

FY 2019 RESULTS | 22 MAY 2019

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# Year in Review

#### Year in Review

AACo remains resilient despite significant seasonal events impacting FY 2019

AACo continues to present a unique value proposition: our unrivaled ability to produce the highest quality beef at scale

- Premium branded beef strategy roll-out progressing and unaffected by extreme seasonal impacts
  - Westholme launch in UAE October 2018
  - US commercial office opened in Los Angeles
  - Advanced progress on future launches in larger scale markets
  - Growth achieved across key markets in Asia
- Wagyu herd numbers up 3% on pcp
- World Class Executive team driving cultural & business transformation

- Business simplification and proactive operational management have been integral in creating a more efficient AACo, despite extreme seasonal impacts
  - Livingstone Beef suspension of operations
    - strategic options continue to be reviewed
  - 1824 supply chain suspension
- Diverse geographical property across approximately
   6.4m ha (around 1% of Australia) remains a key strategic asset
  - Pastoral property portfolio value up 5.8% to \$738.5m supported by infrastructure upgrades and market valuation increases



## Financial Highlights

- Underlying\* Operating Profit (excluding Gulf flood event) \$23.7m vs (\$13.5m) (+\$37.2m fav vs pcp) despite significant impact of seasonal conditions in FY19 (additional \$60.4m vs pcp)
- Underlying\* Operating Profit (excluding Gulf flood event and Livingstone) \$39.6m vs \$9.8m pcp
- Wagyu meat sales revenue is up 4.5% vs pcp
- Overall revenue down (4.1%) to \$364.1m vs \$379.7m pcp
- Significant head room remains in debt covenants
- Gearing ratio at 29.97% within targeted range
- Operating cash inflow of \$13.0m vs (\$39.9m) outflow in pcp for \$52.9m improvement

\* The impact of the Gulf flood event of \$46.6m is excluded from Underlying Operating Profit

- Statutory EBITDA loss of (\$182.7m) vs (\$35.3m) pcp:
  - (\$204.9m) unfavourable livestock movement
- Key drivers behind decline in livestock value of (\$204.9m) include:

#### Non-Wagyu decline of (\$138.3m)

- (\$30.4m) decline in market value of livestock
- (\$65.5m) decline in lower value composite herd numbers due to increased live sales resulting from Livingstone and 1824 decisions, and seasonal conditions
- (\$42.4m) livestock write-off from Gulf flood

The remaining variance is primarily driven by a fall in live Wagyu market prices contributing a (\$63.9m) unrealised loss to the FY19 result. This is offset by a **3% increase in Wagyu headcount**. (\$3.2m) of Wagyu livestock was lost in the Gulf flood event



