

# Campofrio Food Group 9M 2012 Earnings Call



7<sup>th</sup> November 2012

# AGENDA

## Highlights of the period:

- Actual context
- CFG delivery
- Top line strategy: “Growth accelerators”
- Raw materials environment
- Gross margin development

9M 2012 Trading

Conclusion

- **Macroeconomic context continues to deteriorate**
- **Austerity measures** are deepening the economic contraction, increasing **unemployment** and further burdening productive assets and workers
- **Europeans** continue to be **pessimistic**
- **Consumers** are adapting to a “new normal situation”, focusing on value, while retaining their demand for taste, pleasure, health and convenience
- **Capital markets**, while still volatile, are **stabilizing**

- Despite the continued complex economic climate, CFG growth in 9M12, again lead by the branded side of the business in retail

Growth in net sales  
branded retail business +2,8%\*

### Examples of growth of multi-country brands\*



5,8%



0,7%



6,8%

- Year on year earnings declined primarily reflect:
  - Higher tax rates
  - Inflation on raw materials and utilities
  - Increased marketing and new product development expenditures related to the CFG Investment Program

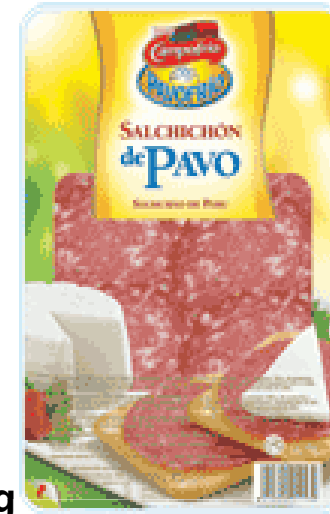
## Top line strategy: "Growth accelerators"

### ➤ Focus on **key categories**:

# Dry Sausages

+ 5,2%\* growth in value vs. PY

- Introduction of products catering to **pleasure, premium taste, convenience and health**
- **Innovation on poultry based dry sausages**
- **Strong point of sale activities and direct consumer contact marketing**
- **TV campaigns** for strategic brands, Campofrio, Justin Bridou, Cochonou

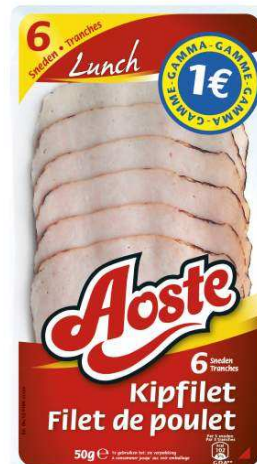


## Top line strategy: "Growth accelerators"

### ➤ Focus on **key categories**:

**Poultry + 2,4%\*** growth in value vs. PY

- Introduction of **new poultry product variants** and formats using both chicken and turkey ingredients in Belgium and Portugal
- **Affordable and competitive pricing**
- Massive **sampling** and **attractive point of sale display**
- **Continue 360° communication**



CHOURIÃO E SALSICHÃO DE PERU  
**LEVEZA E SABOR**

**GOZA O PRATO**



**CHEGARAM, PROVE JÁ.**

## Top line strategy “growth accelerators”

### Hot dogs: Roll out of new out-of-home program

- Schools
  - Theme parks
  - Gasoline Stations
  - Sports Stadiums
  - Special events
  - Convenience stores
- 
- Unique experience
  - Initial roll out to 500 points of sales
  - Over 1 million hot dogs sold in first 6 months



## Top line strategy: "Growth accelerators"

- Focus our innovation based upon three platforms, that represent the key European patterns and consumers trends

**Health +25,3%\*** growth in value vs. PY

- Consolidate our position on products that are **less salt and less fat**
- Extension of "Naturísimos" concepts to all geographies





Top line strategy: "Growth accelerators": Introduction of clean label concept at European level

Market trend for natural products is on the rise and we are the first to have a range of 100% clean label plus on cooked ham and poultry

This will be rolled out on a European level starting in Spain, Portugal and Italy in the coming months



## Top line strategy: "Growth accelerators"

- Focus our innovation based upon three platforms, that represent the key European patterns and consumers trends

**Heritage +27,5%\* growth in NS vs. PY**

- Excellent sales of Campofrio heritage products in Germany and the Netherlands
- Roll out of Campofrio brand in the United States
- Introduction of Campofrio Selection in the UK



