



## **Bega Cheese AGM 27 October 2020**

### **SLIDE 1 - Cover**

Welcome to Bega Cheese's virtual Annual General Meeting, we are holding this virtual meeting due to COVID-19 and associated restrictions. As we have a quorum, I now declare the meeting open.

Details about how shareholders can participate have been set out in the Notice of Meeting and Online Virtual AGM Guide. Both documents are also available to view and download at the bottom of your screen.

I appreciate that some shareholders may have to leave before the conclusion of the meeting. I therefore formally open the poll on resolutions and encourage shareholders to submit their written questions online now.

Questions will be moderated for relevance and duplication and read to the meeting. I will then respond to requests for each item of business, or where relevant, ask either the Chief Executive Officer, Chief Financial Officer, Company Auditor or one of my fellow Directors to respond. All polls will remain open until the conclusion of today's meeting.

### **SLIDE 2 - Agenda**

At today's meeting, we have a number of formalities to deal with, including the consideration of the Group's 2020 Annual Report, the adoption of the Remuneration Report and the election of Directors.

### **SLIDE 3 - Welcome**

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, Raelene Murphy, Patria Mann, Peter Margin, Richard Parbery, Terry O'Brien and Rick Cross.

I am also pleased to welcome Paddy Carney representing our auditors PricewaterhouseCoopers, our legal counsel David Ferguson from Addisons and Julie Stokes from Link Market Services Limited and a number of Bega Cheese staff, and a particular welcome to Pete Findlay our new CFO who joined us in November 2019 and is attending his first AGM in his new capacity.

I have received apologies from...

We will now move on with the formal part of the meeting and the presentation of last financial year's annual report.

### **SLIDE 4 – Annual Report**

I am pleased to present along with Bega Cheese CEO Paul van Heerwaarden the FY2020 Annual Report.

## **SLIDE 5 – Key messages**

We are delighted to present our results for FY2020, it has been a year like no other as we have dealt with market changes, environmental challenges and community upheaval. Top of mind for many people continues to be the impact of COVID-19 and how we are managing it both now and into the future. When reviewing FY2020 it is important to remember that there were a number of other significant events throughout the year that had the potential to impact our business. They included what was one of the most brutal droughts that we have experienced followed by the most frightening fires that we have ever seen, particularly in the Bega and Gippsland regions.

Our priority in difficult circumstances is always the safety and wellbeing of everyone we work with including our dairy farmers, staff, suppliers, customers, shareholders and community. Our focus is to address challenges and work together on the things that we know make us strong and take the business forward. The Bega Cheese team's ability to respond to changed circumstances quickly reflects a clear strategy, management capability and a strong culture which reinforces our confidence in both our long-term strategy and our ability to manage crises.

The business continued to grow in FY2020, delivering stable financial performance. Importantly, the business generated significant positive cashflow which enabled both debt reduction and the execution of important business initiatives. Our major capital project this year was the Koroit lactoferrin facility. The facility is an investment of \$38 million and now sees Bega as one of the largest producers of lactoferrin in the world. Our team managed to commission the facility on time despite the fact that a number of our international technical specialists had to prematurely return home when the seriousness of COVID-19 became evident in early March.

As we have previously reported, the company has been undertaking an organisation and process review which is currently being implemented. Following a period of significant acquisition and the installation of a new IT platform it was very appropriate that we review our organisational structure and our business processes to make sure that we are as competitive and efficient as we possibly can be. While business review programs can create uncertainty, particularly for staff, we have endeavoured to implement the program in as collaboratively a manner as possible and the required changes are now well progressed with some benefit being realised this financial year and the majority of benefit to be realised in FY2021 and subsequent years.

In addition to our organisation and process review we have also reviewed our processed cheese capacity and taken the decision to rationalise some production between our Bega and Strathmerton facilities. The decision to transfer volume did impact employment levels at our Ridge Street site in Bega, it is however important to ensure we remain globally competitive and respond to changes in the market for processed cheese.

With regard to milk supply conditions we have been delighted to see improved environmental conditions in all our dairy regions. I think this is one of those rare occasions in recent times that we are seeing good weather conditions in each of our dairy regions and a significant grain crop to be harvested imminently. One of the benefits of this is we are seeing supply growth across the industry and more positive farming circumstances for our suppliers resulting in a more stable dairy procurement environment.

