



# Annual General Meeting 27 October 2015

Barry Irvin – Executive Chairman  
Aidan Coleman – CEO



# Agenda

- 2015 Annual Report
  - Executive Chairman's Report
  - Chief Executive Officer's Report
- Questions
- Approval of Remuneration Report
- Election of Directors
- Consideration of shareholding limit in constitution

# Welcome

- Shareholders
- Suppliers
- PricewaterhouseCoopers
- Addisons Lawyers
- Kidder Williams
- Bega Cheese Staff
  
- Apologies



# 2015 ANNUAL REPORT

## Executive Chairman's Report

Barry Irvin AM— Executive Chairman

# Key Messages

- Result at expectation given global commodity market downturn and highly competitive milk procurement environment
- 4% increase in revenue (\$1,112m) driven by \$72m increase in sales of nutritionals and consumer packed goods
- Margin impacted by \$29m decrease in commodity sales which was not reflected in farm gate milk price
- Milk Sustainability and Growth program successfully executed
- Strategic initiatives on track
  - Infant blending & canning facility
  - Next generation cheese packaging equipment
  - Secure, sustainable and growing milk supply
  - Further investment in micro nutrients

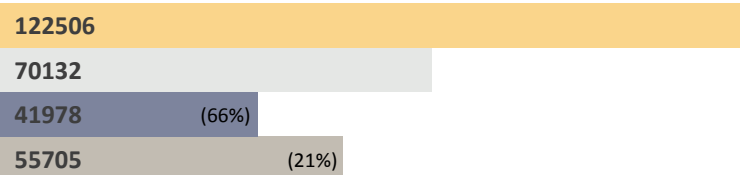


# FY2015 Results (Statutory and Normalised)

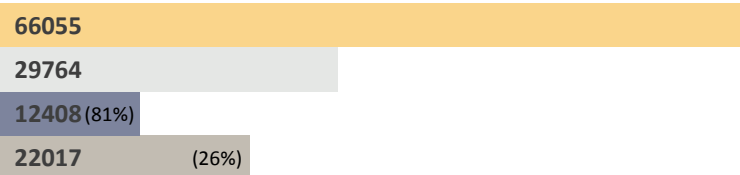
## Revenue (\$'000)



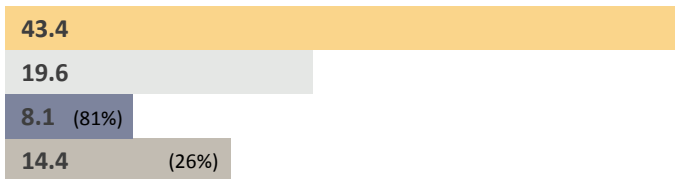
## EBITDA (\$'000)



## Profit After Tax (\$'000)



## Basic Earnings Per Share (cents)



## Total Dividend Per Share (Cents)



## Production Volume (Tonnes)



## Milk Sustainability and Growth (\$'000)



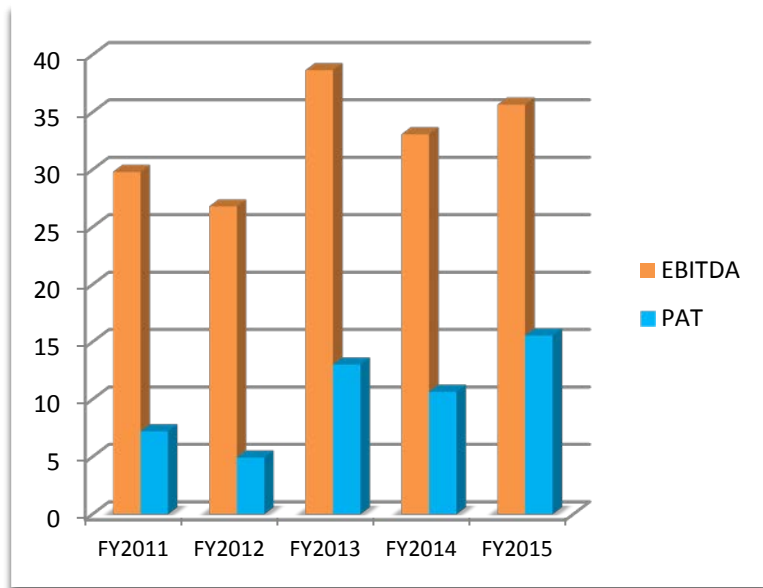
\*Normalised refers to excluding the impact of significant events occurring during the year.