## Top line strategy: "Growth accelerators"

- Focus our innovation based upon three platforms, that represent the key European patterns and consumers trends

**Snacking +17,0%\*** growth in NS vs. PY

- Growth from snacking products in the US with panino rolls
- Consolidate launch of **Poultry Stickado** variant all over Europe



## Examples comprehensive snacking projects: Groupe Aoste Snacking

# Action Plan

- o Groupe Aoste Snacking

### Social Networks

to be close the moment of consumption

### Internet

to catch new potentials consumers

#### OBJECTIVE

Reach the new potential consumers = 11 Millions households



Internet via Facebook  
Creation of a J. Bridou Facebook application  
« Apéro organizer Justin Bridou »



- o Other snacks plans

Supporting snack products with

1. Increase Distribution (Retail and Impulse Channel)
2. Increase exhibition (new POS Materials, Check-outs Plan)
3. Sampling and promotion



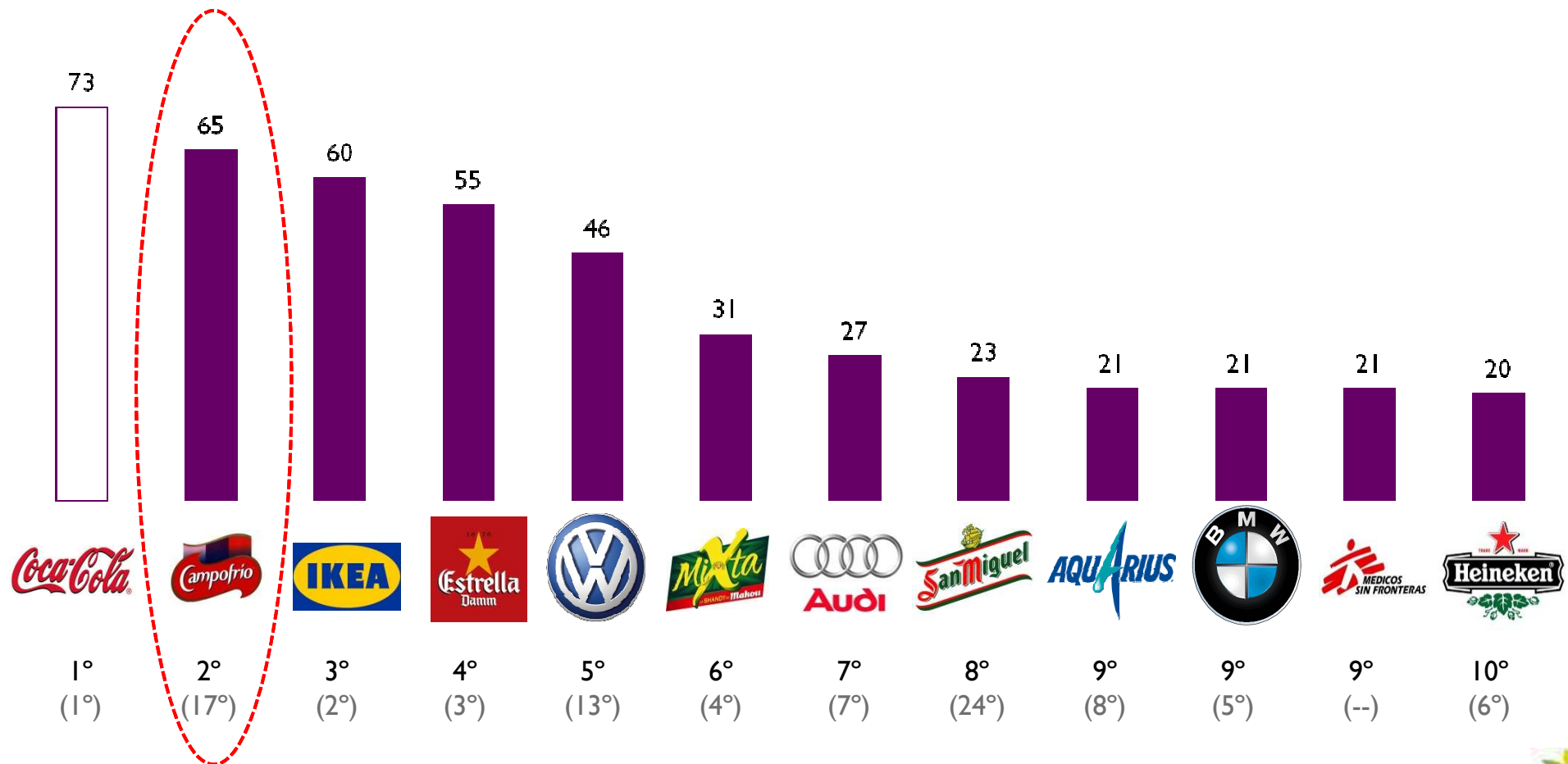
On all our strategic brands we are employing excellent communication both in media and promotions

