



AUSTRALIAN AGRICULTURAL COMPANY LIMITED

**Financial Results**

**for the 3 month period to 31 March 2013**

**24 May 2013**

# Disclaimer

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### *Summary information only*

This presentation contains general information about the Australian Agricultural Company Limited and its consolidated entities ("AACo") and its activities current as at the date of this presentation. It is provided in summary and does not purport to be complete. **This presentation should be read in conjunction with the Appendix 4E and Financial Report for the year ended 31 March 2013.**

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# Overview

- AACo has shifted its year-end to 31 March to more closely align the Company's reporting period with its sales cycles, assisting with forecasting, cash flow management and investment decisions
- These results are for the three month period to 31 March 2013
- Due to the wet season, the bulk of cattle sales and profit are generally generated outside of this three-month period. The most recent wet season has been poor by historical standards
- Domestic cattle markets and prices continue to be adversely affected by the dry conditions, compounded by an oversupply of cattle due to a reduction in live export volumes following the decision by the Australian Government in June 2011 to temporarily suspend live exports to Indonesia and the consequences that flowed from this decision
- Global beef prices remain generally higher, less volatile and are rising over time compared to domestic cattle prices

# Summary financial results for 3 months to 31 March 2013

|   |  |              |  |
|---|--|--------------|--|
| > | Sales  | \$61.1mil    | increase of \$17.8mil compared to the pc <sup>1</sup>    |
| > | EBITDA <sup>2</sup>                                  | \$(64.6)mil  | decrease of \$(63.4)mil compared to the pc <sup>1</sup>  |
| > | EBITDA<br>(excl. Market Value Changes <sup>3</sup> ) | \$(21.4)mil  | decrease of \$(26.2)mil compared to the pc <sup>1</sup>  |
| > | NPAT   | \$(46.5)mil  | decrease of \$(41.4)mil compared to the pc <sup>1</sup>  |
| > | Operating Cash Flow                                  | \$(18.6)mil  | decrease of \$(2.0)mil compared to the pc <sup>1</sup>   |
| > | Net tangible assets <sup>4</sup>                     | \$1.90/share | decrease of \$0.14/share compared to<br>31 December 2012 |

Notes:

1. Prior corresponding period (pcp) – 3 months to 31 March 2012
2. EBITDA is based on loss from continuing operations plus net finance costs plus depreciation, amortisation and impairment of \$2.7m
3. Slide 7 provides a full reconciliation of EBITDA excluding Market Value Changes in the herd
4. Net tangible assets is equal to NTA of \$595.4m / 312.9m shares

# Summary financial performance

| \$m  | 3 months to<br>31 Mar 2013 | 3 months to<br>31 Mar 2012 | Change<br>(\$m) |
|--|----------------------------|----------------------------|-----------------|
| Sales  | 61.1                       | 43.3                       | 17.8            |
| Cattle gross margin <sup>1</sup>               | (42.5)                     | 16.4                       | (58.9)          |
| Wholesale Beef gross margin                    | 0.6                        | 0.8                        | (0.2)           |
| Farming gross margin                           | 1.5                        | (0.9)                      | 2.4             |
| Gross operating margin                         | (40.4)                     | 16.3                       | (56.7)          |
| EBITDA   | (64.6)                     | (1.2)                      | (63.4)          |
| EBITDA excl. Market Value Changes <sup>2</sup> | (21.4)                     | 4.8                        | (26.2)          |
| EBIT   | (67.3)                     | (3.4)                      | (63.9)          |
| NPBT   | (74.0)                     | (9.7)                      | (64.3)          |
| NPAT   | (46.5)                     | (5.1)                      | (41.4)          |
| Operating Cash Flow                            | (18.6)                     | (16.6)                     | (2.0)           |

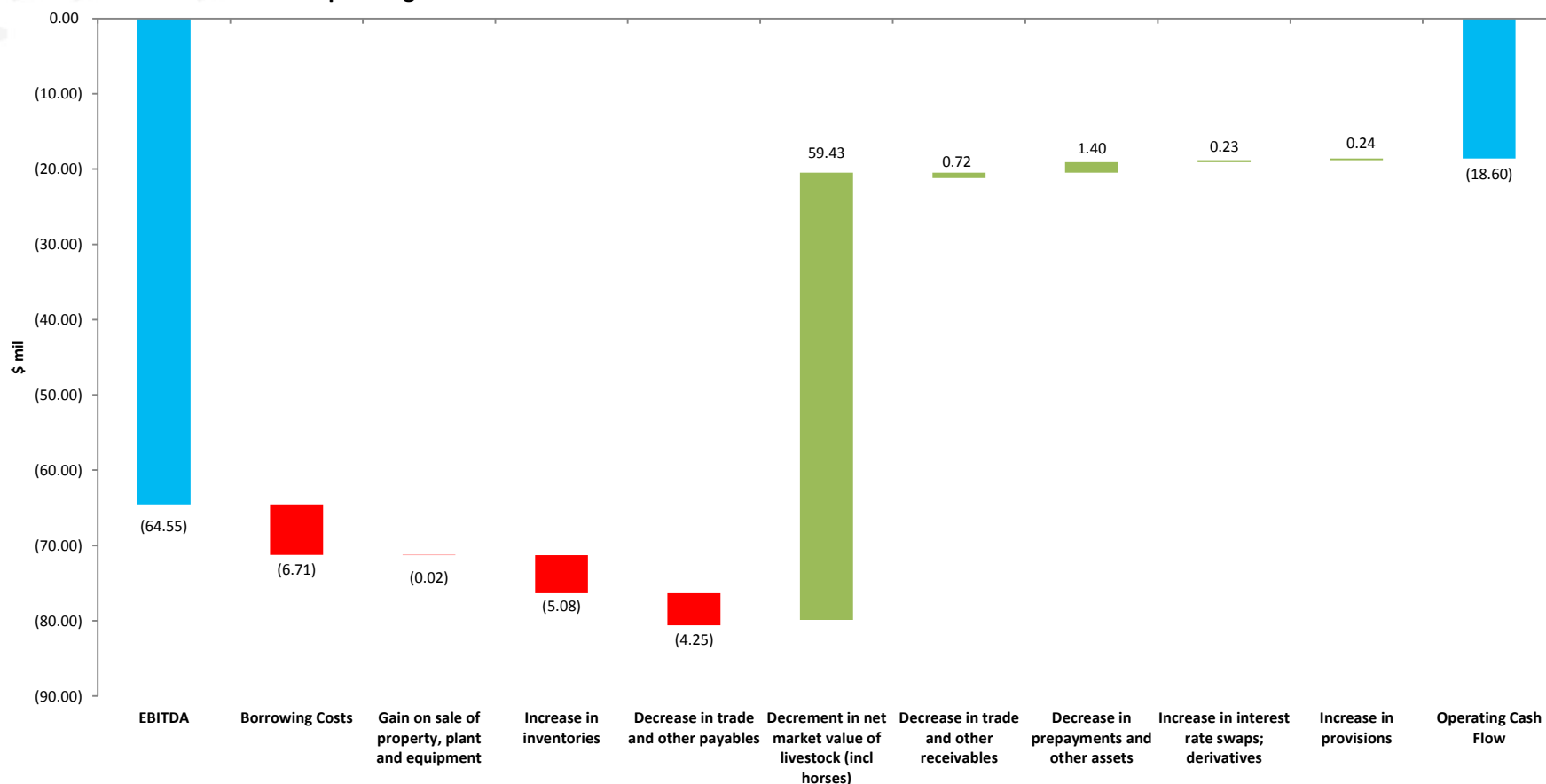
| Key Performance Indicators                      | 3 months to<br>31 Mar 2013 | 3 months to<br>31 Mar 2012 | Change<br>(%) |
|---|----------------------------|----------------------------|---------------|
| <u>Finished &amp; Store cattle</u>              |                            |                            |               |
| Average Sale Price \$ / kg lwt                  | \$2.17                     | \$2.60                     | (16.5%)       |
| Total liveweight kg's sold (m)                  | 18.7                       | 14.4                       | 29.9%         |
| Total liveweight kg's produced <sup>3</sup> (m) | 8.5                        | 11.1                       | (23.4%)       |
| Herd size (including calf accural) ('000 head)  | 676.2                      | 696.8                      | (3.0%)        |
| Brandings ('000 head)                           | 7.0                        | 2.6                        | 169.2%        |
| <u>Wholesale beef</u>                           |                            |                            |               |
| Revenue \$ / kg                                 | \$8.76                     | \$9.00                     | (2.7%)        |
| Total kgs sold (m)                              | 4.3                        | 2.6                        | 69.2%         |
| <u>Farming</u>                                  |                            |                            |               |
| Cotton bales sold ('000)                        | 15.1                       | -                          | n.a.          |

