



Australian Agricultural Company Limited  
ABN 15 010 892 270

## AACO 2018 ANNUAL GENERAL MEETING ADDRESS TO SHAREHOLDERS

31 July 2018

Attached is the Chairman's and Chief Executive Officer's Address to Shareholders for the 2018 Annual General Meeting of the Australian Agricultural Company Limited ('AACo') to be held today, 31 July 2018.

**For enquiries:**

Ilse Nolan  
Head of Corporate Affairs  
[inolan@aaco.com.au](mailto:inolan@aaco.com.au)  
07 3368 4419  
0438 144 127



## 2018 AGM CHAIRMAN'S ADDRESS

Welcome to Australian Agricultural Company's 2018 Annual General Meeting. Two thousand and eighteen has been a significant year of change and transformation for AACo, and an important one in the evolution of our company. But it is one that positions us well for the future

I'm pleased to have the opportunity today to update my fellow shareholders on the progress towards achieving our strategy and the green shoots that tell us that it is working. We can see that from the success of our luxury brands in Singapore.

What sets AACo apart is our unique ability to produce luxury branded beef at scale. We do that through the combined power of our strategic brand portfolio, our integrated supply chain and our production expertise.

These are assets we have been building and shaping for generations. They can't be replicated in the short term, and are unlikely to be matched in the near future. It's this advantage that we have and will continue to invest in.

Our current journey commenced in 2013 with the decision of the Board to transform AACo into luxury branded beef business. The origins of that decision came from walking into Harrods in London and seeing our beef being sold for £200 a kilo. When we saw that, we knew what was possible.

This journey was about transforming from an Australian pastoral company with a proud domestic history into a luxury branded beef business with an exciting international future.

This ambition is by no means an easy feat. When we embarked on this journey in 2013, we knew it was going to be difficult. It would require patience, and some tough decisions along the way. And not all the avenues we pursue will prove successful, especially as the implementation of our strategy evolves.

We see great potential for AACo's future as a luxury branded beef business, but to do that we will need to go where no other beef producer has successfully gone before us.

So what I'm excited about is after four years' hard work transforming the AACo business to deliver on that strategy. We now see green shoots. Those green shoots are strong, and they are bright. The price performance of Westholme and Wylarah speaks for itself in their initial markets. Singapore continues to perform strongly, and we are pleased by the results in Taiwan.

We have put in place a world-class management team – led by Hugh Killen, who brings critical expertise the business needs – to execute successfully against our long-term strategy. And we have made the tough decisions, to allow us to focus on our core competencies and continue our shift away from commoditised beef. This includes our decision to suspend operations at Livingstone Beef and to improve the profitability of our 1824 supply chain.

In the short-term, this year's earnings result was impacted by a number of factors. These included increased competition affecting the most commoditised end of our product portfolio and increased input costs driven by dry weather conditions. Volumes also decreased in line with our strategic decision to move away from a reliance on external supply.

In our core Luxury/Prestige brand segment, sales volumes are now driven almost entirely from our internal supply chain. This is an important milestone, and has been made possible by our ongoing investment and focus. At the same time, sales are up with improved price per kilo. This is clear evidence of the revenue and margin benefits of our strategic direction as a business.

Our balance sheet remains strong with significant liquidity. There is comfortable headroom within existing facilities, and our gearing ratio is comfortably within our targeted range. The decisive action we've taken to stop current operating losses from Livingstone Beef and to simplify the 1824 supply chain has had an immediate positive impact on the profitability and cash flow performance of the company. Most importantly, it further focuses our business on the production and marketing of high-end branded beef.

You'll be hearing more from Hugh shortly on the financial performance of the company and outlook ahead.

What's clear is that within AACo is a compelling, profitable business. I stand before you confident our strategy is not only the right one, but it is working. It's working because of what we have done in aligning our assets to that strategy.

