

# Farm Pride Foods Ltd 2018 AGM

24 October 2018



## FARM PRIDE BOARD OF DIRECTORS

Non-executive Chairman

Peter Bell

Non-executive Director/Audit Chairman

Malcolm Ward

Executive Director

Bruce De Lacy



## FARM PRIDE MANAGEMENT TEAM

COO/CEO

Daryl Bird

Business Manager Shell Manufacturing

Don Woodhouse

Business Manager Product Manufacturing

Bob Harris

National Farms Manager

Darrell Boyle

National QA Manager

Larissa Forest

National Maintenance Manager

Wade Crawford



# State of Play

EGGS



# Farm Pride Foods at a Glance

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- Farm Pride is in the business of producing, marketing and selling egg and egg products in Australia.

*FY18 Revenue \$86.12m  
Market Capitalisation \$48m  
NTA 81.5 cents*

- Farm Pride is transitioning to cage free and free range to meet the requirements of its customers.

*Approx. 50% of our total hen flock is now cage free or free range.*

- Vertically integrated egg producer.

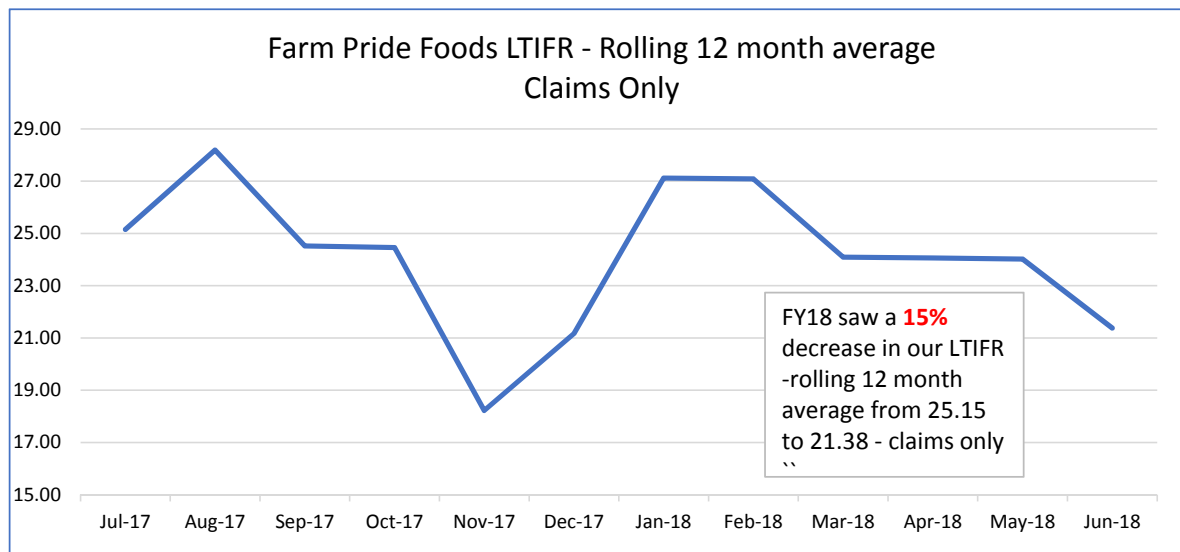
*The only ASX listed egg producer in Australia with an independent science based audit of its free range egg supply chain*

# Key Messages for 2018

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- Employee safety remains a priority.
- EBITDA result in line with trading update.
- Egg industry bearing the brunt of the driest January-September since 1902.
- Stage one Pittsworth, Nathalia and pasteuriser complete.
- Our last three major capital projects have been free range and cage free egg production. Further capital expenditure will be undertaken but clearly aligned to our overall strategy.
- National egg supply exceeds demand.
- Business fundamentals solid as the business enters a new era.

# Employee Safety 2018



Employee safety remains an ongoing focus for the business with many smaller farm sites

# FY18 Performance Snapshot

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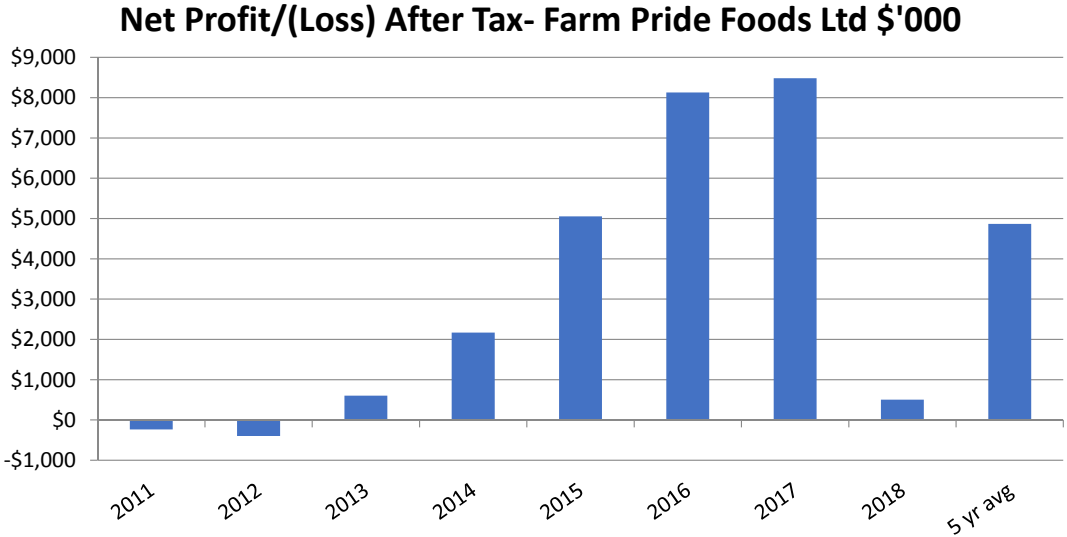
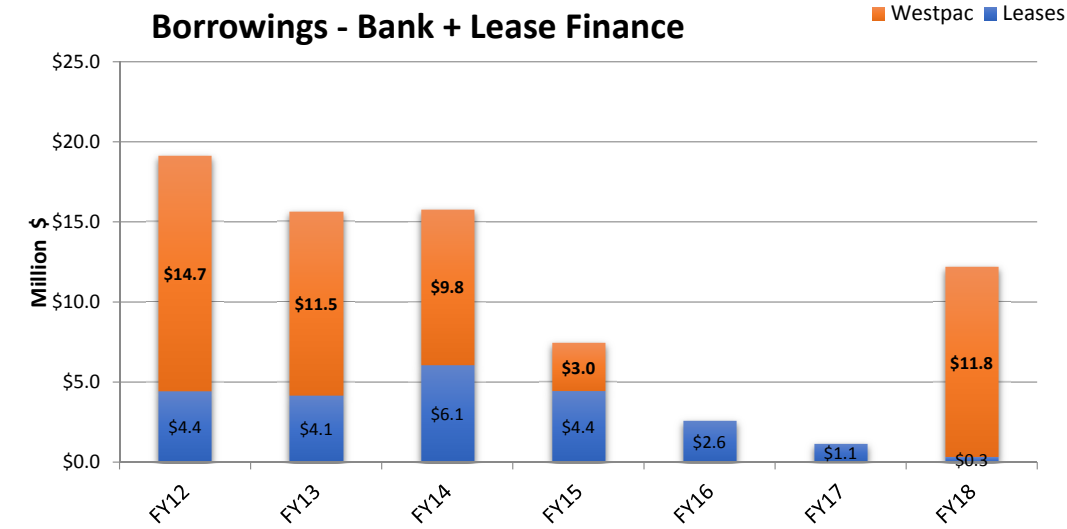
Revenue	\$86.116m
Underlying EBITDA	
\$5.386m	
Profit after tax	\$0.5m
Net Assets	\$47.143m
Net Debt	\$12.023m
Earnings per share (cents per share)	0.91
cents	