## Notes:

1. Gross margin represents cattle sales plus growth less fair value adjustments less cost of cattle sold less direct cattle expenses.
2. Refer to slide 7 for a reconciliation of non-IFRS disclosures.
3. kg's produced is the inventory kg's produced on the stations including brandings

EBITDA has been significantly adversely affected by a number of non-cash livestock valuation movements, while Operating Cash Flow is approximately in line with the pcg

#### Reconciliation of EBITDA to Operating Cash Flow



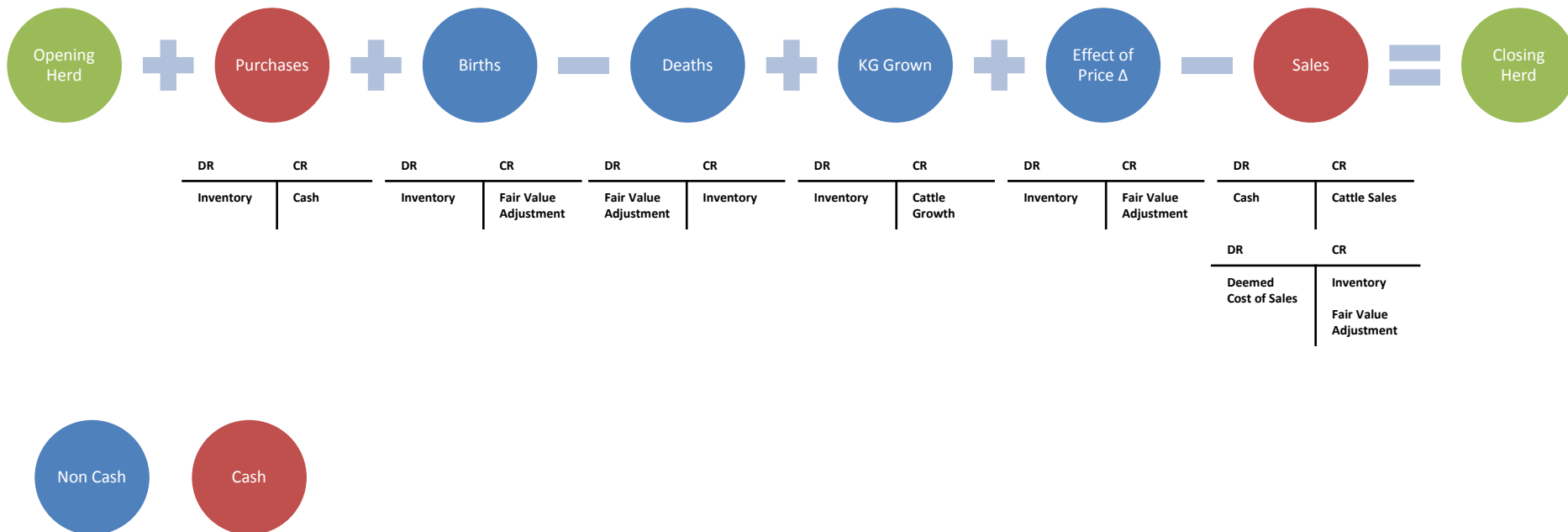
## Underlying 'Cash' EBITDA is approximately in line with the pcg

| (\$mil)   | 3 months to<br>31 Mar 2013 | 3 months to<br>31 Mar 2012 | Change<br>(\$m) |
|---|----------------------------|----------------------------|-----------------|
| Statutory EBITDA <sup>1</sup>   | (64,550)                   | (1,153)                    | (63,397)        |
| Add back: non-cash Market Value Changes to Livestock <sup>2</sup>         | 43,179                     | 6,002                      |                 |
| <b>EBITDA ex. Market Value Changes</b>                                    | <b>(21,371)</b>            | <b>4,849</b>               | <b>(26,220)</b> |
| Add Back: other non-cash Fair Value Adjustments to Livestock <sup>3</sup> | 16,247                     | (9,562)                    |                 |
| <b>'Cash' EBITDA</b>  | <b>(5,123)</b>             | <b>(4,714)</b>             | <b>(409)</b>    |

### Notes:

1. Earnings before interest, tax, depreciation and amortisation as per Director's Report
2. Market Value Changes arise due to non-cash mark-to-market adjustments to the AACo herd
3. Other non-cash Fair Value Adjustments consist of a combination of non-cash items including births, deaths and breeder herd amortisation

