



**Patties Foods Ltd**  
ABN 62 007 157 182

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22 August 2011

Announcements Officer  
Company Announcements Office  
Australian Stock Exchange Limited  
South Rialto Tower  
525 Collins Street  
**MELBOURNE VIC 3000**

**Patties Foods Limited (PFL) - Full Year 2011 Results Market Briefing**

Please find attached, the market briefing regarding PFL's full year results for the period ended 30 June 2011.

The information contained in this announcement should be read in conjunction with the announcement on 22 August 2011 of PFL's year end report announcement, Appendix 4E and financial report for the year ended 30 June 2011.

Yours faithfully

A handwritten signature in black ink, appearing to read "Philip W Thomas", written over a horizontal line.

**PHILIP W THOMAS**  
Company Secretary

For further information refer to [www.patties.com.au](http://www.patties.com.au) or contact:

Greg Bourke, Managing Director  
03 8540 9101

# FULL YEAR RESULT 2011

## Market Briefing

C.E.O.

Greg Bourke

C.F.O.

Michael Knaap



Australia's Leading Branded  
Frozen Food Company

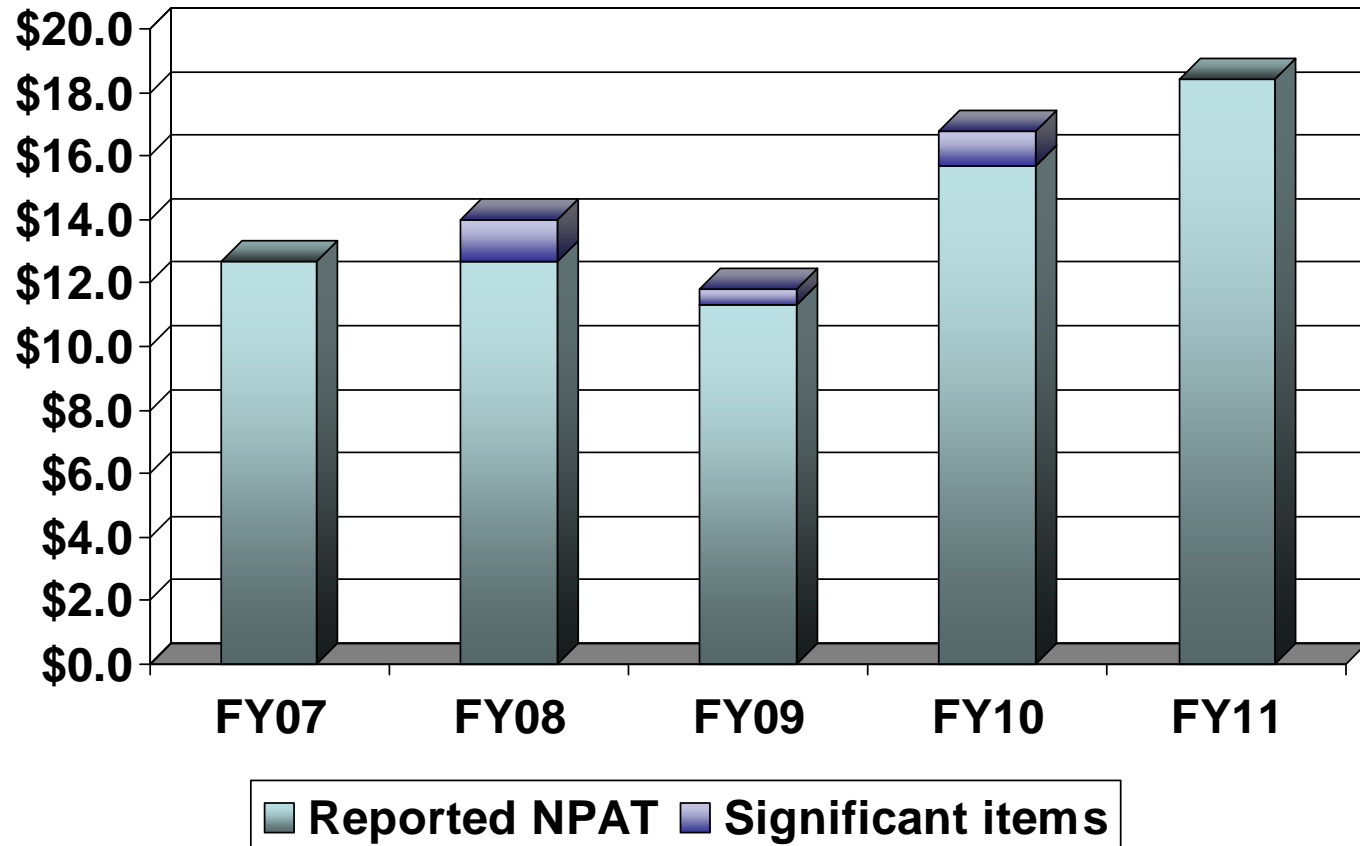


**Patties**



**Creative Gourmet**

# FY11 provided continued profit growth.



- NPAT of \$18.4m for the year - up by \$2.7m (16.8%) on reported NPAT, and up by \$1.6m (9.6%) on underlying NPAT for previous corresponding period (pcp)
- EBIT of \$29.9m for the year - up by \$2.7m (10.1%) on underlying EBIT for pcp.



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# Financial Highlights

- Revenue growth of 10.1% with increased market share in all categories.
- Gross margin reduced to 39.3% from 39.7% impacted by high raw material input costs, however partly offset with delayed price increases and manufacturing efficiencies.
- EBIT margin to sales at 13.8% is stable whilst in a challenging trading environment.
- Improvement in the net debt to equity ratio to 46.4% at 30 June 2011 – down from 52.7% at 30 June 2010
- Net Debt reduction trend continues to \$59.7m at 30 June 11 down from peak at 31 Dec 08 of \$76.9m.
- Final fully franked dividend declared of 4.2 cps (FY10 3.5 cps) taking the total FY11 fully franked dividend to 7.7 cps (up 18.5% for the year on the back of a total dividend increase of 44.4% in FY10.)
