren Point \$2.5m)
- (2) PDG Consolidated contribution was for 6 months from 1<sup>st</sup> January to 30<sup>th</sup> June 2016. PDG Operating EBDITA includes impact of consolidation adjustments and may differ from reported entity statutory reporting.
- (3) Investment and Other Income is income from PDG convertible notes up to 31<sup>st</sup> December 2015 and Group related grant income related to EMDG.
- (4) Equity Associates is share of NPAT of Australian Fresh Milk Holdings (10% equity interest held by Freedom Foods Group) and 1% of PDG Equity accounted NPAT for period 1<sup>st</sup> July 2015 to 31<sup>st</sup> December 2015.
- (5) Corporate Costs excludes non cash employee share option expense of \$448k.

# Cash Flow

12 Months to 30 <sup>th</sup> June 2016	2016 (\$'000)	2015 (\$'000)	% Change
<b>Cash from Operating Activities</b>	<b>13,355</b>	<b>8,307</b>	<b>60.8%</b>
Net Interest Paid	(4,987)	(1,310)	
Income Tax Paid	(2,675)	(960)	
<b>Total Cash from Operating Activities</b>	<b>5,693</b>	<b>6,037</b>	<b>(5.6%)</b>
Capex on PP&E	(63,103)	(49,625)	
Net Advances to Associates	(71)	(2,758)	
Purchase of Shares in Associates	-	(529)	
Proceeds from Sale of Associates	90,229	107	
Repayment of Loan by Associates	100	1,200	
Investment in Equity Interest	(5,760)	-	
Business Acquisitions	(39,423)	-	
<b>Net Cash used in Investing Activities</b>	<b>(18,028)</b>	<b>(51,605)</b>	<b>(65.1%)</b>
Net Proceeds from Equity Issuance	66,800	1,264	
Payment of Share Issue Costs	(1,685)	(77)	
Dividends Paid	(1,256)	(1,155)	
Proceeds (Repayment) of Bank Financing	10,362	43,088	
Other Payments	(307)	(96)	
<b>Net Cash from Financing Activities</b>	<b>73,914</b>	<b>43,024</b>	<b>71.8%</b>

- **Cashflow from Operating Activities:** 61% increase impacted by improved working capital mix
- **Net Interest Paid:** Increased reflecting higher financing facilities relating to working capital and capex
- **Income Tax Paid:** Reflects company moving into tax paying after extinguishment of losses
- **Capex:** Capex on plant & equipment, land
- **Finance Facilities:** Increased debt facilities re working capital, capital expenditure and land acquisitions

# Funds Employed

12 Months to 30 <sup>th</sup> June 2016	2016 (\$'000)	2015 (\$'000)	Change
Inventory	46,213	24,475	21,738
Trade & Other Creditors	(49,577)	(18,779)	(30,798)
<b>Net Investment in Inventory</b>	<b>(3,364)</b>	<b>5,696</b>	<b>(9,060)</b>
Trade & Other Receivables	45,661	25,303	20,358
<b>Working Capital</b>	<b>42,297</b>	<b>30,999</b>	<b>11,298</b>
PP&E	224,351	103,430	120,921
Investments (a2MC & Others)	6,163	77,050	(70,887)
Intangible Assets	70,435	21,488	48,947
Others Assets	7,407	16,930	(9,523)
<b>Total Fixed Assets</b>	<b>308,356</b>	<b>218,898</b>	<b>89,458</b>
<b>Total Funds Employed</b>	<b>350,653</b>	<b>249,897</b>	<b>100,756</b>
Other Creditors & Provisions	(22,913)	(13,382)	(9,531)
<b>Net Funds Employed</b>	<b>327,740</b>	<b>236,515</b>	<b>91,225</b>
Net Financing	(39,922)	(50,586)	10,664
<b>Net Equity</b>	<b>287,818</b>	<b>185,929</b>	<b>101,889</b>
ND / Equity	13.9%	27.2%	

- **Inventory:** Increase relating to working capital for snack bar and higher componentry for non-dairy products
- **Receivables:** Reflecting increased sales turnover
- **Fixed Assets & Investments:** Gain on sale of a2MC shares and capex on plant & equipment, consolidation of PDG
- **Other Creditors:** Increase tax provision re operating profits and a2MC mark-to-market
- **Finance Facilities:** Increased debt facilities re working capital, capex and acquisitions

