



# AUSTRALIAN AGRICULTURAL COMPANY LIMITED

**Results Presentation**  
**Full Year ended 31 December 2012**





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# Summary

## **AACo has produced a satisfactory result given tough market conditions**

- AACo continued to generate record outcomes in the physical variables over which management can control, including weight gain, brandings and cropping
- However, the markets in which we operate and have little ability to control, continue to underperform for several reasons
  - The continuing disruptive effects of the temporary live export suspension and Indonesia's subsequent reduction of beef quotas
  - The subsequent large supply of grass fattened prime cattle in the second half
  - The high AUD/USD exchange rate, which continues to impede export competitiveness
  - The increased cost of post farmgate supply chain management being absorbed by producers
- This disappointing pricing environment led to the deliberate decision to defer cattle sales which in turn resulted in a lower profit and operating cash result than anticipated
- The three year turn around strategy is substantially complete and company's physical assets and systems are well positioned to execute the next phase of its business plan



# Financial results summary

Sales

\$321.2m

5% increase compared to FY11

EBITDA

\$32.2m

46% decrease compared to FY11

NPAT

\$(8.4)m

158% decrease compared to FY11

Net Debt

\$388.2m

Gearing at 38%

NTA

\$2.04

\$0.11 NTA decrease compared to FY11

Notes:

- 1 Gearing based on net debt / (net debt + book equity)
- 2 Based on continuing operations only
- 3 EBITDA represents net profit + tax expense + finance costs (EBIT) + depreciation, amortisation and impairment



# Summary financial performance

## Summary of financial performance of continuing operations<sup>1</sup>

\$m	FY12	FY11	Change
Sales	321.2	306.0	5.0%
Finished & Store Cattle gross margin	97.4	112.4	(13.3%)
Wholesale Beef gross margin	4.1	5.0	(17.3%)
Farming gross margin	7.8	1.5	440.4%
Gross operating margin	109.4	118.9	(7.9%)
EBITDA	32.2	59.7	(46.0%)
EBIT	14.7	51.2	(71.3%)
NPBT	(12.4)	20.1	(161.8%)
NPAT	(8.4)	14.4	(158.4%)

## KPIs

	FY12	FY11	Change
<u>Finished &amp; Store cattle</u>			
Average Sale Price \$ / kg	2.14	2.11	1.4%
Total liveweight kg's sold (mil)	110.6	109.0	1.5%
Total kg's produced <sup>2</sup> (mil)	94.6	80.7	17.2%
Herd size ('000 head)	681.7	665.6	2.4%
Brandings ('000 head)	174.3	156.3	11.5%
<u>Wholesale beef</u>			
Revenue \$ / kg	8.28	7.94	4.3%
Total kg's sold (mil)	16.9	17.0	(0.6%)
<u>Farming</u>			
Cotton bales sold ('000)	20.5	11.9	72.3%



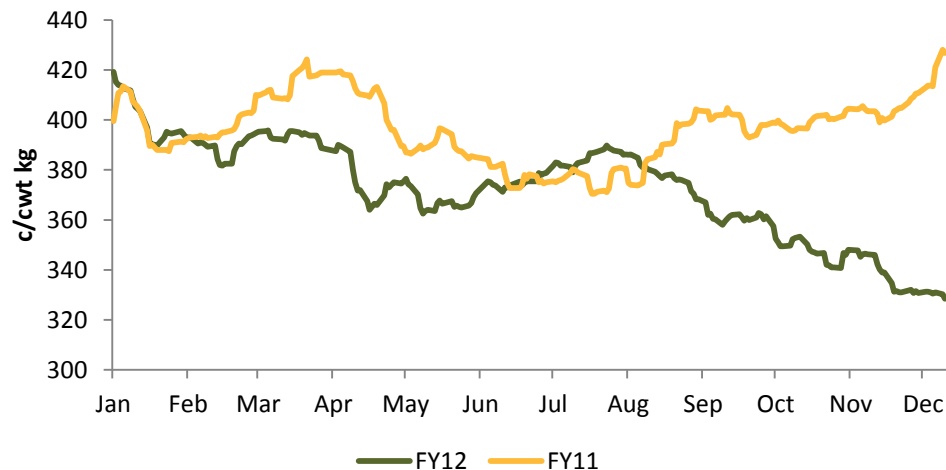
# Markets

## Domestic Markets

Drivers behind the collapse in the Australian cattle price include:

- Ongoing impacts from the live export suspension – led to oversupply of cattle in the domestic market
- Australian cattle herd is at its highest levels since 1977 at ~30 million head
- The increased cost of post farmgate supply chain management being absorbed by producers
- Most primary producers are focussed on managing cash flows
- Australian Dollar remains at high levels

**Eastern Young Cattle Indicator**



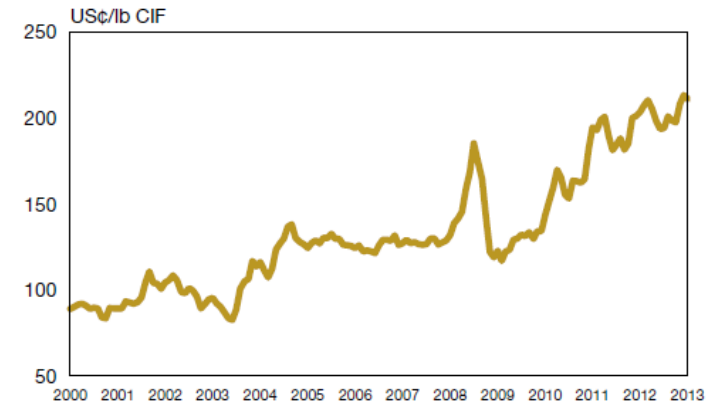


# Markets

## Global Markets

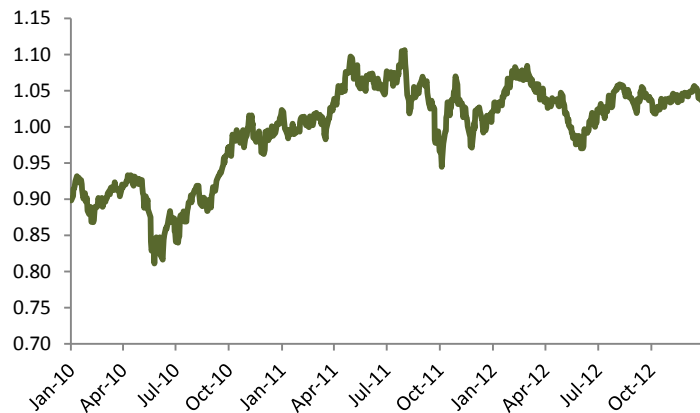
- The US cattle herd is at a 60 year low following several years of drought
- This will underpin US beef prices, which have increased rapidly in recent years and will reduce their ability to supply key Australian export destinations
- The US beef situation will have a positive affect on global prices for beef – presenting opportunities for Australian producers