- Creative campaigns which are creating strong emotional connection with the viewers and are generating unprecedented levels of spontaneous awareness for our brands
- Internet /digital media that is supporting classical media



Campofrio Spain, the second most admired company

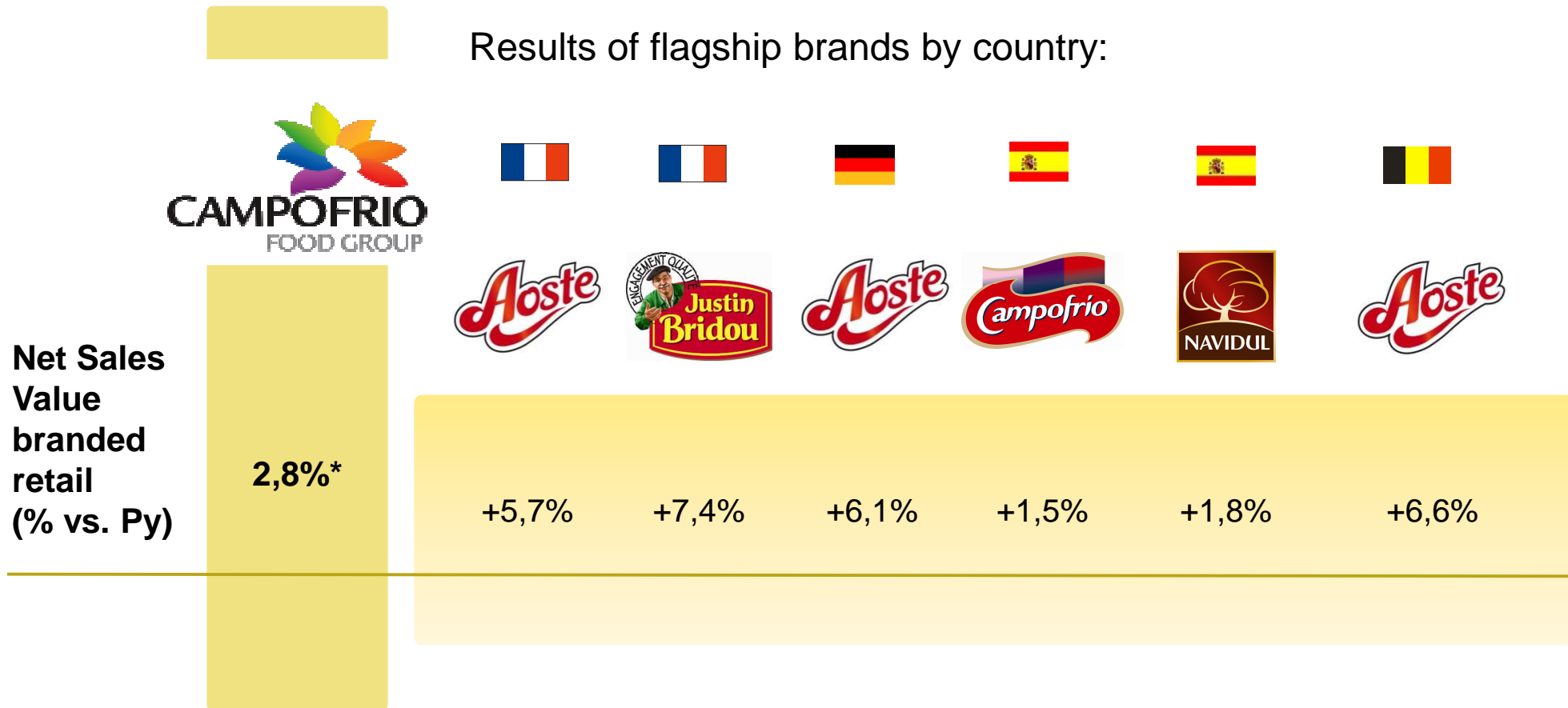
Campofrio Spain has also been selected as **one of the top three most admired companies** because of its communications campaign in a recent study conducted by AgencyScope for its 2012 Edition