# Gulf Flood Overview and Seasonal Conditions

#### Extreme seasonal conditions have impacted FY 2019 by (\$107m)

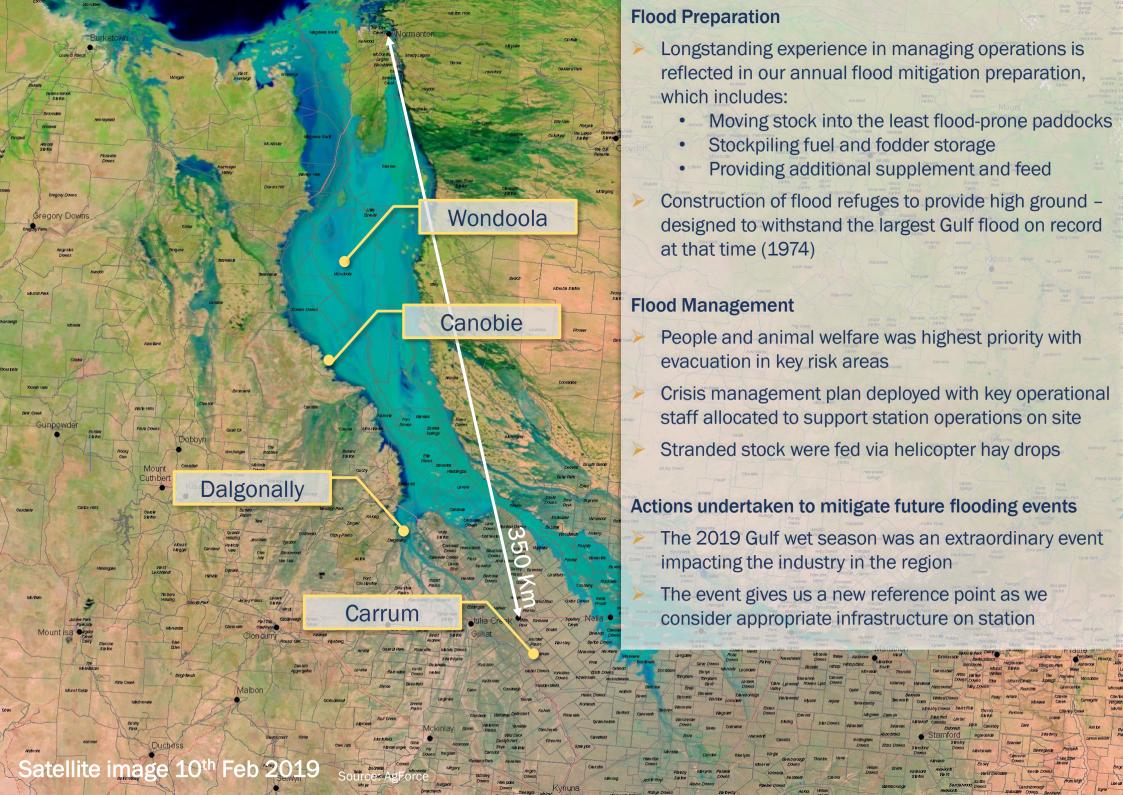
#### **Gulf Flood Overview**

- Estimated impact on livestock and infrastructure consistent with market announcement made on 11 March 2019
  - \$45.6m in cattle write-offs (approx. 43k head) and
     \$1.0m in emergency expenditure
  - Further estimated \$6-8m to rebuild property, fencing and water infrastructure
- 800,000 hectares affected across 4 of AACo's 21 properties. Area was subject to unprecedented levels of flooding not seen before in the Gulf region. Losses suffered due to flooding and exposure as a result of rain and wind
- The impact on the herd will not affect AACo's ability to fulfill supply obligations or roll-out of our branded beef strategy
- Rains provide opportunity for pasture growth
- Approach for Gulf rebuild being reviewed

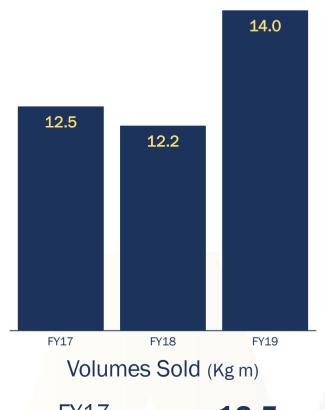
#### **Seasonal Conditions**

- Drought conditions have contributed an additional \$60.4m of costs in FY19 vs pcp
- Ongoing extreme seasonal conditions in Queensland and the Northern Territory have significantly increased station operating expenses, particularly feeding and transport costs
- Failure of 18/19 winter and 19/20 summer crops in the majority of northern grain growing regions alongside dry conditions and extreme heat have significantly effected AACo's Cost of Production
- Operating expenses will continue to increase with further deterioration of the season
  - Northern Territory properties have received significantly less than their ten year average rainfall
  - Ex-cyclone Trevor has provided some level of relief across the Channel Country and Central Queensland



