



Australian Agricultural Company Limited

ABN 15 010 892 270

AACO 2019 ANNUAL GENERAL MEETING ADDRESS TO SHAREHOLDERS

31 July 2019

Attached is the Chairman's and Chief Executive Officer's Address to shareholders for the 2019 Annual General Meeting for Australian Agricultural Company Limited ('AACo') to be held today, 31 July 2019.

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2019 AGM – CHAIRMAN'S ADDRESS

Welcome to Australian Agricultural Company's 2019 Annual General Meeting.

Two thousand and nineteen has been another significant year for AACo, a year of progress and great challenges, but we are stronger for them and we remain very well positioned for the future.

I'm pleased to update my fellow shareholders on our progress towards achieving our strategy. What sets AACo apart is our unique ability to produce the highest quality branded beef at scale. Others produce quality and others produce scale, but no one is as well positioned as AACo to do both. Our challenge is not to assemble the tools to capture this unique advantage, our challenge is to market what we have to the world – through deep authentic connections with our customers.

I am more confident than ever that our branded beef strategy is the right strategy for AACo. Today our underlying operating profit has improved – even including seasonal impacts. We are delivering in new markets following our launch in Dubai in October and establishing a new platform for our US engagement. In FY19 we improved the price for most cuts on Wylarah and Westholme and we grew our core Wagyu herd while controlling our cost of production. These are vital markers of the value of our strategy, and our progress against it.

We are also one year closer to a remarkable milestone – our bicentenary in 2024. When that first group set sail from England almost two centuries ago, they believed they were building something new. Something that would outlive them, but I am not sure they could have imagined the impact they would have. I say this because we feel the responsibility of this history. We feel it because we believe our strategy is building something new, something that will outlive each of us and something that will lay the foundation for our next 200 years.

This spirit infuses everything we do. It is why we have global ambitions and it's why we are building an executive team with global experience, and unparalleled local knowledge. We are drawing on the assets our history has given us to build this new future. Our Wagyu herd is among the best and largest in the world and our generations of breeding knowledge and our blood stock are uniquely suited to the land we operate in.

We are responsible for one per cent of Australia's land mass and we are leveraging this diverse group of remarkable properties to support our unique value chain.

This positions us to face a rapidly changing world with confidence. Global commodity markets continue their generational transformation and the global trading environment remains uncertain, yet the premium on quality product remains very strong. Owning, and carefully building our own brands strengthens and protects that premium and our deep and direct connection with our customers helps insulate us from this uncertainty.

As each week passes, we are deepening our understanding of these customers. We know they want quality, we know they want a special experience and we know they want to be part of the story of our product – a story they can be proud of, but increasingly we are seeing that our customers want to know more about us. They want to know about our people and the places where we raise our herd. They want to know how we do it and they want to know why we do what we do – what moves us.

This is what it means to build a global premium brand. It can't be confected overnight, it's not a paint by numbers process, you cannot survey a potential customer demographic and reverse engineer a story. You must believe in what you are doing and be willing to commit for the long term to chasing perfection. Put simply, our customers want to know that we do the right things, for the right reasons.

Our people give us this genuine commitment to perfection every day. Their love of the land and of our animals is palpable. We have to become, and we are becoming better at telling that story. That is why Hugh is assembling an executive team that understands the right way to tell our unique, true story. Our history and all of our people are central to that.

I also want to take a moment to acknowledge and thank the people serving on your Board. For almost eight years now David Crombie has given his knowledge, experience and commitment to AACo. As David completes his time as a Director, I want to thank him on behalf of the Board, the staff and our shareholders. David's knowledge of the pastoral industry in northern Australia is unparalleled and David has been fundamental to AACo's branded beef strategy and our future. I am delighted to report that David has accepted the role of Chairman of our Pastoral Advisory Group – so we won't lose any of his expertise or leadership. Thank you, David.

We are also delighted to welcome the nomination of Marc Blazer as a Director, which will be voted on today. Marc brings a unique understanding of what makes food brands iconic. Marc is associated with world leading restaurants and invests in elite food and hospitality around the world – chefs, products, ideas and experiences. He understands how to build brands around people and products in a way that captures what makes them unique and special. His addition to the Board, together with Jessica's arrival last year, will position us to tell our unique story in the most effective way. Welcome, Marc.