Source: Agency Scope

## Top line strategy: CFG results on branded business

- Our branded business grows in the majority of the regions, as opposed to the current market decreasing trend in branded products



## Raw Materials environment

- Business fundamentals for the period Jan-Sept 2012 remained challenging, still impacted by high grain prices
- 2012 EU 27 production forecast: -2% (despite strong increase in Spain and Italy)
- Seasonal weakness in slaughter during August to September has caused a sharp price increase in Europe
- Record EU 27 pork exports in 2010 and 2011 (driven by China and Hong Kong), expected to slow down as for period Jan-Aug 2012 increased just by +1,1% vs. previous year
- Higher than expected pig prices during 9M of 2012, due to decreased supply

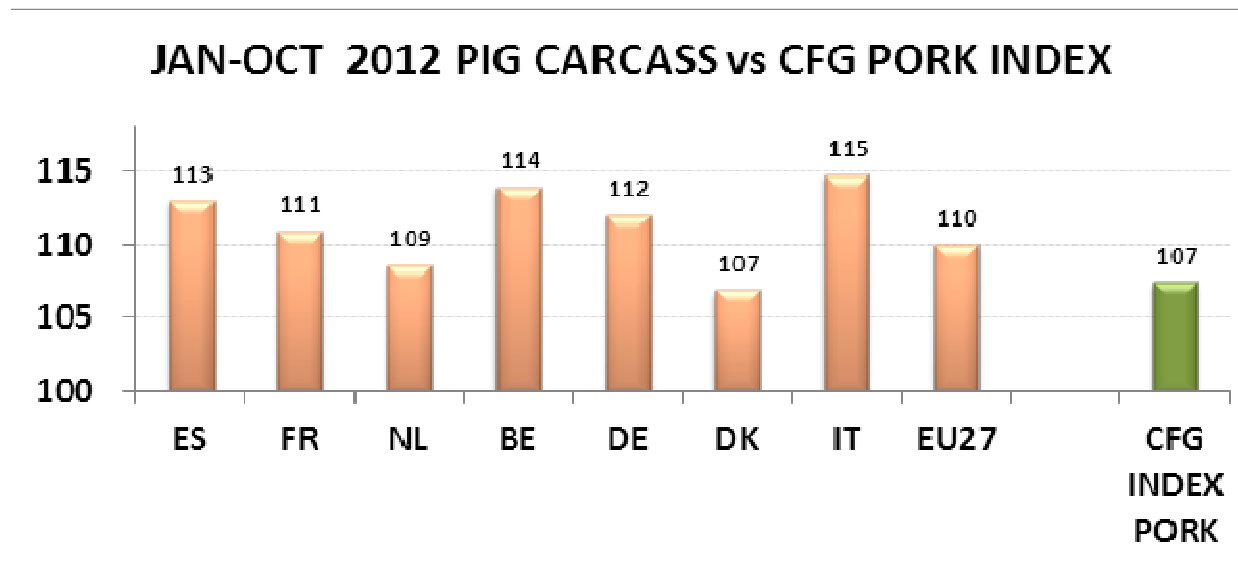
### Pig Carcass Average Price (euro/kg)

	2009	2010	2011	2011 / 10	9M 2011	9M 2012	2012/11
Spain Mercolleida	1.41	1.42	1.57	10.1%	1.59	1.70	7.2%
France MPB	1.29	1.29	1.45	12.9%	1.43	1.58	10.4%
Netherlands Monfoort	1.36	1.35	1.48	9.3%	1.45	1.64	13.1%
Belgium Danis	1.29	1.26	1.37	8.7%	1.35	1.53	13.9%
Germany AIM	1.42	1.41	1.52	8.1%	1.50	1.68	12.1%
Denmark DC	1.21	1.24	1.36	9.3%	1.34	1.48	11.0%
Italy	1.15	1.13	1.32	16.8%	1.27	1.35	5.6%