# 2018 Full Year Results

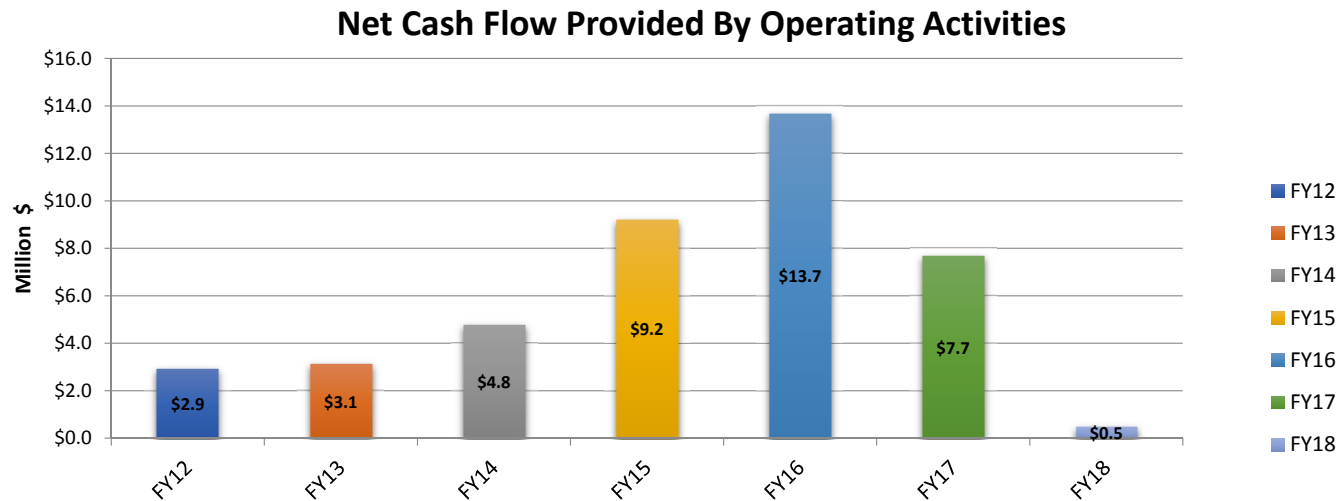
(\$'000)	2015	2016	2017	2018
Revenue	91,341	93,765	97,778	86,116
Earnings before Interest & Tax (EBIT)	7,218	11,485	12,232	858
EBIT Depreciation & Amortisation (EBITDA)	12,190	15,988	15,713	5,386
Net Profit before tax (NPBT)	7,218	11,485	12,232	858
Net Profit after tax (NPAT)	5,053	8,127	8,481	503
Operating cash flow	9,233	13,687	7,661	505
Net debt	5,571	1,139	332	12,023
Net assets	29,942	38,159	46,640	47,143
Current Assets / Current Liabilities	1.3	1.4	2.0	1.6
Debt ratio (Total liabilities/Total Assets)	2.4	3.2	4.0	2.8
Interest cover	12.5	38.7	104.8	16.3
Earnings per share	\$0.09	\$0.15	\$0.15	\$0.01
Shares on issue	55,180,175	55,180,175	55,180,175	55,180,175

# FY18 FINANCIAL PERFORMANCE



# 2018 Full Year Results

Future cash flow growth will be driven by improved earnings, improved working capital management (*e.g. lower inventories*) and a further investment in cage free

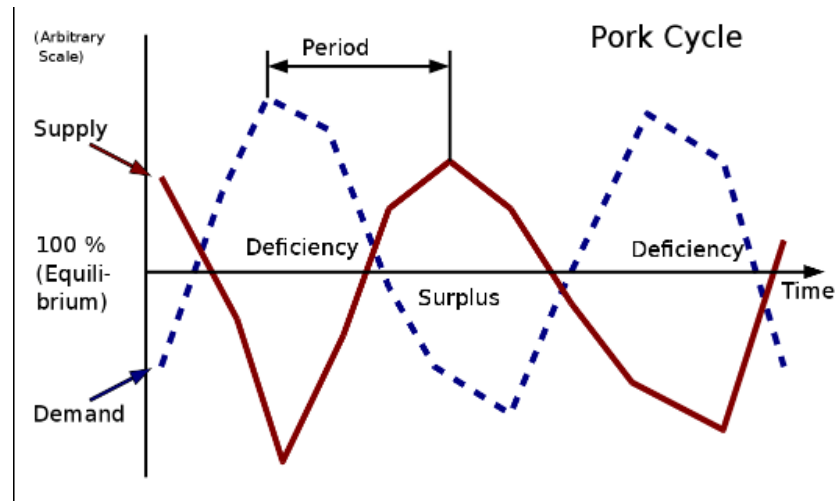


# The Egg Supply Cycle in Australia

The egg industry, like many other industries in agriculture is subject to what is known as the **Hog Cycle**.

