



ASX RELEASE

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AACo branded beef sales up 38 per cent in first half

- ***Branded beef sales now comprise 76 per cent of sales, reflecting transformation of the business***
- ***AACo's new processing facility, Livingstone Beef, has begun commercial operations***
- ***First half statutory net loss of \$13.6 million (\$18 million improvement on prior corresponding period)***

Australia's biggest beef and cattle producer, the Australian Agricultural Company Limited (AACo), has increased its branded beef sales by 38 per cent to \$115.5 million for the first six months of its financial year, in line with its stated strategy.

The company today reported a statutory net loss after tax of \$13.6 million for the half year ended 30 September 2014, an \$18 million improvement on the prior corresponding period.

Operating EBITDA¹ for the half year was negative \$8.2 million, compared to positive \$1.6 million in the prior corresponding period. This was largely due to cattle sales revenue reducing by \$50.4 million, as the company built inventory for its new processing facility, Livingstone Beef, and to add value by taking advantage of improved pasture conditions.

AACo Managing Director Jason Strong said the result demonstrated the drive to transform from a production-led pastoral company to a vertically integrated beef company was on track.

"We have clearly shifted the focus from producing cattle for volatile domestic markets to producing high quality beef being sold into higher value global markets," he said.

"Sales of branded beef now account for 76 per cent of sales, compared to 50 per cent in the prior corresponding period. This is delivering on the strategy announced at the Annual General Meeting.

"Combined with effective branding and marketing initiatives, AACO is better positioned to create and capture more value from the higher percentage of export branded beef sales.

"Our strategy to improve the quantity and quality of AACO's earnings is continuing to progress with the commencement of commercial operations at Livingstone Beef.

"Commissioning is continuing and the facility should have the capacity to operate a full shift processing 500 head per day by March next year.

1. This measure is based on a standard cost accounting methodology and seeks to avoid the cattle market-price driven volatility apparent in the statutory financial numbers by not recognising any unrealised profit or loss before the point of sale. Operating EBITDA is non-IFRS financial information and has not been audited or reviewed by the company's auditors.

“Livingstone Beef will play a crucial role in transitioning the company to a more stable business model with increased market opportunities.”

Group Financial Results

	Six months to 30 September 2014	Six months to 30 September 2013
Kilograms of branded beef sold	12.0m	9.0m
Kilograms produced (liveweight)	41.4m	43.3m
Meat sales	\$115.5m	\$83.9m
Cattle sales	\$28.2m	\$78.5m
Crop sales	\$7.3m	\$4.2m
Total Revenue	\$151.0m	\$166.6m
Operating expenses	\$(47.8m)	\$(45.4m)
Operating EBITDA	\$(8.2m)	\$1.6m
Statutory EBITDA¹	\$(4.5m)	\$(28.8m)
Statutory EBIT¹	\$(11.0m)	\$(33.8m)
Net loss after tax	\$(13.6m)	\$(31.6m)

1. EBITDA represents net profit + tax expense + finance costs (EBIT) + depreciation, amortisation and impairment and are non-IFRS financial information which have not been reviewed by the company's auditors.

As announced at the Annual General Meeting in July this year, the company has now aligned its operations with its strategy and is reporting along three operating divisions which better reflect the underlying supply chains in the business - Grassfed, Grainfed and Northern Beef.

“The company will also provide more clarity to external stakeholders by reporting against a new earnings metric called Operating EBITDA. We believe this is a more transparent and relevant measure, which seeks to avoid the cattle market-price driven volatility apparent in statutory results,” Mr Strong said.

The company's net tangible assets per share were \$1.37 as at 30 September 2014, compared to \$1.40 as at 31 March 2014.

Grainfed Operations

AACo's Grainfed business increased sales of both Wagyu and shortfed beef, in line with the company's strategy of adding value by increasing the quantity of cattle sold as branded beef.

Prices for both Wagyu and shortfed beef improved due to strong global demand and a depreciating Australian dollar.

Branded beef sales revenue increased \$31.5 million to \$115.5 million, a 38 per cent increase on the prior corresponding period.

	Wagyu Sales (mil kg)	Av. Wagyu Price (\$/kg)	Shortfed/Other Sales (mil kg)	Av. Shortfed/Other Price (\$/kg)
1H FY15	5.5	12.18	6.5	7.43
1H FY14	4.7	11.68	4.3	6.82

Grassfed Operations

Following a year of drought-induced destocking, the first six months of FY15 saw a significant reduction in cattle sales compared to the prior comparable period as the company held back cattle to take advantage of improved pasture on its northern properties. In line with its strategic plans, this reduction in sales and increased purchasing activity has seen a substantial rebuilding of the grassfed herd over the period.

Mr Strong said the company was taking a more focussed approach to its rebuilding phase.

"We are ensuring there are defined end markets for all cattle being purchased," he said.

"Where cattle sales have taken place, such as live export sales, they have generally been into stronger markets than were available last year."

	<i>External sales</i> (mil kg lwt)	<i>KG produced</i> (mil kg lwt)	<i>Cattle purchases</i> (mil kg lwt)	<i>Av. Sell Price</i> (\$/kg lwt)	<i>Cost of production</i> (\$/kg lwt)	<i>Av. Purchase price</i> (\$/kg lwt)
1H FY15	13.4	29.2	14.8	\$1.78	\$1.36	\$1.27
1H FY14	43.7	31.2	0.8	\$1.32	\$1.53	\$1.79

Northern Beef Operations

AACo's new beef processing facility near Darwin, Livingstone Beef, began commissioning in September and commenced commercial operations on October 31.

Revenue will be generated in the current half and will ramp up in-line with production. In recent months the company has been working hard to strengthen relationships with potential off-take customers.

Since the original business case for the plant was developed, there has been a significant improvement in manufacturing meat prices, underpinned by improved fundamentals for US beef producers who are rebuilding their herds.

Outlook

The remainder of the financial year is likely to be a busy operational period for the business. The volume of branded beef sales is likely to remain strong and the coming months will see robust live cattle sales from the Grassfed business before the peak of the wet season.

The company welcomes steps which provide increased market access for its products, be it live cattle or branded beef, and has been encouraged by the recent announcements of liberalised trade arrangements with key markets such as Japan, South Korea and more recently China.

Dividend

The board has not declared a dividend. The company is committed to the reinstatement of dividends and has previously foreshadowed that on a return to sustainable and significant positive operational cashflows the Directors will review dividend policy and payments.

For media queries please contact:

Matthew Horan
matthew@horancommunications.com.au
0403 934 958