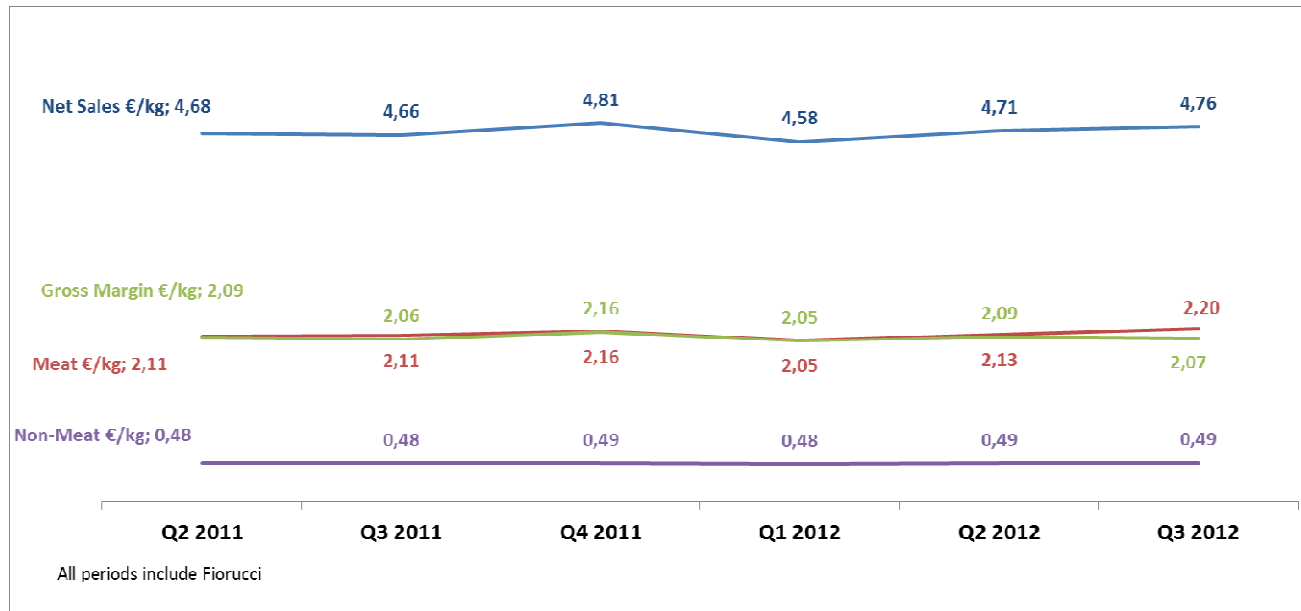


## Raw Materials environment

- During Jan-Oct 2012, total meat cost (pork, beef and poultry) increased +3,9% versus PY
- For hams and loins (primary cuts) prices are slightly below PY, while they rose sharply for shoulders, trimming, bellies and fat
- For poultry (chicken and turkey) prices are below PY
- EU 27 pig carcass prices trade at 15 year high
- Productivity results from CFG's European meat platform accelerating  
=> **3% productivity**; as CFG pork meat index 107 vs. 110 European average



## Gross margin development



- **Improved revenue per kg sold** primarily resulting from mix improvements and carry forward impact of previous pricing actions
- Slight margin decline due to higher meat prices, while **non-meat costs are maintained** at the same level as in previous quarters
- **Hams and poultry prices continue slowing down**, other cuts (especially those used in dry sausages and hotdogs) are still going up and remain significantly above PY

**Efforts on meat sourcing and sales value help to compensate inflationary raw materials**

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## 9M 2012 Trading

## Conclusion

## 9M 2012 Trading

(€M) YTD	9M 2011	9M 2012	Var %
Volume (000Tns)	287,7	297,4	3,4%
Net Sales	1.318,5	1.393,3	5,7%
<b>EBITDA</b>	<b>116,5</b>	<b>105,4</b>	(9,6%)
EBITDA margin	8,8%	7,6% <span style="color: green;">▲</span>	(127)bp
Net Financial cost	(39,5)	(42,1)	6,5%
<b>Attributable Net Income</b>	<b>11,6</b>	<b>4,7</b>	<b>(59,3%)</b>
Operating Cash Flow	110,2	50,9	(59,3)
<b>Net Financial Debt</b>	<b>501,3</b>	<b>482,5</b>	<b>(18,8)</b>
Leverage ratio	3,00x	3,09x	