**Hog cycle** - the phenomenon of cyclical fluctuations of supply and prices in the egg market.

Whilst there is nothing new about this cycle there is no certainty about when the market will recover.



# New Victorian Farm

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## Nathalia – Farm is now up and running.

The total project will be undertaken in four stages. Each stage consisting of 120,000 free range and cage free hens.

This is a 650 acre site, with approval for 480,000 layers along with approval for on-site rearing capability.

A flexible farming model has been applied, which will allow the sheds to be interchangeable between cage free and free range.

This new site means we will be able to supply larger volumes of egg at more competitive prices.



# Queensland Expansion

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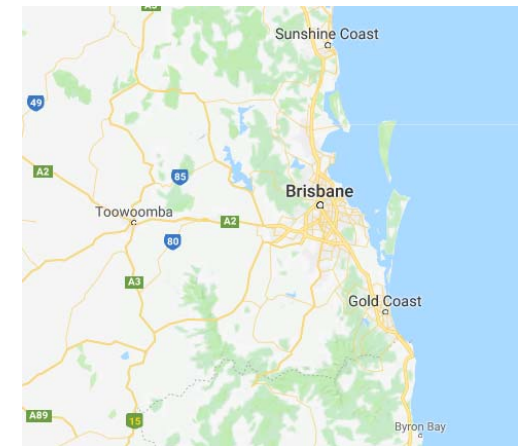
## Pittsworth – entry into Queensland

We have commenced a refurbishment program at our Pittsworth farm which is in the Toowoomba region.

The farm includes farm land, layer and rearing capacity with a grading operation and feed mill.

The operation was originally developed to house 210,000 cage layers.

This new site will be a cage free farm supplying eggs into the QLD market.



# Market Update

EGGS

# State based banning of cage eggs

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- WA state Agriculture minister has proposed a state based ban on cage egg production if the final copy of the Australian Animal Welfare Standards and Guidelines does not include a phase out timeline for cage egg farming.
- Mind the hypocrisy gap. If we care about the welfare of the animals we eat, why don't we buy foods that come from animals that were treated well? And why are we buying eggs that are thought to reflect higher welfare but not other animal-based foods?





# Conversion to a national standard – why?

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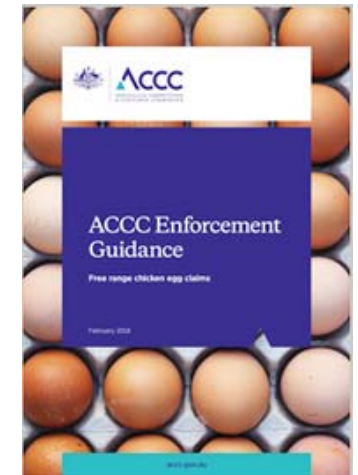
## Australian Animal Welfare Standard for Poultry.

- **ABC News reported last week that Australians clearly care about animal welfare: their research has found 92 per cent of shoppers in Sydney considered animal welfare to be important.**
- **BUT**, Aussie shoppers seem to care far more about free-range eggs than the living conditions of pigs, cows and broilers (chicken meat).
- Free-range eggs now account for [more than 40 per cent of all eggs sold in Australia](#).
- This contrasts with only a 14 per cent market share for [free-range poultry](#) and even less for pork, with [only 5 per cent coming from pigs raised outdoors](#)

# Legal Requirements

## Free Range Labelling Information Standard.

- New legislation in Australian Consumer Law.
- It states free range eggs are eggs laid by hens that:
  - had meaningful and regular access to an outdoor range during daylight hours during the laying cycle;
  - were able to roam and forage on the outdoor range; and
  - were subject to a stocking density of 10,000 hens or less.
- All of our free range egg are sourced from farms that comply with this legislation and all of our products have the stocking density labelled on the packaging.



# Free Range Stocking Densities

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- Push from Choice, RSPCA and Private Members bill to have stocking densities lowered to 1,500 birds per hectare.
- Requires time, significant investment in land and equipment to adjust flock and land ratios.
- Consumer education about the space allowance is important.
- Farm Pride's densities range from 750 hens per hectare to 10,000 hens per hectare.
- All of our new free range farms have densities of 1,500 hens per hectare.

# Australian Eggs

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## Industry Standards and Audits.

- All of our eggs are sourced from third party accredited farms.
  - Egg Corp Assured (ending Jan 2019) or the new Egg Standards Australia (for all audits from Jan 2018).
- All of our audits conducted this year will be the new ESA and will be for level 3 compliance.
- These standards are based on the current Model Code guidelines and the Free Range Labelling Information Standard.
- For free range hens this standard lists a maximum allowable stocking density of 10,000 hens per hectare. There must also be proper land management for range repair and rotation, as listed in the Model Code.

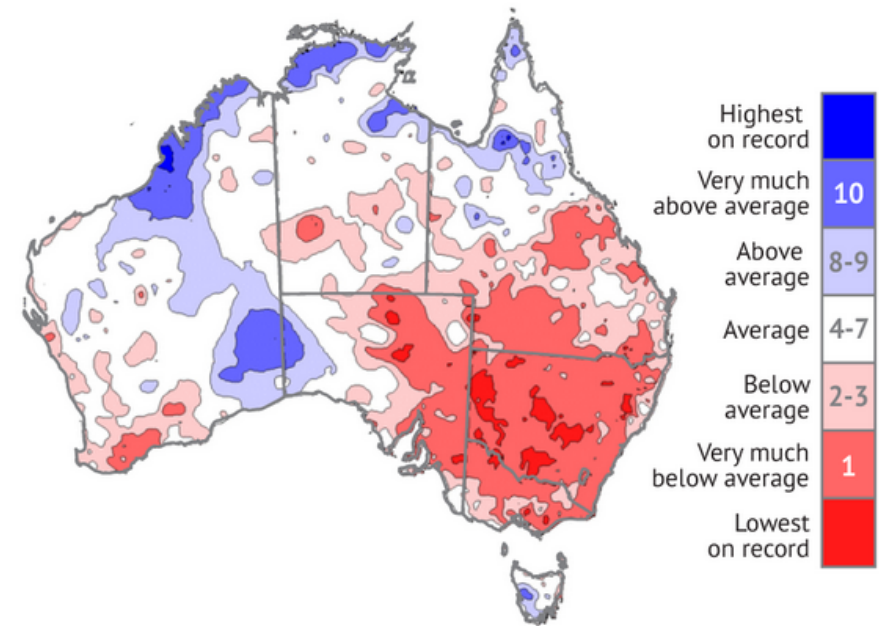
# Climate outlook overview

- “I can’t imagine anyone producing food would have it easy right now, but the level of exposure is acute and more long-lasting for egg farmers.”
- Egg farmers across Australia are facing skyrocketing costs for feed, with grain prices rising as much as 60 per cent, from \$280 to \$450 per tonne in only six months.
- With feed comprising 50 to 70 per cent of egg producers’ input costs, many farmers are losing 20 per cent on their “farm gate” or wholesale price.