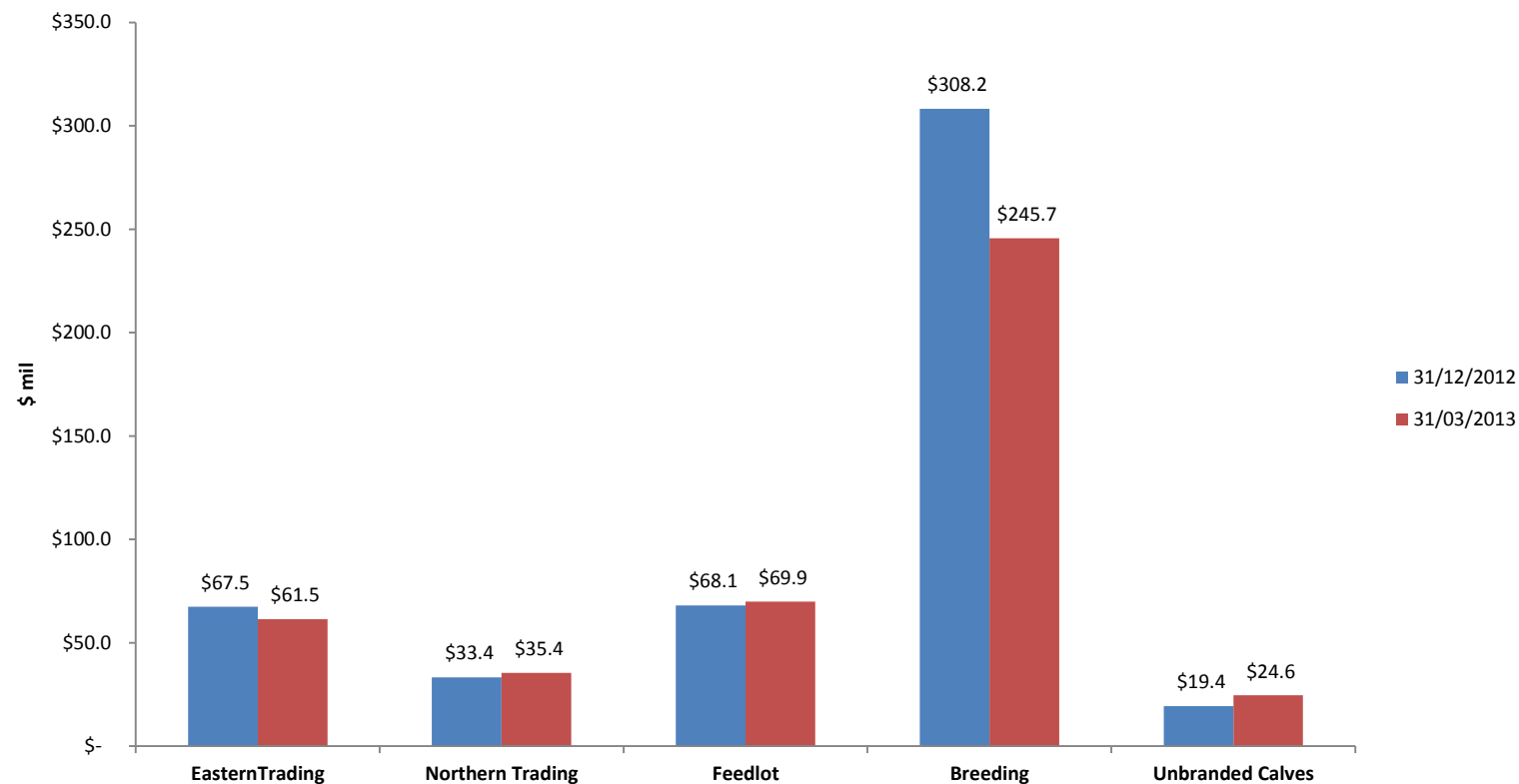
# Herd value is affected by a number of non-cash items





Included in the Breeder Herd at 31 March 2013 is a \$35.3m decline due to market price revaluation<sup>1</sup>

Herd Valuations (\$mil)



Note:

1. AACo sees the Breeder herd as a significant and necessary asset. These cattle will be held for long periods of time, as they are essential to the development of an integrated supply chain. Hence non-cash movements in the valuation of this herd are not expected to be realised in the short term.

# Herd value sensitivity

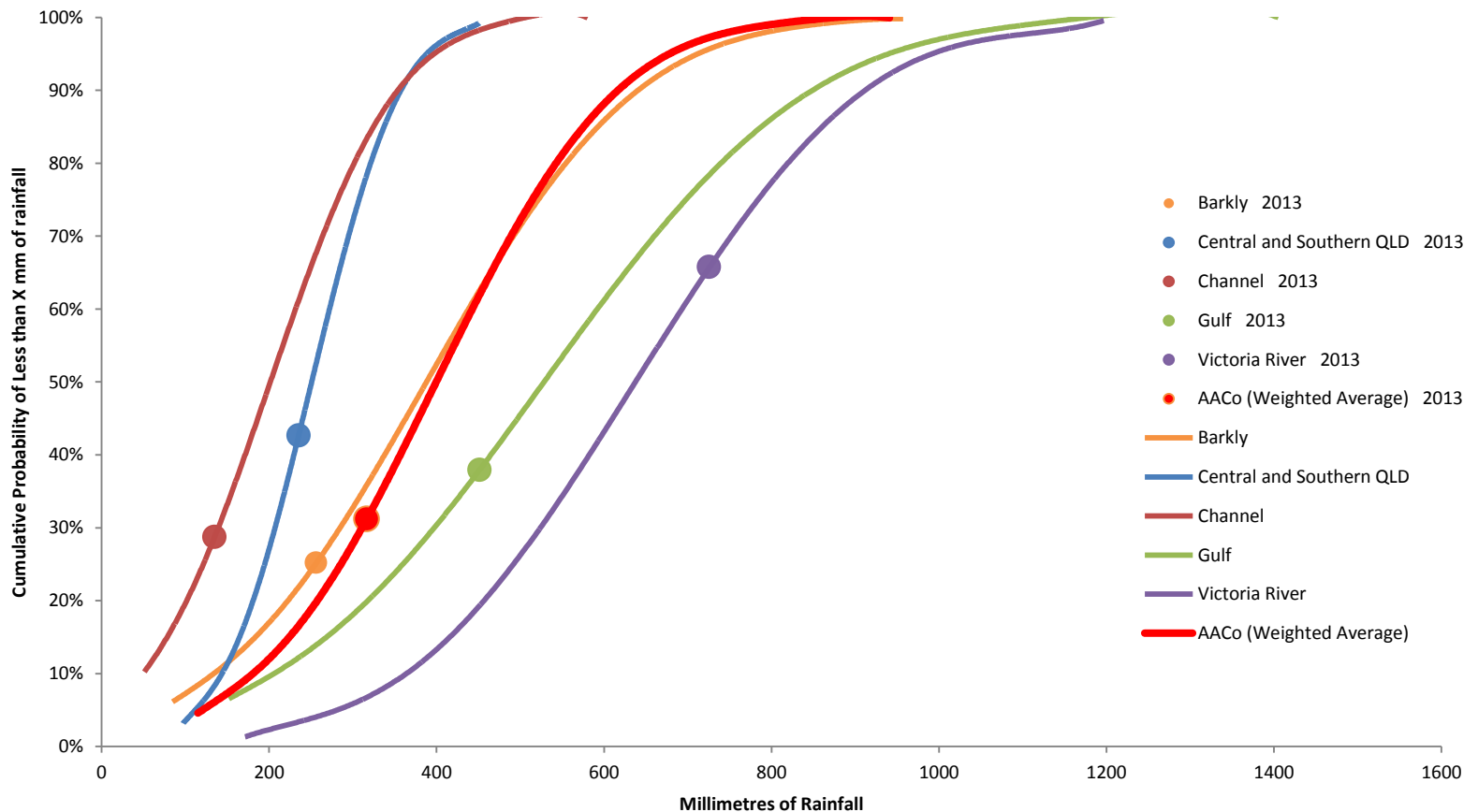
|                                    | Eastern Trading<br>Herd |                | Northern Trading<br>Herd |                | Feedlot       |                | Breeding Herd |               |
|------------------------------------|-------------------------|----------------|--------------------------|----------------|---------------|----------------|---------------|---------------|
| Head @ 31 March 2013 ('000)        | 115                     |                | 82                       |                | 39            |                | 316           |               |
| Average Weight @ 31 March 2013     | 344                     | LW kg          | 313                      | LW kg          | 522           | LW kg          |               |               |
| Average Book Value @ 31 March 2013 | \$1.54                  | / LW Kg        | \$1.37                   | / LW Kg        | \$3.42        | / LW Kg        | \$778         | / head        |
|                                    |                         |                |                          |                |               |                |               |               |
| <b>Hypothetical movement:</b>      | <b>\$0.10</b>           | <b>/ LW Kg</b> | <b>\$0.10</b>            | <b>/ LW Kg</b> | <b>\$0.10</b> | <b>/ LW Kg</b> | <b>\$100</b>  | <b>/ head</b> |
| Per Head Effect (\$)               | \$34                    | / head         | \$31                     | / head         | \$52          | / head         | \$100         | / head        |
| Entire Herd Effect (\$mil)         | \$4.0                   |                | \$2.6                    |                | \$2.1         |                | \$31.6        |               |