## **SLIDE 6 – Values**

For myself and for all at Bega Cheese the values of this company are extremely important. They represent the best of this company and are at the core of why we have been able to manage so effectively the many challenges that FY2020 has brought us. I think in uncertain times and in periods

of volatility it is your values that see you through. The way we react to challenge, how we work together and indeed work with everyone in the community makes an enormous difference and has been so well demonstrated this year, particularly in managing the devastating fires and COVID-19.

## **SLIDE 7 – Transformation**

Ladies and Gentlemen,

The company that I present to you today is much changed from that of a decade ago or even 5 years ago. It is a company that demonstrates the value of consistent and careful strategy and combines that strategy with the agility to recognise and respond to change. In the last year we have faced drought, fire, flood and pandemic, we have seen global geo political tensions rise, volatility in both markets and currency, dramatic changes in customer channels particularly food service and the Daigou channel into China. I am pleased to say the business has been in a position to deal with each of those challenges because of our knowledge, experience and strategy.

While not wishing to dwell too much on the past I think it is important to note that we began our most recent transformations with the purchase of the Mondelez grocery business, becoming the owner of the wonderful Vegemite brand, building on the strengths of peanut butter and adding new products such as B honey. This created the foundations of a great branded food business with a diversified product and brand portfolio which sees our business better able to manage market volatility and continue to grow sales and value in both Australia and internationally.

It is always important to recognise that in our business we must be alert to more than changes in the market, we must also ensure we are alert to and recognise opportunities and challenges across our entire supply chain. We of course recognised for some time the challenges facing northern Victoria in milk supply given the increased frequency of drought and upheaval associated with government water policy. We have refined our business at Tatura to focus on higher value nutritionals and cream cheese and purchased the Koroit facility in western Victoria, thereby increasing our geographic footprint, adding to our product and customer portfolio and reducing climate risk impacting supply.

Successful transformation requires deliberate strategy and careful execution. As I mentioned earlier, the adoption of a new ERP system has seen our most recent acquisitions fully integrated into our business, delivering stronger and more stable financial performance and creating greater resilience and capability to deal with ever changing circumstances in both supply and markets.

Ladies and Gentlemen, in food and agriculture strategy is vital. We have unfortunately seen far too often the consequences of inconsistent strategy or a lack of understanding of the risks and opportunities. I think if someone had said a year ago that within one financial year you would deal with the consequences of drought, fire, flood, pandemic, global market collapse and dramatic changes in customer needs, government policy and community behaviour you would have smiled and said “that cannot possibly happen”.

I am pleased and proud to stand before you (albeit virtually) and report that we have managed and continued to manage all that came before us in FY2020. In fact, we have done better than that. We have delivered growth, stable financial performance, strong cash flow, debt reduction, new infrastructure and a business positioned well for whatever opportunity or challenge that will come before us.

I will not dwell further on change and transformation, I am sure you all recognise both the short and long term value we are endeavouring to create and the strength of the business already created which will be further reinforced as Paul presents in more detail the business performance for FY2020.

## **SLIDE 8 – Performance highlights**

On to the more financial parts of the report. It is pleasing as I mentioned in my opening comments, to see revenue increase in a year that was quite volatile. We have increased our revenue to \$1.5 billion, and importantly, generated a very strong operating cash flow of \$138 million. The strong operating cash flow has meant that we have been able to make a significant debt reduction of some \$52 million.

Export sales have increased by 15%, to \$523 million and we have further improved inventory management with a reduction of \$15 million to \$257 million.

There has been a decrease in normalised EBITDA by some 2% to \$103 million, normalised profit after tax has increased by 3% to \$32 million. Statutory profit after tax increased to \$21 million, which was a substantial increase on the previous year reflecting a reduction in normalised items. Paul will provide more detail on the financial and operational performance of the business. I would comment that in broad terms a strong performance in our international business and particularly in our retail business, has been offset by a decrease in margins in dairy ingredients and in some components of our nutritional business which demonstrates both the value of our strategy and the agility of our business.

## **SLIDE 9 – Paul introduction**

I will now hand over to Paul to take you through the financial results and the details of the operational performance.