Source John Dunn CEO Egg Farmers Australia

Australian rainfall deciles

January 1 to September 30, 2018



Source: Australian Bureau of Meteorology

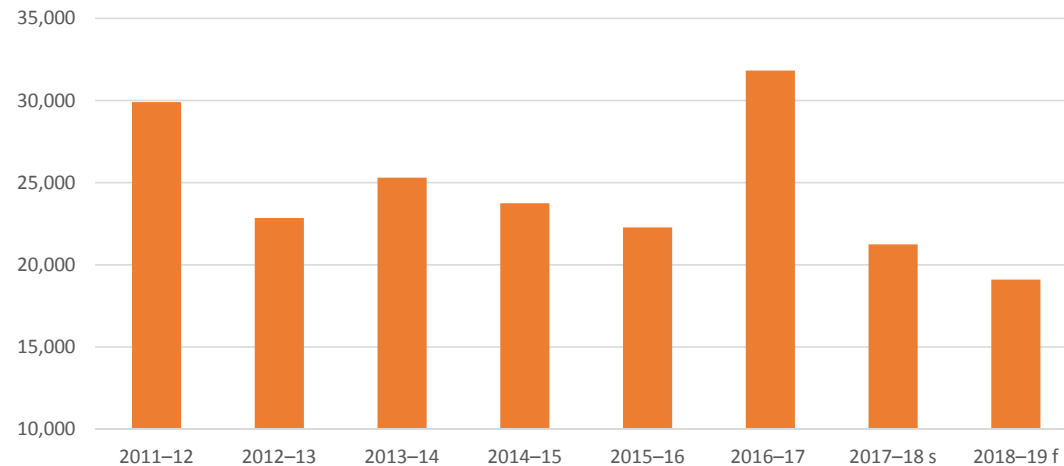
# Crop outlook overview

Australian production of wheat is forecast to fall by around 10%, but crop prospects differ between states.

Production in New South Wales and Queensland is forecast to be the lowest in over 10 years, driven by exceptionally warm and dry conditions throughout autumn and winter.

“Australian Sept 18 Crop Report” released ABARES.

Wheat Production kt 2011-12 to 2016-17



# Total Coles and Woolworths Overview

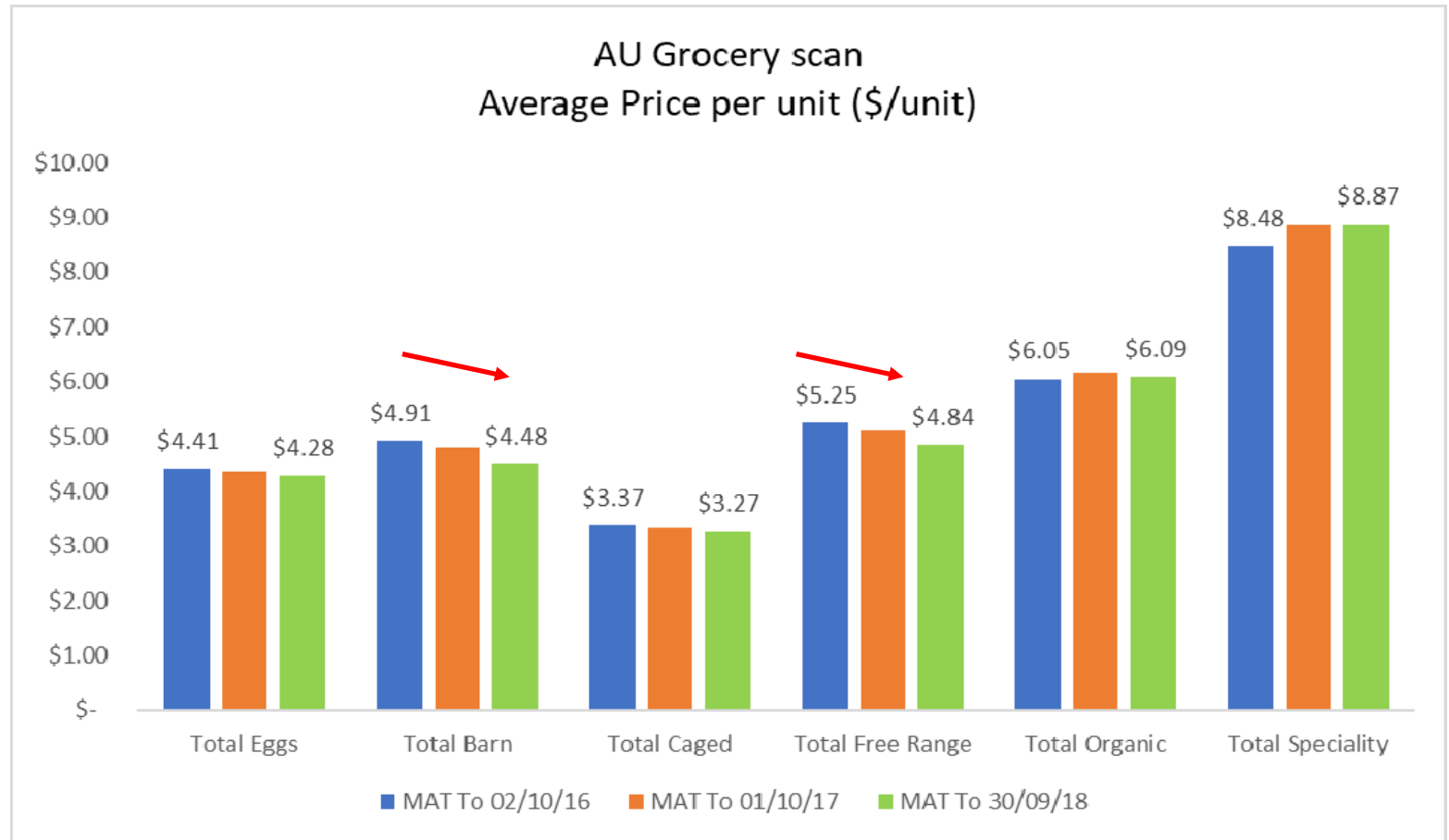
		AU Grocery scan					
		Total Eggs	Total Free Range	Total Caged	Total Barn	Total Organic	Total Speciality
MAT To 30/09/18	Dozens (000s)	155,690	77,914	57,373	17,249	3,043	111
	Dozens (000s) Share of Total Eggs	100.0	50.0	36.9	11.1	2.0	0.1
	Dozens (000s) Growth % YA	3.9	11.7	- 10.1	28.5	14.2	- 14.4
	Dollars (000s)	\$ 677,743	\$ 390,988	\$ 183,884	\$ 74,483	\$ 27,792	\$ 596
	Dollars (000s) Share of Total Eggs	100.0	57.7	27.1	11.0	4.1	0.1
	Dollars (000s) Growth % YA	1.5	5.6	- 12.1	19.3	9.9	- 13.0
Quarter To 30/09/18	Dozens (000s)	38,647	19,486	13,624	4,735	775	27
	Dozens (000s) Share of Total Eggs	100.0	50.4	35.3	12.3	2.0	0.1
	Dozens (000s) Growth % YA	2.6	4.6	- 8.8	40.4	8.8	- 14.1
	Dollars (000s)	\$ 168,207	\$ 97,403	\$ 43,709	\$ 19,860	\$ 7,090	\$ 145
	Dollars (000s) Share of Total Eggs	100.0	57.9	26.0	11.8	4.2	0.1
	Dollars (000s) Growth % YA	2.7	3.9	- 9.2	30.1	9.7	- 14.4