We are proud to have stewardship of a blue-chip portfolio of pastoral assets in some of the best cattle country in the world. But most importantly, it's how these assets work together that creates value for our business. Unlocking that value hasn't been just about integrating our properties to form a value-adding supply chain, it is also about ensuring we have the right infrastructure and assets in place to produce luxury beef at scale, and to do that consistently.

That means investment in marketing, in logistics, feedlotting, pasture management, and in herd improvement. It's these strategic decisions that positions AACo to capture growth and realise shareholder value over the long-term.

First of all, we have taken control of our supply chain from production to the restaurant. That has been critical. Controlling our supply chain allows us to regulate costs, control quality, ensure the heritage and provenance of our luxury products and better respond to consumer demand.

Another critical part is the composition of our herd. Our herd of over 500,000 premier cattle has been bred over generations to thrive in Australian conditions, and includes one of the world's

largest herds of Wagyu. Wagyu cattle offer superior marbling qualities, but that's by no means the full story. The AACo composite cattle we have bred are unique. What they offer when infused with our Wagyu genetics is a premium eating quality that we think is really something special. That's about superior eating quality, and it's also about consistency. And we're not stopping there. We are continuing to invest in innovation and technologies to continually improve our herd genetics, further driving quality yields and reliability of supply.

Through this work undertaken over the past four years, the fundamentals are now in place. AACo is well-positioned to now realise the margin and profit upside offered by our luxury branded beef strategy, underpinned as it is by our strong, diverse asset portfolio and integrated, internal supply chain.

You can see that already working in our Westholme and Wylarah brands, and the upside potential as we transition further to these brands in considerable. That long-term strategy, which is the delivery of luxury branded beef at scale to the highest-value customers worldwide, has remained a constant.

We are continuing to deliver on this strategy as we expand our footprint and reach in target high-value markets. We are doing so through expanding our relationships with new and existing partners. The feedback from chefs, customers and partners as we build those relationships continues to be nothing but positive.

Looking across our brand portfolio, I am proud of the unique stable of strategic brands we have built in a short period of time. Each has a strong provenance and are market leading in their respective segments. Through this portfolio, AACo already enjoys a strong global footprint and market presence with our heartland brands well-established. Our footprint offers significant growth opportunities, as the transition to our higher-value brands continues to progress.

It means that AACo is a strong, heritage business with an established presence in high-potential, high-value markets. We are supported by our own portfolio of world-class assets and market leading brands.

I remain immensely proud to have the privilege of chairing such an iconic company and it is a feeling shared by all my fellow directors. To turn this unique potential into value for shareholders, we will sustain our focus on the continuing growth and evolution of our core business – the delivery of luxury branded beef at scale to the highest-value customers worldwide.

We have been consistently and steadily working towards that goal and continuing to ensure the company advances along that journey remains the primary focus for your Board. AACo will continue to be disciplined in how it will grow in the future. We enter the new financial year with good momentum and a stellar team in place.

We look forward to the coming year with enthusiasm, energy and confidence. On behalf of the Board, I thank all shareholders for their continued support. I'd also like to thank AACo's management team and employees for their ongoing contribution and commitment to the Company.

Shareholders, your company remains in good hands

I will now hand over to Hugh Killen.

## **2018 AGM CEO ADDRESS**

Good morning and welcome to AACo's Annual General Meeting for shareholders. Thank you all for joining us today, and thank you for your continued support of AACo.

AACo is a unique company. Unique in the combination of assets that sets us apart. Unique in the brands we have built. Unique in the people who are responsible for delivering our world-class product.

It is a privilege to be CEO of such a company, and I stand here before you proud and honoured to have that opportunity.

Two-thousand and eighteen has been a year of challenges for AACo, and difficult – yet necessary – decisions that are turning AACo back towards growth. It is my job as CEO to be upfront with you and the investment community about the need for these actions with the utmost in clarity and transparency.