- **Volume** growth of 3,4%
- **Net sales** increased 5,7%, reflecting both, external and organic growth
- **Pricing actions, innovation and mix improvements** almost compensating the inflationary raw material trends
- Additional costs coming from:
  - a) significant **utilities cost increase** (taxes and inflation)
  - b) **higher listing fees, MAP and R&D investments** to support top line branded growth in line with the strategic plan
- Resulting in an **EBITDA** margin of 7,6% (127 bp lower than in PY)
- **Improved financial position:**  
**Net Debt lower in 9M 2012, 19M€ below PY**

## 9M 2012 Trading – segments evolution

Southern Europe top line growth benefits from growing Fresh Meat business and good performance in Spain

Northern Europe focus on value, increasing net sales by 3,1%, with nearly flat volume

Overall Net sales growth of 5,7% shows successful impact of pricing campaign, as well as recent innovation and mix improvements, besides inorganic growth (Fiorucci)

YTD Tons (Thousand)	9M 2011	9M 2012	% Var.
Southern Europe	205,5	218,9	6,5%
Northern Europe	84,0	83,6	-0,4%
Others	3,4	5,7	66,7%
Eliminations	-5,2	-10,8	
<b>Total Tons</b>	<b>287,7</b>	<b>297,4</b>	<b>3,4%</b>

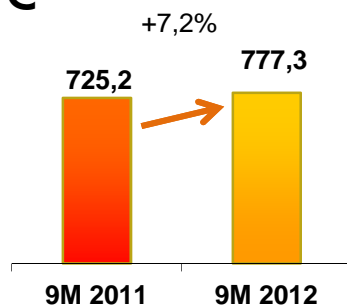
YTD Net sales (€M)	9M 2011	9M 2012	% Var.
Southern Europe	747,4	815,0	9,0%
Northern Europe	573,7	591,2	3,1%
Others	19,8	39,7	101%
Eliminations	-22,4	-52,6	
<b>Total Net sales</b>	<b>1.318,5</b>	<b>1.393,3</b>	<b>5,7%</b>

Note: Southern Europe includes operating activities mainly managed in Spain, Portugal and Italy, as well as our fresh meat operations. Northern Europe includes operating activities managed primarily in France, the Netherlands, Belgium and Germany. Other includes operating activities managed in the USA and corporate supervising and monitoring activities. Eliminations includes intercompany sales between segments which are eliminated during consolidation.

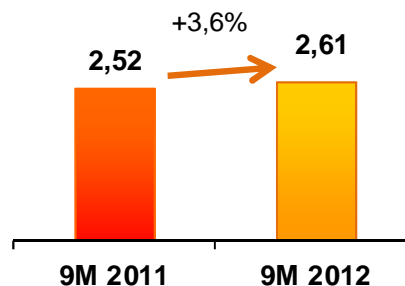
## 9M 2012 Trading

### Material Costs (\*)

M€



€/Kg

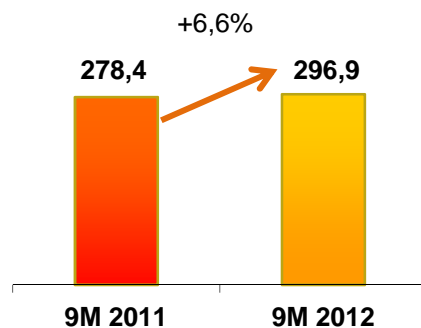


- Increase of 3,6% in cost per Kg mostly due to pork meat inflation

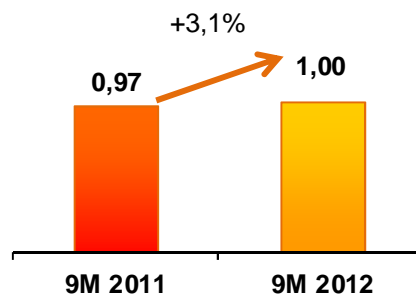
(\*) Meat and non-meat costs

### Conversion costs (\*\*)

M€



€/Kg



- Conversion costs per kg increased by 3,1%, significantly impacted by inflation and taxes on utilities

(\*\*) Direct labor & manufacturing overheads

## 9M 2012 Trading – Segments evolution

Southern Europe slightly decreases EBITDA margin by -86 bp vs. PY, mostly impacted by Portugal and Italy