## **SLIDE 10 – Reconciliation of normalised results**

Thanks Barry and following on from the performance highlights and the increase in both statutory and normalised profit after tax, this slide provides a reconciliation of our normalised costs that were adjusted from the statutory result and total \$10.6m after tax.

We incurred just over \$9.6 million of legal costs mostly related to the case with Fonterra. There was also a small overhang of costs related to the Kraft case this year and we expect that costs associated with both cases will significantly reduce in FY2021.

The \$5 million of ERP costs that were predominantly related to the implementation of the new system.

## **Slide 11 – Balance sheet**

Now moving to the balance sheet, I would like to draw your attention to the improvement in working capital, in particular, inventory and trade and other receivables.

Each of these improvements have been the result of tighter management which has been enabled by the new ERP system along with a more consistent and stable sales pattern compared to the prior year.

The working capital improvement is reflected in the reduction of net debt that Barry referred to earlier. Leverage reduced from 2.7 times down to 2.35 times, and we will certainly look to reduce this further in FY2021.

## **SLIDE 12 – Cash flow**

Overall we had a strong cash flow result with an additional \$37 million of cash generated from operating activities. This improvement was fundamentally due to the working capital reduction mentioned on the previous slide.

Over \$57 million of capital expenditure was offset by the \$5 million of proceeds from the sale of the Coburg facility. We expect capital expenditure to reduce in FY2021 and be in the range of \$35 million to \$40 million given that we have now completed the lactoferrin plant and the ERP system

implementation. This level of capital expenditure is more aligned with the level of depreciation we incur.

Financing activities predominantly comprised of a reduction in debt levels and the payment of \$19.5 million in dividends.

### **SLIDE 13 – New segment reporting**

You will note in the report that we have changed our segment reporting with the two new segments being Bulk, which includes dairy ingredients and nutritionals, and Branded, which includes our branded and consumer packaged goods business. Most of you will recall that since August 2011 when we listed, our two segments were Bega Cheese and Tatura Milk Industries. As the company has significantly transformed, particularly in recent years, those segments were no longer aligned to how the Board and management look at the business.

The segments have been structured to align with our strategy, how we report business performance, make our capital decisions and reflect business priorities.

Our bulk segment includes our milk processing assets, our business-to-business bulk dairy ingredient sales, and our dairy nutritionals products.

The consumer-packaged goods segment incorporates our secondary processing assets and our retail and food service brands as well as third party and private label consumer products.

### **SLIDE 14 – New segment reporting**

On this slide you can see a breakdown of sales between the two segments. This is further classified into domestic sales and export sales, with a comparison to FY2019. If I can draw your attention to branded products, you can see the strong growth for both domestic and export markets.

This is aligned with our strategic objective of having 70% of sales coming from the branded packaged goods segment by FY2023.

### **SLIDE 15 – Group sales**

Moving now to the commercial operation on slide 15, you can see that in FY2020 we achieved sales growth in excess of 5% to \$1.49 billion. As you can see from the chart, we have a strong track record of sales growth despite several of our market channels coming under pressure in recent years. It is particularly pleasing to see the strong growth in our branded foods business, both in the domestic market and internationally, as I outlined on the previous slides.

### **SLIDE 16 – Strong revenue growth with launch of new brands and products**

We have had very strong growth of 10.5% in the domestic retail grocery market. This is primarily due to both food price inflation across the year and the impact of COVID-19 from mid-March which resulted in a significant amount of pantry-filling. This impact was relatively short lived and began to settle down from mid-April. Our year-on-year growth was at expectation.

In FY2020 we launched two new brands; Happi, which is a range of baby and kids' nutraceutical products, and B honey, which is a range of Australian-sourced honey and is associated with the development of the Purple Hive Project, an important innovation that supports our local bee industry from the risk of varroa destructor mites.

We have also launched a number of new products in our core range of Vegemite and Simply Nuts and had good growth in income from Vegemite royalties and our ecommerce store.

There have been a number of significant changes in our dairy nutritionals and ingredients business in recent years, including the impact on our milk supply from drought and competition particularly in northern Victoria, the expansion of our dairy and nutritionals manufacturing network with the acquisition of Koroit, the closure of our cheese manufacturing facility at Coburg and the implementation of various toll processing arrangements. Importantly there have also been a number of changes in our customer base in infant formula. As demand from some of our longer-term customers has declined in recent years, we have focused on developing new business opportunities such as goat-based products and new markets, such as Indonesia.