## Cattle update

- > Trading herd - both weight gained and total size of herd is down compared to the pcg due to the drier conditions
- > Breeding herd - dry conditions during the three month period to 31 March 2013 have resulted in an earlier start to mustering compared to previous years and earlier sales of cull cows
- > Body condition of the breeding herd is very good and early weaning will ensure best possible body condition
- > Market conditions for all categories apart from long-fed Wagyu have declined in value during the three month period to 31 March 2013

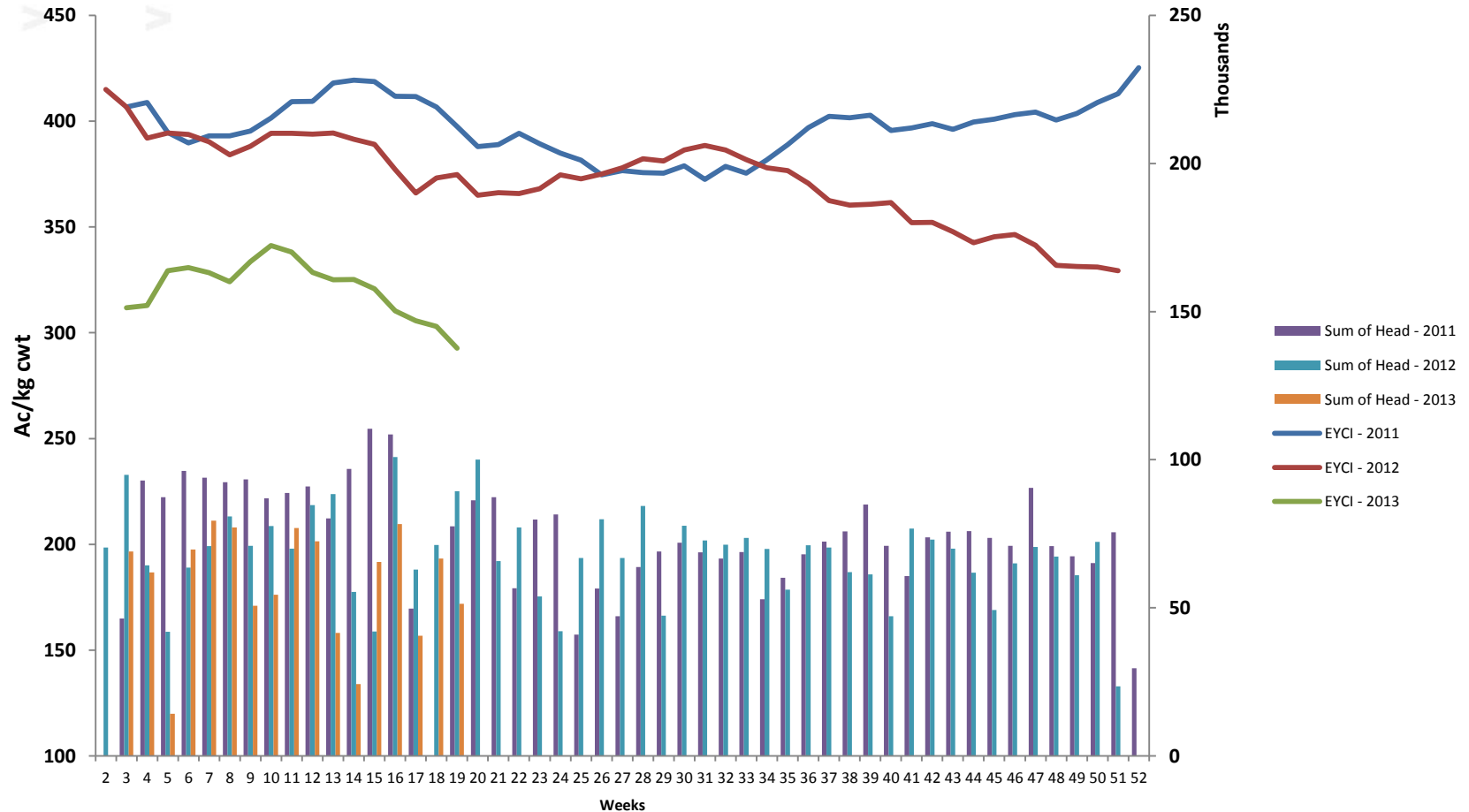
# Poor rainfall adversely affecting result