However, I'd also like to convey with the same clarity and conviction our confidence and certainty about AACo's future. A future that will be powered by the success of our customer-focused, branded beef strategy. We have the foundations for a future of sustainable and profitable growth, and we have taken a series of actions that are driving immediate improvement to cash flow and earnings.

When you look at the company's financial performance for FY18, these are tough numbers, but they tell an important story for you, our shareholders.

They show that:

- With the support of the Board and my team, I have made the tough decisions needed to redirect AACo back toward growth.
- AACo has a clear value proposition – our unrivalled ability to produce the highest quality beef at scale
- There is a highly profitable business within AACo – but we must unlock that value.
- And our branded beef strategy is the right one – we are making progress and we are investing in driving it forward.

Responsible for taking this forward is a new executive team, which I am proud to lead. We recently announced the appointment of two key executive roles: Nigel Simonz as our new CFO, and Anna Speer as Chief Operations Officer (Pastoral). Nigel Simonsz brings to AACo a strong track record of achievement in complex, listed environments, coupled with deep domain

expertise in branded international supply chains. He will be charged with lifting our financial acumen, and driving clearer accountability for the allocation of our capital and financial resources. Anna Speer joins us from AuctionsPlus, where she was CEO. Her background makes her well qualified to drive and extend AACo's unique ability to produce the highest-quality beef at scale.

I'm thrilled to welcome them both to my team. AACo is in the hands of a highly-capable team intent on delivering the business and financial management to match AACo's traditional pastoral expertise.

Again, what sets AACo apart is our unique ability to produce the highest-quality branded beef at scale. This competitive advantage is unmatched – worldwide – and it comes from the integration of our unique assets into one efficient supply chain. This is how we connect our brands to high value, high margin customers around the world, and that is what delivers true return on these assets.

To get this right, however, more work needs to be done. By that I mean aligning each of part of our supply chain to deliver against our brand promise, so they work together as efficiently and effectively as possible. And getting that right is a prime focus for us, your management team.

Producing the highest-quality beef at scale allows us to meet the needs of the highest value consumers, more often, in more places around the world. Our customers are the chefs who buy our product and they buy our product for the ultimate dining experience it offers their guests. They are true connoisseurs and they care about more than just marbling, which is why it's important our marquee brands, Westholme and Wylarah, are the first in market to be aligned to the MSA's new, robust eating quality standards.

What our chefs know is that high-value customers want high-quality food that reflects their values. They want natural, ethical and sustainable produce, and are willing to pay for it. We also know the highest value customers are seeking a complete experience. That means the quality of the meal, the provenance of the product, and the heritage of its story.

AACo is uniquely placed to meet these rising demands. What we need to do is continue to refine our understanding of our customers, and to improve the value chains which connect our beef to them. This is how we capture more of the premium margins these high value consumers provide.

We are only able to do so because of the quality of our asset portfolio. We continue to benefit from investment and management in those assets. Almost a fifth of the herd now has Wagyu genetics, the proportion of breeding and stud cattle has grown, and our land assets continue to increase in value. These numbers confirm our ability to produce the highest quality beef at scale, and that is what sets us apart from our competitors. Now and in the future.

We'll now move to an overview of the company's financial performance for FY18. Fundamentally, AACo is a strong, branded business with an established presence in high-potential, high-value markets, supported by a portfolio of world-class assets. However, our recent financial performance has been weak.

In FY18, operating EBITDA for the company overall was \$13.6 million, and we reported a statutory EBITDA loss of \$35.3 million. Operating cash flow was negative \$39.9 million. This reflected a number of factors, including:

- Increased competition impacting certain parts of our portfolio,
- Reduced volumes due to less reliance on external supply,
- Focus on building our breeding and stud herd after a period of declines,
- A normalisation of working capital levels, and;
- And increased input costs driven by dry weather conditions.

What is clear is that we need to create a simpler, more productive and more profit-focused AACo if we are to deliver on the company's potential.