COVID-19 has impacted our bulk segment, in particular our infant formula business into China coming into FY2021 with a significant reduction in the Daigou trade. In recent years we have continued to diversify our geographic and customer base which should reduce this exposure in the future.

The commissioning of the Koroit lactoferrin plant and commencement of shipments in quarter four of FY2020 will provide strong earnings growth into FY2021 and beyond.

### **SLIDE 17 – Dairy commodity and farm gate milk prices**

Moving on to dairy commodity and farm gate milk prices, you can see on the Fresh Agenda chart that during the year we saw dairy commodity prices spike very quickly, and to historic highs, from about October through to February.

While global demand growth has been in line with expectations at around 1.4% to 1.5%, we did not see supply growth keeping up. This was particularly the situation in both Europe and the United States. Then of course in March we saw the global demand shock from the impact of COVID-19 with prices dropping up to 30% for some commodities.

Milk supply in Australia remains tight and competition is strong. We were very pleased to see high rainfall across eastern Australia earlier in the year and this has continued through to today. Improved on farm conditions saw an increase in milk supply in the second half of FY2020 which has resulted in a more stable milk procurement environment.

It is also important to note the implementation of the new Mandatory Dairy Code. A number of the provisions of the code were already a part of our practices which meant that the adopting the mandatory code was relatively seamless. The fundamental changes from the code impact how we contract and communicate with dairy farmer suppliers. The changes were successfully implemented notwithstanding the added complication of being unable to meet suppliers in person due to COVID-19 restrictions.

### **SLIDE 18 – Operations review**

This slide lists the main initiatives that have been implemented or are ongoing to ensure we maintain a globally competitive supply chain. These initiatives are imperative as we continue to grow and take advantage of opportunities in both domestic and international markets.

The implementation of these initiatives have taken place mainly from the second half onwards and have been challenging with many staff working remotely throughout this period which remains the situation today. These initiatives have required a significant level of organisational change including redundancies and role changes, and I would like to thank all staff for their support during these changes which have continued into FY2021.

## **SLIDE 19 – Approach to corporate social responsibility**

I will finish with some comments regarding our approach to corporate social responsibility. Bega has a strong track record in CSR including for example, BEMS, our on farm environmental management system which has been operating for over 10 years and has significantly improved farm practices inclusive of resource management, animal welfare, the preservation of native vegetation and a number of other farm practices that have resulted in improved sustainability and a reduced impact on the environment. Bega Cheese endeavours to include its communities in its CSR programs. The Bega Cheese Corporate Event and the Tatura200 have raised a considerable amount of money for worthy charities and organisations that support people in need in our local communities.

A few years ago the Board incorporated corporate social responsibility as part of our strategic planning process, which has focused our attention on areas where we believe we can make a difference. These include food nutrition, diversity, greenhouse gas emissions, packaging and water sustainability. I won't go into any further details on the slide, other than to say we have made good progress in each of these focus areas. Further details are included in the FY2020 Sustainability Report which is available on our website.

## **SLIDE 20 – Annual Report**

I will now hand back to Barry.

## **SLIDE 21 – Where are we today**

Thank you Paul. I think it is important to reflect on where we are today, and the stability in strategy that is demonstrated by this year's results. The path to a diversified, value-added food company is progressing well as Paul outlined.

Of course, the impact of COVID-19 on all aspects of the economy and society has been significant. We are very proud of how our people have approached managing COVID-19, how they've demonstrated their adaptability and the importance of caring for one another as we work through a significantly difficult time.

There is some global uncertainty relating to dairy demand and locally the impact of a significantly disrupted Daigou channel on nutritionals. There was an initial significant price correction in global commodities early in the pandemic but it is fair to say prices have been relatively stable since then with some price improvement, from a competitive perspective the relative strength of the Australian dollar is currently having more impact than demand changes.

As already mentioned, we are very pleased to see good seasonal conditions and more positive farming circumstances for all dairy farmers, which also creates a more stable milk procurement environment. Indeed, there is an expectation that milk supply across the industry will grow this year.

The business improvement initiatives that Paul touched on are well progressed. We continue to always look at opportunities to improve. It is not common for the business to create a number of redundancies, occasionally that has to be done in order to ensure that we remain competitive and the business performance meets or exceeds expectations.