## Indicative imported US 90CL beef prices

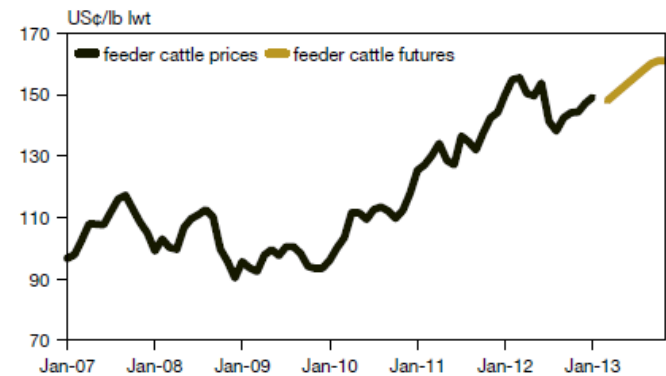


Source: Steiner Consulting Group

## AUD/USD



## US feed cattle prices

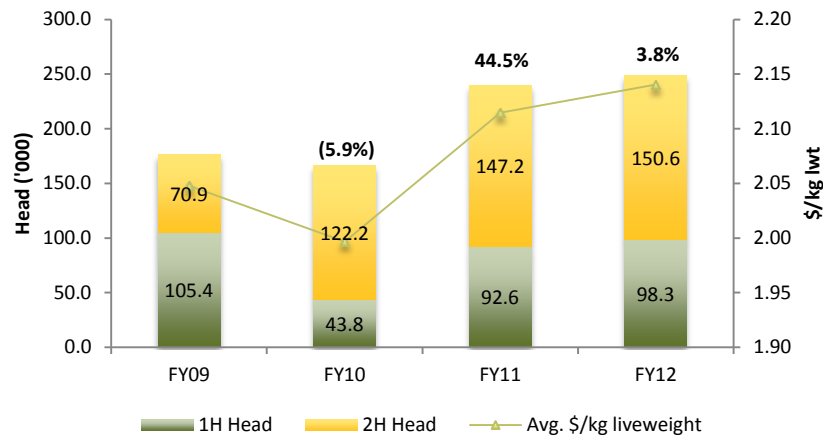


Source: CME

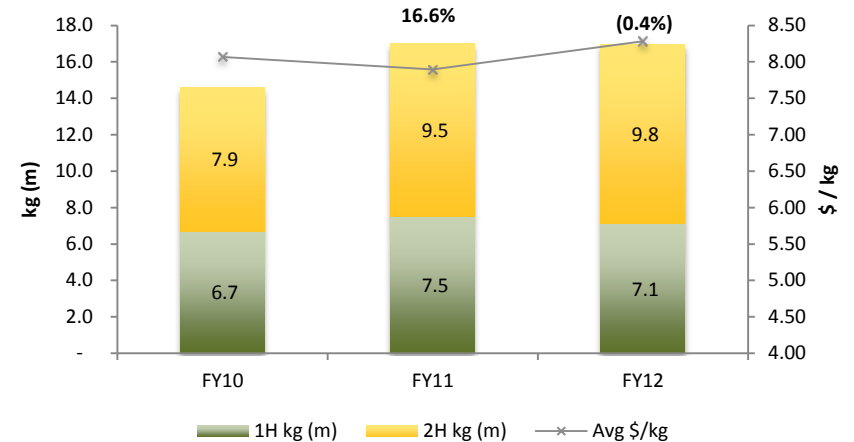


# Key operational drivers of the FY12 result

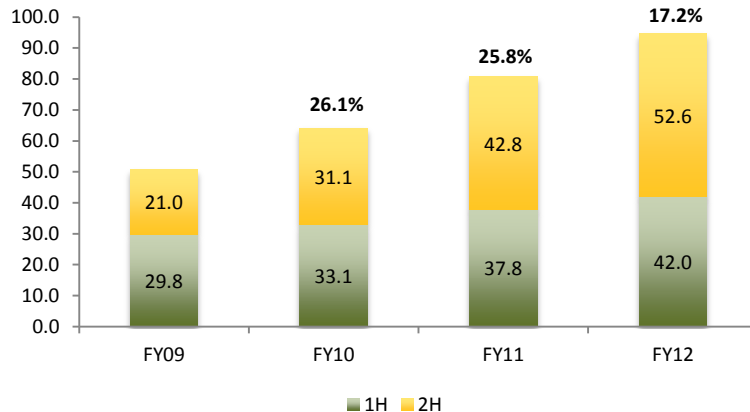
**Cattle sold and average selling price<sup>1</sup>**



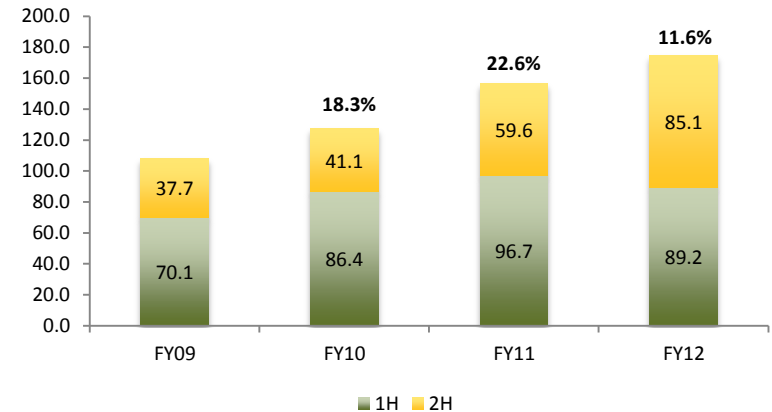
**Beef kgs sold and average price / kg**