To do this, we have a clear set of goals and metrics to guide and measure our progress. We need to focus on our people, our customers and how we're running our business if we're to deliver strong financial performance – over the long-term.

What you see before you is our balanced scorecard. And it is not satisfactory. While there are some positives – the improvement in safety performance for example – our overall business and financial performance is not where we want it to be. That's why we are making tough decisions now. And we look forward to updating you on our progress against these metrics as we move through FY19.

Foremost among our assets, is our stable of wholly owned strategic brands. To be absolutely clear, I am completely committed to AACo's branding and marketing strategy, because that strategy is the right one and it's working. Westholme and Wylarah's price performance speaks for itself, and the potential upside is significant.

A major focus for AACo is to grow this customer base and deliver more product through these high price, high margin brands. At the same time, our Heartland brands enjoy good brand equity in key markets and continue to perform. We will continue to support these brands in markets where that makes strategic sense while we transition over time towards Westholme and Wylarah. This customer-focused brand and marketing strategy is central to our future revenue and earnings growth.

The results of our Luxury / Prestige brand segment underline that this branded strategy is working. Our flagship Westholme and Wylarah brands continue to perform strongly in Singapore, and we've had good results post launch in Taiwan.

Sales volume is down slightly as we complete our transition away from a reliance on external supply. This brand segment is now delivered almost entirely by our internal supply chain. That is a critical achievement. It allows us control over ensuring continuous improvement in quality and yields, and is key to the provenance story behind those brands. At the same time, sales value is up because price per kilo is up. This is clear evidence of the revenue and margin benefits of this strategy.

The Premium supply chain has underperformed expectations.

This was due to its reliance on external service providers in the later stages of the value chain, and its level of exposure to commodity beef price fluctuations. Our Premium supply chain has now been simplified, meaning we sell these composite steers as live cattle instead of processing as 1824 branded beef. These are steers that are a by-product of our herd improvement breeding program. We expect the sustainable impact of this decision to be a significant improvement to our P&L. Volume and revenue from beef sales will decline as a result of this – but you will see an increase in live cattle revenue, and these sales will now be profitable.

This is an example of a tough decision, but a decision which reflects our focus on branded beef at high prices *and* high margin.

Trading conditions for Livingstone remained challenging, including the elevated cattle prices. For the first time, we reported Livingstone as a separate segment. As you can now see, operating EBITDA was a loss of \$22.4 million. The performance of the plant since it opened has been consistent with that, and a result of both structural and cyclical issues that are not readily solved. This reality underscores the need for strong action on Livingstone.

To put a stop to the ongoing operational losses, we have suspended operations at Livingstone Beef and mothballed the plant. This was not a decision we have taken lightly, but it is the right one for the business and for shareholders. This decision will stop the operating losses at Livingstone Beef, and it means we can assess other alternatives to realise value from the asset in a considered manner.

At the same time, we recognise the impact of this decision on our people. We are committed to providing our staff at Livingstone Beef all possible support as we work with them through the transition.

However, this decision recognises the economic realities and underperformance of the asset. It recognises our commitment to transparency and to making the tough decisions to protect shareholder value. And more than this, it reflects our commitment to premium branded beef as our pathway to future growth.

At the same time, your management team remains intent on ensuring disciplined financial and cost management, particularly to offset the impact of external factors such as grain prices. Our processing and logistics costs decreased 10.0 per cent in line with lower meat volumes. Sourcing costs decreased 17.5 per cent, largely due to reduced purchases of externally-supplied cattle. Livestock attrition was materially impacted a one-off charge of \$8.4 million. That was a result of greater rigour and discipline in our stocktake reconciliation process. Our cost of production per kilogram increased largely as a result of the one-off livestock attrition adjustment, which is a credit to the day-to-day efficiencies being driven at station level.

