



# Australian Agricultural Company

Financial Results Full Year ended 31 March 2017

# FY17 snapshot – path of continued growth

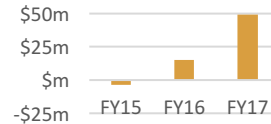
*AACo's strategy is delivering returns*

## Operational performance

- ✓ Brand & Marketing strategy being validated
- ✓ Production costs reduced and average sale price increased
- ✓ Targeted cattle inventory investment
- ✓ Livingstone efficiency gains
- ✓ Working capital improvement

## ... delivering financial returns

\$45.0m Operating EBITDA

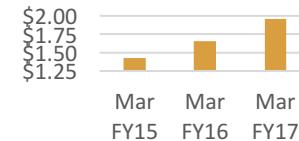


10% Operating  
EBITDA margin  
(vs 3% in FY16)

\$29.3m Net  
Operating Cash Flow

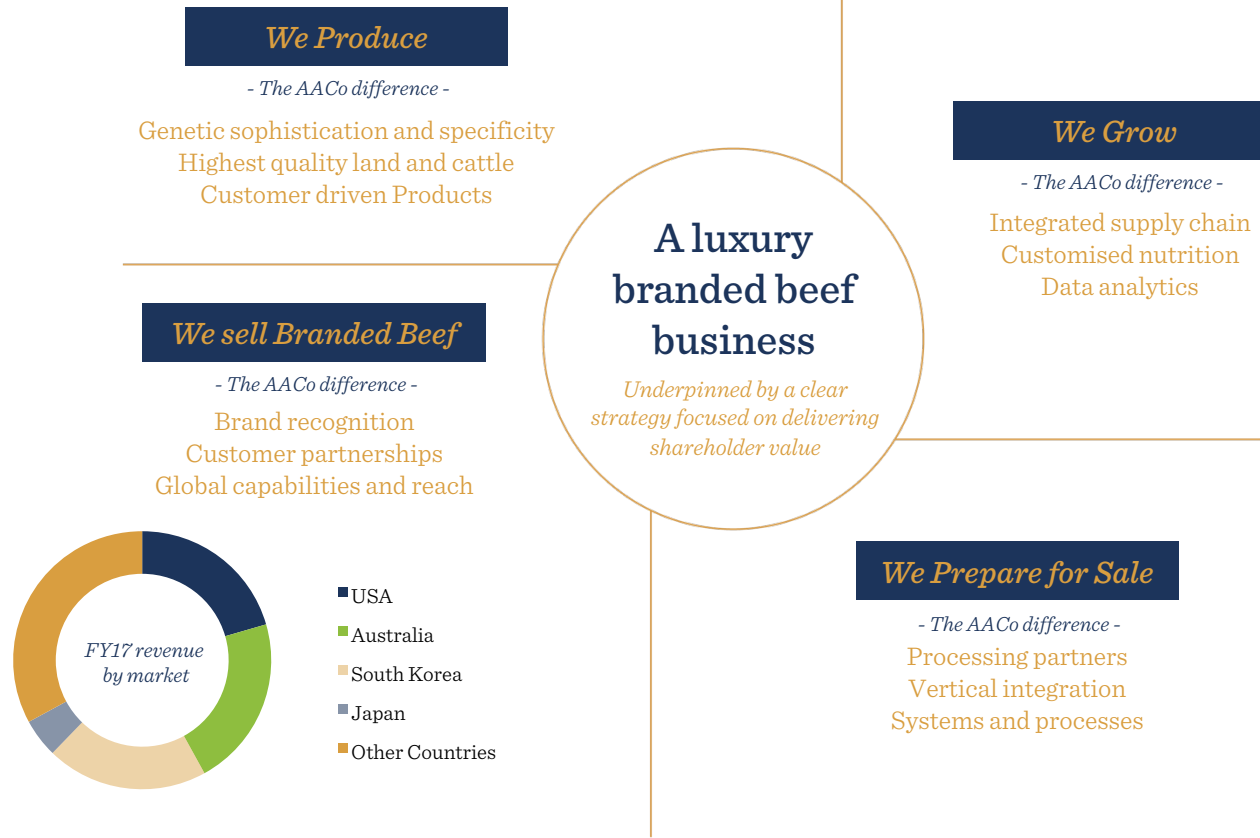
+34% on FY16

\$1.82 NTA per share



# Who We Are





# Business model transformation

## The AACo Journey

*From pastoral company towards a vertically integrated, luxury, branded beef business*



