



**Bega Cheese AGM  
24 October 2017**

**SLIDE 1**

Welcome to Bega Cheese's Annual General Meeting, which is being recorded and webcast. As we have a quorum, I now declare the meeting open.

When you registered this morning, you will have received an admittance card. For all shareholders and proxy holders who are voting, you should have received a yellow voting card. If you are a shareholder who is not voting you should have received a blue card. If you are a non-shareholder you will have received a red card.

Yellow cardholders will be able to vote for or against resolutions and ask any questions they may wish relating to the business of the AGM.

Blue cardholders will be able to ask questions but not vote.

Red cardholders are most welcome at the meeting but will be unable to participate in the proceedings.

Further information regarding voting procedures will be provided prior to commencement of the resolutions to be put to the meeting.

For the benefit of all attendees at this meeting and those on webcast I would ask that you identify yourself before asking a question or making a comment.

**SLIDE 2**

At today's meeting, we have a number of formalities to deal with inclusive of the consideration of the Group's 2017 Annual Report, the adoption of the Remuneration Report and election of Directors.

**SLIDE 3**

I am pleased to welcome new shareholders and our long term shareholders who know the company so well and have supported the strategy and Directors of the company over many years.

Let me introduce my fellow Directors, Max Roberts, Richard Parbery, Terry O'Brien, Peter Margin, Raelene Murphy, Jeff Odgers and Rick Cross. I am also pleased to welcome Steve Bourke representing our auditors PricewaterhouseCoopers, our legal counsel David Ferguson from Addisons and Link Market Services Limited, who will assist as required in the counting of votes in respect of all resolutions to be put to the meeting and a number of Bega Cheese staff.

Are there any apologies?

**SLIDE 4**

I am pleased to present along with Bega Cheese CEO Paul van Heerwaarden the FY2017 annual report.

I would also like to acknowledge that this is Paul's first AGM as CEO. In what has been an extraordinarily busy year it is testament to Paul's considerable skills and the culture of Bega Cheese that a momentous event such as the change of CEO has occurred so seamlessly.

I would appreciate if you could hold your questions until the end of Paul's and my presentation.

## **SLIDE 5**

Ladies and Gentlemen, it has truly been a year of challenge, change and opportunity at Bega Cheese as we have taken important strategic steps in the evolution of the company.

Two key corporate transactions will I am sure be looked back on as being key to the long term strategy of creating a Great Australia Food Company.

The acquisition of the Mondelez Grocery Business or as it seems to have become more commonly referred to “bringing home of Vegemite” and the significant infant formula transaction with Mead Johnson combined with a successful capital raising position the company very well for future business development and corporate opportunities.

The 2016 year was a challenging one for our farmers with world commodity prices continuing to be low, resulting in lower farm gate milk prices. While we have seen farm gate milk pricing improve in the 2017 year, input cost and weather conditions particularly in a very wet western Victoria and a very dry Bega Valley continue to challenge farmers.

In a year of upheaval in the Australian dairy industry and significant corporate activity it is testament to the experience and skill of all at Bega Cheese that the business continued to grow, corporate activity was executed and financial performance was strong.

From a financial perspective there are some significant numbers in terms of statutory results while we are very proud of our statutory results we do think it is more appropriate to examine the performance of the business on a normalised basis.

The statutory outcomes of EBITDA growth of 250% and profit growth of 382% was in a large part a result of by the sale of some of our nutritional assets to Mead Johnson. When considering the normalised financial performance of the business we are pleased to report revenue growth of 3%, EBITDA growth of 7% and profit and earnings per share growth of 4%.

## **SLIDE 6**

The statistics I just mentioned in the last slide translate into revenue of \$1.23 billion, production volumes of some 237,000 tonnes, statutory earnings before interest, tax and depreciation \$229 million, which when normalised equates to \$70.6 million. Normalised profit after tax was \$30.3 million with statutory PAT being \$138.7 million.

## **SLIDE 7**

While I often talk about the growth, development and evolution of Bega Cheese I do sometimes make the mistake of assuming that everyone shares that same history with me. Of course while many in this room do there are also many here and listening on line who have not experienced all that has occurred in the past 17 years.

I think this slide demonstrates well the companies capacity to grow and embrace change over an extended period of time. While I do not intend to revisit all the key moments mentioned on this slide, it is worth of reflecting on just how far this business has come, how much it has changed while still holding the heritage and values that have always been part of the business at the centre of all that we do.