In terms of our balance sheet, I'd like to draw your attention in particular to the change in working capital. This reflected a normalisation of working capital balances following a material reduction at the end of FY17. Our net negative cash flows were largely a function of lower operating EBITDA and this normalisation of working capital. There was also an impact from an adjustment of meat inventory. We now hold stock at lower of cost and realisable value. This in line with standard accounting principles.



Pleasingly, our balance sheet remains strong we have significant liquidity. We have more flexible and cheaper bank debt following the refinancing undertaken in FY18, and we have comfortable headroom within existing facilities. Our gearing ratio of 26 per cent is also below the mid-point of our stated target range.

Our strategy hasn't changed and this strategy is the right strategy. What we do need to get right is the execution against that strategy. That execution needs to be better. It needs to deliver tangible results, and it needs to drive long-term shareholder value. We have a clear direction as a team for what we need to focus on to achieve growth, and that's laid out here.

Driving top-line growth is a top priority and this will come through:

- Increasing our supply of branded products that meet the needs of high-value markets
- Strengthening partnerships with distributors to expand our reach further through the value chain
- Continuing to transition to our Wylarah and Westholme brands in strategic markets
- Focused, results-driven investment behind our brands to establish them as market leaders
- And maintaining that market leadership by leveraging customer insights to drive product innovation

In combination with this, we also see significant opportunity to lower costs and improve productivity across our supply chain, and in so doing to realise material, ongoing benefits to our bottom line.

To deliver on these goals, our assets must work efficiently and effectively together. To understand this better, we have completed our operational review. The initiatives that have fallen out of this are well underway. This includes a Process & Efficiency review of our supply chain. The Discovery phase has been completed, and we have identified key opportunities for material ongoing gains from productivity improvements. Aligning and improving our supply chain will enable us to better leverage the true value of our assets and drive significant, material upside to profitability. This includes our review of Livingstone and its place in our supply chain.

Our customer-focused brand and marketing strategy is at the centre of our commitment to delivering growth. This branded beef strategy captures the opportunities of the global market. It enables us to capture more margin by delivering a higher value customer experience. It reduces our exposure to the risks and volatility of traditional commodity markets, and positions AACo to capture the accelerated growth offered by global consumer trends. In particular, it captures AACo's unique value proposition – the capacity to produce the highest quality, high margin beef, at scale, and to do so in a way that is unrivalled by any other producer today, and unlikely to be exceeded in the future.

This is why we remain committed to our branded beef strategy, and we are making real progress. We already see the strong performance of this strategy in Singapore and Taiwan: strong price performance, strong support from the best restaurants and strong support from the best chefs.

The continued roll out of this strategy offers the best pathway to sustainable growth and

creation of value of this business – for all shareholders. Building on the fundamentals already in place, and the lessons we have learned so far, we now have a roadmap for success. We are taking a disciplined ROI focus, against clear metrics, to significantly increase our investment in this strategy. We are very excited about our next market roll-out later this year, and I look forward to providing further updates in due course.

AACo is a strong, heritage business with an established presence in high-potential, high-value markets. We are supported by our portfolio of world-class assets and market leading brands, and we are creating a simpler, more productive AACo to turn this unique potential into value for shareholders. We will realise that potential through taking decisive action to eliminate parts of the business that have eroded margin and distracted us from our core value proposition, driving top-line growth through our brand and marketing strategy and by driving cost efficiencies and productivity improvements in our supply chain.

That will be our prime focus as we move through the rest of this financial year. As we do so, we remain committed to openness and transparency, for our own employees, for our investors and for the wider market.

As we focus on delivering sustainable, long-term returns for all shareholders, we look forward to a year of progress and innovation. We continue to improve the performance of the business, and we look to the future with excitement and confidence.

On behalf of the dedicated and hard-working AACo team, I thank our shareholders and all our stakeholders for their ongoing support and commitment.

We look forward to continuing to update you on our progress against our strategy.