*Multiple opportunities to drive strong growth in FY18 and beyond*



# FY17 Operational Highlights



# Brand & Marketing strategy delivering results

*AACo is focused on strategic, mutually beneficial partnerships with customers*

This model delivers a range of benefits to AACo and our customers:

- ✓ Brand exclusivity and investment
- ✓ Better control of product through to the chef and end consumers
- ✓ Brand driven pricing
- ✓ Joint business planning supports supply chain optimisation

# Brand & Marketing strategy being validated

## *Singapore launch*

- ✓ Strategic exclusive distribution partnership with Culina
- ✓ Successful launch of Westholme and Wylarah luxury brands in Singapore in October 2016
- ✓ September - March 2017 volume increase of 11% and overall average sale price increase of 28% versus same period 2016



*Next launch market is Taiwan on the 8<sup>th</sup> June 2017*

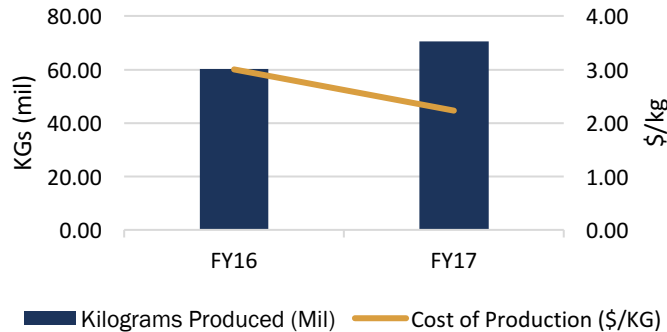




# Margin expansion

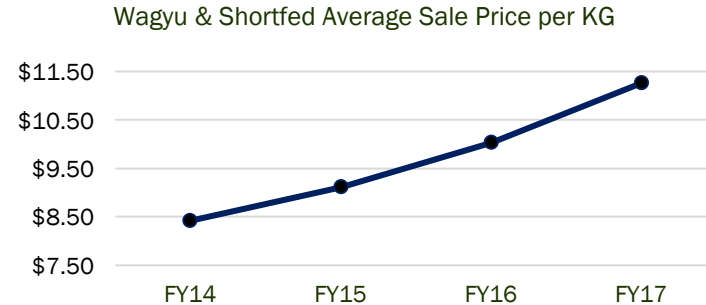
*Operating EBITDA margin 10% (vs 3% in FY16)*

AACo's cost of production has declined...



- 27% decrease in cost of production per kg
- Driven by a combination of:
  - ✓ Improved supply chain management
  - ✓ Increased focus on internal supply
  - ✓ Favorable seasonal conditions

... while our average selling price has increased



- 12% increase in Wagyu and Shortfed average meat sale price per kg
- Driven by a combination of:
  - ✓ Supportive macro conditions
  - ✓ Operational focus
  - ✓ Strategic partnership approach