- Return on Equity increased to 14.8% pa up from 13.6% pa pcp.



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# Operational Highlights

- Largest non-acquisition revenue growth for the company - \$19.9m.
- Strong growth in branded sales through new products and range extension.
- Angus range – most successful new product launch in savoury category.
- Launch of Creative Gourmet Smoothie Cubes – category innovation.
- Strong growth in Branded Out-of-Home sales from increased ranging, distribution and new customers.
- New TV commercials building consumer demand for Four'n Twenty Angus, Patties Party and Creative Gourmet Smoothie Cubes
- Improved manufacturing efficiencies to reduce conversion costs, however, there is room for improvement.
- High raw material costs partly offset by delayed price increases.
- Improved safety result with less injuries and reduced injury costs.
- Ordered new packing automation and palletising equipment.



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# FY11 Financial Performance

- Revenue growth of 10.1% with increased market share in all categories
- Gross margin reduced to 39.3% from 39.7% impacted by high raw material input costs (partly offset with delayed price increases and manufacturing efficiencies)
- EBIT margin to sales maintained at 13.8% whilst in a challenging economic environment.
- Increased distribution costs required to support sales growth.
- Other costs effectively controlled notwithstanding an increase in advertising to support new product launches.
- Interest up by \$300k impacted by increased interest rates.

(\$m)	Jun-11	Jun-10	+/-	%
Net Sales Revenue	216.8	196.9	+19.9	+10.1%
Cost of Good sold	131.5	118.8	+12.7	+10.7%
Gross margin	85.3	78.1	+7.2	+9.2%
Operating expenses	48.6	45.0	+3.6	+8.0%
EBITDA (underlying)	36.7	33.1	+3.6	+10.9%
Depreciation & Amort.	6.7	5.9	+0.8	+12.8%
EBIT (underlying)	29.9	27.2	+2.7	+9.9%
Interest	4.9	4.6	+0.3	+7.6%
NPBT (underlying)	25.1	22.6	+2.5	+10.8%
Tax	6.8	5.4	+1.4	+25.5%
NPAT (underlying)	18.4	16.8	+1.6	+9.5%
NPAT (reported)	18.4	15.7	+2.7	+17.2%
EPS (reported)	13.2	11.3	+1.9	+16.8%
EPS (underlying)	13.2	12.1	+1.1	+9.1%
ROE (reported)	14.8%	13.6%	+1.2%	+8.8%
Net Asset Backing (cents)	92	86	+6.0	+7.0%
DPS (cents)	7.7	6.5	+1.2	+18.5%