**Kilograms produced<sup>2</sup> (m)**



**Calf brandings (000s)**



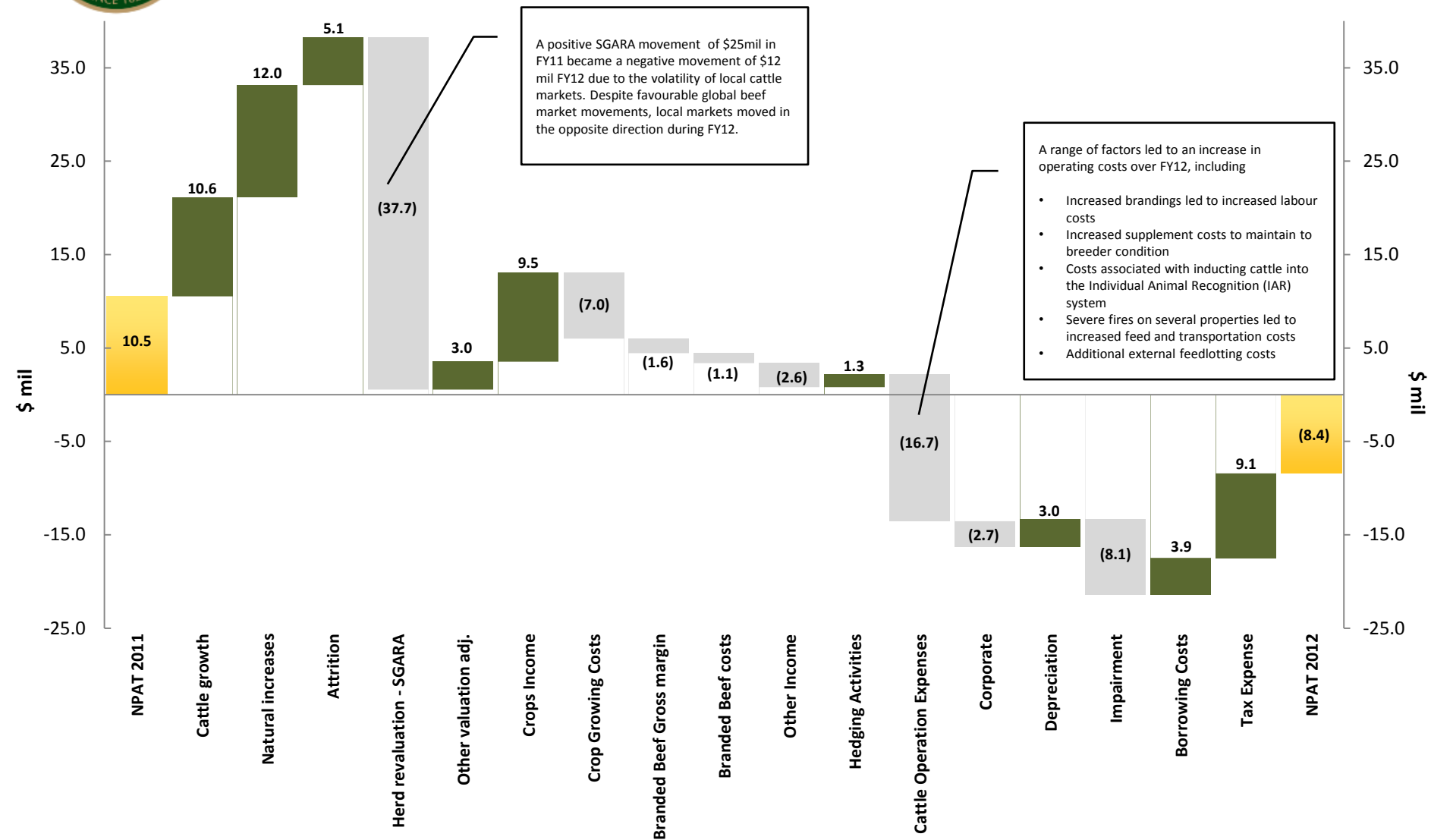
1. Includes internal sales to Wholesale Beef Group

2. Kgs produced is weight of closing herd minus weight of opening herd adjusted for weight of animals purchased, sold, branded etc during the period





# NPAT FY12 v NPAT FY11





# Cattle Revenue Breakdown

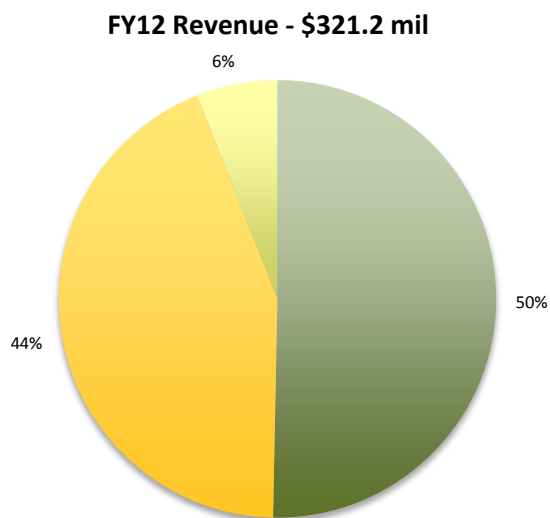
\$ mil	FY12	FY11	Change
Cattle Growth	76,840	66,224	16.0%
Natural Increase	70,376	58,365	20.6%
Biological Transformation <sup>1</sup>	40,406	37,402	8.0%
Market Price SGARA	(12,224)	25,478	(148.0%)
Attrition	(11,008)	(16,092)	(31.6%)
	<b>164,390</b>	<b>171,377</b>	<b>(4.1%)</b>

1. Biological transformation includes reclassification of an animal as it moves from being a branded calf and progresses through the various stages to become either a trading animal (grass and then feedlot in some cases) and then as it ages. All these changes occur and are measured before the ultimate sale

