



Australian Agricultural Company Limited
ABN 15 010 892 270

2016 Full Year Results

ASX Announcement No. 05/2016

25 May 2016

Australian Agricultural Company Limited ('AACo') has today released the Company's Financial Report for the financial year ended 31 March 2016.

The documents released today are:

- Appendix 4E
- AACo FY16 Financial Report
- AACo FY16 Media Release
- AACo FY16 Results Presentation
- Appendix 4G

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FY16 IN REVIEW

Financial Headlines

(\$m)	FY16	FY15	Variance	Variance - %
Sales Revenue	489	338	151	45%
Gross Margin - Operating	239	140	99	71%
EBITDA - Operating	15	(4)	19	475%
Adjustments:				
Unrealised profits resulting from market valuation of livestock inventory ¹	117	48	69	144%
EBITDA – Statutory	132	45	87	193%
NPAT – Statutory	68	10	58	580%
Net Operating Cash flow	22	(76)	98	129%
Total Assets	1,383	1,214	169	14%
Gearing (%)	29.0%	32.5%	-	3.5ppt
Net tangible assets per share	1.66	1.43	0.23	16%
People (FTE)	592	584	8	1%
Lost time injury frequency rate (LTIFR)	29	52	(23)	(44%)

Highlights in FY16

- Operating EBITDA increased by \$18.4m, from (\$3.6m) to \$14.8m. This is principally due to the positive impact of increased supply chain integration, and higher prices achieved for both Wagyu meat and live cattle sales.
- Total Sales were up 45% on the Prior Corresponding Period (“PCP”), principally attributable to additional meat and by-product sales of \$161m.
- Net Operating Cash Flow was up \$98m due to:
 - Increase in Operating EBITDA of \$18.4m
 - Reduction of \$82m in spend on working capital from the PCP
 - Increase in net finance costs of \$3m
- Increased throughput at the Livingstone Beef facility
- Improved bank terms secured with AACo’s lenders will provide greater flexibility and reduce the cost of funding.
- Lost time injury frequency rate has decreased reflecting AACo’s continuing focus on improving safety. The number of injuries recorded has decreased despite a significant increase in labour hours worked due to the operation of Livingstone Beef throughout FY16.

Dividends

- No dividends payable for the period ended 31 March 2016.

¹ Operating EBITDA assumes all balance sheet inventory movements occur as a pre-defined standard price, in contrast to Statutory EBITDA which recognises unrealised movements in inventory at market price. Refer to page 8 of the financial report for full definition.

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CONSOLIDATED RESULTS

Year on Year Comparison Financial Summary

(\$m)	FY16	FY15	Variance
Meat Sales	428	268	160
Cattle Sales	61	71	(10)
Gross Operating Margin - Statutory	239	140	99
Operating Expenses	(117)	(107)	(10)
Corporate Marketing & Branding	1	1	-
R&D and Innovation	3	-	3
EBITDA	132	45	87
- Statutory	132	45	87
- Operating	15	(4)	19
EBIT	118	33	85
- Statutory	118	33	85
- Operating	1	(16)	17
Net finance costs	(21)	(21)	-
Income tax (expense)/benefit	(29)	(2)	(27)
NPAT	68	10	58
- Statutory	68	10	58

Other Operating Metrics²

	FY16	FY15	Variance
Meat and by-product sales - mil kg CW	51	26	25
Cattle sales - mil kg LW	23	34	(11)
Meat and by-product sold - \$/kg CW	8.32	9.88	(1.56)
Cattle sales - \$/kg LW	2.70	2.07	0.63
Kilograms live weight produced - mil kg LW	61	76	(15)
Cost of cattle production - \$/kg LW	3.00	2.13	0.87
Livingstone Beef throughput - mil kg HSCW	18	n.a.	18

Variance Analysis – FY16 vs. FY15

Operating EBITDA increased by \$18.4m, from (\$3.6m) to \$14.8m. This is principally due to the positive impact of increased supply chain integration, and higher prices achieved for both Wagyu meat and live cattle sales.

Meat sales revenue increased by 60% in FY16 compared to FY15, due to increased demand from established Grainfed Wagyu and Shortfed/other markets, as well as manufacturing beef markets supplied through the Livingstone Beef Processing Plant. Average sales price per kg CW for the group fell by 16% as the introduction of Livingstone Beef manufacturing meat into the sales mix diluted price increases in the Wagyu and Shortfed/other markets.