As a new Chairman in 2001 I was faced with one of the most momentous changes in the Australian dairy industry, deregulation. Bega Cheese was a small co-operative on the lower South Coast of NSW, our core skills were in the manufacturing, packaging and marketing in NSW of the Bega brand. I think many believed that Bega Cheese would disappear as so many small regionally based co-operatives had before it. We had to look outward, create strength and scale in the Australian market and seek opportunities in the world market, our first major corporate deal was with Fonterra.

That deal meant that Bega Cheese's scale and competitiveness grew. The co-operative got stronger and we began to talk more about the importance of growth, competitiveness and market relevance.

The opportunity to acquire 70% of Tatura Milk Industries was the next significant step. Bega Cheese added people, infrastructure and capability to our growing company. An export facing business that complimented our largely domestic business and added, cream cheese, milk powders, butter, infant formula and bio-nutrients to our business along with a strong milk supply changed forever the profile of Bega Cheese.

Our confidence to manage and grow was not damaged by the global financial crises as we acquired yet more scale and capability in cheese with the acquisition of two new facilities at Coburg and Strathmerton.

The value creation and opportunities ahead of Bega Cheese meant that we had to discuss with our dairy farmer shareholders the appropriateness of our corporate structure, the opportunity to release value and position the company for further growth. The discussion led to the listing of the company and the acquisition of the final 30% of Tatura Milk.

That brings me to this year, 2017, our disciplined, successful dairy company had developed the skills and confidence to look beyond dairy. To build on the strengths of what we have learned and to transform again, to add further capability and infrastructure that will continue to propel this company forward. Our 2017 acquisition of Mondelez Grocery Business should be seen as the next step in delivering opportunity, skills and stability to our company.

#### **SLIDE 8**

Many in the audience have heard me speak of some of the logic behind adding the Mondelez Grocery Business to our strength in dairy. Referring to the slide I would make the following observations.

- Cultural fit – Heritage, community, customers
- Diversifies Bega Cheese into complementary markets and categories beyond dairy
- Enhances our skills and capability to continue to evolve
- Complements our significant knowledge of lean and innovative food manufacturing processes
- Acquisition facilitates growth and extends our capabilities.

#### **SLIDE 9**

Ladies and Gentlemen, it is worth noting that we now refer to our new business as Bega Foods. Not only does the business compliment Bega Cheese's traditional business well it also brings significant new skills to the business, particularly in branded sales and marketing.

Bega Foods has a wonderful team which has readily embraced Bega Cheese as the owners of Vegemite, peanut butter, salad dressings, spreads and dips. I am sure that it hasn't passed anyone's attention that the Bega brand now appears on the wonderful "never oily, never dry" peanut butter.

The wonderful facilities and offices at 1 Vegemite Way Port Melbourne are now a hive of activity with our 200 new staff immediately became part of the Bega team and working to ensure a successful transition of the business. It is important to note that not only do we have great new skills joining the business, the Melbourne facility has ample space for expansion or additional production.

As we previously announced there was a delay in settlement of the acquisition as Mondelez was subject to a cyber attack, the delay means that Bega Cheese's balance sheet which Paul will discuss in his presentation looks extraordinarily strong. We ultimately settled the \$460 million acquisition on 4

July, meaning that we will not receive the benefit of a full year of sales and of course in the FY2018 year there will be transaction and implementation costs absorbed by the Bega Foods business.

The response to the purchase of Vegemite, the opportunities in other products such as peanut butter and the momentum and enthusiasm of the combined teams gives the company great confidence that the decision to pursue this acquisition will bring both financial and cultural rewards for the business.

#### **SLIDE 10**

There were two important transactions in FY2017, the second was of course the Mead Johnson nutritional partnership which saw significant value delivered with the sale of two of our nutritional assets and the entering into a 10 year service and access agreement which sees Bega Cheese continue to manage the facilities for Mead Johnson and retain access to infrastructure at levels equivalent to historic use.

The transaction was obviously important in that it delivered \$200 million which assisted in the purchase of the Mondelez Grocery Business and also secured volume and income streams for the next 10 year for our nutritional platform.

#### **SLIDE 11**

The final plank in what was a busy corporate year was the execution of a successful capital raising. Bega Cheese has long had the benefit of very supportive long term shareholders.