YTD EBITDA (€M)	9M 2011	9M 2012	% Var.
Southern Europe	60,9	59,4	-2,5%
Northern Europe	57,9	43,6	-24,8%
Others	-2,4	4,1	
Eliminations	-	-1,7	
<b>Total EBITDA</b>	<b>116,5</b>	<b>105,4</b>	<b>-9,6%</b>

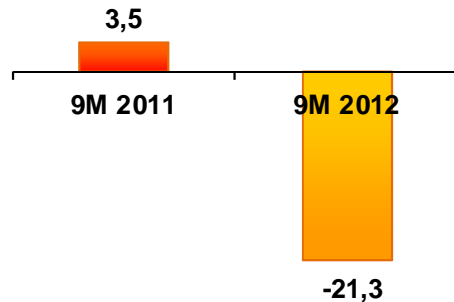
Northern Europe more sensitive to price fluctuations in meat for Dry Sausages, which has substantially increased in 2012, thus impacting the overall margin

EBITDA margin (%)	9M 2011	9M 2012	
Southern Europe	8,2%	7,3%	-86 bp
Northern Europe	10,1%	7,4%	-273 bp
Others		10,3%	
<b>Total EBITDA Margin</b>	<b>8,8%</b>	<b>7,6%</b>	<b>-127 bp</b>

Note: Southern Europe includes operating activities mainly managed in Spain, Portugal and Italy ,as well as our fresh meat operations. Northern Europe includes operating activities managed primarily in France, the Netherlands, Belgium and Germany. Other includes operating activities managed in the USA and corporate supervising and monitoring activities.

### Working capital

M€

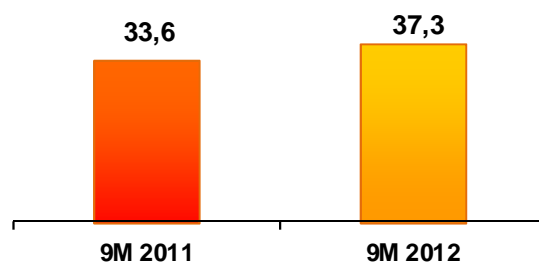


#### ➤ Working Capital:

- Lower working capital needs due to decreased inventory, trade debtors and higher creditors
- Working capital management will continue supporting the strategic plan development

### CAPEX

M€



#### ➤ CAPEX:

- Total CAPEX increases +3,7M€ due to the strategic investment program and new ERP deployment

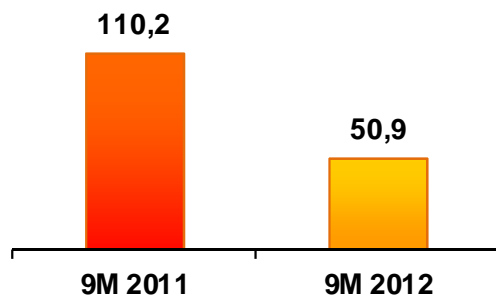


## 9M 2012 Trading

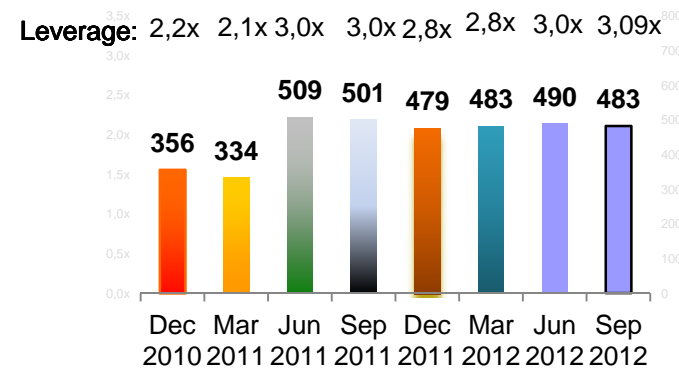
### CASH GENERATION:

- ✓ Operating cash flow of 50,9M€ generated in 9M 2012, below PY, mostly due to lower working capital improvement and the strategic investment program deployment
- ✓ Solid 158M€ cash position (+23% vs. 9M 2011) and robust 350M€ liquidity level, including 192M€ fully available committed bank lines
- ✓ NFD at 483M€ (19M€ lower than in 9M 2011 equivalent to a 3,6% net debt reduction), whereas leverage ratio kept at 3,09x in line with the given guidance