\*\*Restated in line with current year definitions



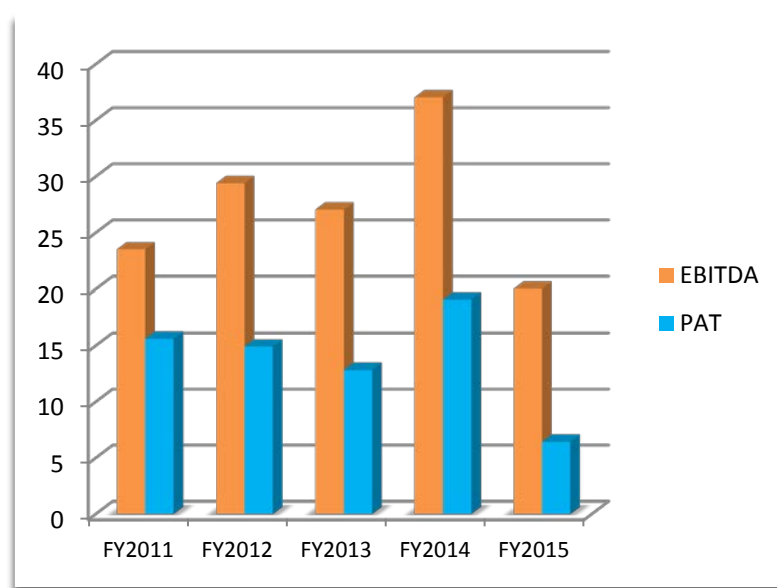
# Bega Cheese & Tatura Milk Segment (\*Normalised)

\$m Bega Cheese



- Segment stability reflects business exposure to retail and food service markets in Australia and internationally
- Food service into Asia contributes to growth in export volumes

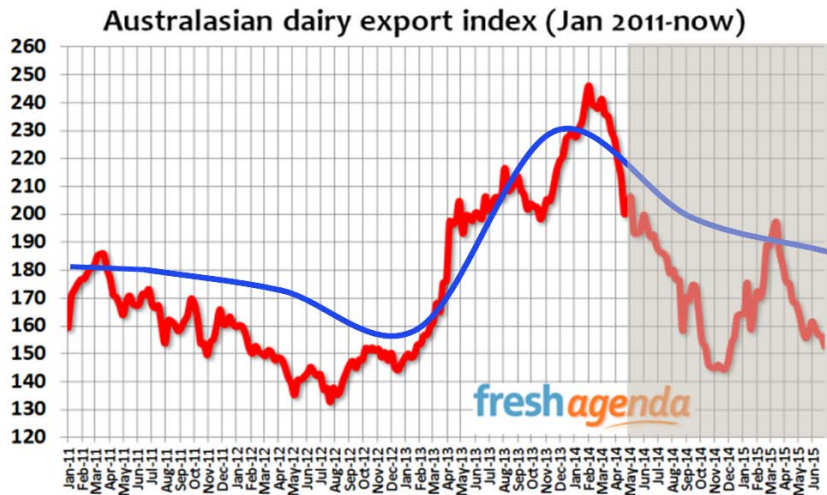
\$m Tatura Milk Industries



- Significantly impacted by fall in commodity prices
- Commodity price decreases not reflected in farm gate milk price
- Improved sales in value added and nutritional products

\*Normalised for investment in Milk Sustainability and Growth Program (FY2014 and FY2015) and sales of shares in WCB (FY2014).

# Dairy Commodity Prices and Farm Gate Milk Price



- Farm gate milk price generally linked to global dairy commodity market price
- 2015 global production responded to strong market signals from previous year
- High global inventories
- Russian sanctions and China slow down
- Declines in commodity price not entirely reflected in FY2015 Australian milk prices

- Export trend index - global commodity prices/Australian currency impact
- Farm gate milk price trend
- FY2015 Milk price \$6.00 per Kg MS  
FY2016 Opening milk price \$5.60 per Kg MS