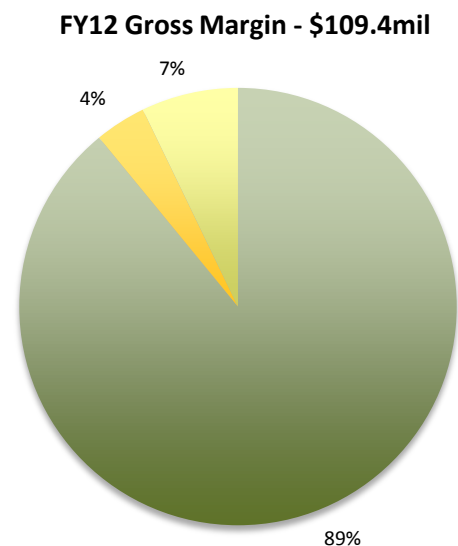


# Financials by segment

Revenue by segment



Gross Margin by segment



■ Finished and Store Cattle   ■ Wholesale beef   ■ Farming



## Finished & Store Cattle

# Segment Overview

### Trading Herd

#### Grass cattle

- AACo focused in 2012 on adding weight to its herd and moving sales to the back of the year to take advantage of market opportunities and anticipated price rises
- The Company had anticipated price rises as a result of the shortage in US production, an expected tightening in Australian supply, fewer cattle on feed domestically and favourable weather conditions
- The Australian market instead fell rapidly, primarily due to a lack of rain in Queensland, the ongoing Indonesian and Middle East live export situation and the high Australian dollar
- This led to a negative P&L impact from non-cash related SGARA (Self Generating and Regenerating Assets) movements
- It also reduced the Company's ability to realise cash

#### Wagyu cattle

- Herd continued to add value and perform well
- External Wagyu carcass sales also proved profitable

### Breeding Herd

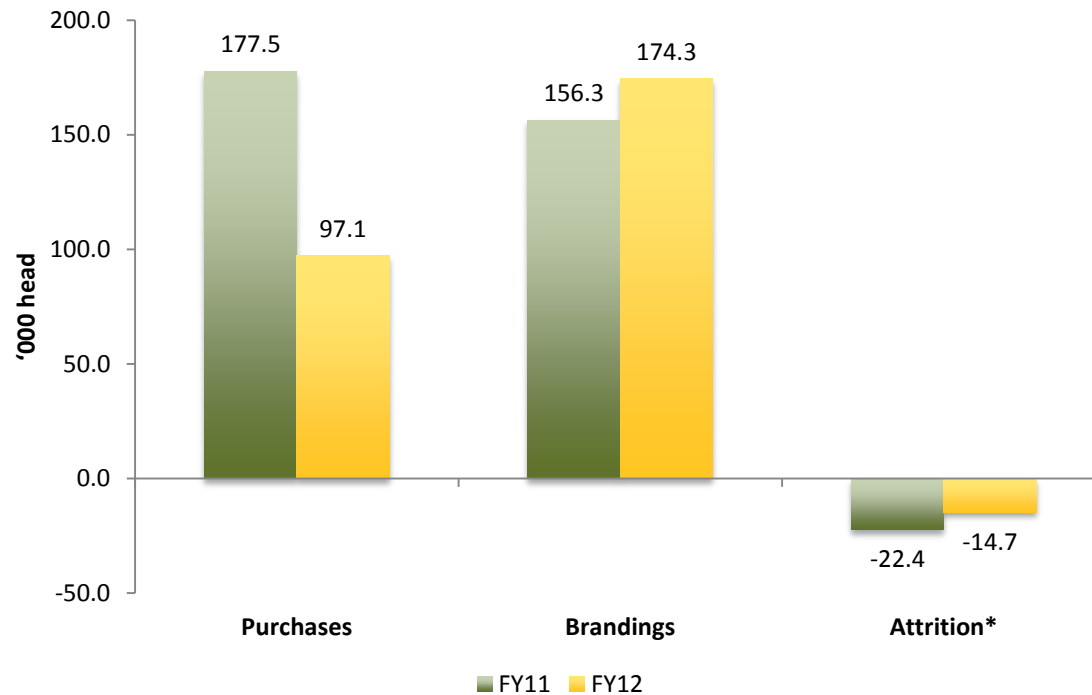
- Brandings have been excellent due to improved management and the impact of genetic changes made to the herd over recent years
- The ability to wean young calves with improved management practices also contributed to strong branding outcomes
- These extra brandings have led to a temporary increase in labour and logistics costs.



# Segment Overview

## Finished & Store Cattle

2012 saw an improvement in both brandings and attrition compared to the previous financial year



\*Attrition is net of recoveries and rations

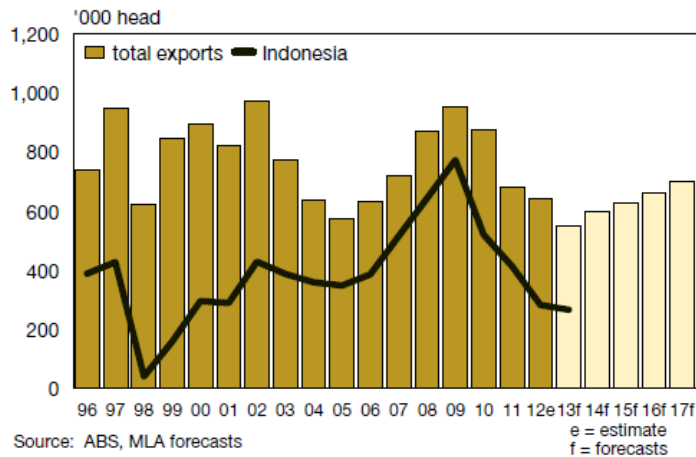


# Operational Update

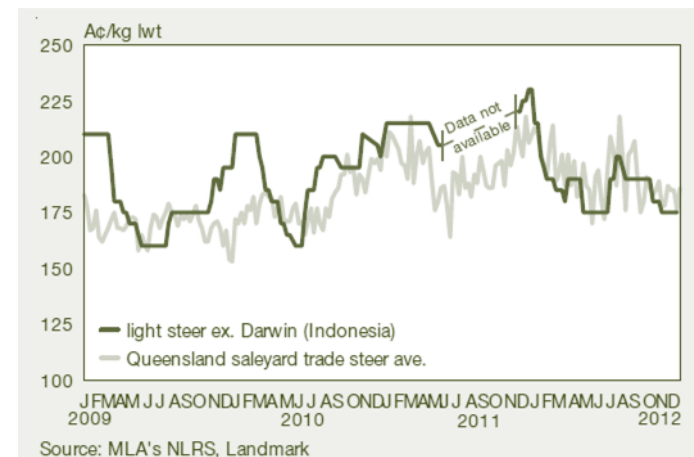
## Live Export

- The Indonesian live export market remains difficult due to the flow-on effects from the live cattle export suspension in 2011, which continue to impact AACo and the industry, these include:
  - Reduced volumes – the Indonesian Government reduced import permits to the country by more than 50% in 2012 in response to the live export ban, however AACo has managed to maintain its numbers
  - Reduced prices
  - Reduction in value of the northern Australian herd as large numbers of cattle unable to be shipped were pushed into the Australian market
- AACo continues to diversify its live export sales to reduce the reliance on any one country