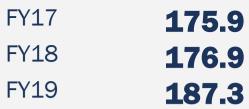


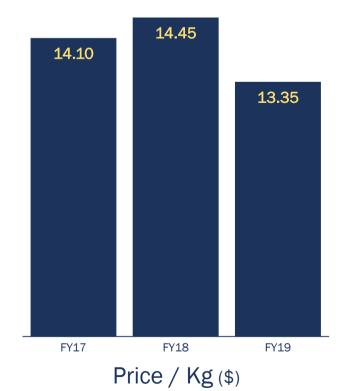
# Wagyu Brands











FY17 **14.10**FY18 **14.45**FY19 **13.35** 





Wagyu sales value growth FY19 vs pcp

Asia & 26% 1

68% of total sales

Australia 10%

of ·

14%

Europe 6%



8% of total sales



# Brand Highlights

Continue to command premium pricing in target markets

Pricing has increased on majority of cuts (over 60%) across Westholme and Wylarah brands

- Overall Westholme and Wylarah value growth up 6% vs pcp
- Wagyu full-blood branded product (Master Kobe and Takumi brands) value growth up 41% vs pcp
- Deliberate transition to new brands to further protect and grow margin







# $Financial \\ Performance$

#### FY 2019 Results

FY 2019	FY 2018	Change
246.3	332.7	(86.4)
117.8	47.0	70.8
364.1	379.7	(15.6)
(276.0)	(236.8)	(39.2)
(28.9)	(121.2)	92.3
59.2	21.7	37.5
2.2	(9.3)	11.5
(4.5)	0.4	(4.9)
56.9	12.8	44.1
(33.2)	(26.3)	(6.9)
23.7	(13.5)	37.2
(46.6)	-	(46.6)
(22.9)	(13.5)	(9,4)
2.4	8.9	(6.5)
(2.9)	3.5	(6.4)
(159.3)	(34.2)	(125.1)
(182.7)	(35.3)	(147.4)
13.0	(39.9)	52.9
1.42	1.62	(0.20)
	117.8 364.1 (276.0) (28.9) 59.2 2.2 (4.5) 56.9 (33.2) 23.7 (46.6) (22.9) 2.4 (2.9) (159.3) (182.7)	246.3 332.7 117.8 47.0 364.1 379.7 (276.0) (236.8) (28.9) (121.2) 59.2 21.7 2.2 (9.3) (4.5) 0.4 56.9 12.8 (33.2) (26.3) 23.7 (13.5) (46.6) - (22.9) (13.5)  2.4 8.9 (2.9) 3.5 (159.3) (34.2) (182.7) (35.3)

<sup>\*</sup> Underlying operating profit excludes the impact of the Gulf flood event of \$46.6m

- Underlying\* Operating Profit (excluding Gulf flood) \$23.7m vs (\$13.5m) pcp
- Underlying\* Operating Profit (excluding Gulf flood and Livingstone) \$39.6m vs \$9.8m pcp
- Despite lower overall meat sales due to the suspension of Livingstone and 1824, underlying Wagyu meat sales are up 4.5% vs pcp
- > Significant increase of cattle sales and lower purchases due to:
  - Livingstone and 1824 decisions
  - Adverse seasonal conditions
- Extreme seasonal conditions resulted in a Station operating expenditure increase of \$60.4m mainly driven by higher feeding and transport costs, offset by savings in Livingstone
- > Key drivers behind decline in livestock value of (\$204.9m) include:

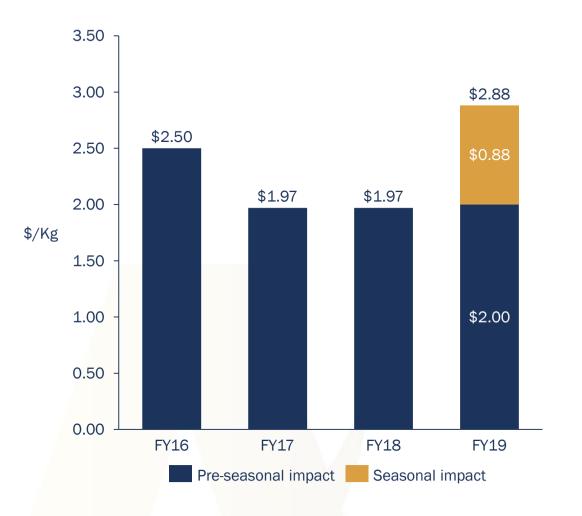
#### Majority of decline in Non-Wagyu herd of (\$138.3m)

