



ASX ANNOUNCEMENT

1H FY2022 FINANCIAL RESULTS

EARNINGS GROWTH AND MOMENTUM DESPITE COVID-19 DISRUPTIONS

Bega Cheese Limited (ASX: BGA) announced its interim report for the half-year ended 26 December 2021. The financial performance of the company was at expectation particularly in the context of the increased costs and challenging trading conditions related to COVID-19. The result demonstrates the resilience of the expanded Bega Cheese business and the importance of the diversity of the markets the company services with exposure to both global dairy commodities and Australian retail and food service customers.

Key Financial Metrics

| Key Measures | 1HFY2022 | 1HFY2021 | Change | |
|------------------------------------|----------|----------|--------|-------|
| | \$m | \$m | \$m | % |
| Statutory Performance | | | | |
| Revenue | 1,507.2 | 707.7 | 799.5 | 113% |
| EBITDA | 97.2 | 65.8 | 31.4 | 48% |
| EBIT | 42.5 | 40.8 | 1.7 | 4% |
| PAT | 28.0 | 21.7 | 6.3 | 29% |
| EPS (cents per share) | 9.3 | 9.6 | -0.3 | -3% |
| | | | | |
| Normalised Performance | | | | |
| EBITDA | 106.4 | 73.0 | 33.4 | 46% |
| EBIT | 51.7 | 48.0 | 3.7 | 8% |
| PAT | 35.5 | 29.7 | 5.8 | 20% |
| EPS (cents per share) | 11.7 | 13.2 | -1.5 | -11% |
| | | | | |
| Pre capital raise 1HFY2021 | | | | |
| Net debt | 328.6 | *247.5 | 81.1 | 33% |
| Leverage ratio (times) | 2.2 | *2.0 | 0.2 | 10% |
| | | | | |
| Post capital raise 1HFY2021 | | | | |
| Net debt | 328.6 | (145.1) | 473.7 | -326% |
| Leverage ratio (times) | 2.2 | (1.2) | 3.4 | -283% |
| | | | | |
| Working capital | 250.5 | 168.3 | 82.2 | 49% |

*Non statutory adjusted for capital raise to settle Lion Dairy and Drinks acquisition

Performance Overview

In 1H FY2022 Bega Cheese generated statutory earnings before interest, tax, depreciation and amortisation (EBITDA) of \$97.2 million an increase on the prior comparative period of \$31.4 million or 48%.

The normalised 1H FY2022 EBITDA of \$106.4 million was an increase on the prior comparative period by \$33.4 million or 46%. Normalised items included Lion Dairy and Drinks transaction related costs which were partially offset by the receipt of termination fees associated with completion of the nutritional service and access agreements with Reckitt.

The acquisition of Lion Dairy and Drinks added \$787 million of revenue for the first half on a prior year comparative basis. Growth in the grocery channel was offset by declines in non grocery with significant business interruptions due to COVID-19 lockdowns and reduced consumer movement. The synergy benefits planned from consolidation of the Lion Dairy Drinks business are progressing well. Headcount savings have been realised and the procurement and milk optimisation initiatives are on target. Importantly a successful transition of IT systems has been achieved on time and on budget.

Within the Australian spreads category Bega performed well recording retail growth of 4.6%⁽¹⁾ with strong trading performance in key grocery channels. International commodity prices have strengthened supporting improved milk pricing to farmers and offsetting some of the impact of changes in the infant nutritionals market. Milk supply in Australia is stable to slightly negative resulting in robust competition for milk.

Bega Cheese has been impacted significantly by COVID -19 during the first half. Global supply chain pressures emerged in the first quarter impacting prices for direct and indirect internationally sourced materials such as fuel, packaging, resin and coffee. Many suppliers of these products were unable to meet delivery windows creating interruptions to manufacturing schedules resulting in increased operational costs. In the second quarter the spread of the Omicron variant created significant disruption to the local supply chain and our customer channels. The business suffered from significant absenteeism across Bega manufacturing sites and those of our suppliers which placed pressure on production volumes and service levels and resulted in large cost increases. Additionally many of our customers in the non grocery channels were not able to open or suffered from reduced foot traffic. There were significant direct costs including Personal Protective Equipment, Rapid Antigen Testing and deep cleaning.

The financial impact of COVID-19 related issues in 1H FY2022 is in excess of \$20 million. The COVID-19 disruption intensified into January with signs of recovery during February.

Despite the challenges of COVID-19 there have been a number of important achievements in 1H FY2022. The service and access agreements with Reckitt for Derrimut and MSD2 at Tatura have now terminated. The Derrimut canning site has been successfully exited and a contract canning arrangement has been entered into with a successful transition of customers. The right sizing of the nutritional operations at Tatura has commenced and is tracking successfully.

The business has a number of large capital projects underway across yoghurt, nutritionals and white milk that are on target to derive material benefit for the business in FY2023. Significant investments in the cold chain network are being assessed with the purpose of enhancing customer experience and improving cost to serve.

Bega continues to see significant growth opportunities emerging over the medium term, they include:

- Optimising capability across bulk and branded supply chains to drive efficiencies in the network. This includes further optimisation of milk usage and greater utilisation of warehousing and logistics infrastructure.
- Leveraging cold chain scale and reach to open new distribution channels for a greater portion of the product range. This will create opportunities to build an expanded offering to new and existing customers, where service and the ability to be a single point of contact for the customer across a full dairy range is a significant competitive advantage in the market place.
- Ensure a strong pipeline of product development and capability across strategically important categories such as yoghurt, milk based beverages, spreads and white milk.

Priorities for the business in the short term are strongly focused on managing the impacts of COVID-19 in third quarter and being well positioned for an expected recovery in the fourth quarter and beyond. The business will continue to realise synergies associated with the Lion Dairy and Drinks acquisition, invest in brands, markets and new capabilities, further optimise manufacturing infrastructure and build on our diversity and inclusion and sustainability and circularity initiatives.

Interim FY2022 dividend – 5.5 cents per share

Bega Cheese also announced an interim fully franked dividend of 5.5 cents per share for 1HFY2022. This reflects the growth in total earnings of the Group which has strengthened following the acquisition of Bega Dairy and Drinks.

The interim dividend will be paid on 24 March 2022. The Dividend Reinvestment Plan will be activated for this dividend.

(1) Nelsen ScanTrack retail sale value YTD to 04 January 2022

ends

24 February 2022

For further information please contact:

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