Wet Season (October – March) Cumulative Rainfall Probabilities by Region



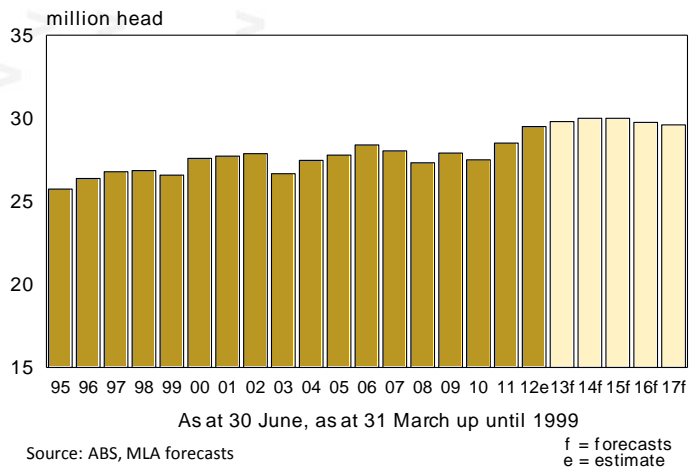
# Domestic cattle prices continue to be depressed

Eastern Young Cattle Indicator (EYCI)

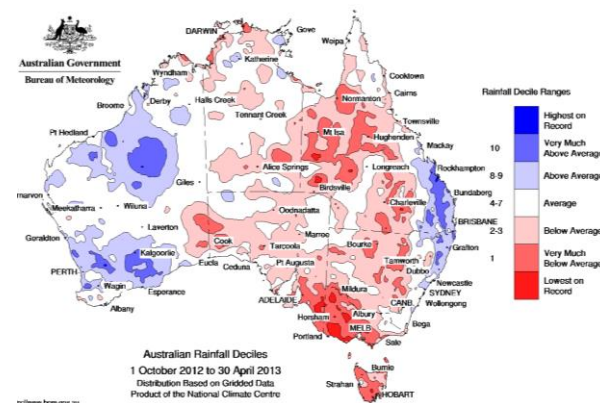


# What's depressing domestic cattle prices?

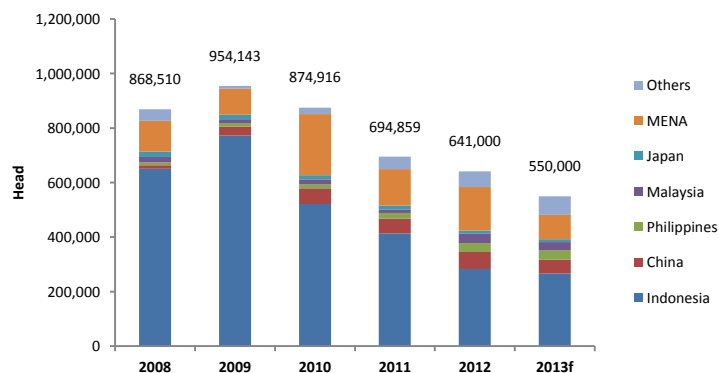
**Australian cattle herd at record levels**



**Poor Wet Season**



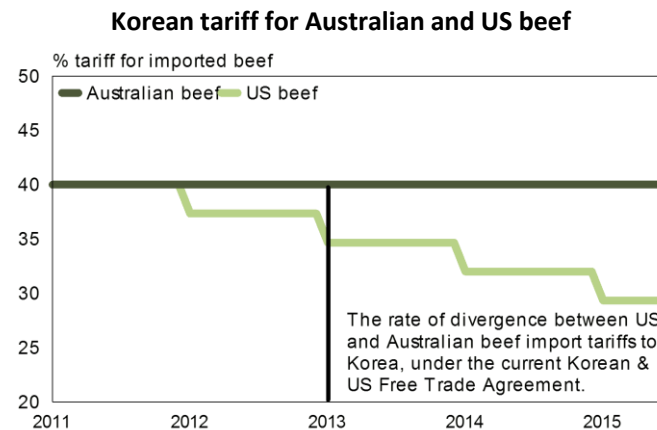
**Government intervention regarding live exports**



Source: ABS, MLA forecasts

## The Australian Federal Government's inability to secure satisfactory Free Trade Agreements (FTA) with both Korea and Japan is costing industry market share

- > Satisfactory and competitive FTA's are crucial for Australian cattle beef producers to enable access to the higher global beef prices thematic
- > Japan remains the largest importer of Australian beef. The current Japanese import tariff on beef is 38.5% (with the Safeguard snapback provision to the 50% bound rate). Negotiations for an FTA with Japan began in 2007, and the 16<sup>th</sup> round was held in mid 2012, with a satisfactory outcome yet to be achieved
- > South Korea is the third largest importer of Australian beef. The United States – South Korea FTA became effective in mid 2012. Until a similar FTA is agreed with Australia, US beef will gain an increasing competitive advantage over time as illustrated below



Source: USDA, DAFF

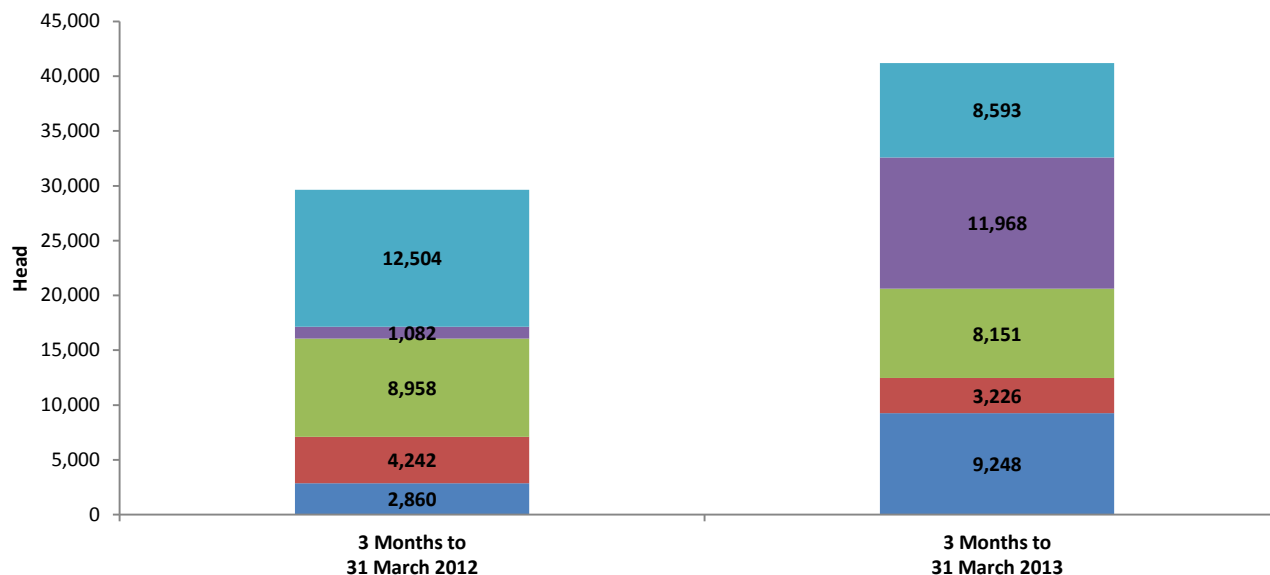
# Changes in the herd composition





The 3 months to 31 March 2013 has seen a significant lift in Grass Finished as well as Breeder and Feeder cattle sales at substantially lower prices compared to the pcg due to the impact of drier conditions