**Australian live cattle exports**



**Australian saleyard and live export cattle prices**



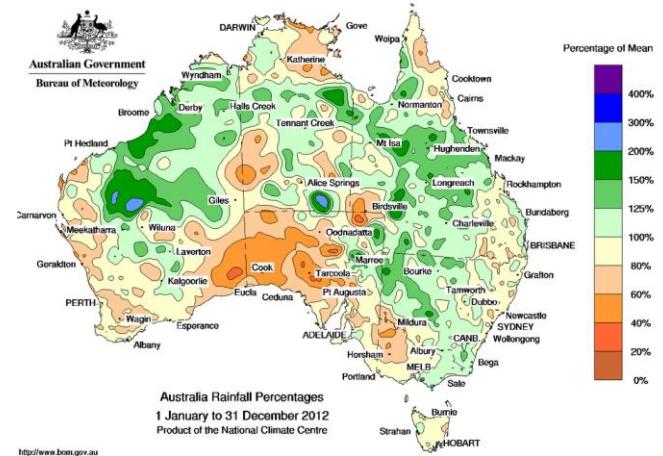


# Operational Update

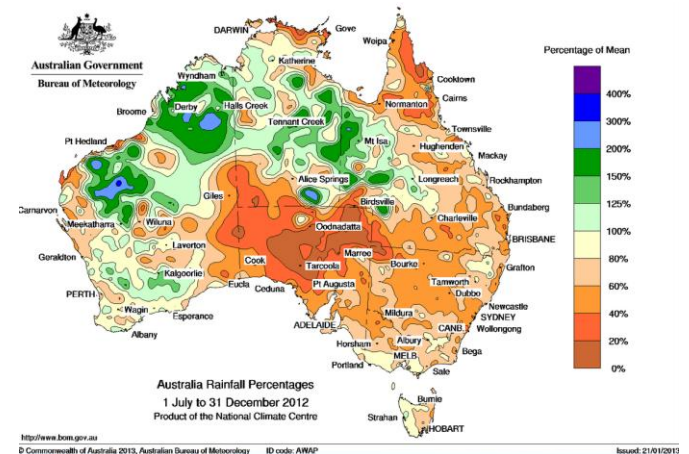
## Weather

- Weather conditions in the first six months of the year were supportive with good rainfall
- Conversely, the last six months of the year were drier than anticipated with the onset of wet conditions coming late to our properties
- These drier conditions have been a key contributing factor to depressed cattle prices and increased costs associated with cattle feed expenses
- Several of our stations were also impacted by severe fires in second part of the year. These fires led to an increase cost associated with labour, transport and feed
- The recent deluge across Queensland and NSW has missed the majority of our pasture stock, but will have a beneficial effect on the cattle market

### FY12 Rainfall



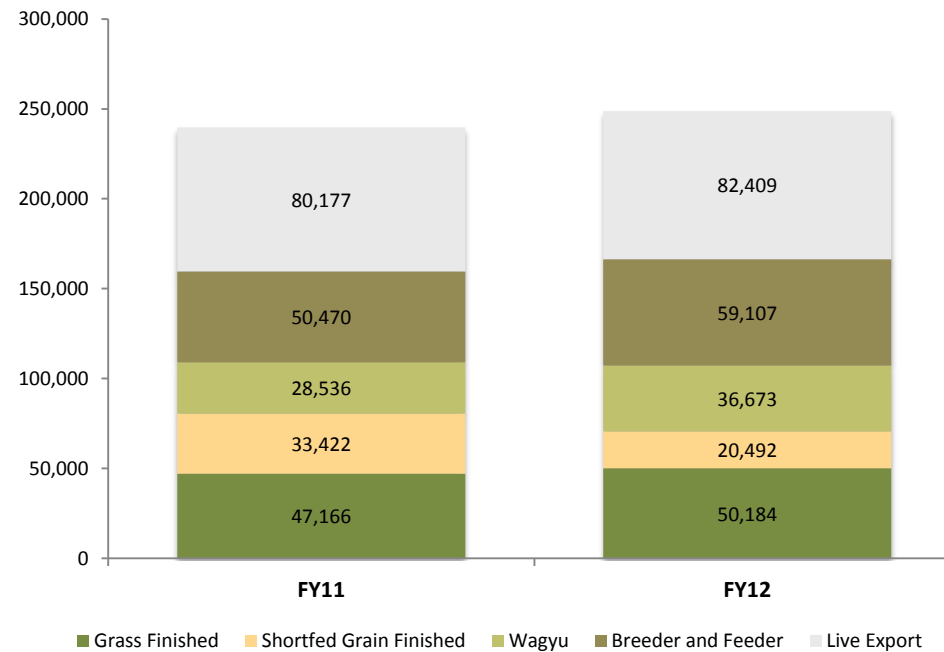
### 2H12 Rainfall





# Cattle Trading

Cattle sales year on year (head)