The Board's decision to raise \$160 million via a Share Placement and Share Purchase Plans was very well received by our shareholders. Both the Share Placement and the Share Purchase Plans were over subscribed. While it was necessary to scale back the subscriptions for the placement the Board election to accept all applications for the Share Purchase Plan.

I thank shareholders for their strong support, the response to the capital raising was very pleasing and the outcome of \$172 million (\$122 million placement \$50 million SPP) significantly strengthened our balance sheet and positioned the company well to grow and respond to corporate opportunities.

#### **SLIDE 12**

Ladies and Gentlemen, in the interests of time I will not dwell on the following slides for too long, it is however important to acknowledge that this company remains demand driven. Our customers are at the centre of all that we do no matter where in the world they are. We are proud of our customer relationships many of which have origins that go back decades. Whether it is a large retailer, a business we provide products and services to, a distributor or a customer in an emerging market it is important that we continue to work and change with our customers to create value. The strength of relationships and capacity to respond to market change is vitally important in the dairy supply chain.

Building value with customers and endeavouring to deliver that value across the supply chain is key to success. The importance that dairy companies must place on both their supplier and their customer has been demonstrated over the last few years. It is vital that changes in the market be it in price or product requirement must be reflected to the supplier in a consistent and timely manner.

#### **SLIDE 13**

It has been a challenging number of years for dairy farmers and it is unfortunately well documented that strategies or approaches for farm gate milk price that do not reflect changes in the market are extraordinarily risky. While in the short term they may be welcomed by farmers it is self-evident that such strategies create peril not only for the farmer but for the company as well.

In a year of turmoil for the industry Bega Cheese milk intake was stable with volumes being in line with the previous year a particularly good outcome given the 7% decline in national production and a 15% decline in Northern Victoria's (Bega's largest milk supply region).

I will not dwell on the graph on the screen for long except to say it demonstrates that market volatility remains however after a period of dis-connection between farm gate return and market pricing there has been a return (although not entirely) to the long term approach of milk price reflecting markets.

#### **SLIDE 14**

Ladies and Gentlemen, you have probably heard enough from me for now, I will come back to wrap up and would now like to welcome Paul to the podium for his first address as CEO.

#### **SLIDE 15**

Thank you Barry and good morning ladies and gentlemen. I will continue our presentation with a review of our commercial and operational outcomes for the 2017 financial year.

For comparative purposes I will review these outcomes on a normalised basis.

#### **SLIDE 16**

In the face of continued downward price pressure on global dairy commodities we were pleased to grow total sales revenue by 3% to \$1.23 billion. As a result of revenue growth and improved operating costs we generated a normalised EBITDA of \$70.6 million, which was an improvement of 7% over the prior year. In turn, the profit after tax improved by 4% to \$30.3 million. The resilient nature of our overall strategy in the face of broader industry issues saw earnings per share increase to 19.9 cents which was a 4% improvement over the prior year EPS of 19.1 cents. During the year we paid a final dividend for FY2016 of 5 cents per share and an interim dividend for FY2017 of 5 cents per share which was an increase on the prior year of 0.5 cents per share.

The improvement in the overall performance has resulted from our continued focus on revenue growth, aligned to our core strategies, as well as a continuous improvement in manufacturing operational performance.

#### **SLIDE 17**

As Barry mentioned there were some key transactions that impacted our statutory results which have been detailed in this reconciliation.

While I won't dwell on this reconciliation I note the material impact from the sale of the nutritional assets to Mead Johnson which generated a profit after tax of \$124 million.

#### **SLIDE 18**

Cash flow from investing and financing activities were positively impacted by the sale of nutritional assets to Mead Johnson, the capital raising and bank funding. The strong cash position at the close of the financial year changed upon settlement of the Mondelez acquisition on July 4, which is a date that our new employees from the acquisition are referring to as Independence Day. As Barry mentioned we had intended to settle this acquisition prior to the end of the financial year.

## **SLIDE 19**

The balance that we have created over a great many years allows us to deliver consistent financial performance in a wide range of market and operating environments. Bega Cheese has always maintained a strong balance sheet believing that we should be in a position to respond to business opportunities if and when they present themselves. These opportunities will inevitably include both organic growth and acquisitions. The company balance sheet reflects the stable financial performance and growth of the business and the corporate transactions and capital raising already discussed.