Source: Freshlogic



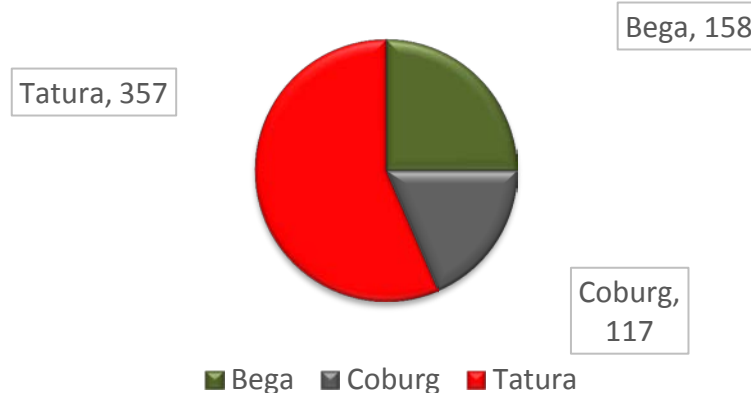
# Sustainability and Growth

- Strategic investment in long term milk supply
- 3 year supply relationship
- Sustainability includes resource management and farm practice (BEMS)
- 29% projected milk growth in the next 3 years from participating suppliers
- Program funds now fully allocated

## Milk Intake (FY2015)

- Milk pool well balanced to meet business requirements
- Direct milk intake increased 6.4%
- Milk directed to highest returning products across manufacturing infrastructure

## Milk Intake

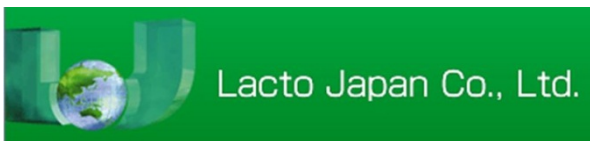


# Product Range





# Customer Relationships



# Investing in Infrastructure

- Focused on investment in value adding activities
- Capital Expenditure \$18m
  - Cream cheese, environmental and nutritionals
  - High value bio nutrient extraction
    - \$22m project (\$5m grant) Target completion 2017
- Capacity and capability projects
  - Nutritional flexibility
  - Next generation cheese packaging equipment project

# Infrastructure



Derrimut  
Processing and Packaging  
(Infant Nutritionals)

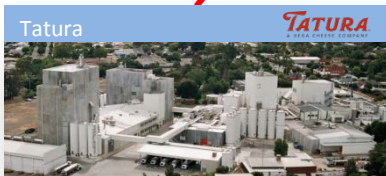


Bega  
Processing and Packaging  
(Cut and Pack Cheese)

Dairy Production  
(Cheddar Cheese, Stringers)



Coburg  
Dairy Production  
(Cheddar Cheese)



Tatura  
Infant Nutritionals, Lactoferrin, D40,  
Cream Cheese, Skim and Whole Milk  
Powder, MPC, Butter



Strathmerton  
Processing and Packaging  
(Cut and Pack Cheese)



# Balance Sheet Extract

	FY2015 \$m	FY2014 \$m
Trade and other receivables	119.5	106.7
Inventories	194.9	184.2
Property, plant & equipment	209.7	213.6
<b>Total Assets</b>	<b>552.4</b>	<b>548.6</b>
Trade and other payables	139.1	164.2
Borrowings	69.0	20.6
<b>Total Liabilities</b>	<b>239.8</b>	<b>234.2</b>
<b>Net Assets</b>	<b>312.7</b>	<b>314.4</b>
<b>Net cash/(debt)</b>	<b>(58.7)</b>	<b>8.0</b>

- Inventory increase reflecting business growth
- Borrowings increased (Milk Sustainability and Growth Program \$13.7m, WCB tax \$18.3m, payables \$25m)

# Operational Outlook

- Improved financial performance
- Commodity markets recovering albeit on reduced volumes, sustainability of recovery yet to be established
- Continued growth in nutritionals and consumer goods
- Nutritionals value added infrastructure fully operational
- Very strong balance sheet to support expansion

# Strategic Priorities

- Leverage strong nutritional demand and grow infant formula and child nutritional platform
- Grow consumer goods international business
- Extract more value from existing milk components. Decrease exposure to skim milk
- Drive efficiency through ongoing investment in globally competitive infrastructure
- New and developing bio nutrient platform
- Continue to investigate corporate opportunities (domestic and international)



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ANNUAL REPORT  
2015





# 2015 ANNUAL REPORT

## Chief Executive Officer's Report

Aidan Coleman – CEO

# Business Performance (\*Normalised)

	FY2015 \$m	FY2014 \$m
Sales Revenue	1,112.6	1,069.4
EBITDA	55.7	70.1
EBIT	33.5	47.2
PBT	30.2	42.1
NPAT	22.0	29.8

- Appropriate to review financial performance from a normalised perspective
- Revenue attributable to increased volumes and high value products
- Margin increases in value added products did not offset commodity price impact

\*Normalised for investment in Milk Sustainability and Growth Program (FY2014 and FY2015) and sales of shares in WCB (FY2014).