- Coles and Woolworths growth has slowed due to additional cheap eggs in alternative retailers.
- Free Range growth has slowed recently whilst Barn growth is increasing off quite a small base.
- Additional promotions are seeing volume growth outstrip dollar growth.

Total Retail IRI MAT to 30/09/18

# Average Price Per Unit

- Average prices received are lower now due to increased promotional activity.



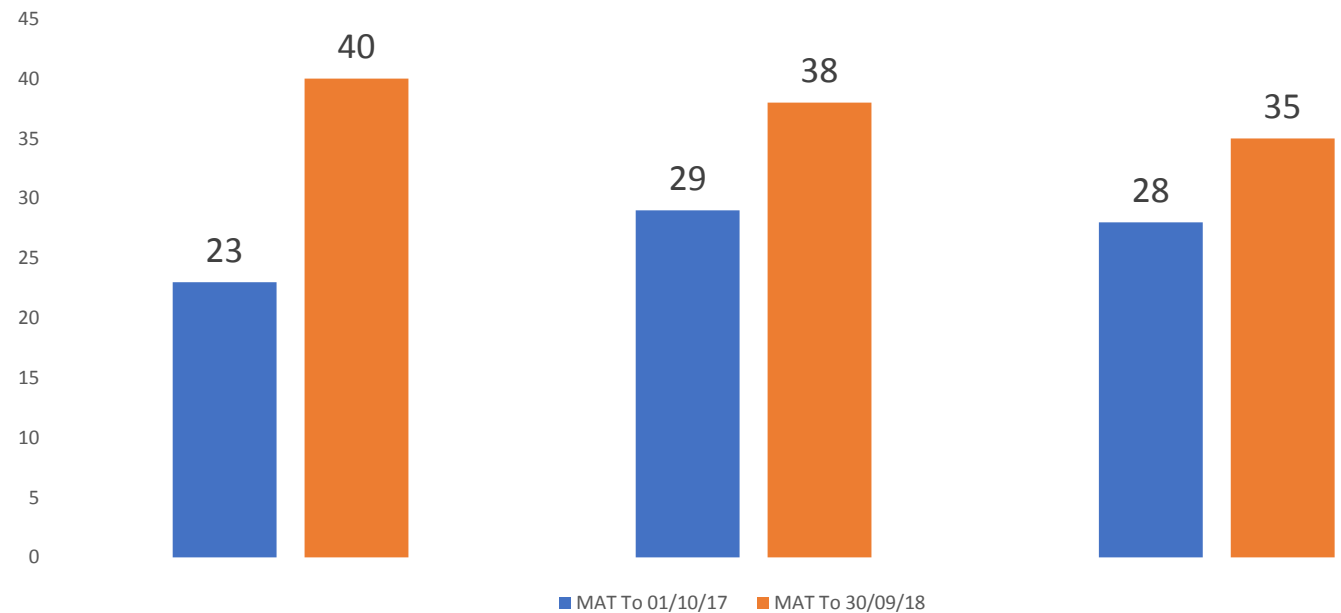
Total Retail IRI MAT to 30/09/18



# Promotions have increased.

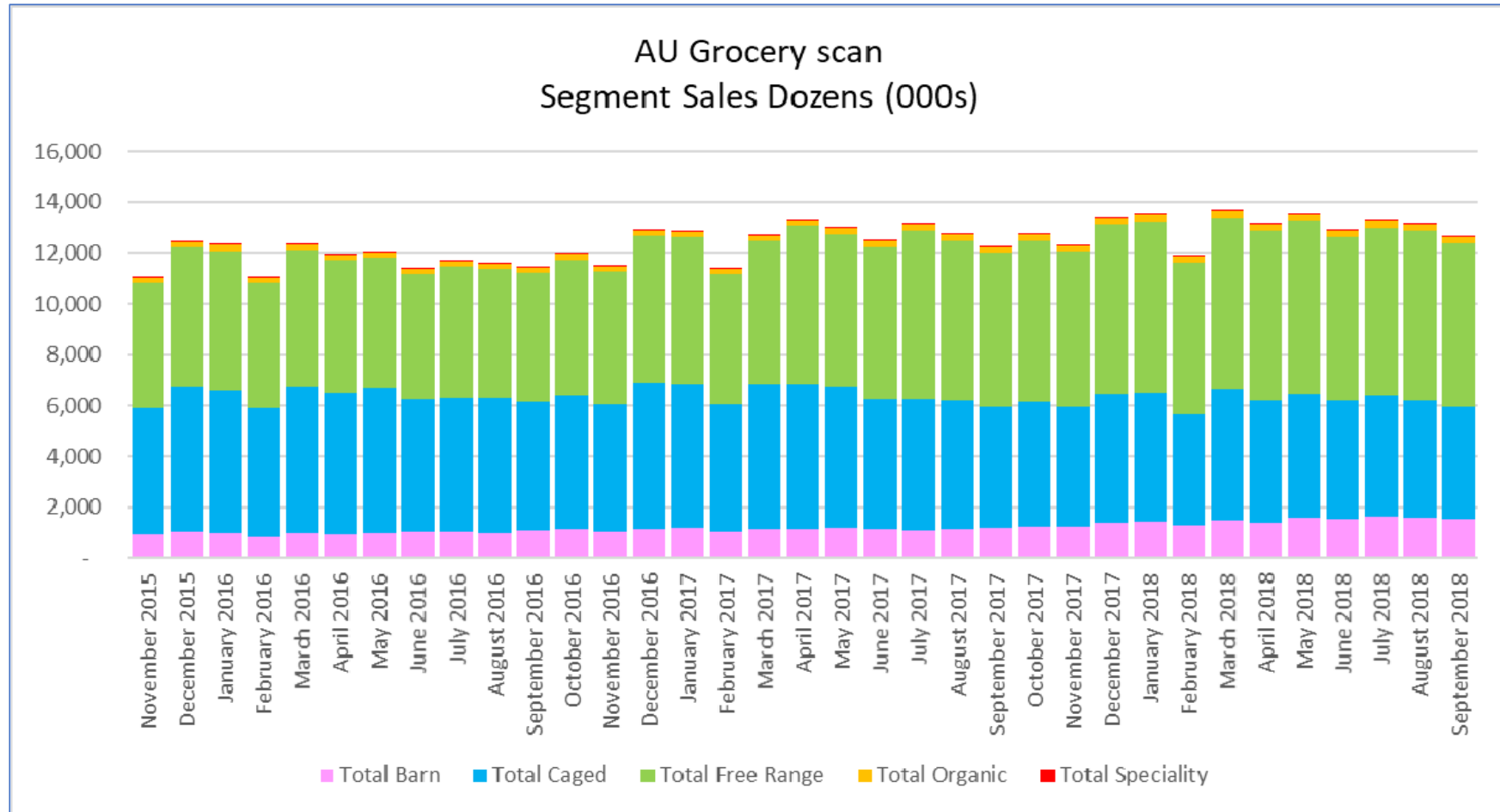
No of promotions per year across Coles & Woolworths  