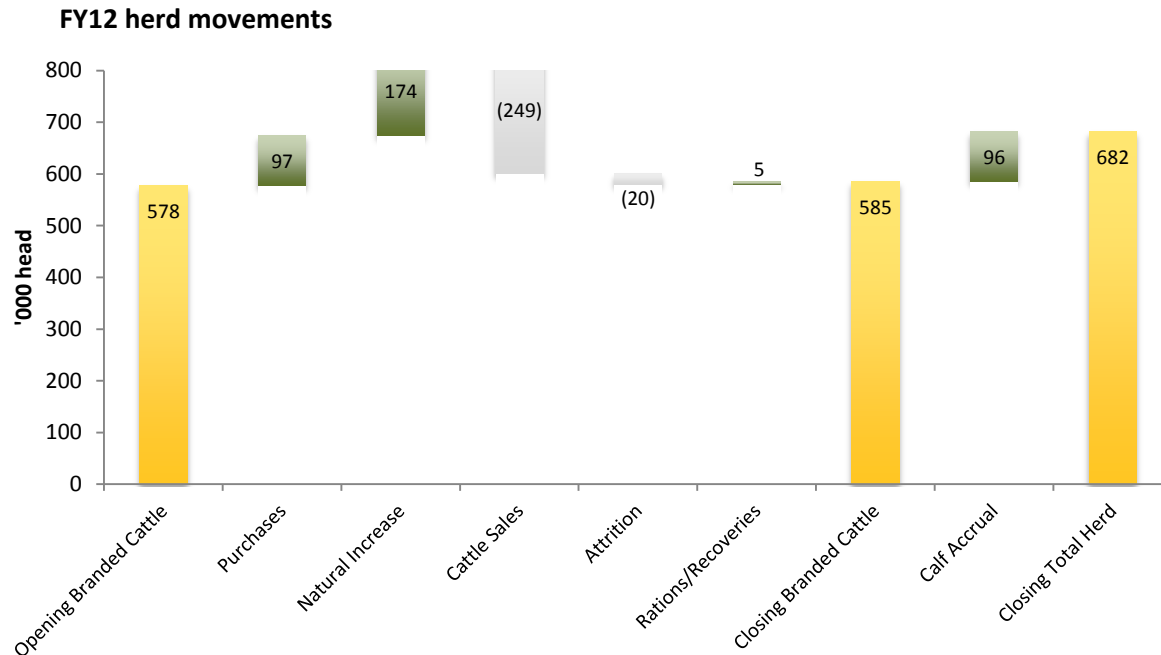
Cattle sales detail (head)

	Grass Finished	Shortfed Grain Finished		Wagyu		Breeder and Feeder	Live Export	Total sales	Av. Sale Price (\$/head)
		Internal	External	Internal	External				
FY12	50,184	4,115	16,377	29,565	7,108	59,107	82,409	248,865	952
FY11	47,166	3,603	29,819	26,979	1,557	50,470	80,177	239,771	961

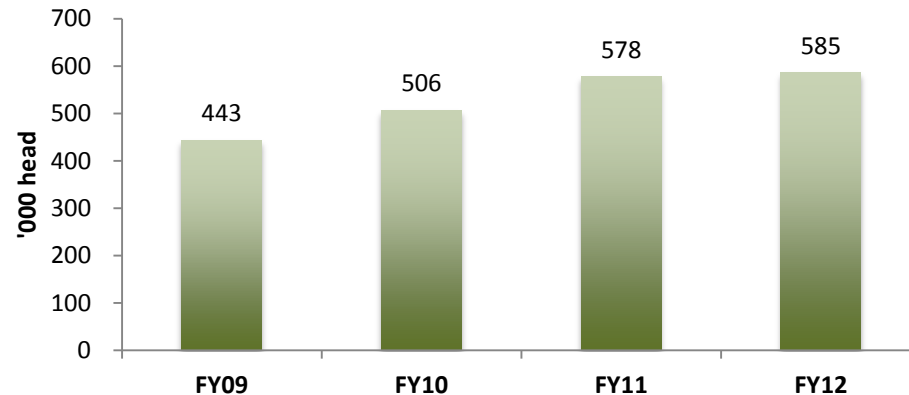




# Herd movements



**Closing Branded Cattle Over Last 4 Years**

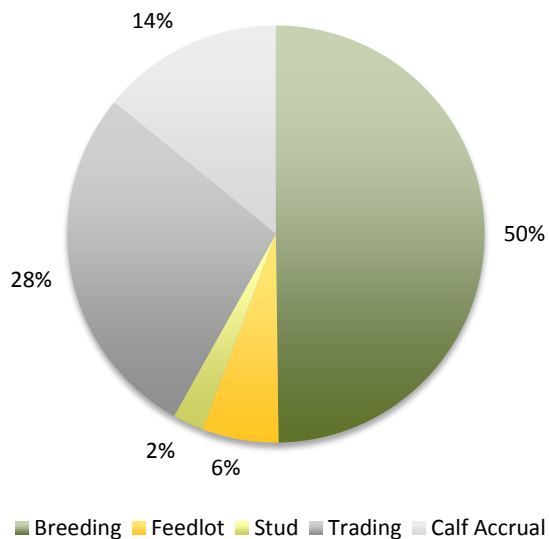




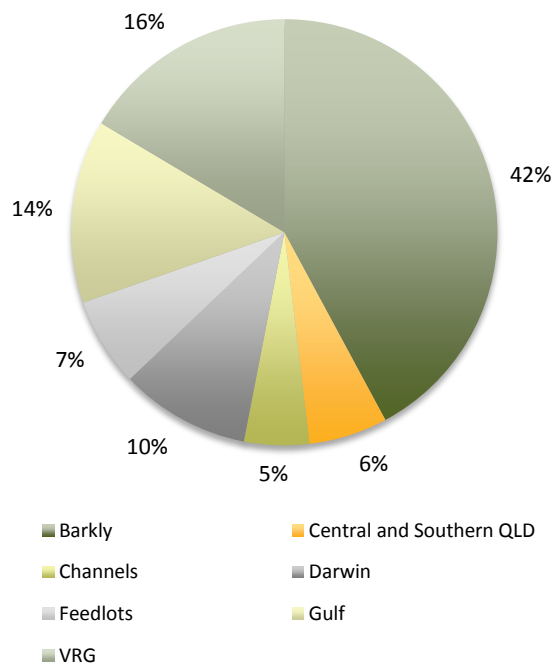
# Herd Profile

- Current herd size is 681,740 head (including calf accrual)

