



Australian Agricultural Company Limited
ABN 15 010 892 270

AACo 2017 Annual General Meeting Address to Shareholders

ASX Announcement No. 15/2017

23 August 2017

Attached is the Chairman's and outgoing Managing Director's Address to Shareholders for the 2017 Annual General Meeting of the Australian Agricultural Company Limited ('AACo') to be held today.

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Shareholders.

Welcome to the 2017 Annual General Meeting of AACo.

It is great to be here in Darwin.

Half of our business is in the Northern Territory. We find it a very good place to do business and it makes sense to recognise our commitment to the region by hosting our AGM here.

You will hear from your outgoing Managing Director, Jason Strong, shortly.

As many of you will be aware, Jason has resigned from AACo and we are pleased to have this opportunity to publicly acknowledge his achievements as he presents this annual report as his last AACo duty.

Jason will brief you on the performance of your company in the 2017 financial year – as well as the outlook for the 2018 financial year.

Before Jason speaks, I'd like to put AACo's performance and outlook in a broader context.

Late last year, Bill Gates – the founder of Microsoft – visited our Wylarah Station, and was impressed by what he saw.

Mr Gates later wrote:

“I was impressed by how high tech the whole process was ... [AACo] relies on cutting edge genomics to breed Wagyu beef cows, some of the most elite cattle in the world.”

I couldn't agree more.

2017 was another year of progress for AACo.

We have spent the past four financial years transforming your company.

Over those four years AACo has evolved from an Australian pastoral company with a proud domestic history into a luxury branded beef business with an exciting international future.

We have built something to be proud of: an authentic beef brand our customers can trust.

At AACo, we have earned trust by ...

taking greater control of our supply chain,

investing in innovation and technology, and

investing in our brands.

Before setting down this path back in 2014, we knew this transformation would take time and considerable effort.

Your Board debated the decision to fundamentally change the way we had done business and the required changes that would be necessary to the company's culture.

In the end, we unanimously concluded that the outcome of these efforts would definitely support the commitment to change.

I am proud to state, as a consequence of those years of planning and investment, we are seeing the fruits of our labour and are now in a position to take our brand to the world.

That is why we launched our Wylarah and Westholme brands in Singapore last October.

We will be intentional in our expansion, learning from each launch.

I am delighted to say that our Singapore launch resulted in a significant increase in demand.

Volume increased 11 per cent and overall average sale prices increased by 28 per cent between September 2016 and March 2017 – compared to the same period in the previous financial year.

We are well on the way to realising our global ambitions for AACo – global ambitions that are grounded in financial strength and operational excellence.

For instance, in 2017:

Our operating EBITDA increased,

Our net operating cash flow increased,

Our net tangible assets increased,

Our Livingstone facility became even more efficient, and

Our margins improved significantly.

However, while the increased integration of our supply chain has made our business more predictable and resilient, we remain exposed to a number of external factors.

In recent months, the Australian beef industry has been dealing with a rise in the value of the Australian dollar, higher feed prices, offshore regulatory uncertainty, changes in global beef supply and Australian cattle prices softening from historically high levels.

This is why our strategy of vertical integration is so important, to reduce some of our exposure to these external market factors.

We will continue to invest in our business to improve the productivity of our asset base and strengthen our organisational capabilities. This will include investment in people, physical infrastructure, and innovation. We will continue to apply a disciplined approach to undertaking such investment decisions, with a clear understanding of the expected strategic and financial benefits.

We remain committed to our strategy. Because it is the right strategy.

In summary, your company is in a strong position.

We have good financials.

We control our supply chain from the farm gate to the restaurant plate.

We have the ability – through world-class technology and innovation – to consistently deliver a world-class product.

And we have authentic luxury brands.

As I said, 2017 was a year of progress.

But we cannot afford to be complacent.

The challenge ahead of us is to keep earning the right to grow by continuing to focus on efficiency and quality.

We must keep pushing if we want to capitalise on our proud local history and realise an exciting global future.

Finally, before I hand over to Jason Strong, I would like to say a few words about the leadership of your company.

As you know, Jason resigned earlier this month.

I want to take this opportunity to thank Jason for his hard work and leadership.

The recent success of AACo owes much to Jason's stewardship. He has travelled tirelessly around the region and within Australia to promote the company and to ensure our operations are in great shape. On behalf of the Board and everyone at AACo, I want to wish him the very best in his next endeavours.

With Jason's resignation, we are now conducting a search internally and externally for a new Managing Director.

Until a new MD is appointed, the leadership team will be supported by an Interim Operating Committee.