An important part of the story we are telling is AACo's strength, our resilience and the love of the land our people feel. We've seen this in the last year with our response to the Gulf floods. This unprecedented event impacted our people, our animals and our properties and those of our neighbours and friends, but every one of our people pulled together, and we pulled through. We will learn from this and be stronger for it.

We have also come through another tough year with drought, which has impacted our financial numbers, but our core Wagyu herd remains strong and is growing. Our spread of properties provides flexibility to manage seasonal impacts. The difficult decisions we made to shut down Livingstone and the 1824 line have reduced our exposure and through it all we have protected our cost of production.

Another part of the story we are telling is our relentless drive to innovate. We draw on generations of breeding knowledge and we have brought together industry leaders in genetics – which is enhancing every part of our breeding program. Together we are improving the connection between our animals, our land and our customers and we are innovating in every stage of our value chain from planning to production to marketing.

This means we are always exploring new pathways and partnerships, but the nature of operating at the cutting edge, is that not all of these will bear fruit. When they do, we lead our industry.

We can see the results of this approach in the quality of our product – which is genuinely world leading and this was borne out by the two gold medals and a silver our Westholme cuts won at the World Steak Challenge in Ireland a couple of weeks ago.

Another part of our story is our willingness to take responsibility for our industry and our community – to leave a legacy for the future. Sustainability

is in the blood of every farmer. We all want to leave a legacy of improvement – in our bloodstock, our infrastructure, our land and our people. Under Hugh’s leadership, and with the support of your Board, we released our first sustainability policy earlier this year. I will leave Hugh to talk through some of the details with you, but you should make no mistake – this is an honest expression of a very deep commitment. A commitment to lead our industry in taking its rightful place in the climate change debate. And to build a company that will leave a lasting, positive legacy for our communities, our people and our land.

We do this because it is the right thing to do, and because our people care passionately about leaving something more than they found. We do this because we have done it for almost 200 years, and we do this because it is central to the story that our customers can be proud of. As we say in our sustainability policy – responsible business is good business, and we are proud to honour that commitment into the future.

At the end of Financial Year 2019 we are well positioned to realise the unique value proposition of this business for our shareholders. We have demonstrated improved underlying operating profit despite seasonal and external challenges. We are growing our core Wagyu assets and driving stronger prices in the market. We are expanding in new markets and cultivating a global premium brand portfolio. We continue to build the team and the detailed plans to realise our vision, and we understand the importance of telling our story the right way – by honouring our history, celebrating our people and our land and speaking directly to the heart of our customers around the world.

With that I thank you, my fellow shareholders, for joining us today. I thank the management team and the Board members and I look forward to Hugh’s report on our progress against our strategy to grow AACo into the future.

2019 AGM – CEO’S 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.

As many of you know, the year just gone has included many challenges. We've faced serious drought, we've faced unprecedented floods in the Gulf country and the global trading environment remains uncertain.

Despite these challenges, I am pleased to report that your company is on the right path to sustainable growth. I am more confident than ever that our strategy is the right one for AACo and, I am pleased to report we are making real progress against that strategy.

Over financial year 19 we have strengthened our unique ability to produce high-quality premium beef at scale. This has allowed our branded beef strategy to progress – despite the adverse seasonal conditions. We launched in Dubai in October, we have seen strong growth across key international markets and our underlying Wagyu meat sales increased by 4.5%.

We have established our US Commercial Office in LA. This allows us to execute a new approach to growth in the US and this is over and above the 200 US restaurants currently serving AACo beef.

I am delighted to have brought in Chief Commercial Officer Andrew O'Brien in January this year. He joins the world class leadership team that we are creating to push and maximise our branded beef strategy and we are in advanced planning for new launches that will keep driving our position in key markets.

Despite drought and flood the team has achieved 3 per cent growth in Wagyu numbers. This is a remarkable achievement which speaks to the capability we have built. This capability positions us to deliver the highest quality product around the world and to deliver our product under our own brands.