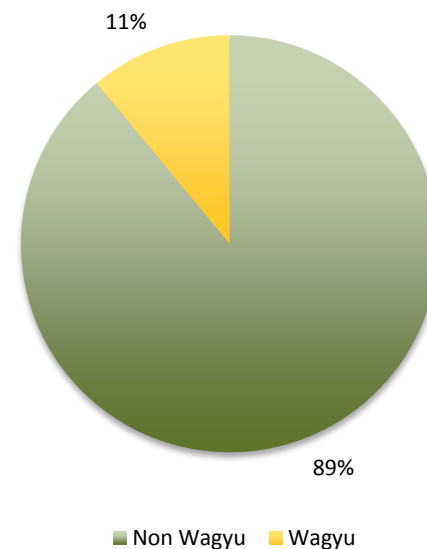
Herd composition



Herd by location



Wagyu / Non-Wagyu

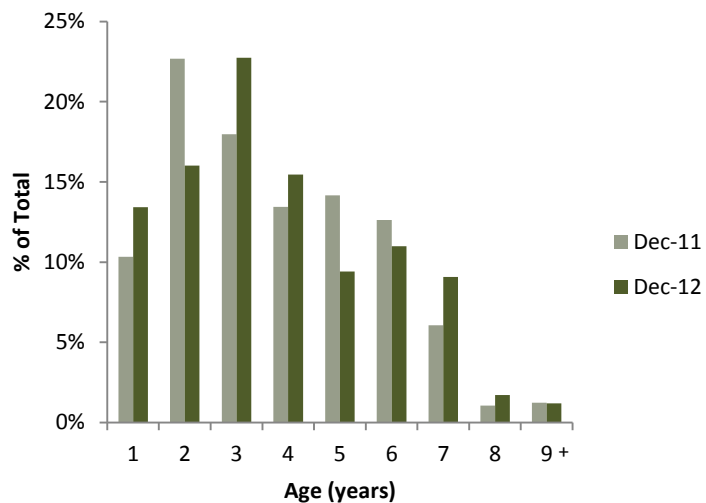




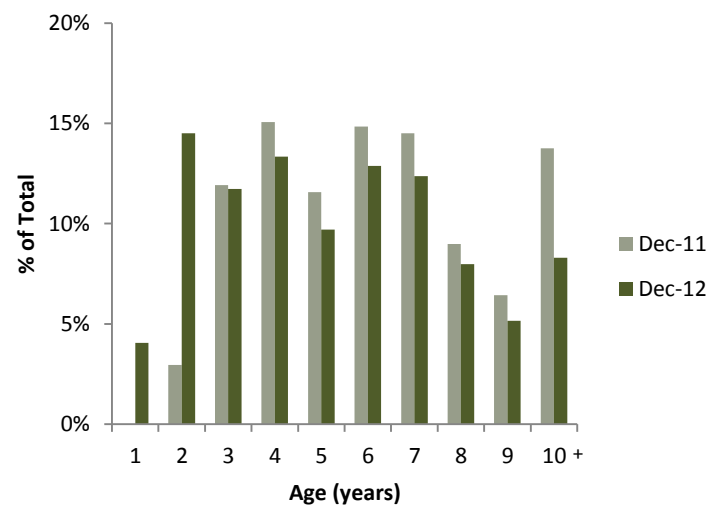
# Herd Profile

- Investment is constantly being made to ensure the herd has the optimal genetic and age profile

**Age Profile of Productive Bulls**



**Age Profile of Productive Cows**





# Herd Profile

AACo is utilising its superior genetics and breeding programs to maximise profitability, as well as deliver cattle to suit end markets

**Barkly composite**



**Brahman composite**



**Gulf composite**



**Wagyu program**



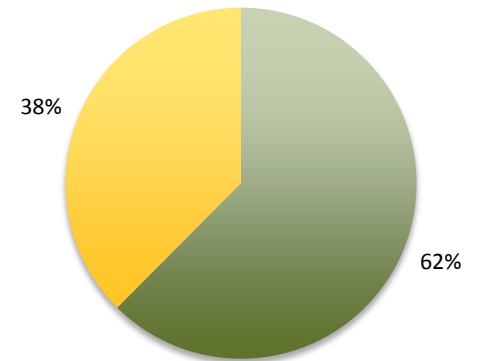


# Segment Overview

## Wholesale Beef Group

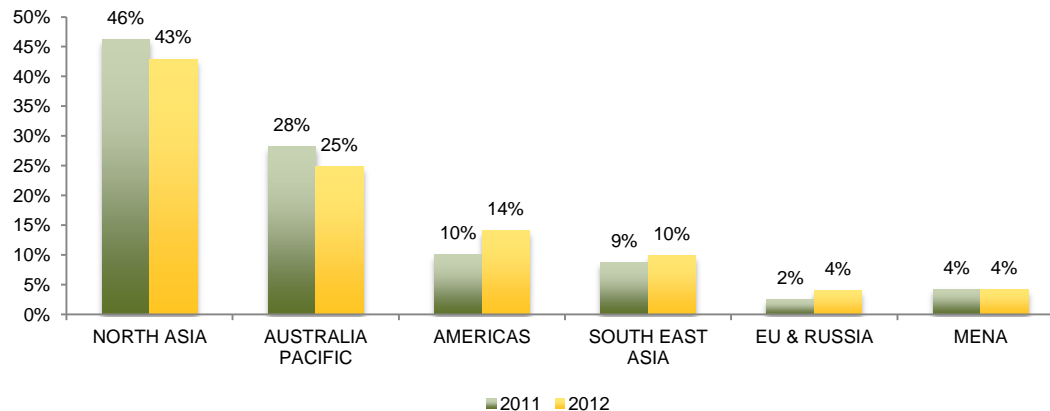
- The Wholesale Beef Group has maintained good margins on its Wagyu sales while margins on non-Wagyu product have continued to tighten. This highlights the strength of AACo's Wagyu supply chain (the non-Wagyu product is predominantly sourced from non-AACo cattle).
- There was an unexpected reduction in meat demand in the second half of FY12 which put further pressure on non-Wagyu margins
- The continued high Australian Dollar is proving a constraint particularly to non-Wagyu prices
- The group is continuing to increase its exposure to export markets and is shifting its market development from mature meat markets to high growth markets and customers

Composition of Sales Revenue



■ Wagyu ■ Shortfed Grain Finished

Sales Revenue by Region





# Segment Overview

## Farming

### Summer Crop

- Flooding at several of our properties impacted cotton and sorghum yields. An offsite chemical drift on Wylarah also impacted yields.

### Winter crop

- Wheat and chickpeas performed well and the wheat in particular was very high quality. A dry finish impacted yields slightly but still finished ahead of budget.