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# Continued focus on capital management and balance sheet strength

- Conservative Gearing:
  - Net Debt to Equity Ratio of 46.4% at 30 June 2011 (52.7% at 30 June 2010)
  - Net Debt to EBITDA of 1.63x
  - Interest Cover (EBIT/Interest) 6.1x
- Net Debt of \$59.7m continues the reduction trend from peak in Dec 08 of \$76.9m underpinned by improved working capital management and earnings.
- Finance facility renewed in Dec 10 with key facets being:
  - 3 year term expiring Jan 2014.
  - Comfortable covenants with headroom to support future investment.
  - Competitive margin over BBSY
  - Interest rate hedge on 50% of total debt.
- Capital expenditure for FY11 of \$9.7m with the key project being investment in packaging automation of \$5.6m. FY12 expenditure to complete the project will be \$4.2m with commissioning in Dec 11.

(\$m)	Jun-11	Jun-10	+/-
Current Assets	73.1	62.8	+10.3
Fixed Assets	67.7	64.4	+3.3
Brands and Goodwill	78.9	78.5	+0.4
Investments in Associates	8.8	8.4	+0.4
<b>Total Assets</b>	<b>228.6</b>	<b>214.1</b>	<b>+14.5</b>
Current Interest Bearing Securities	2.2	2.2	-0.0
Other Current Liabilities	32.1	24.9	+7.2
Non Current Interest Bearing Securities	58.8	60.9	-2.1
Other non-current liabilities	7	6.3	+0.7
<b>Total Liabilities</b>	<b>100.1</b>	<b>94.3</b>	<b>+5.8</b>
<b>Net Assets</b>	<b>128.5</b>	<b>119.7</b>	<b>+8.8</b>
Equity	68.4	68.3	+0.1
Retained Profits and Reserves	60.1	51.4	+8.7
<b>Total Equity</b>	<b>128.5</b>	<b>119.7</b>	<b>+8.8</b>



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# Sustainable operating cash flows support dividend growth and investment opportunities

- Continued focus on cash generation.
- Cash generation and earnings continue to increase dividend. Total FY11 fully franked dividends of 7.7cps were up 18.5% on the back of a total dividend increase of 44.4% in FY10.
- Cash flow generated from operations was \$22.7m, delivering a 2.74% increase on pcp whilst cycling out of \$6m of timing benefits in FY10.
- Strong cash flows support future investment in profit enhancing projects
- FY11 Dividend payout ratio of 58% (FY10 57%).

(\$m)	Jun-11	Jun-10	+/-
<b>Cash Flow from operations</b>	<b>22.7</b>	<b>22.1</b>	<b>+0.6</b>
<b>Net cash flow from investing activities</b>	<b>-10.0</b>	<b>-8.0</b>	<b>-2.0</b>
Net borrowings	-2.2	-7.4	+5.2
Dividends paid	-9.7	-7.6	-2.1
Net equity	0.1	0.1	+0.0
<b>Net cash flow from financing activities</b>	<b>-11.8</b>	<b>-14.9</b>	<b>+3.1</b>
Net cash flow movement	0.9	-0.8	+1.7
<b>Closing cash balance</b>	<b>1.3</b>	<b>0.3</b>	<b>+1.0</b>
Free cash flow	12.7	14.1	-1.4



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# Packing Room Redevelopment

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Project on track for pre-Christmas commissioning

- Building works near completion
- Palletiser installed week commencing 22 August 2011.
- Automation – Factory Acceptance Testing due 19 September 2011.

