



**ASX ANNOUNCEMENT  
BEGA CHEESE LIMITED 1H FY2020 RESULT**

Bega Cheese Limited (ASX:BGA) (Group) today announced its interim financial results for the half year ended 29 December 2019.

**Restatement Disclosure**

In the course of preparing its Consolidated 2020 Interim Report for the Half-Year ended 29 December 2019, errors were identified that are further detailed in a separate announcement regarding the restatement of the FY2019 financial statements. These errors do not impact the profit and loss for 1H FY2020 and do not impact the earnings guidance for FY2020 communicated to the market in October 2019.

**Key Financial Metrics**

	1H FY2020	1H FY2019	Change	
	\$m	\$m	\$m	%
Working Capital	177.8	379.3	(201.5)	-53%
<b>Statutory performance</b>				
Revenue	741.2	649.2	92.0	14%
EBITDA	39.3	39.6	(0.3)	-1%
EBIT	17.7	20.2	(2.5)	-12%
PAT	8.5	5.0	3.5	71%
EPS (cents per shares)	4.0	2.5	1.5	60%
<b>Normalised Performance</b>				
EBITDA	48.5	57.9	(9.4)	-16%
EBIT	26.9	38.5	(11.6)	-30%
PAT	15.0	18.9	(3.9)	-21%
EPS (cents per shares)	7.0	9.5	(2.5)	-26%

Bega Cheese generated a statutory EBITDA of \$39.3 million, which is comparable to the Prior Period and statutory PAT of \$8.5 million, which is \$3.5 million favourable to the Prior Period. Underlying earnings have been impacted by reduced milk supply and margins in the dairy industry particularly in Northern Victoria. A softening in Chinese infant formula demand has resulted in a reduction in volumes at Tatura further reducing earnings in 1H. While these issues have resulted in a significant decrease in the earnings from the Tatura Milk segment, the Bega Cheese segment has generated a significant increase in earnings. The branded consumer and food service business is continuing to grow both domestically and internationally with strong growth in our core product range and from new products. The performance of Koroit, the improvement in milk returns following the closure of Coburg and new toll processing arrangements have also contributed to this strong result for the Bega Cheese segment.

One-off costs totalling \$9.2 million before tax for legal fees and management information systems upgrade activities have been normalised in the result for the period. Normalised EBITDA of \$48.5 million was unfavourable to the Prior Period by \$9.4 million and normalised PAT of \$15.5 million, was down on the Prior Period by \$3.9 million.

Bega Cheese remains in constant discussions with domestic and international suppliers and customers regarding the potential impact of COVID-19 on ours and their businesses. At this stage our supply chain and customer shipments have not been materially impacted by the virus, we continue to monitor any potential direct and indirect impacts.

Bega Cheese retains its FY2020 earnings guidance issued on 29 October of normalised EBITDA in the range \$95 million to \$105 million.

## Overview

Bega Cheese has continued the transition towards our vision to become The Great Australian Food Company while responding to the ongoing competitive and supply challenges facing the dairy industry. In FY2017, Bega Cheese progressed a diversification strategy to reduce its overall exposure to third party manufacturing contracts, dairy commodities and a concentration of milk supply in Northern Victoria. This strategy included the divestment of a nutritional powder dryer located in Tatura and a canning and blending facility located in Melbourne in FY2017 and the acquisition of the Mondelez Grocery Business at the start of FY2018. The diversification strategy continued in FY2019 with the acquisition of the Koroit dairy facility in Western Victoria and the closure of the Coburg cheese facility in suburban Melbourne.

This diversification strategy has positioned Bega Cheese with a significantly improved capacity, capability and flexibility to respond to the challenging conditions across the dairy industry which have continued to impact Bega Cheese in 1H FY2020. Severe drought across many dairy production regions has resulted in an increased cost of farm inputs and national milk production has continued to decline putting sustained pressure on farm gate prices and availability of milk for processing. This has particularly impacted our Tatura operations in northern Victoria. Total milk processed from direct supply and through toll manufacturing arrangements was 4.6% below the prior year.

During 1H FY2020, Bega Cheese has continued to accelerate the development of new product ranges and format extensions across the spreads, snacking and dairy portfolio, as well as increased distribution in retail and foodservice in Australia and overseas. The international branded food business continues the strong sales growth experienced recent years, with an increased product portfolio, broader distribution channels and strong demand for Australian dairy products particularly in Asia.

Bega Cheese continues to invest in revenue growth in both the core categories and new products:

- Vegemite grew 0.8% in 1H FY2020 as a result of the launch of Gluten Free Vegemite, promotional activity and improved pricing. Pleasingly growth has accelerated in the second quarter with good momentum heading into 2H FY2020.
- Bega peanut butter increased market share of the peanut butter category in 1H FY2020, posting strong growth of 6.5% which is well above the category growth and overall supermarket growth. This growth is being driven by the Bega Simply Nuts innovation in the all-natural peanut butter segment.
- The Famers Table brand entered the Australian retail butter category in 1H FY2020.
- International branded foodservice and retail business continues to grow in key markets, posting double digit sales growth of 12.4%.

- Developing new nutritional business including goat infant formula and new customers in export markets including Indonesia.

Bega Cheese continues to focus on its cost structure to maintain a globally competitive supply chain with the following key initiatives:

- Construction of a new lactoferrin plant at Koroit scheduled for commissioning in April and at full operation from the start of FY2021. The three-year supply agreement signed last year with a multinational company will commence post commissioning.
- Following several acquisitions in recent years, management has engaged BCG to complete an organisational and process review. This review will be completed in 2H FY2020 and will materially reduce our overhead cost structure in FY2021.
- The new M3 ERP system went live at the remaining sites during 1H FY2020 which has enabled the business to now operate off one platform. While there has been no disruption to business operations, some aspects of the system are still being further developed. This single platform will now enable Bega Cheese to further optimise a range of processes across the supply chain and finance and accounting operations.

These initiatives will improve the underlying earnings of the business and reduce the exposure to dairy commodity markets.

## Revenue

Revenue totalled \$741.2m for 1H FY2020, being an increase of 14% compared to 1H FY2019. The export branded consumer and food service business continues to experience strong revenue growth. There were further increases in revenue from Koroit which operated for the full six months and without the shipment delays and inventory build-up that occurred in the Prior Year following the acquisition transition.

## Cash Management and Net Debt

The Statutory net cash inflow from operating activities was \$38.1 million in 1H FY2020, compared to net cash outflow of \$128.3 million in 1H FY2019.

Net working capital was \$177.8 million at 29 December 2019, being in line with 30 June 2019 and a decrease of \$201.5m from 30 December 2018. Net debt totalled \$303.4 million at 29 December 2019, being an increase of \$16.1 million to 30 June 2019 and a decrease of \$164.7 million from 30 December 2018. The main contributing factors for this result have been the introduction of the trade receivables facility and a return to normalised inventory levels following the acquisition of Koroit.

The maturity date of two banking facilities have been extended to 30 September 2022 and Rabobank have extended the trade receivables facility for a further two years. The syndicated facilities agreement has been amended with the leverage ratio increased from 3.00 times to 3.75 times from December 2019 through to September 2020, reducing to 3.50 times for December 2020 and reducing to 3.00 times from March 2021 onwards.

## Dividend

Bega Cheese declared an interim dividend of 5.0 cents per share, which is a decrease of 0.5 cents per share compared to the Prior Period. The interim dividend will be paid on 3 April 2020. The Dividend Reinvestment plan (DRP) will be activated for this dividend.

2 March 2020

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For further information please contact

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