17 August 2023

ASX Release

A STRONG RECOVERY AND PLATFORM FOR EARNINGS GROWTH

Inghams Group Limited (ASX: ING) (Inghams, Company) today announced its full year[1] financial results for 2023.

Key results

- **EBITDA of $418.5 million, up 13.0% and Underlying EBITDA pre AASB 16 of $183.6 million, up 35.8% on the prior corresponding period (PCP)**
- **NPAT of $60.4 million, an increase of 72.1% and Underlying NPAT of $71.1 million, an increase of 67.7% on PCP**
- **Group core poultry sales volume lower, 0.4% on PCP**
- **Final fully franked dividend of 10.0 cents per share. Total FY23 dividends declared of 14.5 cents per share, fully franked, an increase of 107.1% on PCP**
- **Net Debt of $262.5 million and leverage of 1.4x; extended $345 million of debt facilities for a further 2 years to November 2025**

Inghams CEO and Managing Director, Andrew Reeves, said: "Our FY23 results demonstrate the breadth and momentum of the operational recovery underway across the business. I am very pleased with the strong recovery, underpinned by the progressive return to normal operational performance levels across the business, with farming performance continuing to recover and supply chain conditions normalising.

"During the course of FY23 we productively engaged with our customers to implement price increases across all channels. The price increases were necessitated by the significant increase in feed costs, and growth in other key input costs, with market demand for poultry that continues to outpace supply. In addition, we have continued to leverage growth channels that provide greater value, rationalising our product range and maintaining our long-term focus on operational efficiency.

"Overall, the poultry sector remains attractive, underpinned by robust demand with key long-term trends intact. Our underlying business is in good shape, and our diverse network and integrated operating model provides a strong platform for earnings growth."

FINANCIAL RESULTS

Core poultry sales volume declined slightly, down 0.4% on PCP. In Australia, volume declined 0.6%, driven mainly by lower bird numbers processed as a result of 1H decline in farming performance. In New Zealand, volumes grew 0.8% in FY23, with the recovery in volumes during the second half offsetting the lower first half performance which arose as a result of a lower egg setting implemented to address the impact of labour-related processing constraints and reduced further processing production driven by the nation-wide shortage of CO_2.

The Company's revenue increased 12.2% versus PCP, due largely to higher net selling prices (NSP) in response to the increased underlying total costs (+11.9% on PCP) over the period. Cost inflation is being seen across a broad range of key inputs with feed, fuel, freight, ingredients, cooking oil, and repairs and maintenance exceeding general inflation.

EBITDA increased 13.0% on PCP to $418.5 million, while Underlying EBITDA pre AASB 16 increased 35.8% to $183.6 million. NPAT increased 72.1% on PCP to $60.4 million.

[1] 52 weeks to 24 June 2023

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Cash flow from operations was $371.9 million for FY23, flat versus PCP, with the significant improvement in trading results partially offset by spend on Business Transformation[2] and an increase in Working Capital. The Company recorded a cash conversion ratio of 90.4%, a decline versus PCP due to an increase in Working Capital as the higher cost of feed is reflected in biological assets and feed materials on hand, and an increase in Trade Receivables due to NSP growth for both total poultry and external feed sales.

The Company delivered a Return on Invested Capital (Underlying, pre AASB 16) of 19.0% in FY23 (PCP: 13.7%).

Key Results Summary	FY23	Variance to FY22		% Variance
Group Core Poultry Volume (kt)	463.5	(2.0)	▼	(0.4)
EBITDA ($M)	418.5	48.1	▲	13.0
NPAT ($M)	60.4	25.3	▲	72.1
Underlying EBITDA ($M)	433.7	52.9	▲	13.9
Underlying NPAT ($M)	71.1	28.7	▲	67.7
Underlying EBITDA pre AASB 16 ($M)	183.6	48.4	▲	35.8
Underlying NPAT pre AASB 16 ($M)	83.2	26.1	▲	45.7
Dividends (fully franked) (cps)	14.5	7.5	▲	107.1

Australia

In Australia, core poultry volumes recorded a decline of 0.6% versus PCP. Despite the slightly lower volume performance, revenue increased 12.2% on PCP, driven by an increase in NSP as higher costs (+11.8%) were progressively passed on across all channels. The increase in underlying total costs was due to an increase in the cost of feed (+$97.8 million), and increases across a range of other inputs including fuel, freight, ingredients, cooking oil and repairs and maintenance costs all exceeding general inflation.