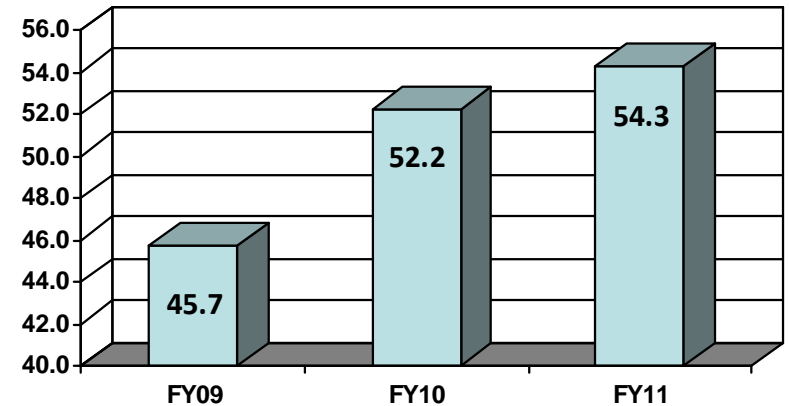


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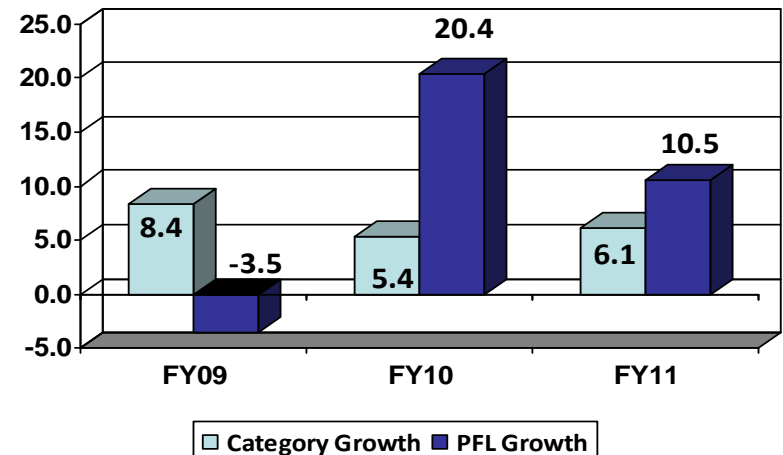
# In Home Savoury category Increased market leadership position

- Increased market share.
- Angus drove category growth.
- PFL achieved strongest growth in category
- Sales growth driven by
  - Four'n Twenty Angus launch.
  - Patties Party sales.

Market Share % MAT 30 June



% growth from pcp



SOURCE: Aztec retail scan data



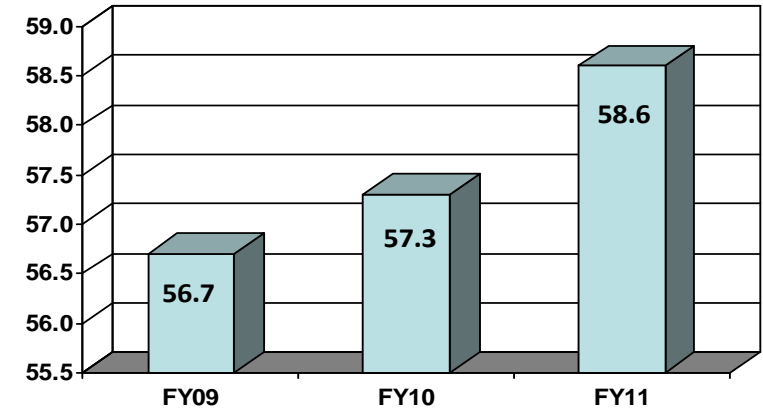
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# In-Home Fruit Pie Category

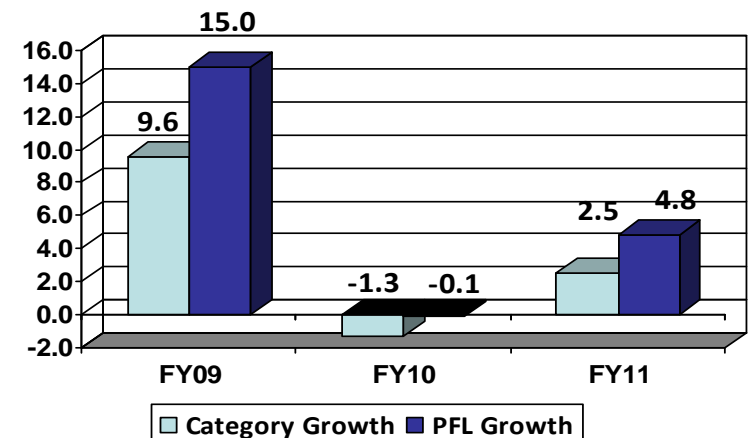
## PFL increased share in low growth category.

- Increased market share.
- Category continues low growth.
- Consumer demand driven by low prices.
- Competitor now supporting category growth through T.V. commercials.