# FY2015 Results (\*Normalised)

Consolidated Period Ending 30 June 2015	Per Financial Statements \$'000	Milk Sustainability and Growth outcome \$'000	Normalised Result \$'000	Change from prior year \$'000	%
Revenue	1,112,630	-	1,112,630	43,238	4
Cost of sales	(991,538)	13,727	(977,811)	(45,925)	5
Gross profit	<b>121,092</b>	<b>13,727</b>	<b>134,819</b>	<b>(2,687)</b>	<b>(2)</b>
Other income and expenses	(79,114)	-	(79,114)	(11,740)	17
EBITDA	41,978	13,727	55,705	(14,427)	(21)
EBIT	19,764	13,727	33,491	(13,737)	(29)
Finance costs	(3,330)	-	(3,330)	1,774	(35)
Profit before income tax	16,434	13,727	30,161	(11,963)	(28)
Profit for the year	<b>12,408</b>	<b>9,609</b>	<b>22,017</b>	<b>(7,747)</b>	<b>(26)</b>
Basic earnings per share - cents	8.1		14.4	(5.1)	(26)

- Milk Sustainability and Growth Program fully allocated
- Increase COGS attributable to volume growth and higher value products

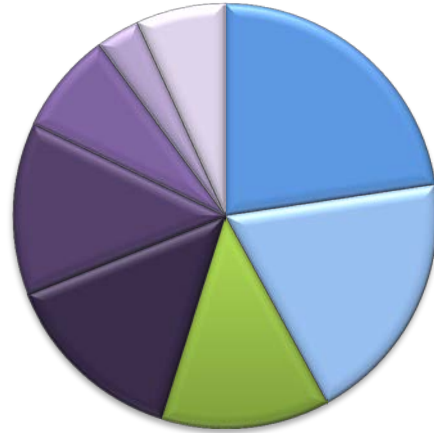
\*Normalised for investment in Milk Sustainability and Growth Program (FY2014 and FY2015) and sales of shares in WCB (FY2014).

# Cash Flow Extract

	FY2015 \$m	FY2014 \$m
Receipts from customers	1,160.8	1,102.0
Payments to suppliers	(1,164.8)	(1,049.1)
Interest and other costs of financing paid	(3.4)	(5.3)
Income tax paid	(9.9)	(7.1)
<b>Operating activities</b>	<b>(17.3)</b>	<b>40.5</b>
Investing activities	(36.4)	67.9
Financing activities	35.4	(102.5)
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(18.3)</b>	<b>5.9</b>

- Operating cash out flows – Milk Sustainability and Growth Program \$21.7m
- Operating cash in flow in the absence of Milk Sustainability and Growth Program \$4.4m
- Investing activities - \$18.3m tax in relation to the profit on the sales of shares in WCB  
- \$18.7m capital expenditure

# Manufacturing Operations



- Consumer packaged dairy products
  - Natural Cheese
  - Processed cheese
- Nutritionals
  - Nutritionals
- Core dairy ingredients
  - Cheddar and mozzarella
  - Cream cheese/frozen cream
  - Skim milk powder
  - Other core dairy ingredients
  - Other powders

## Production

- 224,986 tonnes
- 4% increase in total volume

## Continuous improvement

- 3.2% decrease in average conversion costs
- 6% increase in line efficiencies (FMCG)
- 4.2% reduction in energy use per tonne of production