We do still await the legal outcomes of both the Fonterra and Kraft cases, we are well through each of those cases and are awaiting the court decisions.

## **SLIDE 22 – Our priorities**

In terms of our priorities, we continue to invest in the strategy that we have outlined over many years. We will continue to invest in our brands and capability in markets, both in Australia and internationally and respond to opportunities to further grow the business.

As demonstrated by the results this year we have focused on cash generation and costs to ensure that this business is well positioned in an environment that is volatile. The stability that Bega presents to the market is a result of consistent strategy, a diversified business and channel strategy and strong knowledge and experience within the business.

There is still greater opportunity for us in leveraging our existing assets and product capacity, we have a wonderful network of manufacturing capability and assets and it is now a matter of making sure that we create the most value we can from those assets.

I don't think I need to emphasise further the challenges the dairy industry faced in FY2020, Bega Cheese has had a long-term strategy to not only protect the milk supply we have, but diversify our milk supply regions to ensure that we have a relative stability of supply regardless of what might be occurring in a particular region. This strategy was particularly important last year and provides strong foundations for future growth.

As mentioned earlier, we will complete implementation of our organisational and process review and capacity rationalisation which will further strengthen our business in these uncertain times.

I have been asked a number of times in recent months my view on industry consolidation opportunities. All I can say is what I have consistently said and have been talking about for a very long time which is I believe that industry consolidation will create additional value in the industry and that we at Bega Cheese always endeavor to be ready to participate in or examine opportunities as they arise.

So, ladies and gentlemen, that brings me to the end of the presentation, and of course, as always, I thank all involved in assisting and particularly Paul, and we are very happy to take any questions.

## **SLIDE 23 – Questions**

Are there any questions?

## **SLIDE 24 – Annual General Meeting**

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

## **SLIDE 25 – Voting procedure**

A poll is being held on all resolutions at this meeting. If leaving early, please ensure you have completed voting using the online voting system.

For each item of business, I will first open the floor for discussion and then, will put the motion for that item to the meeting, and ask you to complete your online voting in relation to that item.

Share Registrar, Ms Julie Stokes of Link Market Services Limited will act as Returning Officer in relation to the poll.

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



The results of the poll will not be available before the end of the meeting. You can however obtain the results of the poll later today by visiting the company's website or the ASX announcement web page.

### **SLIDE 26 – Resolutions**

Adopt remuneration report for the year ended 30 June 2020

Election of Directors

### **SLIDE 27 – Adoption of Remuneration Report**

Firstly, to item 2 in the notice of meeting. The Remuneration report on pages 17 to 26 of the annual report outlining the remuneration for the Board, Executive, CEO and other key personnel.

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

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 2020 be adopted.

I will now put the motion to the meeting.

If you haven't already done so please record your vote in relation to Resolution 2.

### **SLIDE 28 – Election of Director's**

Election of Directors, please refer to Item three in the notice of meeting.

Offering themselves for re-election are Terry O'Brien and Peter Margin.

### **SLIDE 29 – Terry O'Brien**

I now move to the election of Terry O'Brien. Terry I invite you to say a few words.

Thank you Terry.

Before we proceed I would like to inform the meeting we have the following proxies in respect to Terry's 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 Terry O'Brien be elected to the Board.

I will now put the motion to the meeting.

If you haven't already done so please record your vote in relation to Resolution 3(a).

### **SLIDE 30 – Peter Margin**

I now move to the election of Peter Margin I invite you to say a few words.

Thank you Peter.

Before we proceed I would like to inform the meeting we have the following proxies in respect to Peter's 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 Peter Margin be elected to the Board.

I will now put the motion to the meeting.

If you haven't already done so please record your vote in relation to Resolution 3(b).

### **SLIDE 31 – Retiring Directors**

I would like to invite our retiring Directors Richard Parbery and Jeff Odgers to say a few words.

Richard, would you like to say a few words?

Thank you Richard, Jeff would you like to say a few words?

Thank you Jeff.

### **SLIDE 32 – Closing**

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

The voting will remain open for a further 5 minutes. If you haven't already voted please do so now.

The results of the resolutions will be announced on the ASX later today and available on our website.

I now declare the meeting closed.

### **SLIDE 33 – Disclaimer**