Market Share % - MAT 30 June



% growth from pcp



SOURCE: Aztec retail scan data



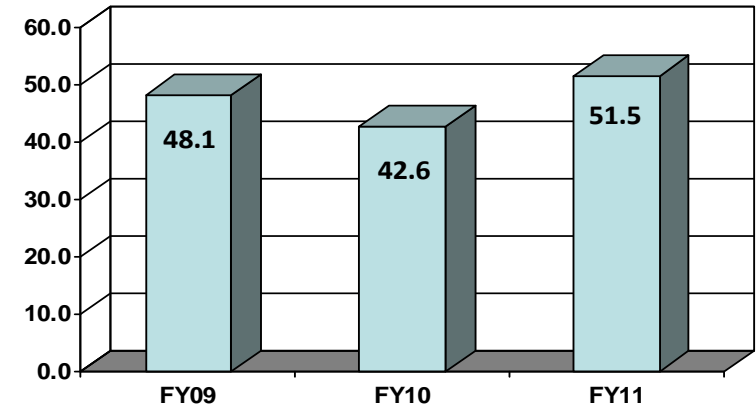
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# In Home Frozen Fruit Category

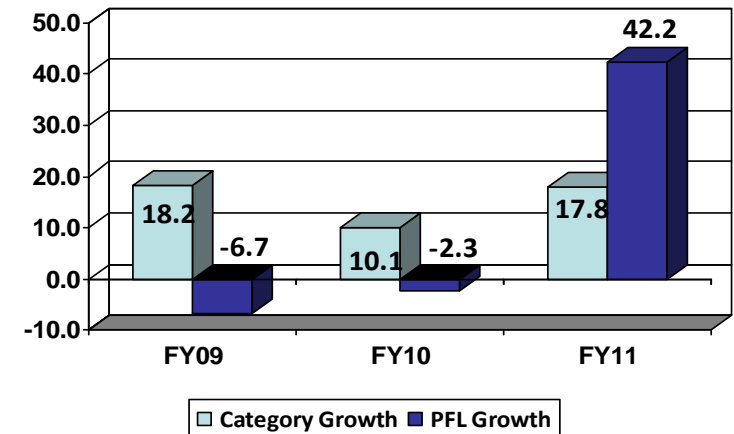
## Strong sales in increased competitive market.

- Strong sales growth due to
  - Launch of Nanna's fruit range to broaden product offer and defend against value offers.
  - Launch of Smoothie Cubes
- PFL increases market share and builds market leadership position.
- Creative Gourmet Smoothie Cubes has captured an average 8% share of category over the 5 months since launch.
- Frozen fruit category continues to be challenging with heavy competitor and private label discounting driving strong category growth.

Market Share % - MAT 30 June



% growth from pcp



SOURCE: Aztec retail scan data



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# Total Out-of-Home sales flat, but branded sales strong.

Out-of-Home market has been impacted by the challenging retail conditions.

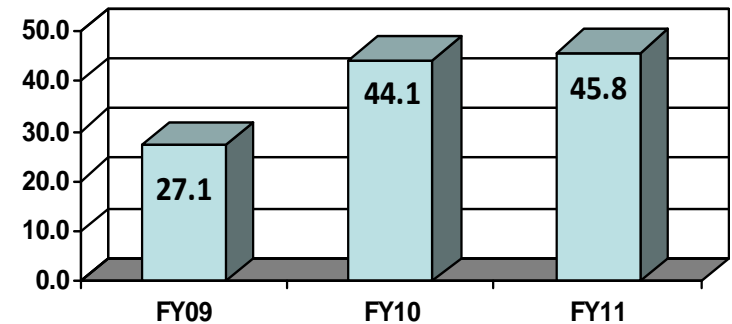
Total Petrol and Convenience market for hot savoury products has declined 2.5% from previous corresponding period.