**Cattle sales (head)**

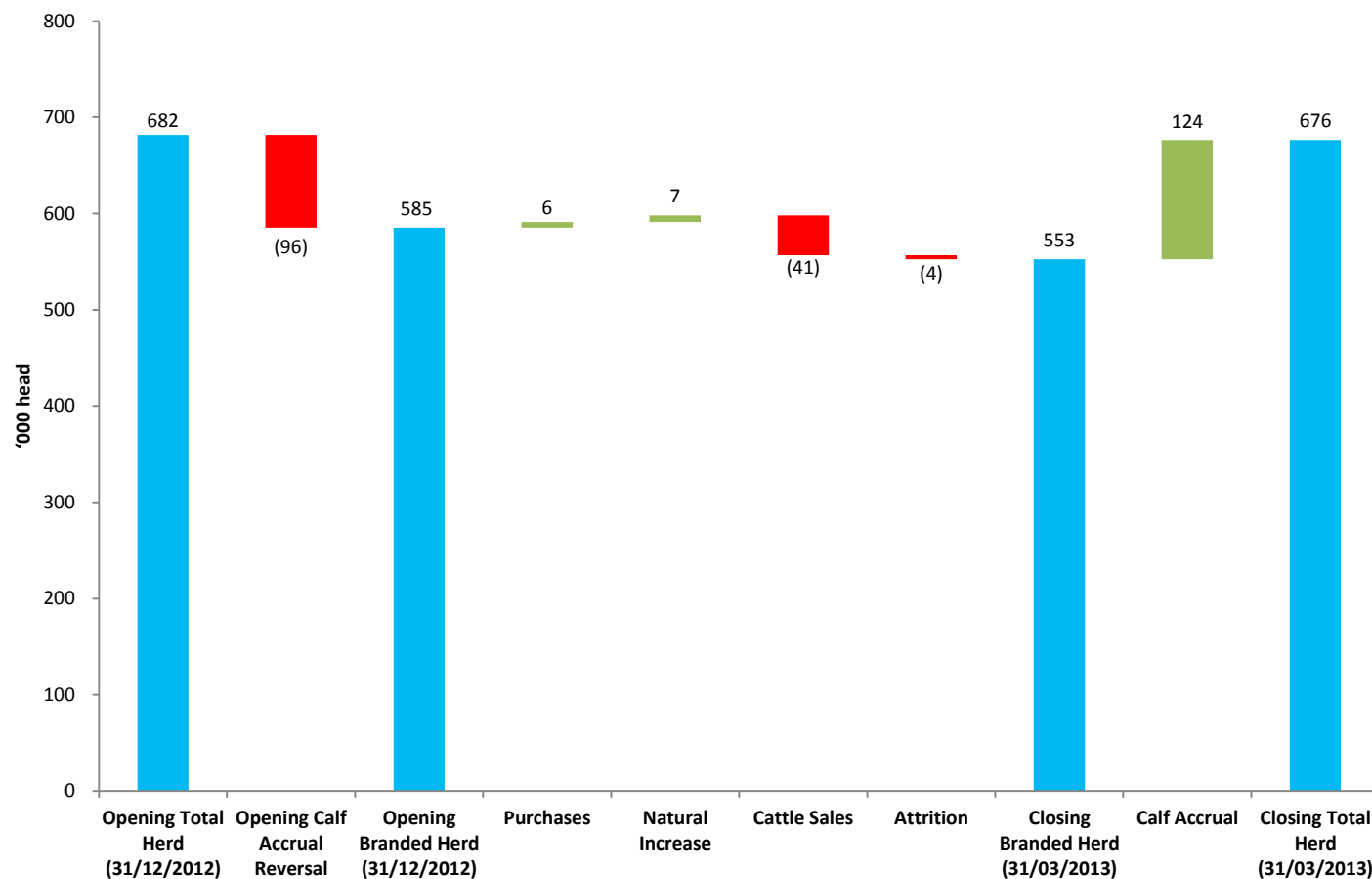


**Cattle sales detail (head)**

■ Grass Finished ■ Shortfed Grain Finished ■ Wagyu ■ Breeder and Feeder ■ Live Export

|                                  | Grass Finished | Shortfed Grain Finished |          | Wagyu    |          | Breeder and Feeder | Live Export | Total sales | Av. Sale Price (\$/head) |
|----------------------------------|----------------|-------------------------|----------|----------|----------|--------------------|-------------|-------------|--------------------------|
|                                  |                | Internal                | External | Internal | External |                    |             |             |                          |
| <b>3 Months to 31 March 2013</b> | 9,248          | 1,111                   | 2,115    | 7,129    | 1,022    | 11,968             | 8,593       | 41,186      | 980                      |
| <b>3 Months to 31 March 2012</b> | 2,860          | 179                     | 4,063    | 6,972    | 1,986    | 1,082              | 12,504      | 29,646      | 1,255                    |

Overall herd size remains reasonably static over the 3 months to 31 March 2013 with cattle sales being largely offset by the accrual for unbranded calves



# Wholesale Beef Group update

- > Increased sales volume of 65% compared to the pcg
- > Increased average sales price for both Wagyu (\$11.16 vs \$10.17) and 1824 (\$6.97 vs \$6.20) compared to the pcg
- > Large, one-off line of 1824 (100-day) cattle processed in January reflected in higher Australia/Pacific sales as a % of total sales
- > Future shift in focus planned:
  - > to reduce total volume of 1824 cattle produced
  - > targeting sales to higher value markets such as the EU and North Asia