## Safety

- LTIFR reduced by 17%

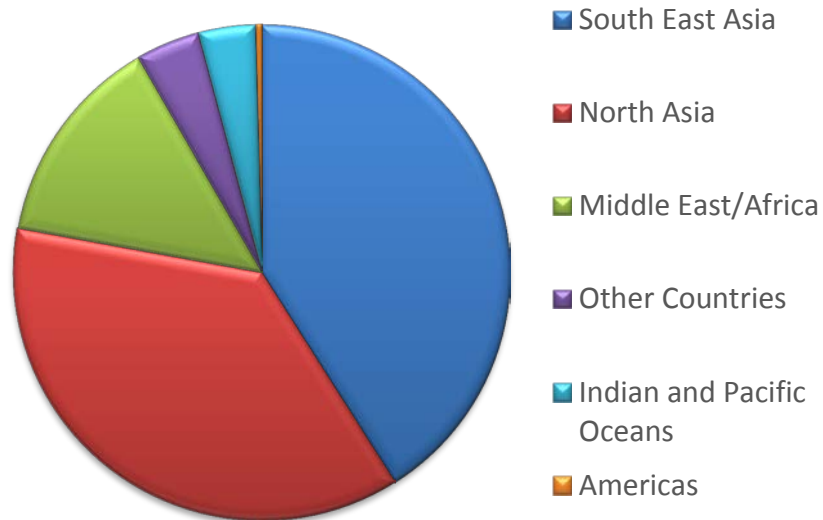
## Environmental

- \$8 million air emissions investment at Tatura
- Milk Sustainability Program

# Sales & Marketing

- **Bega Brand**
  - Number one Australian cheese brand - 15.3% market share
  - Launch of UHT Bega branded milk in Chongqing
- **Food service**
  - International food services now represents 5% of revenue (\$60 million)
  - 50% growth in the last 3 years
  - Strong path to market
- **Nutritionals**
  - Strong demand for Australian produced and packaged infant formula and growing up milk powders
  - Continued long term relationships with Mead Johnson and Meg-milk Snow & Bellamy's

## Export Markets Total Sales \$310 million



Note: Bega Cheese brand franchised to Fonterra Brands (Australia) for the Australian market

## Food Service “out of home eating”

- 50% of food expenditure is spent out of the home in many Asian countries
- Includes traditional outlets and Western style outlets
- International food service revenue 5% of group sales (increase of 50% in last 3 years)
- Established distributor network in 28 countries in Asia and the Middle East
- Bega products sold in over 50 countries





# Nutritionals

- Derrimut
  - Expansion of blending and canning
- Market growth
  - China market remains strong
  - Distribution driven by online sites and Mother and Baby stores
- Assessing ways to expand spray drying capacity at Tatura
- Exploring opportunities in the adult nutritional category

# Bio-Nutrients

- Well credentialed General Manager being appointed to manage platform - Matthieu Arguillere
  - Previously CEO of Ingredia Nutritionals in France
  - Experience in Europe, USA/Canada & Asia
- Lactoferrin
  - Expanded capacity at Tatura Milk utilised
  - Ongoing research and development in value added derivatives
- Investing in new capacity in micro nutrient extraction (Lagoon Street, Bega)
- Bio nutrients may include non dairy

# Bio Nutrients

## Dairy

- **Milk protein hydrolysates**
  - Infant formula
  - Adult and elderly nutritional products
  - Sports nutrition products
  - Dietary Supplements
- **Nutritional proteins**
  - Infant formula
  - Adult and elderly nutritional products
  - Clinical nutrition products
  - Sports nutrition products
- **Lactoferrin based ingredients**
  - Infant formula
  - Adult and elderly nutritional products
  - Yoghurt and other dairy products
  - Dietary Supplements
- **Specialised milk protein extracts**
  - Dietary supplements
  - Sports nutrition supplements
  - Animal feed supplements