PFL has been impacted by:

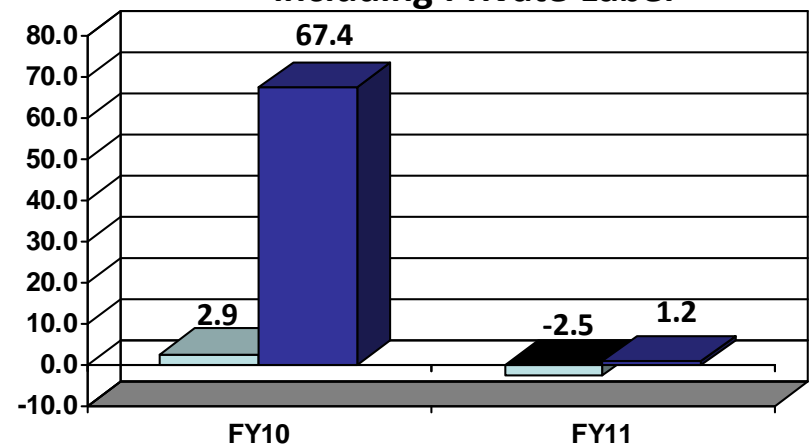
- reduced sales of corporate unbranded products, and
- reduced sales of P&C private label products

However, the Four'n Twenty Angus launch and gaining new P&C contracts and increased distribution has offset the losses.

**Petrol and Convenience  
Market Share % MAT 30 June  
including Private Label**



**% growth from pcp  
including Private Label**



SOURCE AZTEC

Category Growth PFL Growth



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# Future growth through Branded Innovation

## *Angus Range*

Most successful launch in Savoury Category



## *Smoothie Cubes*

Wide distribution – In-Home with TV support Autumn 2011



*These launches were supported by extensive T.V. campaigns*



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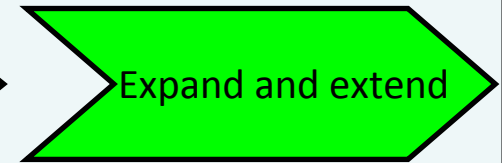
# Strategic Framework Update - Good progress on the base, with more work to be done to develop and expand

The leading Australian owned branded frozen foods company

Progress



PHASES



OUTCOMES

- Low costs
- High Cust Service Levels
- Defend the core
- Category Leadership

- New Products
- Extra Ranging
- Extra Distribution
- More customers

- New Channels
- New Regions
- New Categories
- New sub-businesses

ENABLERS

- Continuous Improvement
- Sales Forecast accuracy
- Excellent Execution

- Customer relationships
- Innovation everywhere
- Sales & Ops Planning

- Opportunity valuation
- Financial capacity
- Integration skills

HIGH PERFORMING PEOPLE



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# Associate company – Davies Bakery Pty Ltd.

Davies Bakery is a manufacturer and distributor of bread and pastry products, and is 50% owned by PFL.

The company's strategy is to be a:

- specialist manufacturer of a small range of frozen pastry products for PFL.
- fresh bread manufacturer servicing the Victorian bread market, and
- distributor of bread, pastries and cakes to the Victorian foodservice market.

Davies has invested in state-of-the art pastry manufacturing equipment dedicated to supplying PFL. Davies and PFL have agreed on a long term supply contract which provides additional capacity to meet PFL's expected growth over the term of Patties Strategic Plan.

The company generated strong profit growth from increased bread sales and paid its first fully franked cash dividend in June 2011.



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# In FY12 we will continue to Develop and Grow.

	FY 12 Initiative	Expected Outcome
<b>Operational improvements</b>	Leverage increased economies of scale to improve production efficiency.	Further reduce conversion costs.
<b>Customers</b>	Develop stronger In-Home customer relationships. New customers in Out-Of-Home channels. Implementing Brumby's supply contract	Capture growth opportunities through category and channel growth.
<b>Brand</b>	Continue investment in Four n Twenty Brand. Develop and grow dessert brands. Promote and build Patties brand as premium entertainment range.	Increase Four n Twenty revenue and profit. New product launches and product support.
<b>Consumer</b>	Develop our insights into consumer behaviour, to determine who buys, what, and when.	Assist customers in creating and capturing increased demand.
<b>Capital Works</b>	Complete commissioning of Packing room redevelopment.	Improved efficiencies.
<b>Balance Sheet and Working capital management</b>	Continue to minimise debt	Improved gearing.
<b>People</b>	Develop the performance culture by ensuring focus and accountability on key result areas.	Achieve higher performance.



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# Outlook

The volatile economic climate and low consumer confidence represent a challenging environment as we start FY2012. There will be continued pressure on category growth, particularly in the Out-of-Home channel.