Increasing use of manure is leading to reduction in fertiliser costs

By Crop	Ha.	Production	Yield	Ex farmgate income per unit
Cotton	2,232	20,517 bales	9.2	\$521
Wheat	5,545	16,227 MT	2.9	\$268
Chickpeas	2,812	5,477 MT	1.9	\$435
Sorghum	2,170	7,737 MT	3.6	\$141



# Balance sheet

## Balance sheet

- Existing bank facilities limit of \$450m

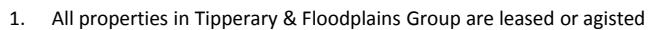
\$m	FY12	FY11
Cash and cash equivalents	22.4	23.4
Livestock	496.5	483.7
Property, Plant and equipment	602.9	608.5
Inventories	25.6	25.1
Other assets	20.1	24.2
<b>Total assets</b>	<b>1,167.5</b>	<b>1,164.9</b>
Interest bearing liabilities <sup>1</sup>	410.5	367.6
Other liabilities	118.3	125.3
<b>Total liabilities</b>	<b>528.8</b>	<b>492.9</b>
<b>Net assets</b>	<b>638.6</b>	<b>672.0</b>

### Key balance sheet metrics

	FY12	FY11
Gearing <sup>2</sup>	37.8%	33.9%
Net tangible assets/share <sup>3</sup>	2.04	2.15

#### Notes:

- Interest bearing liabilities includes bank debt and finance leases (FY12: \$12.2m; FY11: \$7.6m)
- Gearing based on net debt / (net debt + book equity)
- Based on 312.9m undiluted shares on issue







# AA Co Property Portfolio

- During 2012 all properties were valued by an external valuer. The outcome of these valuations has given rise to an overall decline of \$40.8 million (2011: increment \$9.5 million) of which \$8.1 million has been recognised as an impairment cost in the profit and loss of the Group. The total impairment is derived from December 2011 plus capital expenditure adjusted for the independent valuations adopted by the Directors.
- The major valuation decrements occurred in the Victoria River Group and the Barkly Group which were both impacted by the live cattle suspension

Region	Area (‘000 ha)	Carrying Value Dec-12 (\$m)	Carrying Value Dec-11 (\$m)
Barkly	3,980	233.0	244.4
Central & Southern QLD	74	113.5	112.3
Channel	910	31.8	29.6
Gulf	861	125.5	122.5
Victoria River	886	43.7	65.9
<b>Total</b>	<b>6,711</b>	<b>547.5</b>	<b>574.7</b>

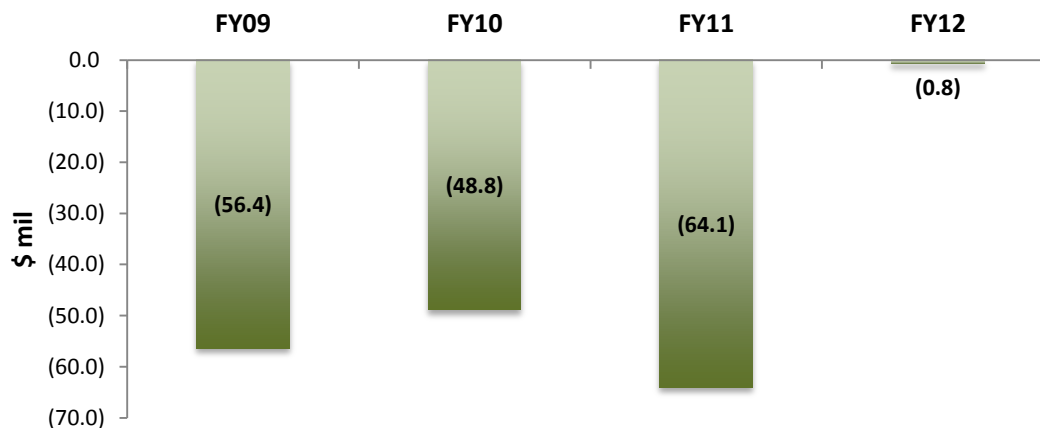


# Cash flow

## Cash flow

\$m	FY12	FY11	\$ Change
<b>Net operating cash flow</b>	<b>(0.8)</b>	<b>(64.1)</b>	<b>63.3</b>
Net capex	(20.5)	(17.9)	(2.6)
Proceeds from / (Payment for) PPE	1.2	22.5	(21.3)
Payments for Tipperary assets	-	(5.0)	5.0
Advance to Darwin Abattoir	(20.6)	-	(20.6)
<b>Net investing cash flow</b>	<b>(39.9)</b>	<b>(0.4)</b>	<b>(39.5)</b>
Proceeds from share issues	1.3	65.5	(64.2)
Net proceeds from borrowings	38.3	5.3	33.0
<b>Net financing cash flows</b>	<b>39.6</b>	<b>70.8</b>	<b>(31.2)</b>
<b>Net change in cash</b>	<b>(1.1)</b>	<b>6.3</b>	<b>(7.4)</b>

## Net operating cash flow





# Operating cash flow

Operating cash flow composition FY12 (A\$m)



1. After selling and transfer costs



# Darwin Abattoir Update

## Status Update

- An external Project Manager has been appointed and preparatory ground works are now underway
- Major elements of the plant are now in the process of going out to tender
- AACo is in advanced discussions with several parties looking to invest alongside it in the project
- AACo cattle are being aligned to ensure sufficient supply for the plant once operational and other pastoralists in the plant's catchment area have been reached out to
- Discussions are underway with several potential offtake customers

## Facility Mockup



## Recent Darwin Abattoir Site Activity





# Strategy

## The last 3 years

- We have achieved the majority of our goals as laid out in our turnaround strategy:
  - The herd has been expanded to record levels and its genetics significantly improved
  - Our plan to vertically integrate and capture more value from our herd is well advanced with the Northern Abattoir project
  - We have readjusted our land holdings with the divestment of Meteor Downs and agistment of Tipperary.
  - We continue to reassess our asset holdings on a continual basis.

## The next phase

- Our strategic plan for the next stage of our growth is to:
  - Leverage off our logistical advantage to increase exposure to, and integration with, high growth economies such as those in South East Asia
  - Continue to integrate and develop a Northern Australia based supply chain to ensure we are optimising the value for every animal
  - Leverage the significant amount of corporate intelligence, powerful management systems and genetic capability we have developed to improve returns
  - Continue to look at opportunities to optimise use of its assets to drive acceptable returns within the capital constraints of the company