Top 3 branded lines in market.  
(Weeks on Promotion  $\geq$  5 % 6 wks)

- Top 3 branded lines have increased promotional activity by up to 40% on previous year.



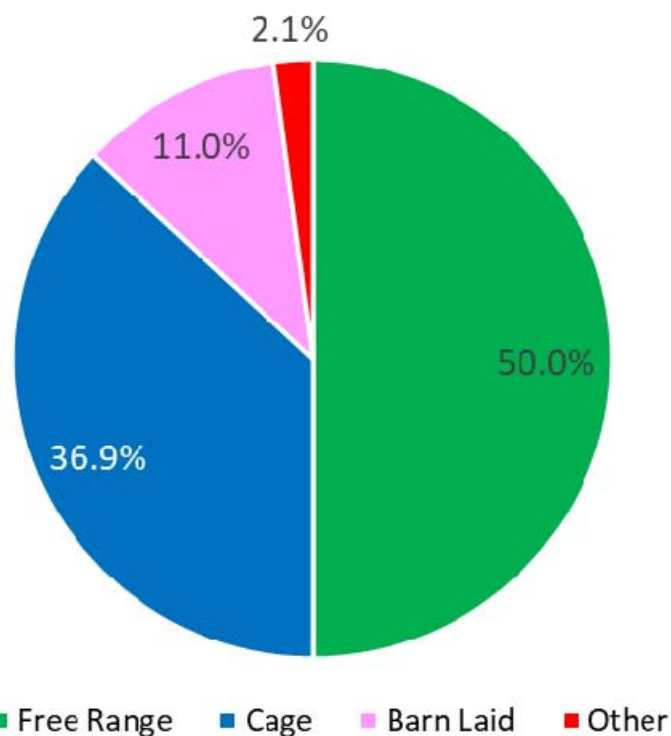
Total Retail IRI MAT to 30/09/18

# Segment Sales (Coles and Woolworths)



# Total Grocery Overview (Coles and Woolworths)

Total Grocery Dozens (000s) Share of Total Eggs  
MAT To 30/09/18 v YA



## Share Vol      MAT Dollars

- Barn Egg      11.0%      \$ 75M
- Cage Egg      36.9%      \$184M
- Free Range      50.0%  
\$391M
- Other      2.1%      \$ 28M