### Operating cash flow



### Net financial debt



### ➤ RESULTS:

- ✓ Top line growth of 5,7% in net sales driven by inorganic growth, top brands increase, innovation, mix optimization and pricing initiatives
- ✓ Effort to minimize impact of raw materials hike on EBITDA via value creation, as well as productivity measures
- ✓ EBITDA margin down 127bp, due to raw materials inflation (high impact of meat for dry sausages and hot dogs), utilities cost increase (taxes and inflation) and higher investments behind branded business growth

### ➤ CASH:

- ✓ Strong 158M€ cash position (+23% vs. 9M 2011)
- ✓ 192M€ fully available committed bank lines
- ✓ As a result, robust 350M€ liquidity position
- ✓ Leverage ratio right at 3,09x in line with the given guidance

# AGENDA

## Executive Summary

### Highlights of the period:

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## Conclusion

## Conclusions

- **Market conditions remain difficult, with tough consumption environment and inflationary raw materials**
- **Successful value enhancement strategy is bearing fruit. “Growth accelerators” are intensifying, helping to strengthen profitability while leading brands continue consolidating its market positioning**
- **A new wave of pricing actions has been launched to address the expected inflationary scenario. We expect to recover margins in the coming quarters, reflecting the normal lag in transferring inflation**
- **Optimization of global sourcing (European meat and non-meat platforms) and productivity measures should contribute to future margin improvement**
- **The results of our strategic program will accelerate over time**
- **CFG maintains a sound financial position with solid cash generation and high liquidity position**

# Back up slides

## Profit and Loss Account 9M12

(€M) YTD	9M 2011	9M 2012	Var %
Volume (000Tns)	287,7	297,4	3,4%
<b>Net Sales</b>	<b>1.318,5</b>	<b>1.393,3</b>	<b>5,7%</b>
Material cost	(725,2)	(777,3)	7,2%
Conversion cost	(278,4)	(296,9)	6,6%
<b>Gross Profit</b>	<b>315,0</b>	<b>319,1</b>	<b>1,3%</b>
MAP	(36,9)	(38,0)	3,2%
Other cost	(203,8)	(220,8)	8,3%
<b>EBIT</b>	<b>74,34</b>	<b>60,31</b>	<b>(18,9%)</b>
Net Finance cost	(39,5)	(42,1)	6,5%
Other results	(2,3)	(5,5)	138,6%
<b>Profit before tax</b>	<b>32,5</b>	<b>12,7</b>	<b>(61,0%)</b>
Income taxes	(6,7)	(4,9)	
<b>Profit for the period from continuing operations</b>	<b>25,8</b>	<b>7,8</b>	<b>(69,8%)</b>
P&L after tax for discontinuing operations	(14,2)	(3,1)	
<b>Profit for the period</b>	<b>11,6</b>	<b>4,7</b>	<b>(59,3%)</b>
<b>EBITDA</b>	<b>116,5</b>	<b>105,4</b>	<b>(9,6%)</b>
EBITDA margin	8,8%	7,6%	(127)bp

## Cash flow statement

Cash Flow (€'000)	9M	
	2011	2012
<b>Operating flows before changes in working capital</b>	<b>111.645</b>	<b>101.770</b>
Working capital adjustments	<b>36.541</b>	<b>2.079</b>
<b>Cash flow from operating activities</b>	<b>148.186</b>	<b>103.849</b>
Net interest expense	(24.545)	(28.275)
Income tax paid	(8.880)	(9.609)
Other adjustments	(4.574)	(15.030)
<b>Net cash flow from operating activities</b>	<b>110.187</b>	<b>50.935</b>
Investments in property, plant and equipment	(33.571)	(37.317)
Investments in Subsidiaries	(28.741)	(1.970)
Other investment and proceeds	4.679	3.854
<b>Net cash flow from investing activities</b>	<b>(57.633)</b>	<b>(35.433)</b>
Changes in financial liabilities	(51.649)	6.674
Refinancing Payments	(24.320)	0
Purchase of minority interests	(5.755)	0
Purchase of treasury shares and Dividend payments	(11.967)	(3.845)
<b>Net cash flow from financing activities</b>	<b>(93.691)</b>	<b>2.829</b>
<b>Net increase in cash and cash equivalents</b>	<b>(41.137)</b>	<b>18.331</b>
Cash and cash equivalents at the beginning of the period	169.274	139.417
Cash and cash equivalents at the end of the period	<b>128.137</b>	<b>157.748</b>

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FOOD GROUP

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