This time last year I announced some tough decisions. After deep consideration we closed Livingstone Beef and our 1824 supply chain. These were, and remain, the right decisions for the future of our business. In the short term we removed \$7.4m in operating losses from Livingstone and had we retained the 1824 supply chain, our exposure to seasonal conditions would have been materially worse.

Separate to these points – but worth noting – is the 5.8 per cent improvement in the value of our land assets.

Turning our focus to the major challenges we have faced over the year. Across the north we have faced combined drought and flooding at unprecedented levels. In the Gulf we saw 500 millimetres of rain in a few days. Some have

estimated this was a once in a century event. On the ground we saw 800,000 hectares impacted across four of our properties. Obviously, we prepare for flood events – but nothing on this scale. The impact on our animals, our staff and our neighbours was devastating. Having said that, my team responded incredibly well. We worked together with our neighbours and the communities of the Gulf country – and we will be stronger because of it and thankfully no people lost their lives in the flood.

We do however estimate losses of 43,000 head of our cattle in the flood. This included animals lost in the flood itself – and animals lost to wind and rain exposure. The majority of the cattle we lost were non-wagyu breeders. Importantly though, our scale and diversification means we can manage these losses. We will do so without impacting our short-term supply obligations and our branded beef strategy roll-out will continue according to plan.

I want you to keep that in mind while we show you a short video recording of this unprecedented event and its impact on the AACo community.

I want you to remember that this event impacted the entire Gulf Region. In total the community lost significantly more animals than we did and tragically some families and businesses lost a far higher proportion of their individual herds, but the rebuild has begun and the region will come out stronger.

Our rebuild is also underway. We anticipate rebuild costs to be around six to eight million dollars. This will primarily include property, fences and water infrastructure. Currently this is being further assessed through detailed analysis and of course this presents an opportunity to rebuild better and stronger infrastructure, drawing on some of the lessons we have learned.

Moving now from flood to drought. Drought conditions in Queensland and the Northern Territory have weighed heavily on our numbers for FY19.

We have continued to invest in growing our Wagyu herd. This has meant significant additional costs across feeding and transport, but this is an essential investment for the future. We continue to see rising global demand for Australian beef and together with our brand strategy, we expect to benefit significantly from this investment.

We will get to the financial figures in more detail soon but let me say briefly that excluding the Gulf flood, we have achieved positive underlying profit and cash flow in FY19. This is including the additional investments outlined above during difficult seasonal drought conditions and, excluding the Gulf Flood and

drought impacts together, we have achieved a significant increase in underlying operating profit. I think this is a powerful indicator that we are on the right path, and we are making good progress.

As you saw from the video and this slide, the Gulf Flood was unprecedented in its scale and devastation. This was a large area, visible from space. Our impacted properties were right in the middle of it. At its widest point the flood zone was 80 kms across. The speed and scale of this rainfall meant there was little we could do.

We have annual flood mitigation measures in place. These include moving stock and stockpiling fuel and fodder. We built flood refuges modelled on the largest flood previously recorded and we immediately activated our crisis management plans – including making sure our people on station were supported.

In the aftermath we are reviewing these measures to learn for the future. We are examining how we handle stock and feed in high risk areas, and we are also reviewing our station business model. These lessons will be important as we face ongoing seasonal and weather challenges.

AACo's branded beef strategy remains critical to returning lasting value to our investors. Our unique brands allow us to connect with the highest value, highest margin customers around the world. This allows us to leverage our substantial assets for maximum return. This strategy is supported by increases in our elite herd numbers over the last twelve months and we have managed to insulate this strategy from drought and flood impacts.

We are continuing to command premium prices across our Westholme and Wylarah products and prices have increased on 60 per cent of cuts across these two brands. More than anything else this demonstrates the price power and customer connection of these brands. Overall Westholme and Wylarah revenue growth is up 6 per cent on last year and our heritage full blood wagyu brands are up 41 per cent over the same period. It's still early days but these are important positive signs for our strategic direction and progress.