**Beef Sales by Region**



**Beef Sales by Product (%)**



**Beef Sales by Volume (kg mil)**



## Property sale update

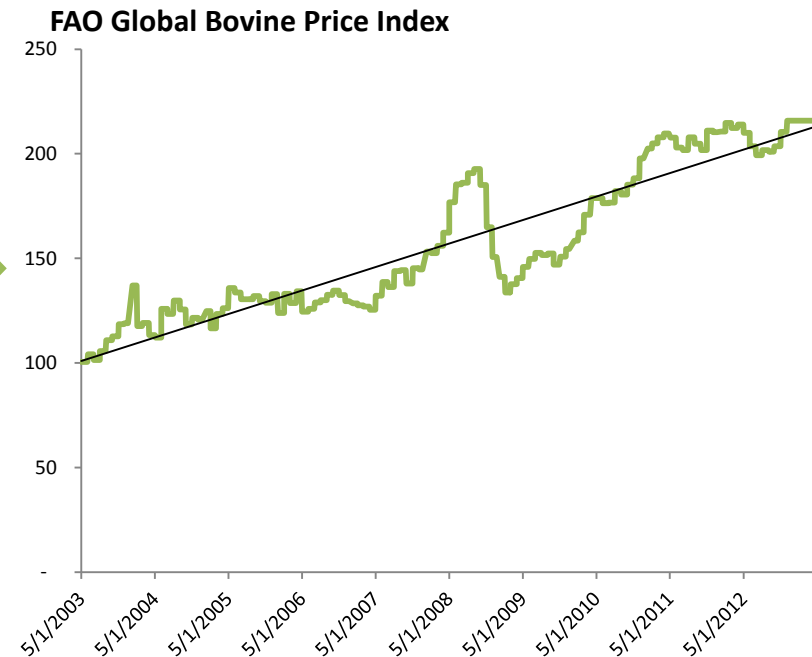
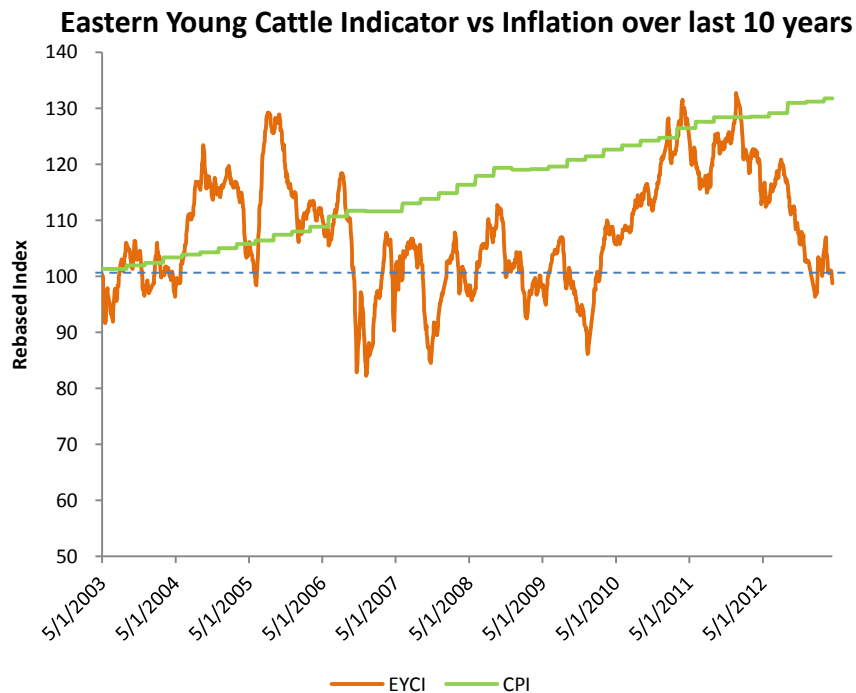
- > On 20 May 2013, AACo announced that contracts had been exchanged for the sale of subdivisions of its Goonoo Aggregation for \$23 million
- > The properties consisted of 3 dry land farming and grazing properties totalling 19,404 hectares
- > Under the sale agreement, AACo will lease back 7,800 hectares of high quality cropping land for 5 years at a commercial rate
- > In addition, AACo will sell 4,000 steers at an average of \$1.64 / kg lwt
- > Brighton Downs, which has been determined to no longer fit into AACo's supply chain, was put to auction on 22 May 2013 and was passed in at \$10.25 million, with negotiations continuing with interested parties.

# Outlook

- > Domestic cattle markets and prices remain volatile with current prices approximately in line with 10 years ago, despite significant cost increases over this same time period
- > Global beef prices remain generally higher, less volatile and are rising over time compared to domestic cattle prices
- > The macro thematic of rising per capita incomes and demand for red meat protein in emerging and developing markets is likely to underpin global beef prices
- > AACo's vertical integration strategy is pivotal to increasing exposure to, and to capturing, global beef prices to enhance gross margins
- > AACo is also focussed on developing and investing in appropriate channel and brand marketing strategies while at the same time controlling costs and focussing on deployment of capital to increase its Return on Capital Employed

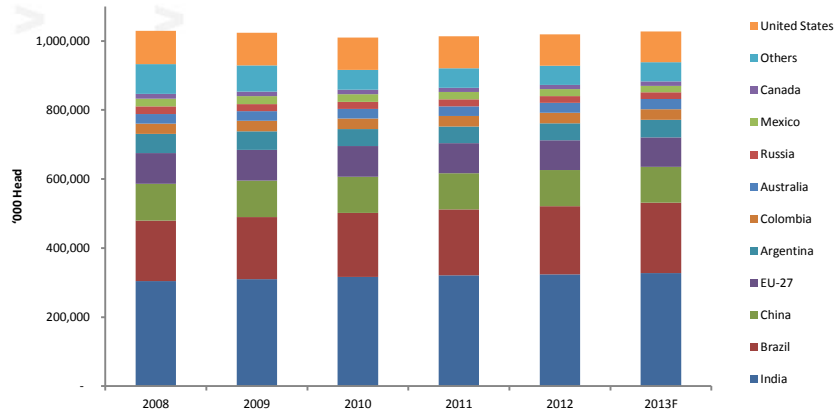
## Domestic cattle markets remain volatile while global beef markets are seeing price appreciation

- A\$1.90/ kg cwt difference between domestic peak and trough prices
- Domestic cattle prices roughly where they were 10 years ago, while costs over the same period have increased significantly
- AACo will progressively diversify away from, and reduce exposure to, volatile domestic cattle prices towards less volatile and rising global beef prices



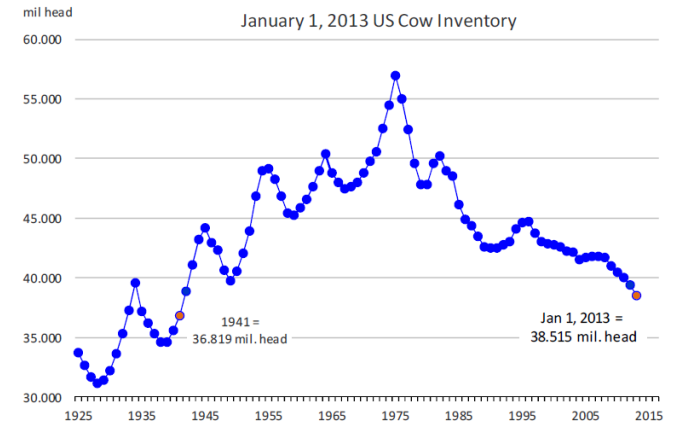
# The macro thematic will continue to underpin the global beef price