- (\$30.4m) decline in market value of livestock
- (\$65.5m) decline in lower value composite herd numbers due to increased live sales resulting from Livingstone and 1824 decisions, and seasonal conditions
- (\$42.4m) livestock write-off from Gulf Flood

The remaining variance is primarily driven by a fall in live Wagyu market prices contributing a (\$63.9m) unrealised loss to the FY19 result. This is offset by a 3% increase in Wagyu headcount. \$3.2m of Wagyu livestock was lost in the Gulf flood event

- \$52.9m improvement in net operating cash flow vs pcp despite extreme seasonal impacts
- Significant headroom remains in debt covenants

# Cost of Production



- \$0.91/kg Cost of Production increase on pcp excluding attrition\*
- Increase largely attributable to the adverse impact of seasonal operations driving up transportation, supplementation, contractor and fuel costs combined with increases in feed commodity pricing
- Adverse impact of seasonal conditions contributed an additional \$0.88/kg to Cost of Production in FY19
- Excluding seasonal conditions, Cost of Production has remained relatively flat from FY17 – FY19
- Cost of Production includes feedlot costs
  - \* Method of calculating CoP has been revised in FY19. The impact of attrition has been excluded from the kilograms produced component of the CoP calculation in FY19 and in pcp to provide a clearer representation of operational efficiency. The impact of attrition is separately disclosed in our financial statements. Please refer AACo's Financial Report 2019 for further detail



## Cash Flow

\$M	FY 2019	FY 2018	Change
Receipts from customers	378.3	376.0	2.3
Payments to suppliers, employees and others	(352.7)	(395.6)	42.9
Interest received	0.1	0.1	-
Payment of interest and finance costs	(12.7)	(20.4)	7.7
Net Operating Cash Flow	13.0	(39.9)	52.9
Cash used in investing activities	(26.0)	(21.4)	(4.6)
Cash inflows from financing activities	9.4	29.9	(20.5)
Net change in cash	(3.6)	(31.4)	27.8
Closing cash balance	7.6	11.2	(3.6)

- Significant improvement in Operating Cash Flow stemming from:
  - Payments reduced due to lower cattle purchases, offset by increased operating and corporate expenses
  - Finance costs in pcp captured one-off debt refinancing costs



## Balance Sheet

\$M	FY 2019	FY 2018	Change
Property, Plant & Equipment	795.3	753.8	41.5
Livestock	423.3	628.4	(204.9)
Interest-bearing loans & borrowings	(368.6)	(359.2)	(9.4)
Cash	7.6	11.2	(3.6)
Net debt	(361.0)	(348.0)	(13.0)
Equity employed	843.7	977.5	(133.8)
Net Tangible Assets (\$/share)	\$1.42	\$1.62	(\$0.20)
Gearing ratio (%)	29.97%	26.25%	3.72%

- Pastoral property portfolio value up 5.8% to \$738.5m supported by infrastructure upgrades and market valuation increases
- Net reduction in Livestock value of (\$204.9m) refer to breakdown provided earlier
- Gearing ratio of 29.97%, within AACo's stated target range of 20–35%
- Significant headroom remains on debt covenants







# Sustainability

#### **Protecting our future**

AACo is committed to being a leader in sustainable beef production. This means consistently striving for best practice and continuous improvement in the management of the environment and animals under our stewardship, minimising any adverse impact from our operations, and contributing positively to the communities where we operate

AACo believes that responsible business is good business. The Sustainability Policy, which has been signed by the Chairman and CEO, sets out how AACo will conduct its business in this important area. Key components of this policy are:

- > The guiding principles that underpin our approach to business, along with a commitment to continuous improvement and innovation
- Acknowledgment of our responsibilities and strategic priorities in Sustainability. These include environmental stewardship, animal health and welfare, and livestock transport
- A commitment for annual, comprehensive reporting, increasing transparency of our track record and proving progress in our sustainability journey
- A reminder that safety for our workforce and the communities in which we operate remains our number one priority