# Targeted cattle inventory investment

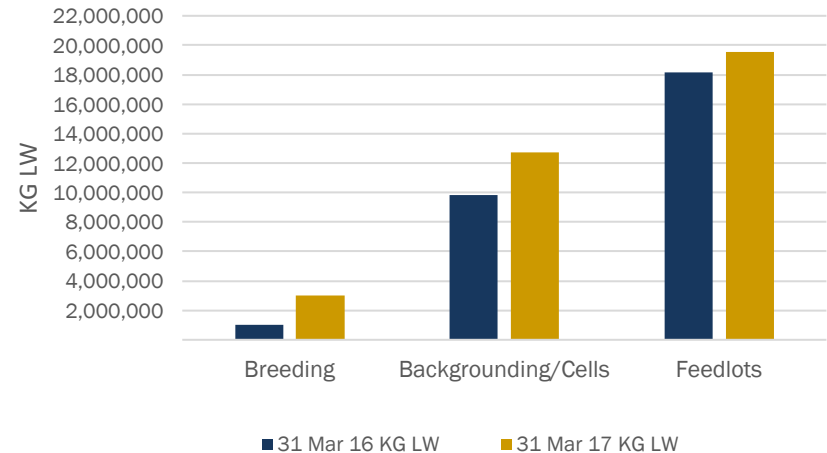
**AACo actively manages the size and mix of its cattle inventory to support its integrated supply chain**

- Certainty of supply and quality is critical for customers
- Margin enhancement through increased internal sourcing

**4% increase in cattle inventory in FY17, with a primary focus on building Wagyu supply (21% increase)**

- Wagyu now accounts 18.5% of cattle inventory, up from 15.6% in FY16

**Wagyu inventory has grown, and is concentrated in backgrounding & feedlots**



# Further improvement in Livingstone efficiency

## Significant efficiency gains in FY17

↑ **26%**  
Head processed

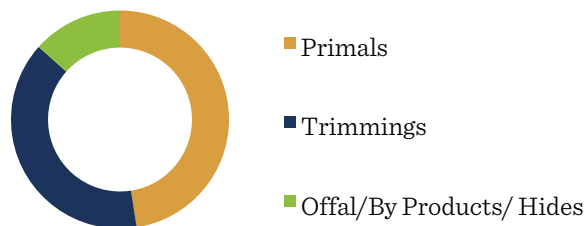
↑ **30%**  
KG processed

↓ **30%**  
Conversion cost

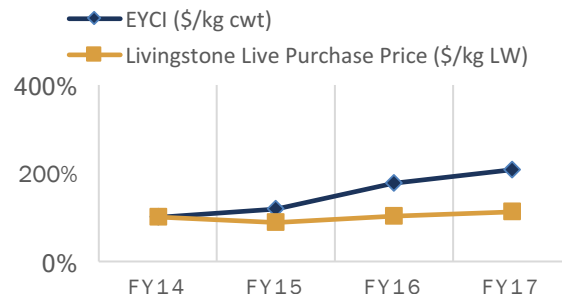
Driven by:

- ✓ Further increase in volumes processed
- ✓ Operational efficiency improvements

## Livingstone sales revenue mix in FY17



## Livingstone supply costs vs EYCI



EYCI CAGR (FY14-FY17):  
**28%**

Livingstone Purchase Price  
CAGR (FY14-FY17): **5%**

EYCI price based on average of daily data for each FY  
CAGR is the Compound Annual Growth Rate

# Working capital improvement

- ✓ Supply chain optimisation has driven a reduction in finished goods inventory
- ✓ Operational focus on debtor controls
- ✓ \$15.1m of cash released from working capital in FY17 as a result of these two initiatives

\$m	31 Mar 2017	31 Mar 2016	Improvement
Receivables	14.1	23.7	9.6
Inventories (meat and commodities)	28.6	34.1	5.5
Working Capital release in FY17 from these initiatives			15.1

# FY17 Financial Highlights



# Strong improvement in key operating metrics

	FY17	FY16
Meat sales % of total sales	86%	88%
Meat sales (mil kg)	38.7	44.4
Cost of production (\$/kg LW)	\$2.14	\$2.93
Average meat sale price Wagyu and Shortfed (\$/kg CW)	\$11.26	\$10.02
External purchasing of Wagyu & Shortfed (\$m)	\$82.8m	\$120.5m