The membership of the Interim Operating Committee includes three Board members:

1. myself;
2. Stuart Black, the Chair of the Audit and Risk Management Committee; and
3. Tom Keene, Chair of the Staff Remuneration Committee.

Together, we will ensure AACo continues to innovate, transform and grow.

Each and every member of your Board of Directors is honoured to be part of this historic company. We are humbled by its long and prestigious heritage. We are committed to positioning AACo for years of prosperity into the future.

Shareholders, your company remains in good hands.

I will now hand over to Jason Strong.

1. Introduction

Thanks Donald.

As the Chairman said, I have resigned as Managing Director of AACo.

I want to thank the Board for giving me the opportunity to lead this great company since January 2014.

I want to thank the AACo team for their hard work and loyalty.

And I want to thank you, the shareholders, for your support.

I am proud to have been part of the AACo family.

Proud that, during my time, ...

- our share price has increased by almost 40%
- our profits have increased,
- there were no land sales, while our total assets increased by 41 %, and
- no workplace fatalities, while the lost time injury frequency rate fell from 78 to 15 injuries per million hours worked.

I am very proud of the health and safety culture that we have developed during my time as Managing Director and CEO.

I leave AACo in better shape than I found it – confident that there are even better days ahead for an iconic Australian company that is well on the way to becoming an iconic global brand.

With that being said, I would now like to make my final annual report as Managing Director.

2. Financials

Last year, the Chairman and I reported to you that the changes made in 2014 were beginning to pay off.

That statement is supported by the results in this annual report.

Compared to 2016:

- Our operating EBITDA increased by \$30.2 million to \$45 million, with the operating EBITDA margin going from 3 per cent to 10 per cent;
- We had a net operating cash flow of \$29.3 million, up by \$7.5 million;
- Our net tangible assets increased 10 per cent, up from \$1.66 per share to \$1.82 per share;
- Our statutory net profit after tax increased by \$3.8 million to \$71.6 million;
- And our basic earnings-per-share increased from 12.7 cents to 13.2 cents.

I'd like to draw your attention to the net operating cash flow.

That \$7.5 million improvement in net operating cash flow is important.

It's important because it was delivered during a time when we increased the proportion of Wagyu in the herd – from 15.6 per cent to 18.5 per cent – and purchased 70,000 megalitres of water rights.

That demonstrates two points.

First, the business is strong.

Second, the business is investing to ensure it remains strong.

That is why AACo is on a solid path to growth.

3. Operations

As strong as our financials are, the foundation of our growth has been and will remain the quality of our product and the excellence of our operations.

That is why I am pleased to report that, during 2017:

- Our Livingstone facility had a 26 per cent increase in the number of head processed, a 30 per cent increase in the kilograms of beef produced, and a 30 per cent decrease in conversion costs;
- Our relentless focus on supply chain optimisation and debtor controls saw \$15.1 million of cash released from working capital;
- Our cattle production costs decreased by 27 per cent;
- And the average selling price for Wagyu and Shortfed beef increased 12 per cent per kilogram.

In other words, we are paying less to produce world-class beef – and the world is paying more to consume that beef.

The Chairman mentioned the Singapore launch of our luxury Wylarah and Westholme brands.

We followed that success with another launch of Wylarah and Westholme in Taiwan in June.

Both of those launches are important milestones – and will help cement our position as a luxury brand among Asia's growing middle class.

As the Chairman said, 2017 was another year of progress for AACo.

4. The Outlook

Looking to the future, AACo needs to build on these successes.

As the outgoing MD, it's not for me to say what actions AACo should take to keep growing.

Those decisions are up to the Board and the next Managing Director.

I would like to make one observation, though.

AACo has changed a great deal since 2014. In fact, it has transformed.

We have changed our business model – moving away from cattle sales and focusing on adding value to the supply chain.

We have strengthened our supply chain – and made significant investments in production.

We have used data, analytics and technology to focus on quality.

And these changes have worked.

Many of the people who made those changes a success remain with AACo and – thanks to the experiences of the past four years – are more than capable of taking the company into 2018 and beyond.

The point I am making is this: AACo is more than its CEO. It is a team of great individuals that are dedicated to the company and its future success.

Your company has a great story to tell, a great product to sell and great people on hand to get the job done.

5. Conclusion

In conclusion, AACo is in a good position to keep building on the gains of the past four years.

To realise AACO's exciting future and become a global brand, the company needs to finish the transformation that started in 2014.

I will not be at the helm for the next stages of our process. However, I know that the Board and the team they have assembled will take AACo to greater heights. And I will be cheering them on.

I wish AACo's Board, staff and shareholders every success in the years to come.

Thank you.