In line with this Policy, an interim Sustainability Report will be released providing more detail on our activities and initiatives. Subsequent reports will be released to coincide with our regular annual reporting cycle

The AACo Sustainability Policy is publicly available on our website







Progress
Against
Strategy

# AACo's Strategy On a Page

Purpose

#### We craft the magic of Australia into remarkable dining experiences.

Strategic Pillars Branding & Marketing
Build consumer appreciation for
the experience they can expect
with our product. Drive margin

growth

- Embed a customercentric mindset
- Drive brand promises through high impact & efficient marketing
- Optimise go-to-market approach in targeted markets
- Leverage brand & marketing investment to drive revenue & margin growth

Integrated Supply
Chain

Ensure consistent, high quality supply with genuine provenance.

Optimise efficiency

- Predictable and sustainable delivery of product that consistently meets our brand promise
- Traceability sophistication to support our brand provenance
- Improve production efficiency & agility
- Strategic investment & development to enhance supply chain integration

Innovation & Technology

Enhance the quality and consistency of our product, and our production efficiency

- Connect our business with practical information systems that enable smart and fast decision making
- Increase asset base productivity
- Improve product quality & consistency
- Improve our ability to monitor, assess, predict and manage

Performance Culture

Provide a platform for our people to perform to their potential, and develop as individuals

- Effective performance management systems, linking expectations & rewards
- Safety & sustainability at the core of all that we do
- Effective development programs for our people
- Collaborate as one team to achieve a common set of strategic goals

Values

**Priorities** 

Do it for the diner

Take the reins

Respect what makes it possible

Adapt

Aim higher



# Progress against strategy

#### Focus remains on accelerating AACo strategic priorities

#### Branding & Marketing

- Progressing branded beef strategy roll-out despite extreme seasonal conditions
- CCO appointed
- Establishment of the US commercial office
- Advanced progress on future launches in larger scale markets

## Integrated Supply Chain

- Further developed nation leading Wagyu genetics program
- Investment in northern development infrastructure to increase carrying capacity and enhance the value of our assets



# Progress against strategy

#### Focus remains on accelerating AACo strategic priorities

#### Innovation & Technology

- Continued investment in skills and technologies that help identify, assess and monitor genetic feed conversion and animal health data
- Advancing information systems to drive strategic decision making
- Investing strategically in and building key partnerships to obtain access to highly skilled and cost efficient services where AACo requires operational support and to participate in value creation through innovation which is related to our core activities

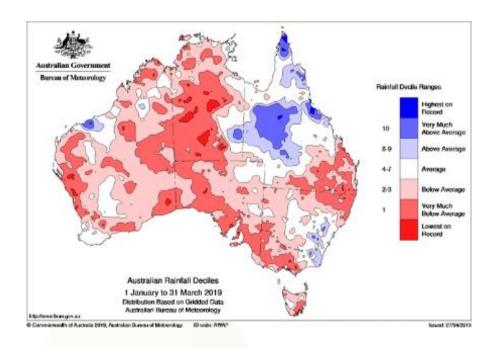
#### Performance Culture

- Ensuring safety and welfare remains AACo's number one priority for our staff and animals
- Executive team established with performance framework in place
- Continued development and on-boarding of functional leadership talent





#### Seasonal Conditions



"Feed conditions have dramatically deteriorated in several districts in the past four months. The predicted late onset to the northern wet season materialised and total rainfall is some of the lowest on record for some districts"