Total Retail IRi MAT to 30/09/18



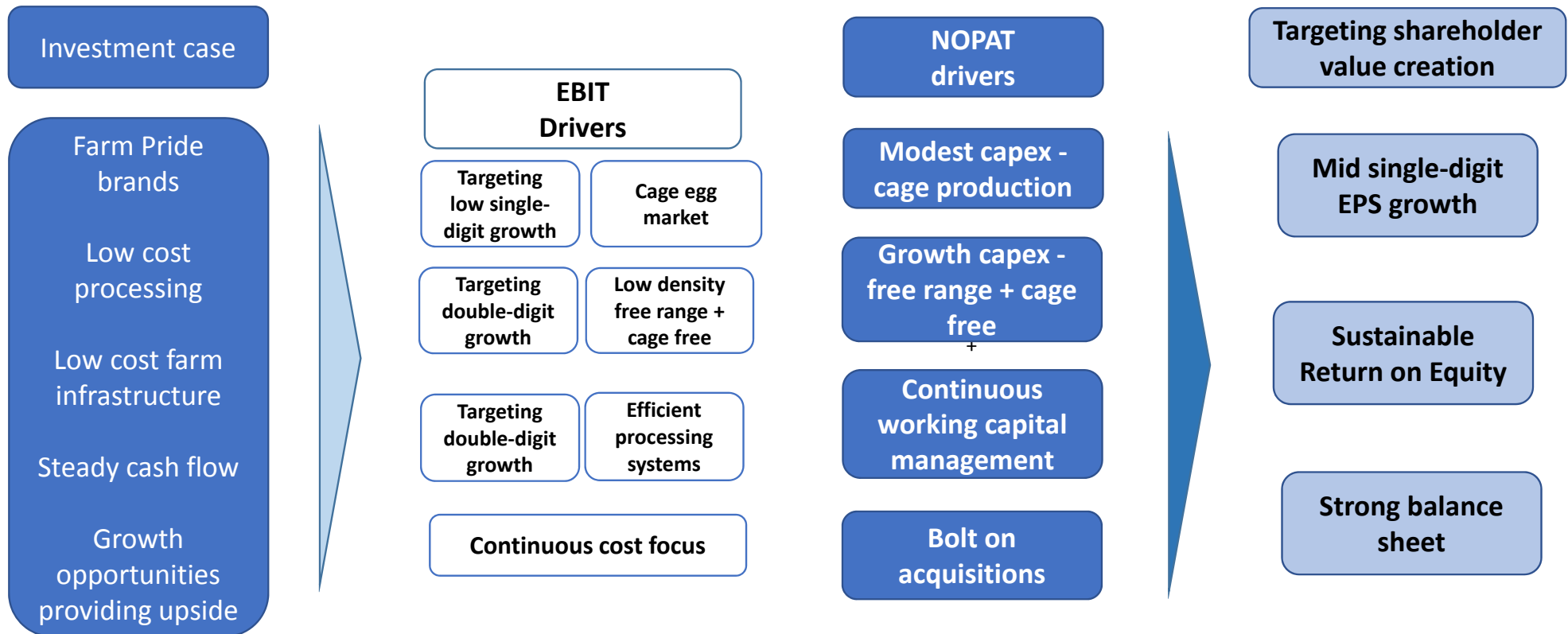
Start Something

Growth Opportunities Remain  
Strong

EGGS

# Shareholder Value Proposition Unchanged in FY18

**BUT WITH NEW MANAGEMENT WILL BE SUBJECT TO ONGOING REVIEW**



# Strategy Pressure Points or Opportunities

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*Retailer competition driving prices lower – new farms mean lower production costs.*

*Domestic AI risk increasing reflecting overseas experience – farm sites spread out across the East coast of Australia means lower biosecurity risk.*

*Activist lobby continually trying to drive change in consumer preferences – all our new free range is at 1,500 hens per hectare.*

*Climate change is a driver for increasing grain costs and future welfare issues – all egg producers are faced with the same challenges.*

*Industry volatility is the norm – the HOG cycle means that we remain optimistic about the future.*

# Strategy Opportunities – More Opportunity

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- Improve operational efficiency across the supply chain recognising the importance of hen welfare, hen welfare management and new manufacturing technology.
- Maximise sales growth opportunities using cost effective promotional and marketing whilst continuing to focus on the importance of customer brands.
- Invest in strategically aligned business, new product and further processed egg product.
- Our people.

# Growth Strategy – More Opportunity

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*Adopt appropriate cost effective smart marketing and promotional campaigns – difficult in the short term where input costs are increasing. Long term view required.*

*Leverage work undertaken by Australian Eggs – ongoing.*

*Seek out further vertical integration opportunities including feed mills and further enhanced egg cartons - ongoing.*

*Invest in lower cost base outcomes – ongoing new cage free farms and processing plant.*



# Growth Opportunities Remain

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- Grow our share of cage free with our core customers.
- Continue our investment in our own cage free production.
- Coles currently steady.
- Lack of consumer loyalty. Only 6-8% of grocery buyers ONLY shop at Coles or Woolworths.
- New retail entrants Kaufland, Lidl, Amazon Fresh, David Jones.

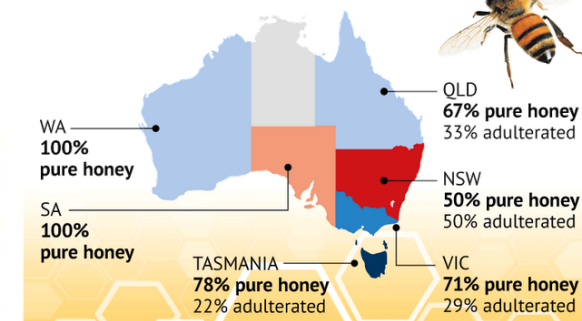
# Farm Pride Uses Science to Prove the True Origin of its Free Range Eggs

- How do we prove where our free range eggs come from? The truth lies within.
- FARM PRIDE FOODS IS THE ONLY COMPANY IN AUSTRALIA THAT USES THIS TECHNOLOGY TO AUDIT OUR FREE RANGE EGG SUPPLY CHAIN
- “The results of the samples tested have rocked consumers. But it hasn’t shocked the bee keeping industry. It has been a well kept secret for years.”  
Source The Age 3 October 2018



## Taste test

Of the 38 honey samples sourced from supermarkets and markets, 18 per cent, or almost one in five, detected adulteration.



# Fair Dinkum Free Range.

We've Started Something. Free range farm origin validation.



[farmpride.com.au](https://farmpride.com.au)

farm  
pride



# *Farm Pride Foods - seriously free range*

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## **Seriously free range**

We take our free range eggs very seriously. So seriously, that we have partnered with food traceability company Oritain to track the origin of our free range eggs. Right down to the specific farm they were laid at. The process is scientific, rigorous and completely independent. This means when you buy our free range eggs, you can have complete confidence they're exactly that.

# Industry Survey

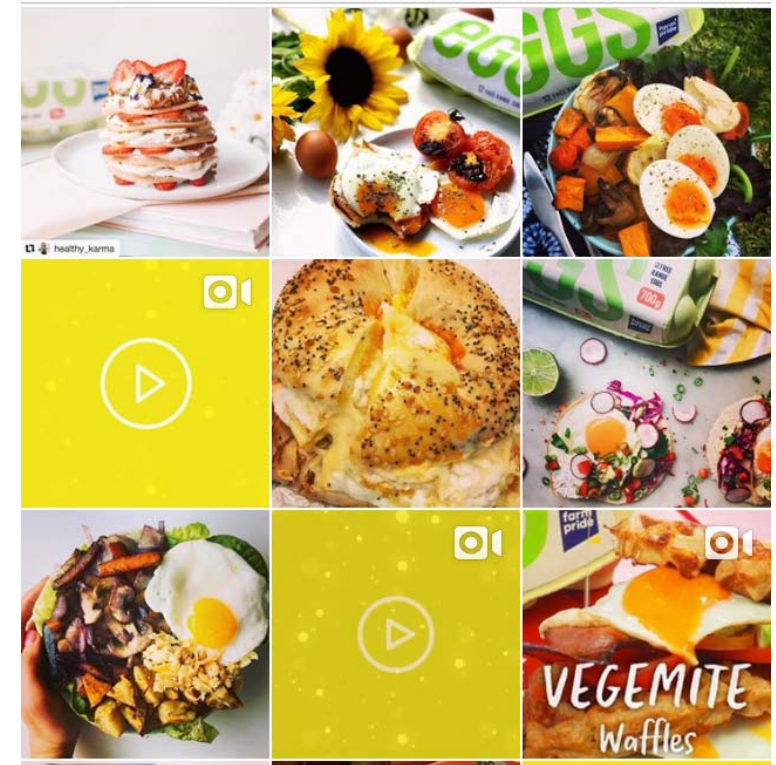
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## What, exactly, do consumers want?