These results are in addition to positive revenue growth across different regional markets. We've seen 26 per cent revenue growth for these brands across Asia, 10 per cent revenue growth in Australia and 6 per cent revenue growth in the EU.

Our approach to the US market is in transition. The US is a global gateway for luxury products and much of the world takes its lead from luxury consumption in the US. We are establishing a deep presence in that market – as a platform for driving our premium lines around the world. To support this, we have set up our commercial and trade marketing hub in LA. This in-market presence will be crucial as we establish our premium brands there and this will form the basis for future approaches to other markets around the world.

In Asia our Singapore and Taiwan presence has been very positive. This highlights the important evolution of Asian consumers – they are discerning, affluent and seeking quality beef in higher volumes. Our strategy will continue to position us to benefit from this significant trend.

As I mentioned, we launched Westholme in Dubai in October. The reception was very positive. Revenue in the second half is up 49 per cent compared to the first half of the year. As an example, we are on the menu at At.Mosphere – the world’s tallest restaurant and recognised as the finest dining in Dubai and social media engagement in the region has grown on the back of our launch.

Our branding and marketing strategy is the right strategy for the future of our business, and you can see we are making progress on that strategy right around the world.

Moving on now to our financial results. The company’s financial performance for financial year 2019 reflects the following key elements:

- Our focus on brand;
- Further building and development of our organisational capability and leadership; and
- The benefits of actions we have taken to simplify the business during this period of extreme seasonal impacts – and specifically regarding Livingstone and the 1824 supply chain.

Seasonal impacts have affected the business by \$107 million in FY 2019. This includes a \$47 million loss due to the Gulf flood event, and \$60 million in additional drought related costs mainly for feed and transport. If we exclude the gulf loss impact, our Underlying Operating profit has grown by \$37.2 million on the prior comparative period. This allowed us to finish at \$23.7 million profit for the year. The decision to suspend Livingstone has contributed \$7.4 million to this improvement. Excluding Livingstone,

underlying operating profit has improved by \$29.8 million to finish the year at \$39.6 million and this result was achieved in the face of very challenging conditions.

Notably, as referred to earlier, underlying Wagyu meat sales, which exclude Livingstone and 1824 revenues, have grown 4.5% vs the prior period. Our Westholme and Wylarah brands are gaining momentum and price improvements have been realised on over 60% of our Westholme and Wylarah branded cuts.

The challenging drought conditions have meant additional costs of \$60 million. This is mainly constituted by costs of feeding and transport to protect our core asset, our Wagyu herd. This investment has allowed us to increase numbers in this critical herd component by 3% year on year. This is at a time when many competitors were not able to do the same. We believe this provides us with a strategic advantage as we move forward and unlock value through our premium brand-led strategy. Offsetting this \$60 million in additional costs, is \$20 million in operating expenditure savings. These were realised from the suspension of Livingstone and the 1824 supply chain.

Corporate expenses have increased as we continue to enhance support structures to see us through the next stage of our brand strategy.

Our statutory EBITDA loss of \$182.7 million versus the previous period's loss of \$35.3 million is driven by a \$205 million reduction in livestock values. This \$205 million decline is significant but it is important to note that \$138 million of this has occurred in the non-wagyu herd. Declines in non-wagyu herd numbers primarily come from increased cattle sales and a drop in cattle purchases. This is off the back of the Livingstone and 1824 decisions. We've also increased sales of these non-wagyu animals in response to drought conditions. This has allowed us to focus our resources on our Wagyu cattle which are the heart of our premium branded beef strategy.

Tragically, around forty-one thousand head of non-wagyu cattle were lost in the Gulf Flood event that occurred in February of this year. The financial impact of this loss of non-Wagyu animals is \$42 million. The market price for these composite animals has also suffered during the year. This contributed a \$30 million unrealised loss to the statutory results. Remaining declines in our livestock balance primarily relate to the valuation of our Wagyu cattle. Market prices for Wagyu cattle have continued to decrease from their highs a couple

of years ago. This has resulted in a \$64 million unrealised loss in the FY 19 results, with most of this movement captured in the first half of the year.