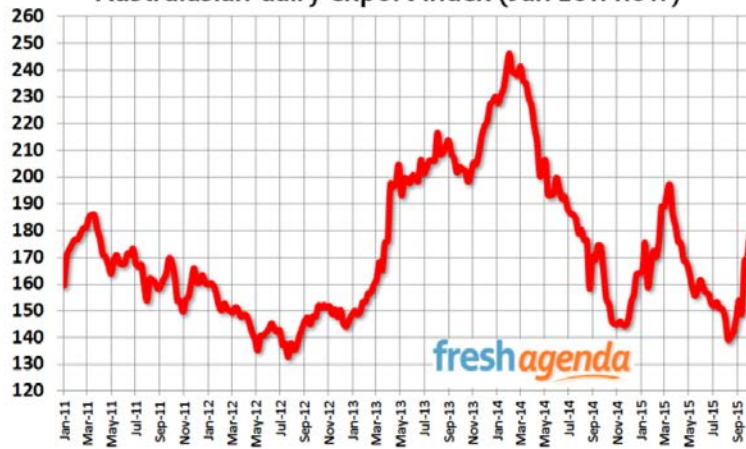
## Non Dairy

- **Plant extracts**
  - Weight management products
  - Dietary Supplements
  - Nutricosmetic products
  - Functional foods
- **Marine bio nutrients**
  - Adult and elderly nutritional powders
  - Dietary Supplements
  - Animal supplements and nutrition
- **Combinations of dairy and non-dairy products**
  - Proprietary blends
  - Providing synergistic health benefits

# Strategic Focus

- Recovery in global pricing, however volatility remains
- Medium to long term business outlook positive
- Continued investment in the four key business platforms
- Identify acquisitions aligned with core capabilities

Australasian dairy export index (Jan 2011-now)





# 2015 ANNUAL REPORT

# Questions





# 2015 ANNUAL REPORT

## Formalities and Voting

Barry Irvin AM – Executive Chairman

# Remuneration Report

- Pages 27– 28 of Annual Report
- Board, Executive Chairman, CEO and other key management personnel
- Market data and external advisors

## Resolution

- *Adopt remuneration report for the year ended 30 June 2015*



# Remuneration Report

- Proxies
- Total votes – 53,975,794 (35.37%)
- For – 52,229,213 (96.76%)
- Open – 1,555,319 (2.88%)
- Against – 191,262 (0.35%)

# Election of Directors

- Barry Irvin
- Rick Cross
- Jeff Odgers
- Raelene Murphy

For the purpose of conducting Barry Irvin election Director Max Roberts will act as Chairman of the meeting.

# Election of Directors

## Barry Irvin

- Total Votes – 54,451,019 (35.68%)
- For – 49,320,846 (90.58%)
- Open – 1,526,659 (2.80%)
- Against – 3,603,514 (6.62%)

# Election of Directors

## Rick Cross

- Total Votes – 54,433,170 (35.67%)
- For – 42,689,561 (78.43%)
- Open – 1,562,099 (2.87%)
- Against – 10,181,510 (18.7%)

# Election of Directors

## Jeff Odgers

- Total Votes – 54,434,220 (35.67%)
- For – 47,377,448 (87.04%)
- Open – 1,561,081 (2.87%)
- Against – 5,495,691 (10.10%)

# Election of Directors

## Raelene Murphy

- Total Votes – 54,434,570 (35.67%)
- For – 52,826,713 (97.05%)
- Open – 1,563,796 (2.87%)
- Against – 44,061 (.08%)

# Consideration of Shareholding Limit

- During first 2 years of company's listing (2011-2013) shareholding limit was 5%
- Shareholding limit 2013-2016 limit automatically moved to 10%
- On 16 August 2016 (5<sup>th</sup> anniversary of listing) shareholder limit either moves to 15% or is removed
- Shareholders must consider matter on or before that date
- Appropriate to consider at the 2015 AGM

# Consideration of Shareholding Limit

- Board recommends continuation of shareholding limit at the higher level (refer notice of meeting page 7)

## In support of this recommendation

- Consistent with views at time of listing (allow transition to public listed company and provided corporate stability)
- Share price performance
- Prefer to implement new growth initiatives with the benefit of corporate stability
- Shareholding limit does not preclude takeover offer being made (special resolution 75%)
- Limit moved to 15% allowing sufficient scope for investment and should not significantly limit liquidity



# Consideration of Shareholding Limit

Arguments not supporting the continuation on the shareholding limit (refer notice of meeting page 8)

- Bega Cheese has successfully navigated its initial listing on the ASX and established itself as part of the ASX200
- Acquisition of Bega Cheese shares is subject to regulation under the Corporations Act
- A shareholder entitled to (say) 15% of their shares in Bega Cheese may prevent a takeover by voting against the necessary changes in the constitution
- The shareholding limit places an unnecessary restriction on investment in Bega Cheese

# Consideration of Shareholding Limit

Vote will be held by poll

- Total Votes – 54,447,358 (35.68%)
- For – 15,702,622 (28.84%)
- Open – 1,549,633 (2.85%)
- Against – 37,195,103 (68.31%)

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