Live sales of cattle to third parties has reduced in line with the Company's strategy of maximising value through the entire supply chain.

Production was 15.4 mil kgs lower than the prior corresponding period due to a smaller herd size (see Herd Profile for more detail). Cost of production increased due to additional transport and logistics costs associated with transferring cattle internally through the supply chain.

Livingstone Beef continued to ramp up during FY16, and processed 18 million kgs (HSCW) during the year on a single shift.

Corporate operating expenses have decreased by \$1.1m compared with the prior corresponding period, despite the Group investing an additional \$2.8m in innovation and technology during FY16. AACo continues to monitor overhead expenses, and drive productivity measures, while investing in innovation and technology as well as branding and marketing activities.

² LW – Live animal weight, HSCW – Hot standard carcase weight, CW - Carton weight containing saleable boxed meat

Reconciliation to Statutory Earnings

Operating EBITDA is a key indicator which is used to monitor and manage the company. It eliminates the potential distraction caused by unrealised cattle valuation adjustments being recorded in the financial results, and is a better reflection of actual financial performance under the control of management. Operating EBITDA assumes all Livestock inventory is valued on a \$/kg live-weight (LW) basis and is derived by adjusting statutory EBITDA to substitute the movement in inventory at market value with the movement in inventory at standard cost.

(\$m)	FY16	FY15
Operating EBITDA	15	(4)
Difference between standard cost and market value	117	49
Statutory EBITDA	132	45
Depreciation and amortisation	(20)	(16)
Change in fair value of property	6	4
Net finance costs	(21)	(21)
Statutory PBT	97	12
Income tax (expense)/benefit	(29)	(2)
Statutory NPAT	68	10

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Other Financial Information

Cash Flow Summary

(\$m)	FY16	FY15	Variance
Operating EBITDA	15	(4)	19
Working capital and other movement	26	(56)	82
Cash from operations	41	(60)	101
Net finance costs	(19)	(16)	(3)
Net cash inflow/(outflow) from operating activities	22	(76)	98
Cash flows from investing activities			
Proceeds from sale of PP&E	0	1	(1)
Payments for PP&E & intangibles	(19)	(67)	48
Net cash (outflow) from investing activities	(19)	(66)	47
Cash flows from financing activities			
Net proceeds from borrowings	0	85	(85)
Net proceeds from issue of shares	0	0	-
Net cash (outflow) / inflow from financing activities	0	85	(85)
Net increase / (decrease) in cash	3	(57)	60

Cash Flow Movements – FY16 vs. FY15

Net cash inflow from operating activities improved by \$98m from (\$76m) to \$22m.

Net cash outflow from investing activities decreased by \$47m to \$19m, largely due to:

- Reduction in spend on the Livingstone Beef Processing Facility due to its completion. FY16 spend was \$3.2m compared to \$34m in FY15.
- \$4.1m was spent in FY16 for the acquisition of Thorner Station. \$8.4m was spent in FY15 for the acquisition of Pell.

Net cash inflow from financing activities decreased from \$85m to \$nil due to:

- Decreased cash requirements for the construction of the Livingstone Beef facility (FY15: \$34m)
- Decreased cash requirements for the purchase of cattle.
- A \$25m drawdown made during FY16 in order to fund working capital requirements including feedlot cattle supply was repaid in full during the period.

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Balance Sheet Summary

(\$m)	31 Mar 2016	31 Mar 2015	Variance
Cash and cash equivalents	15	13	2
Biological assets - Livestock	563	465	98
Trade and other receivables	24	30	(6)
Inventories and consumables	34	37	(3)
Other Current Assets	2	1	1
Intangible Assets	3	-	3
Property, plant & equipment & Intangible Assets	742	668	74
Total Assets	1,383	1,214	169
Trade and other payables	(33)	(34)	1
Total borrowings	(369)	(369)	-
Deferred tax liabilities	(80)	(27)	(53)
Other liabilities	(15)	(22)	7
Total Liabilities	(497)	(452)	(45)
Net Assets	886	762	124
Gearing ³ (Net debt/net debt+equity)	29%	33%	(4ppt)
Days Working Capital ⁴	196	241	(45)

Balance Sheet Movements – 31 Mar 16 vs. 31 Mar 15

Total assets have increased by \$169m largely due to:

- A net increase in livestock inventory of \$98m as a result of the uplift in the market valuation of AACo's herd.
- A net increase in property, plant and equipment and intangible assets of \$74m due largely to the upward revaluation of the Group's property assets.