	At 31-Mar-17	At 31-Mar-16
Breeding cows ('000 head)	180	174
Breeding cow average age (years)	6.2	6.3
Wagyu proportion of cattle inventory (% of head)	18.5%	15.6%

- ✓ High value, higher operating margin focus
- ✓ Improvement in cost of production
- ✓ Improvement in average sale price
- ✓ Reduced reliance on external Shortfed supply
- ✓ Investment in cattle inventory focused on Wagyu

# Driving significant growth in profitability

\$m	FY17	FY16	Change
Branded beef sales	383.0	428.3	(45.3)
Cattle sales	63.7	61.1	2.6
<b>Total sales revenue</b>	<b>446.7</b>	<b>489.4</b>	<b>(42.7)</b>
Processing & logistics costs	(50.4)	(65.0)	14.6
Total sourcing & production costs	(484.0)	(492.8)	8.8
Innovation	(4.2)	(3.2)	(1.0)
Sales & marketing	(4.7)	(6.3)	1.6
Corporate	(18.9)	(16.8)	(2.1)
Cattle inventory movement at standard cost	161.3	102.1	59.2
Changes in finished goods inventory	(5.5)	(2.7)	(2.8)
Other	4.7	10.2	(5.5)
<b>Operating EBITDA</b>	<b>45.0</b>	<b>14.9</b>	<b>30.1</b>
Difference between the movement of livestock inventory at standard cost versus market value	88.2	117.2	(29.0)
<b>Statutory EBITDA</b>	<b>133.2</b>	<b>132.1</b>	<b>1.1</b>

- ✓ Operating EBITDA of \$45.0m triple FY16
- ✓ Focus on higher value business drove margin improvement and a slight decrease in revenues
- ✓ Positive impact from the production of kg below standard cost
- ✓ Disciplined management of overhead costs



# Increased operating cash flow

- ✓ Improved net operating cash flow by \$7.5m while investing in strategic assets
- ✓ All cash needs funded by operations and existing bank facilities
- ✓ Strategic investments included:
  - ✓ Securing cattle inventory
  - ✓ Purchasing 70,000 megalitres of water rights

\$m	FY17	FY16	Change
Net operating cash flow	29.3	21.8	7.5
Cash used in investing activities	(28.4)	(19.4)	(9.0)
Cash flows from financing activities	27.0	0.0	27.0
<b>Net change in cash</b>	<b>27.9</b>	<b>2.4</b>	<b>25.5</b>
<b>Closing cash balance</b>	<b>42.5</b>	<b>14.6</b>	<b>27.9</b>



# Strong balance sheet

- NTA per share up 10% to \$1.82
  - ✓ Property valuation increased 7% or \$44.3m
  - ✓ Average cattle value per head increased 13% to \$1,207 per head
- Further reduction in Gearing Ratio, to 24.4%

	31 Mar 2017	31 Mar 2016	Change
Livestock (\$m)	662.5	563.2	99.3
Property, Plant & Equipment (\$m)	792.4	741.8	50.6
Net debt (\$m)	328.8	361.7	(32.9)
Gearing ratio (%)	24.4%	29.0%	(4.6ppt)
Net tangible assets (\$/share)	1.82	1.66	0.16

# Our Strategy



# Leveraging investment in our three integrated supply chains

*Classic*



*Modern*



*Luxury*



# A clear strategy to deliver shareholder value

## Branding and Marketing

- ✓ Establish new customer partnerships in new markets
- ✓ Invest in our brands

*Drive revenue growth and further margin improvement*

## Strategic Focus 3 Pillars

## Integrated Supply Chain

- ✓ Supply chain improvements and simplification
- ✓ Emphasis on Internally produced supply

*Improve cost of production  
Consistent delivery to customers*

## Innovation and Technology

- ✓ Invest to drive precision in quality production
- ✓ Improve the productive capacity of our assets

*Enhance product quality and production efficiency*

Consistent with this strategy, we expect continued improvement

Questions?



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