The decline in volume in FY23 was driven mainly by lower bird numbers processed as a result of a small reduction in fertility levels from the performance of breeding roosters. During the second half, various measures implemented to address farming performance brought good improvements, with the positive performance trend continuing as 2H progressed.

New Zealand

New Zealand core poultry volume grew by 0.8% versus PCP, with volume growth in the second half rebounding following a decline in the first half of FY23 due to an adjustment to egg settings in response to both significant labour availability and CO_2 supply constraints at the Company's primary and further processing facilities. Revenue increased 12.1% on PCP, attributable to an increase in core poultry NSP of 11.1% (14.0% in NZD). Similar to Australia, underlying total cost growth (+12.9%) was driven by an increase in feed costs (+$24.8 million), and growth across a range of other input costs including ingredients, fuel, freight, cooking oil, utilities, and repairs and maintenance costs all exceeding general inflation.

Overall, financial and operating performance showed an improving trend through the final quarter of FY23, with production volume growth supported by a normalisation of farming settings, significant improvements in labour availability, and completion of the conversion of New Zealand Further Processing operations to liquid nitrogen.

BALANCE SHEET & CAPITAL MANAGEMENT

Net debt declined 1.8% on PCP to $262.5 million, due to the significant improvement in operating earnings and despite the increase in working capital requirements during FY23. As a result of the improvement in earnings over the last 12 months, the Company's leverage ratio declined significantly to 1.4 times at 24 June, comfortably within the target range of 1.0x – 2.0x. Total capital expenditure of $71.9 million was higher than PCP, reflecting the period post COVID and new automation and network investments.

[2] Refers to business process, ERP and IT transformation

In November 2022, the Company extended $345 million of debt facilities for a further 2 years to November 2025 with the syndicated bank group.

INVESTING IN NETWORK & AUTOMATION

The ongoing strong recovery in business performance is supporting new investment across key areas of the business.

During FY23, Inghams announced a series of new investments in processing technology. These investments in automation, combined with the ongoing development of a new breeder triangle in Northern New South Wales, a new waste water treatment plant at Osbourne Park (WA) and the progressive rollout of three state-of-the-art distribution facilities, are positioning Inghams for growth through improved production capability and network capacity to meet current and future consumer requirements.

On 17 February 2023, Inghams NZ entered into an agreement for the purchase of the business and assets of Bromley Park Hatcheries for NZ$8.6 million[3], with a third-party lessor to acquire land and facilities and to enter into a long-term lease with Inghams. Commerce Commission and Overseas Investment Office approvals were received in July and August 2023 respectively. There are a small number of remaining conditions precedent to be satisfied, following which settlement is expected to occur during 2Q FY24. The acquisition provides the opportunity for Inghams NZ to become self-sufficient in respect of its day-old-chick requirements and also reduces network risk, improves hatchery contingency with a modern hatchery, and provides capacity for future growth.

DIVIDENDS

A final fully franked dividend of 10.0 cents per share has been declared, with total fully franked dividends declared for FY23 of 14.5 cents per share representing a payout ratio of 75.8%, at the upper end of the Company's policy range.

SUMMARY

Inghams has successfully continued its business recovery from the significant operational disruptions experienced in FY22, with operations progressively returning to normal during 2H FY23.

Importantly, the strong recovery in revenue and profit during FY23, supported by the ongoing stabilisation of operations and a continued recovery in farming performance, provides a platform for earnings growth. Management remains firmly focused on ensuring the business is well positioned for long-term growth, underpinned by ongoing investments in network capacity and capability.

Broad cost pressures continue to be experienced across the business. While the pricing of feed ingredients stabilised during the year, the pricing of wheat and soymeal is expected to remain elevated versus longer-term levels due to tight global supply and geopolitical uncertainties. Inghams remains focused on ensuring pricing levels appropriately reflect ongoing business cost pressures and will pass on further price increases as required.

[3] Subject to normal working capital adjustments on completion

MARKET BRIEFING

Inghams will hold a market briefing today at 10.00am (AEST) today, 17 August, hosted by Andrew Reeves (Chief Executive Officer and Managing Director) and Gary Mallett (Chief Financial Officer). The webcast can be accessed using the following link:

https://web.lumiconnect.com/344847311

This announcement has been authorised by the Inghams Group Limited Board.

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