Total liabilities have increased by \$45m largely due to:

- Increased deferred tax liabilities of \$53m as a result of the company's income tax position for the period.

Days working capital has decreased 45 days due to sales revenue growth significantly exceeding the increase in working capital requirements for the FY16 period. This is a reflection of the increase in internal cattle supplied for processing and the decrease in working capital used for funding external cattle purchases.

Funding

Group gearing decreased from 33% to 29% against the PCP, reflecting the revaluation uplift of both property and livestock assets in FY16.

During the period, AACo's existing bank debt facility of \$400m was split into two separate facilities – Facility A of \$250m and Facility B of \$150m. The Gearing Ratio financial covenant has been replaced by a loan to value (LVR) test which is set at different percentages and measured against different asset classes for each facility.

Amendments to the funding arrangement have resulted in:

- Increased funding flexibility
- Improved alignment between the type of funding and the underlying asset base
- Reduced funding costs

Tax

Income tax expense for FY16 was \$29m, representing an effective tax rate of 30%.

Deferred tax liabilities relate to unrealised gains from the market revaluation of livestock.

³ The gearing ratio is calculated utilising the drawn-down balance of the bank loan facility and convertible notes with no offset for borrowing costs.

⁴ Average Current Assets less Current Liabilities x Days in Period / Total Sales Revenue

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HERD PROFILE

The closing branded herd size has decreased by 13% or 67.6 thousand head (24.4 mil kg LW) in FY16 including a 19 thousand head increase in attrition. The Company's ability to estimate attrition has improved because of the ongoing investment in individual animal identification systems. Despite the adjustment to the estimation of attrition in FY16, the Company's internal benchmarks continue to align with industry estimations of attrition from comparable scale operations across the regions that AACo operates in. The closing herd position was also impacted by lower cattle purchases. The Company limited supplemental purchasing activity in the strong live cattle pricing environment experienced during FY16. The average age of Grassfed cow breeding herd improved from 7 years in FY15 to 6 years in FY16.

As mentioned in the Director's Report, the segments (also previously referred to as 'verticals') of Grass, Grain, Northern Beef and Corporate are no longer presented. The business is entirely focused on the "production and sale of beef" through an integrated supply chain. However, the Company has provided relevant information below to assist users of the financial report during the period of change.

HEAD (‘000)	31 MAR 2016 GRAINFED	31 MAR 2016 GRASSFED	31 MAR 2016 N.BEEF	31 MAR 2016 TOTAL	31 MAR 2015 GRAINFED	31 MAR 2015 GRASSFED	31 MAR 2015 N.BEEF	31 MAR 2015 TOTAL
Opening Balance	104.2	406.2	1.3	511.7	84.3	382.7	-	467.0
Brandings	8.4	116.9	-	125.3	8.2	119.6	-	127.8
Attrition	(2.3)	(13.7)	(0.5)	(16.5)	(1.6)	(15.0)	-	(16.6)
Attrition - Adjustment	-	(19.2)	-	(19.2)	-	-	-	-
Transfers	67.9	(119.6)	51.7	-	34.4	(58.5)	24.1	-
Purchases – Live	47.8	12.6	34.9	95.3	64.1	53.8	0.3	118.2
Purchases – Finished	29.2	-	-	29.2	33.5	-	-	33.5
Sold Live	(10.9)	(51.7)	(1.4)	(64.0)	(6.4)	(76.4)	(8.2)	(91.0)
Processed and Sold as beef	(132.9)	-	(84.9)	(217.8)	(112.3)	-	(14.9)	(127.2)
Closing Balance	111.4	331.5	1.1	444.0	104.2	406.2	1.3	511.7

Closing balance consists of:

Breeding and Stud Cattle	14.5	251.1	-	265.6	16.0	265.4	-	281.4
Trading Cattle	48.7	80.4	1.1	130.3	33.8	140.8	1.3	175.9
Feedlot Cattle	48.2	-	-	48.2	54.4	-	-	54.4

