



Capilano Honey Limited

Progressing well with initiatives for
future prosperity

2005-2008

A confronting period for Capilano



- Devastating private label impacts.
- Unfavorable exchange rates.
- Margins squeezed hard.

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A confronting period for Capilano



- Private label impacts devastating to Capilano:
 - Competitors willing to sell at very low margins.
 - Tender prices collapse in 2005-06 (electronic auction).
 - Private label growth between 2006-08 has pressured branded selling prices thus taking profit from the Capilano brand.
- New brands emerge and intensify competition.
- Unfavorable exchange rate movements.
- All these forces have squeezed margins hard.

2005-2008

A confronting period for Capilano



- *The biggest impact by far is private label margin and the knock on effect on brands adding up to \$7 million.*
- *Also, rising exchange rates to US0.98 cost the business up to \$5 million each year in lost profit (our business is over 40% export).*



First Survival - then prosperity

- Competitor willingness to sell low into private label crushed margins.
- Honey price was used as a front line of defence while the business was re-structured.
- And, at a time when our ability to pay well for honey was low, some suppliers drifted to competitors for the short term gain.
- In response to market pressures, Capilano is now underway with an extensive restructure and growth plan.

Re-structuring for profit



- Medihoney became too expensive to develop so was sold - (deal finalised June 2007).
- Re-structured Canadian operation with sale of plant to reduce costs, while retaining our market share and boosting Richlands throughput (finalised December 2007).
- Export markets have been developed as an alternative for our shareholders honey than Australian private label at lowest qualifying bidder prices (developed over 5 years) retention of which became a high risk area.
- Cost reduction program in every possible area.



The growth challenge

- We successfully launched into the Canadian market in 2003 with initial sales of 962 tonnes in retail packs by 30 June 2004.
- In 2009 we expect sales of 3,010 tonnes of mostly value added retail packs.
- We are now getting returns on our Canadian market development costs.
- We continue our expansion into the USA.
- Our retail export sales have grown over 50% since June 2005.

The cost challenge



- Our business was built to handle large honey surpluses and we had factories, overheads, and margins to do it.
- However, supply volumes and market margins have dropped radically since 2004.
- So we had to change the cost model.



Changing the cost model

- Major changes in operations & freight arrangements:
 - all retail packing transferred to Richlands.
 - Maryborough became bulk plant only.
- Further refinement possible with use of Adelaide depot and combination of sea & rail freight.
- Increased level of automation & computerisation introduced reducing labour requirements.
- Operator and staff numbers reduced by 51% since 2005.
- Canadian packing done at Richlands at lower net cost.
- Marketing costs cut.
- Reconfiguration of Richlands site to improve operational efficiency with less labour.
- Greater savings will be introduced.

So, despite the negative market forces, Capilano results are now rebounding



- NPBT at 31 March 2009* is \$0.9 million, an improvement of \$3.8 million on last year.
- At the same time the average honey price was increased to \$3.13/kg - up 60¢ on last year:
 - At an increased business cost to Capilano of \$4.6 million.
 - But a benefit to suppliers and recognition of tight supply.
- This impressive Capilano profit result was achieved by:
 - Making very significant cost restructuring moves.
 - And by increasing sales by 22% on 2008.

*Un-audited

The supply challenge



Tonnes	2005	2006	2007	2008	2009 est.
Sales - tonnes	13190	13940	12486	10538	11492
Receivals - tonnes	14466	13386	10512	6900	8727
Surplus (Shortfall)	1,276	(554)	(1,974)	(3,638)	(2,765)
Average \$/kg paid	2.70	2.00	2.20	2.62	3.16

- We received less than we sold in 4 out of the last 5 years.
- Following the market shake-up in 2006-07 of lower supermarket returns honey prices have now increased to above +\$3.00.
- Inventory is used to smooth through the peaks & troughs of receivals.
- Imports are used as a last resort when inventory falls below critical levels.
- We turned sales away in 2008 with lack of supply.
- We are turning sales away in 2009 again with lack of supply.

Whose got what now?

TONNES	Jun-05	Apr-09	Change	Shelf price/kg
TOTAL CAPILANO BRAND HONEY	4046	3504	-(542)	\$ 10.50
TOTAL BEECHWORTH HONEY P/L	860	876	16	\$ 9.50
TOTAL LEABROOKS FOODS	614	574	-(40)	\$ 10.80
TOTAL WESCOBEE LTD	464	384	-(80)	\$ 10.80
ALDI (estimate)	0	500	500	\$ 6.50
TOTAL PRIVATE LABEL	2760	3014	254	\$ 8.90
AUSTRALIAN RAINFOREST		482	482	\$ 8.50
OTHER	613	476	-(138)	\$ 9.90
TOTAL HONEY	9357	9810	453	
CAPILANO EXPORT RETAIL	2718	4301	1,583	

- Market growth has clearly followed lower shelf pricing.
- Supplying the discounters has undermined the value of Capilano.



Quota discussion

- 33% of Capilano beekeepers supply 80% of our Australian honey.
- 85% of Capilano beekeepers supplied less than 80% of their quota (4 year average).
- Quotas were introduced to guarantee purchases of agreed volumes of honey and Capilano found markets for it:
 - Yet many supply elsewhere or are unable to supply.
 - Are quotas still of value?
 - What is the suppliers obligation to support Capilano, or Capilano's obligation to commit to quotas?



Share Price Discussion

- Share price is affected by:
 - dividends
 - perception of future growth
 - share liquidity
 - rumour & un-informed gossip
- Profit is needed to produce dividends:
 - yet we are turning away sales because of lack of assured supply.
 - and we are missing growth opportunities which would grow profit.
 - worse, Capilano shareholders who supply outside are helping lift the profitability of competitors, whose business value they do not share in, while undermining the profits in their own company.

Our Roles



- Capilano's Board and management are committed to:
 - aggressively improving Capilano profitability through better cost efficiency and marketing.
 - and ultimately returning to paying dividends that enhance share value.
- To support that process, we need to immediately improve honey supply.