Ladies and gentlemen a very strong balance sheet positions us well for growth. Increasingly we consider opportunities that extend beyond dairy but are consistent with our competencies in the manufacturing of high quality dairy foods and nutritional products.

## **SLIDE 20**

The consistency of our growth is well demonstrated by the group sales graph which shows that sales have grown by a factor of 10 since FY2001. Our customer reach, the channels and the markets in which we operate continue to expand.

## **SLIDE 21**

Our success in international food service continues and our domestic sales remain strong. In FY2017 we transitioned the major retailer mark contracts in cheese from Coles to Woolworths. While business may change over time our relationships remain strong with all of the Australian retailers.

It has been well documented that the infant formula market in Australia and throughout the region has had its share of upheaval during FY2017. Despite some of these challenges, our nutritionals team worked closely with our customers to manage the volatility and ensure that supply chains remained stable.

Whilst volumes for our nutritionals business were down in FY2017 the business has now recovered reflecting improved stability and clarity in the market.

Customer focus remains key to our business success, our nutritionals, dairy ingredients, dairy foods and grocery business each benefit from their different customer channels and links.

## **SLIDE 22**

In FY2017 we manufactured 237 thousand tonnes of various products which was slightly lower than the prior year. We also saw our product mix continuing to move toward value added consumer and food service pack sizes primarily as a result of growth in our infant formula canning and our international food service businesses.

This year's capital expenditure of \$40.8 million included new automated shred and slice lines, increased cream cheese capacity and investment in a new management information system which will continue as we upgrade our existing systems and integrate the new grocery business which we have called Bega Foods.

Bega Cheese has commenced a continuous improvement program that aims to identify cost saving and efficiency opportunities across our supply chains. As is always the case we will continue to make investments in infrastructure which is focused on meeting customer requirements, improving supply chain efficiencies and providing appropriate financial returns.

### **SLIDE 23**

At Bega Cheese we remain committed to our core value of “Safety Always” so we are continually looking for opportunities to prevent injuries and ensure everyone involved in our business gets to arrive home safely every day. It is of particular importance to us that we encourage a proactive and co-operative attitude towards health and safety throughout the entire organisation.

Over the last three years we have invested significantly in our asset base and our people and will continue to do so. As a result of our commitment to “Safety Always” we have seen the number and severity of injuries reduce year on year. During FY2017 the total number of recordable injuries reduced by 15% compared to the prior year and our total recordable injury frequency rate decreased to 11.

The group continues to invest in environmental initiatives and across the dairy farm suppliers who support us. Our ongoing environmental programs resulted energy consumption decreasing by 6.5% per tonne across our total production base and overall water consumption decreasing by 6.7%.

Bega Cheese released its second Sustainability Report this year. We continue to remain focused on reducing the environmental impact of our operations and the efficient use of the resources we consume.

### **SLIDE 24**

I will refer you to the slide on the screen that outlines the priorities I reflect on when thinking about the future performance and growth of Bega Cheese.

As we progress through the transition to becoming the Great Australian Food Company we continue to focus on the strategic imperatives that will deliver continued growth across each of our business platforms.

To achieve this we need to continue to invest in our people, systems and capability to ensure we remain globally competitive and relevant in the markets in which we compete.

### **SLIDE 25**

Barry back to podium

Thanks Paul, ladies and gentlemen

### **SLIDE 26**

Ladies and gentlemen it has truly been a momentous year for Bega Cheese. The business today has an excellent track record in growth, development and acquisition in thinking about where we are today;

- Completing the MDLZ Grocery Business acquisition on 4 July 2017
- Brand portfolio including iconic Australian brands Bega and Vegemite
- Company of choice for dairy farmers with strong milk supply growth
- Stability in dairy nutritionals business
- Growing high value dairy ingredients business
- International and Australian food service and retail channels well developed

- Potential new corporate opportunities emerging in dairy and food

#### **SLIDE 27**

Our focus in creating a great Australian Food Company is;

#### ***Creating a great Australian food company***

- Protect the strengths, reputation and returns of the existing businesses
- Manage volatility in changing markets and maintain a globally competitive supply chain
- Leverage and grow the iconic brand portfolio
- Expand channels and markets for our products
- Build on sales strength and operational knowledge of the combined business
- Optimise cash flow
- Invest for efficiency and optimisation of infrastructure
- Maintain a strong balance sheet
- Remain agile and well positioned to identify and execute corporate opportunities

#### **SLIDE 28**

It has indeed been a year of change growth and development. All at Bega Cheese have worked tirelessly to achieve significant success and strategic progression. I thank all of our extended family at Bega, staff, customers, suppliers, shareholders and the communities in which we operate, all who contribute to the success of this company.