However, with:

- our pipeline of innovative new products, supported by extensive consumer communication and marketing.
- the contribution from our new contracts and
- improved manufacturing efficiencies from investment in automation,

we expect continued improvement in the Company's performance in FY2012.

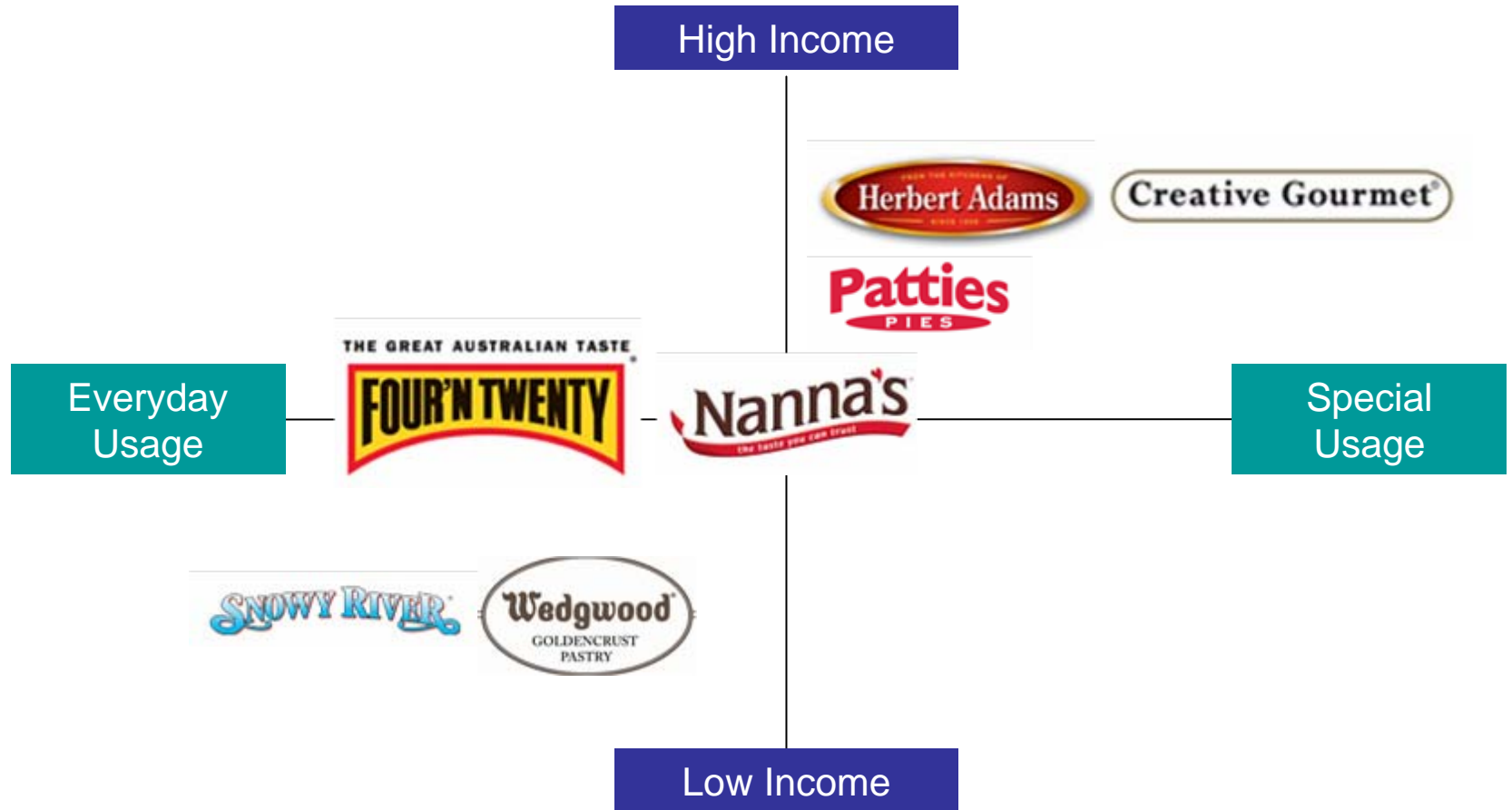


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# Our brands meet demand from many types of consumers



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**Any Questions ?**