Source: Northern Territory Pastoral Feed Outlook March 2019

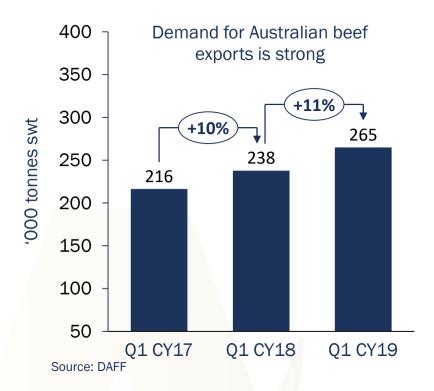
- Ongoing extreme seasonal conditions in Queensland and the Northern Territory have significantly increased station operating expenses, particularly feeding and transport costs
- Failure of 18/19 winter and 19/20 summer crops in the majority of northern grain growing regions alongside dry conditions and extreme heat have significantly effected AACo's cost of production
- Operating expenses will continue to increase with further deterioration of the season
  - Northern Territory properties have received significantly less than their ten year average rainfall
  - Ex-cyclone Trevor has provided some level of relief across the Channel Country and Central Queensland



## Current Operating Environment

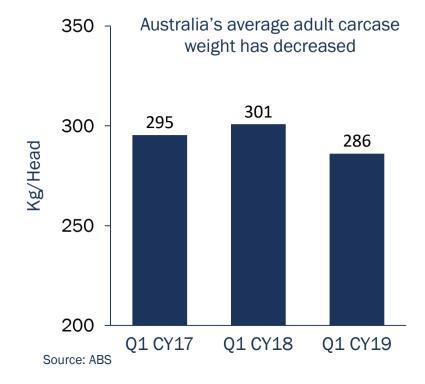
"Drought and flooding heavily impacting slaughter and herd levels.... result in the largest drop in the national herd in decades... Expected to take a number of years before the national herd is back to its longer-term average"

Source: MLA April 2019 Cattle Industry Projections



"International demand for Australian beef has held strong, supported by a depreciating Australian dollar and double-digit export growth to both China and the US in the first quarter of the year"

Source: MLA April 2019 Cattle Industry Projections



"This trend in carcase weights is forecast to continue, which combined with slaughter figures, will underpin a **3% decline in production this year**, to an estimated 2.2

million tonnes carcase weight (cwt)"

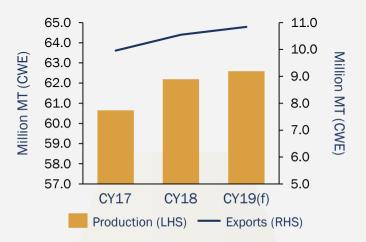
Source: MLA April 2019 Cattle Industry Projections

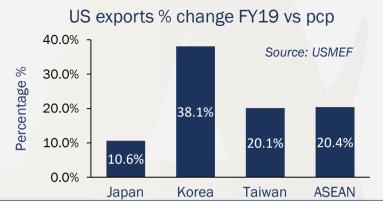


# Competition is increasing

"Global exports in 2019 are forecast to increase by 3% as shipments from Brazil, Argentina, India and the United States will more than offset declines by Australia, New Zealand and Uruguay"







#### Global consumer trends in dining

In many mature markets, growing consumer interest and awareness of provenance, sustainability, animal welfare, food safety and traceability provide messaging opportunities for Australian beef brands and underpin ambitious industry-wide programs for Australia to differentiate itself

Source: MLA - Global Beef Snapshot Jan2019

- Digital permeates every purchase. By 2025, the online channel will represent 25% of the market's value, up from 10% today. Approximately half of all luxury purchases will be digitally enabled thanks to new technologies along the value chain, and nearly all luxury purchases will be influenced by online interactions
- The influence of younger consumers grows. New generations will be the primary engine of growth for the luxury market in the coming years. Generations Y and Z will represent approximately 55% of the 2025 market and will contribute 130% of market growth between now and then, offsetting the decline in sales among older generations

Source: Bain & Company Fall-Winter 2018 Luxury Goods Worldwide Market Study

Not meals, but experience: When eating out, diners are looking for more than a meal. There is a rising demand for experiential or 'narrative' dining, including themed restaurants, multi-sensory dining experiences and temporary – sometimes obscure – pop-up restaurants

Source: The fork - 2019 Global dining trends

# Thank You