Ladies and Gentlemen that concludes our presentation.

Are there any questions on the presentation?

#### **SLIDE 29**

Ladies and Gentlemen, we have now come to the formal part of the meeting.

For each item of business, I will first open the floor for discussion.

If there are any aspects regarding voting that you are uncertain about, please ask one of the Registrars staff.

#### **SLIDE 30**

Firstly to item 2 in the notice of meeting. The Remuneration report on pages 22-30 of the annual report outlining the remuneration for the Board, Executive, CEO and other key personnel.

In setting remuneration the Nom and Rem committee refer to market and external advisors.

#### **SLIDE 31**

I would inform the meeting that the following proxies have been received in respect to the Remuneration report. I will be casting the undirected proxies in favour of the motion.

Are there any questions?

As there are no [further] questions, I now move that the remuneration report for the period ended 30 June 2017 be adopted.

I will now put the motion to the meeting.



All those in favour please raise your yellow voting card.

All those against.

I declare the Motion passed.

### **SLIDE 32**

Election of Directors

Offering themselves for election are Richard Parbery, Peter Margin and Terry O'Brien.

Before inviting Richard, Peter and Terry to make some brief comments on their candidacy I would like to make the following comments. I am delighted that each of Richard, Peter and Terry have put themselves forward this year.

We have an excellent Board at Bega Cheese that works diligently to ensure the governance and strategy of the company is always a focus and priority.

In the three candidates we have available for election today we have represented the balance required to ensure the ongoing success of the organisation. Richard Parbery and his family have been involved in the dairy industry for generations, Richard's success as the principal of a large regional accounting practice and his long term contribution as a Board member of the company is well understood. Richard has been a part of the Board team that has guided the company through the many changes, challenges and opportunities over the last three decades.

As we have grown we have required new skills, Peter Margin was our first independent Director, his significant skills and experience have been very important as the company listed on the ASX and continued to grow and develop and of course provided wonderful guidance and stewardship on the acquisition of the Mondelez Grocery Business.

The acquisition of Mondelez and the evolution of our business meant that we needed to add new skills to our Board. We were fortunate that Terry O'Brien was retiring from a wonderful career as CEO of Simplot at the time we were seeking a new Director. Terry's experience as both a CFO and CEO of an integrated branded consumer goods company is already providing wonderful insights for the company across all platforms in our business.

I will invite each of the candidates to speak before their individual election process.

### **SLIDE 33**

I now move to the election of Richard Parbery. Richard I invite you to say a few words if you wish.

Before we proceed I would like to inform the meeting we have the following proxies in respect to Richard's re-election. I will be casting the undirected proxies in favour of the motion.

Are there any questions?

As there are no [further] questions, I now move that Richard Parbery be re-elected to the Board.

I will now put the motion to the meeting

All those in favour please raise your yellow voting card.

All those against.

Motion passed congratulations Richard.

### **SLIDE 34**

Peter would you like to say a few words?

The second Director subject to re-election is Peter Margin. Before we proceed I would like to inform the meeting we have the following proxies in respect to Peter's re-election. I will be casting the undirected proxies given to me in favour of the motion.

Are there any questions?

As there are no [further] questions, I now move that Peter Margin be re-elected to the Board.

I will now put the motion to the meeting

All those in favour please raise your yellow voting card.

All those against

Motion passed, congratulations Peter.

### **SLIDE 35**

Terry would you like to say a few words?

The Third Director subject to re-election is Terry O'Brien. Before we proceed I would like to inform the meeting we have the following proxies in respect to Terry's re-election. I will be casting the undirected proxies given to me in favour of the motion.

Are there any questions?

As there are no [further] questions, I now move that Terry O'Brien be re-elected to the Board.

I will now put the motion to the meeting

All those in favour please raise your yellow voting card.

All those against

Motion passed, congratulations Terry.

### **SLIDE 36**

Ladies and gentlemen thank you very much for your attendance at this year's AGM.

I now declare the meeting closed.

### **SLIDE 37**

Disclaimer