



## ASX ANNOUNCEMENT

### 1H FY2021 FINANCIAL RESULTS

#### A STRONG FIRST HALF BUILDING ON MOMENTUM FROM THE PRIOR YEAR

Bega Cheese Limited (ASX: BGA) announced its interim report for the half-year ended 27 December 2020. The result demonstrates the successful execution of a number of key strategic initiatives, improvement in product mix and the ongoing transformation of the company.

#### Key Financial Metrics

Key Measures	1H FY2021	1H FY2020	Change	
	\$m	\$m	\$m	%
<b>Statutory Performance</b>				
Revenue	708.0	741.0	-33.0	-5%
EBITDA	65.8	39.3	26.5	68%
EBIT	40.8	17.7	23.1	131%
PAT	21.7	8.5	13.2	154%
EPS (cents per share)	9.6	4.0	5.6	141%
<b>Normalised Performance</b>				
EBITDA	73.0	48.5	24.5	51%
EBIT	48.0	26.9	21.1	79%
PAT	29.7	15.0	14.7	98%
EPS (cents per share)	13.2	7.0	6.2	89%
<b>Pre capital raise</b>				
Net debt	247.5	312.2	-64.7	-21%
Leverage ratio (times)	2.02	2.87	-0.85	-30%
<b>Post capital raise</b>				
Net (cash)	(145.1)	312.2	-457.3	-146%
Leverage ratio (times)	(1.18)	2.87	-4.05	-141%
Working capital	168.3	177.8	-9.5	-5%

## Performance Overview

In 1H FY2021 Bega Cheese generated statutory earnings before interest, tax, depreciation and amortisation (EBITDA) of \$65.8 million, an increase on the prior comparative period of \$26.5 million. The half-year reported profit after tax was \$21.7 million, being an increase of \$13.2 million or 154% on 1H FY2020.

Bega Cheese generated normalised EBITDA of \$73.0 million an increase on the prior comparative period by \$24.5 million or 51%, after adjusting for costs related to the acquisition of Lion Dairy and Drinks (LD&D) and legal costs related to ongoing litigation with Kraft Heinz and Fonterra.

Revenue declined in 1H FY2021 by 4.5% when compared to the prior period. Impacts on revenue included the conclusion of the milk supply guarantee arrangements at Koroit, ongoing competition for milk resulting in decreased volumes, a reduction in global commodity prices, Australian currency appreciation and the exiting of lower value contract manufacturing agreements for cheese.

The business is continuing to grow its Australian and international branded business, high value nutritional powders and lactoferrin sales. The consequence of the above has been a more profitable sales mix and an increase in margin against the prior comparative period.

The strong first half financial result benefited from the lactoferrin plant commissioned in April 2020 being in full operation throughout the period and successfully meeting the performance criteria underpinning the offtake agreement with an international nutritional company.

The organisational and process review conducted by management and Boston Consulting Group at the end of FY2020 was fully enacted in the 1H FY2021, with most redundancies being made prior to 27 December. This has ensured a material reduction in non-manufacturing overheads that gives the group a globally competitive cost base.

Bega Cheese innovation supported strong performance in the branded segment which was evidenced by Bega Cheese maintaining its leading position in spreads with a 30.9% value share growing 13.6% on the prior comparative period. Some of the drivers of this strong result were the following:

- The Simply Nuts brand grew to a 21.2% share of the natural peanut butter segment, growing 104% on the prior comparative period, with the launch of the larger 650 gram jar. Core Bega peanut butter continued its strong growth, now holding a 82% share of total core peanut butter and growing 15.8% on the prior comparative period.
- Vegemite grew its share in the yeast spread category helped by strong home consumption as well as the launch of Vegemite Squeezy in November, to open the brand up to new usage occasions and to increase consumption.

On 26 November 2020, Bega Cheese announced it had entered into a binding agreement to acquire all of the shares in LD&D for a net acquisition cost of \$534.1 million. The acquisition successfully completed on 25 January 2021. To fund the acquisition the Group completed a capital raise of \$401 million at an offer price of \$4.60 per share in December 2020.

On a pre capital raise basis working capital declined by \$9.5 million or 5% and net debt reduced by \$64.7 million on the prior comparative period. The adjusted leverage ratio would have been at 2.02 times down from 2.87 times at the same time last year. These results reflect the continued focus on strong balance sheet management and an improvement in earnings performance.

As in prior years, the result for 1H FY2021 is positively influenced by seasonal factors and is not expected to reflect the proportional full year result of Bega Cheese.

The full year result will reflect the earnings impact from the acquisition of LD&D from the date the Group gained control.

#### **Interim FY2021 dividend – 5.0 cents per share**

Bega Cheese also announced an interim fully franked dividend of 5.0 cents per share for 1HFY2021. This is consistent with our previous dividend and reflects prudent cash management as we integrate Lion Dairy and Drinks into the Group.

The interim dividend will be paid on 26 March 2021. The Dividend Reinvestment Plan will be activated for this dividend.

#### **COVID-19**

Bega Cheese continues to closely monitor COVID-19 recognising this position could rapidly change. Our priority remains on ensuring the health and well-being of our employees. The Executive Crisis Team continues to closely monitor the situation with COVID-19 and the implications of ongoing government advice. Bega Cheese has demonstrated commercial resilience throughout this difficult period and increased portfolio and channel diversification has helped overcome some of the challenges experienced through our supply and customer base. To date there has been minimal impact to our direct supply chain however some of our customers have been experiencing difficulty with reduced cross border movement.

#### **Positioning the company for future growth**

Bega Cheese has made significant progress in its ambition to develop the branded segment of its business. During 1HFY2021 it announced it had entered a binding share sale and purchase agreement to acquire of all the shares in LD&D for \$534.1 million which was completed on 25 January 2021. The addition of LD&D extends capability into new branded dairy categories such as yoghurt, white milk and flavoured milk and provides exposure to new dairy regions across the country. The acquisition also expands the product portfolio into juice and gives access to new customers and markets for the existing range of consumer products.

The acquisition of LD&D has also created the opportunity for significant synergies to be achieved. Executive Chairman Barry Irvin said *“The acquisition delivers important industry consolidation and value creation with synergies across the entire supply chain. The expanded product range, manufacturing and distribution infrastructure and brand portfolio realises our ambition of creating a truly great Australian food company”*. Bega Cheese has continued to invest in the development of new products across the spreads, snacking and dairy portfolio, and the acquisition of market leading iconic Australian brands in LD&D provides further opportunities to extend the product range. The international branded food business has continued to grow, despite the impact of COVID-19 on the foodservice channel in some key export markets. The LD&D acquisition provides a platform for further growth in international markets and provides a market presence to support innovation and a closer connection to customers and consumers.

Strength in the Bulk segment has been partially impacted by COVID-19 particularly in the infant formula category. Customers have been impacted by trading conditions in key markets and the effects of COVID-19 on international travel and the Daigou channel. The outlook for this category remains challenging and Bega Cheese continues to respond through diversification in its revenue streams through product innovation and new customer and channel development.

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