KILOGRAMS LIVE WEIGHT (MIL)	31 MAR 2016 GRAINFED	31 MAR 2016 GRASSFED	31 MAR 2016 N.BEEF	31 MAR 2016 TOTAL	31 MAR 2015 GRAINFED	31 MAR 2015 GRASSFED	31 MAR 2015 N.BEEF	31 MAR 2015 TOTAL
Opening Balance	44.6	159.5	0.5	204.6	35.5	142.4	-	177.9
Weight produced	36.1	32.3	(0.4)	68.0	27.4	48.5	(0.1)	75.8
Attrition – Adjustment	-	(7.8)	-	(7.8)	-	-	-	-
Transfers	17.4	(38.5)	21.1	-	9.6	(18.4)	8.8	-
Purchases – Live	17.9	4.4	14.5	36.8	22.6	15.6	0.1	38.3
Purchases – Finished	18.2	-	-	18.2	19.8	-	-	19.8
Sold Live	(4.7)	(17.4)	(0.5)	(22.6)	(3.0)	(28.5)	(2.4)	(33.9)
Processed and Sold as beef	(82.1)	(0.1)	(34.8)	(117.0)	(67.3)	-	(5.8)	(73.1)
Closing Balance	47.4	132.4	0.4	180.2	44.6	159.6	0.6	204.8

Closing balance consists of:

Breeding and Stud Cattle	5.7	106.1	-	111.8	6.1	112.4	-	118.5
Trading Cattle	16.6	26.3	0.5	43.4	11.2	47.1	0.5	58.8
Feedlot Cattle	25.0	-	-	25.0	27.3	-	-	27.3

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VERTICAL BRIDGE

Operating EBITDA (\$m)	FY16	FY15	Variance
Grainfed	17	15	2
Grassfed	28	13	15
Northern Beef	(9)	(10)	1
Corporate	(21)	(22)	1
Group	15	(4)	19

Grainfed Operating Metrics

	FY16	FY15	Variance
Sales			
Wagyu meat and by-product kilograms sold - mil kg CW	13.3	11.6	1.7
Wagyu meat and by-product sold - \$/kg CW	13.33	11.99	1.34
Shortfed/Other meat and by-product kilograms sold - mil kg CW	20.2	14.60	5.6
Shortfed/Other meat and by-product sold - \$/kg CW	8.25	8.20	0.05
Live Cattle Sales - mil kg LW	4.7	3.0	1.7
Live Cattle sales - \$/kg LW	2.75	2.6	0.15
Production & Sourcing			
Gross Processing Cost - \$/kg HSCW	1.23	1.16	0.07
Kilograms live weight produced - mil kg LW	36.1	27.4	8.7
Cost of Live weight production - \$/kg LW	3.32	3.43	(0.11)
Finished cattle purchases - mil kg HSCW	9.9	11.6	(1.7)
Finished cattle purchases - \$/kg HSCW	5.30	4.38	0.92
Store cattle purchases - mil kg LW	17.9	22.6	(4.7)
Store cattle purchases - \$/kg LW	3.78	2.68	1.1

Grassfed Operating Metrics

	FY16	FY15	Variance
Sales			
Cattle sold externally - mil kg LW	17.4	28.6	(11.2)
Cattle sales - \$/kg LW	2.69	1.97	0.72
Production & Sourcing			
Kilograms live weight produced - mil kg LW	24.5	48.5	(24)
Cost of cattle production - \$/kg LW	2.52	1.39	1.13
Store cattle purchases - mil kg LW	4.4	15.6	(11.2)
Store cattle purchases - \$/kg LW	1.94	1.27	0.67

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Northern Beef Operating Metrics

	FY16	FY15	Variance
Sales			
Kilograms Sold - mil kg CW	17.9	n.a	17.9
Kilograms Sold - \$/kg CW	4.7	n.a	4.7
Production & Sourcing			
Livingstone Throughput – mil kg HSCW	17.6	n.a	17.6
Store cattle purchases - mil kg LW	14.5	n.a	14.5
Store cattle purchases - \$/kg LW	1.71	n.a	1.71

Corporate Financial Summary

(\$m)	FY16	FY15	Variance
Operating Expenses	(21)	(22)	1
Depreciation and amortisation expense	(2)	(2)	-
EBIT - Operating	(23)	(24)	1