## Global cattle herd remains stagnant



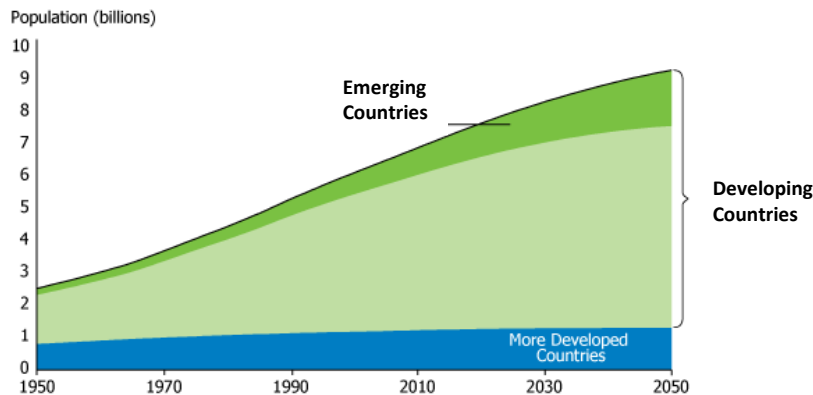
Source: USDA

## US Cow Herd continues to decrease



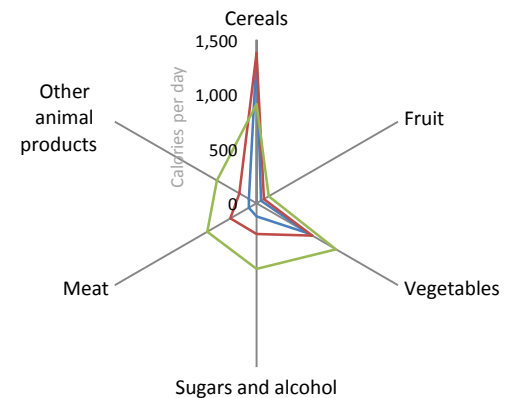
Source: The Daily Livestock Report

## Emerging/developing countries to drive population growth



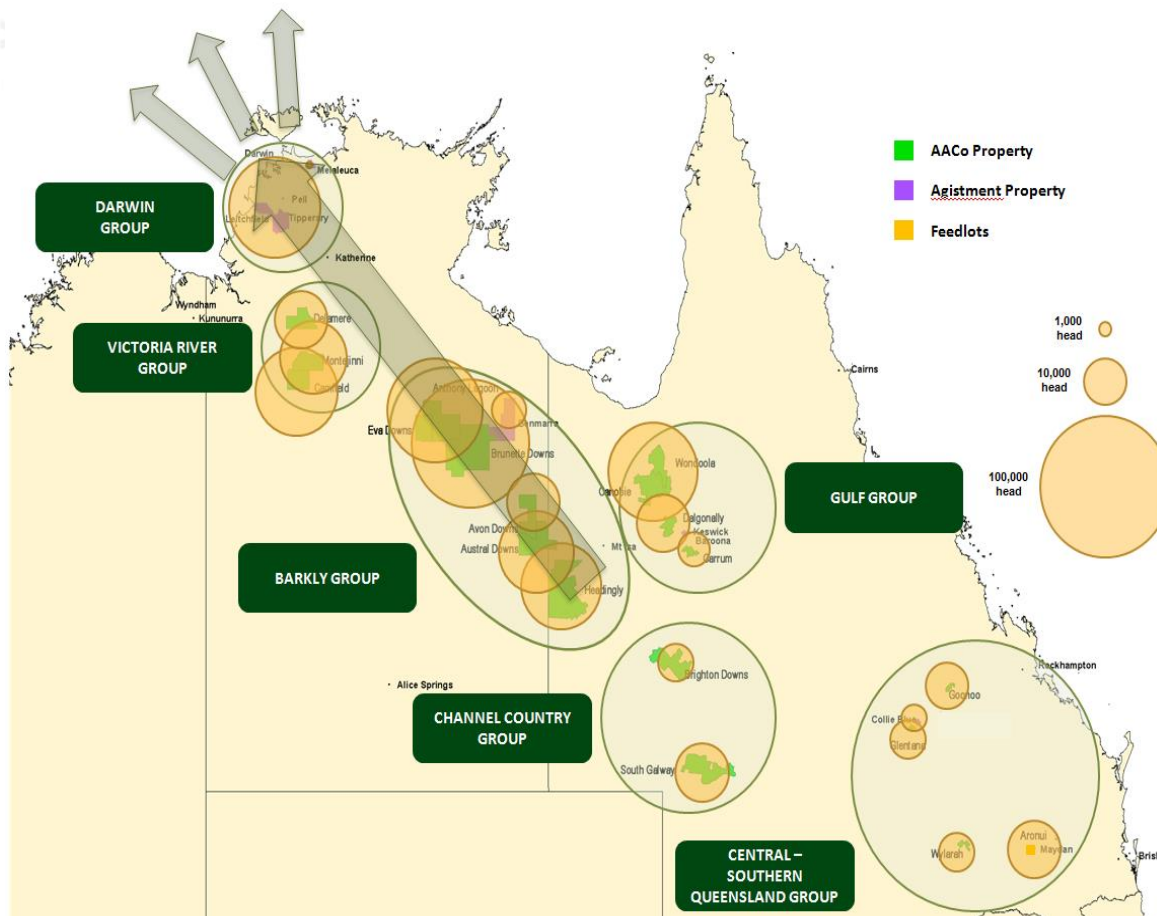
Source: World Population Datasheet 2012

## As populations develop they demand more protein



— Emerging countries ; — Developing countries — Developed countries  
Source: FAO, IMF

# AACo's vertical integration strategy is pivotal to increasing exposure to global beef prices



- > AACo will capture increased margins previously not able to be captured
- > Minimising volatility through vertical integration
- > Transport and production cost savings



# Developing and investing in appropriate channel and brand marketing strategies is key to increasing AACo's Return on Capital Employed



- AACo sells high quality beef to more than 30 countries
- AACo is focussed on investing in appropriate channel and brand marketing strategies to increase gross margins for its products

# Summary

- > Financial results for the 3 months to 31 March 2013 have been adversely impacted by a very poor wet season and resultant drier conditions, combined with the ongoing negative effects of the live export suspension by the Australian Government in June 2011
- > Majority of the poor profit and loss result is driven by non-cash livestock value movements, in particular in relation to AACo's Breeder herd. AACo sees the Breeder herd as a significant and necessary asset. These cattle will be held for long periods of time, as they are essential to the development of an integrated supply chain. Hence non-cash movements in the valuation of this herd are not expected to be realised in the short term
- > Operating Cash Flow result of \$(18.6)m is approximately in line with that of the pcg
- > The financial results for the 3 months to 31 March 2013 are not representative of those for a full 12 month period as the bulk of cattle sales and profit are generated outside of this 3 month period
- > AACo's strategy is focussed on improving margins and Return on Capital Employed by:
  - > Diversifying away from, and reducing exposure to, volatile domestic cattle prices towards less volatile and rising global beef prices via its vertical integration strategy
  - > Development of, and investment in, appropriate channel and brand marketing strategies
  - > Rigorous focus on cost control and deployment of capital