- Australian Eggs has engaged CSIRO to conduct surveys to gauge how people respond to the egg industry and what they see as the industry's biggest issues.
- The CSIRO research will centre around animal welfare, environment, food security and farmers' livelihoods.
- "Our research program will help provide egg farmers with a better understanding of community attitudes and the community with a better understanding of the egg industry," (Dr Moffat, CSIRO).
- Australian Eggs hope to use this information to educate consumers.
- The egg industry needs to make sure we are transparent with current information to build consumer trust.

# Service and experience more important

- Australian egg farmers produced 6.2 billion eggs in FY18 up 54% on 10 years ago.
- Average consumption increased to 245 eggs per person per year or 4.7 eggs per week.
- Australians looking for affordable, high quality protein and eggs are the natural choice.
- Old favourites like boiled eggs and soldiers are still popular but market research shows us people are looking for new ways to reinvent egg dishes and we have the foodie movement to thank for that.”
- Free Range supermarket volume increased to 50% of the category.



Source. Australian Eggs

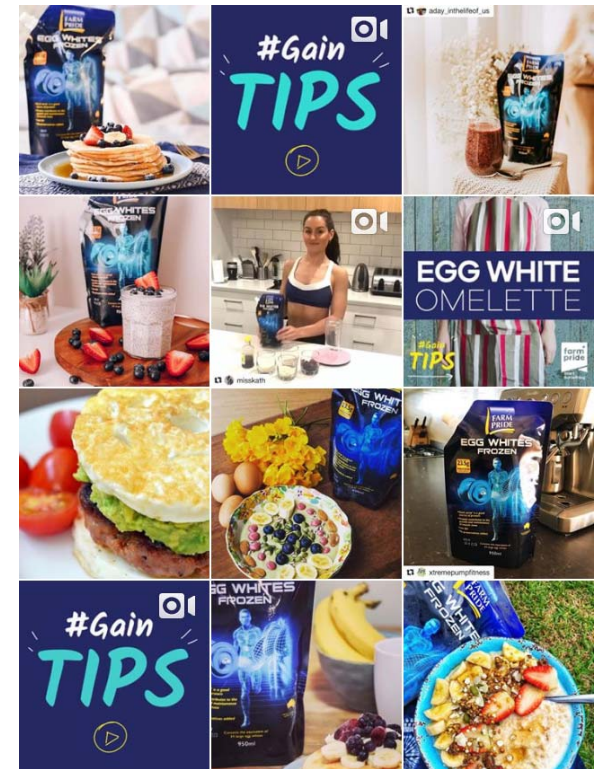


# A Quick Update On Activity On Our Social Media Pages

- Instagram, our Farm Pride Eggs page has featured beautiful and colourful breakfasts, we are now heading into Breast Cancer awareness months and our page will be filled with PINK egg packs and dishes.
- We have a new Instagram page for the Farm Pride Egg Whites for fitness and body sculpting markets.
- This page is all about tasty healthy egg white recipes and fitness ideas and motivation.
- Make sure you follow our pages and hash tags to keep up to date with delicious egg recipes and your next fitness circuit.

@farmpride.eggs #startsomethingFPE

@farmpride.eggwhites #FarmPrideFit

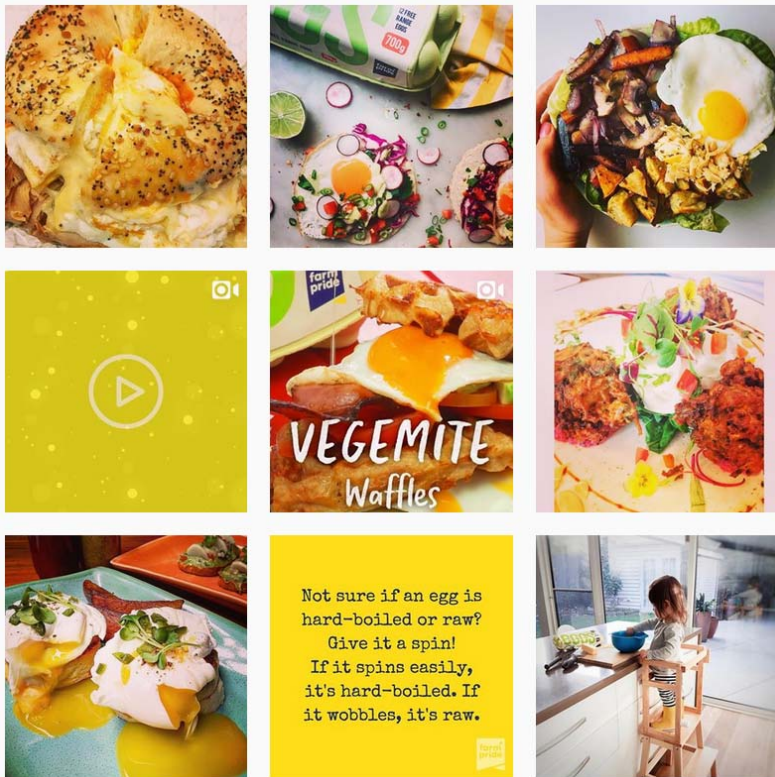


Source. Australian Eggs

# Social Media Channels

Providing topical engaging content and recipe ideas using our eggs.

- Foodie focused Farm Pride egg profile.
- Filled with egg cooking tips and delicious recipe ideas.
- Covering female skewed 25-34 year old market on **Instagram**, and +30 year old market and **Facebook** respectively.



- Vegemite, Fathers Day  
2.7m people reached.

QUESTIONS?

EGGS