This decline in the live cattle price of Wagyu does seem significant but we remain undeterred by this as our prized Wagyu are not sold live. Rather, these animals form the heart of our branded beef strategy and should we need to source beef from outside our own stock, we benefit from lower Wagyu prices. This in turn offers potential for higher margins via our premium brands.

If we remove the additional operating expenditure seen in FY 19 due to the drought, we have had a good result on Cost of Production. Our Cost of Production as a whole has stayed relatively flat at approximately \$2.00 per Kg. We've spent \$60 million in additional operating expenditure to protect our wagyu assets and this explains nearly the entire variance in Cost of Production from the prior two years.

It's important to note here that our production mix has proportionately shifted towards wagyu kgs over the past several years. In 2019 we produced more wagyu kgs than non-wagyu kgs for the first time in our history. In fact, in 2019 we've produced 30% more wagyu kgs than we did in 2017. This is important because producing a wagyu kg is much more expensive than producing a non-wagyu kg.

The impact of the season has been a challenge for our efforts to increase Wagyu production over the past several years, but this work means we're well positioned to meet sales demand as we enter new markets, and we'll be able to meet the demand of our branded beef strategy which is fundamental to improving our margins and returns.

Positively, our cash flows have dramatically improved. Our net operating cash flow has seen a \$53 million improvement. This is due to the decline in cattle purchase requirements and increased cull and composite sales.

Our balance sheet remains strong with a \$1.3 billion asset portfolio and \$841 million in net tangible assets. The statutory reductions in livestock values has had a minimal impact on our LVR and we continue to enjoy substantial asset value headroom remaining on our debt covenants. We also finished the period with a gearing ratio of just under 30%, which is well within AACo's target range. Our borrowings increased only slightly on FY18 – by \$13 million during FY 19. Increases in the gearing ratio and declines in NTA are therefore largely

a result of the decline in livestock value held on the balance sheet, and this was partially offset by a nearly 6% improvement in our property values.

AACo is focused on conducting business in a sustainable manner. This means implementing leading practices across all our operations. In FY19 we have made important progress. This has included finalising and releasing our first Sustainability Policy, which has been signed by the Chair and I and it is available online. This policy will guide decision-making across our business into the future.

The first paragraph on this slide is the first paragraph of our policy. As you can see, we want to be a leader in sustainable beef production. This includes a couple of elements:

- Always striving for best practice and continuous improvement in management of the environment and animals under our stewardship;
- Minimising any adverse impacts from our operations; and
- Contributing positively to the communities where we operate.

For us, responsible business is good business. We have responsibilities to our environment and our animals across their life. The principles in our policy reflect these responsibilities and guide decision-making at every level of our business. This commitment is the right thing to do and is a non-negotiable for us and for our customers, and being proactive will position us to address the emerging narrative around the impact of beef production on the environment.

We will assess our progress and report back annually and we want this public accountability to be embedded in our annual planning and review. You will see several focus areas identified in the document and our reporting will detail progress and lessons learned across these. I encourage you all to visit our website and have a look.

Our strategy and strategic focus remain consistent with my report 12 months ago. As we execute more detailed implementation plans, we continue to revisit this strategy and I am more confident than ever that this is the right path for our business.

Turning to the next two slides - we outline our progress over the last 12 months. As covered previously Branding & Marketing is progressing well and the appointment of our new Chief Commercial Officer, Andrew O'Brien will add to the momentum that has already been created.

We have also further developed our genetics research to improve the quality of our herd and invested in infrastructure that will increase the carrying capacity and value of our properties.

Innovation is core to our progress against this strategy. This has driven key investments and partnerships which we have entered, to drive our business. These partnerships and investments are always guided by two objectives:

- Accessing cutting edge skills and services where we need them; and
- Creating value through the innovations which drive our business.

For example, this approach has been central to our work in capturing and utilising genetic data on feed conversion and animal health.

We are also focused on driving the right performance culture across AACo. We have established our Executive Team with a clear performance framework in place. I now expect to see accelerated activities driving each of our strategic priorities over the coming year and, of course safety and welfare remain our number one priority and this will be central to leadership development across our business.

I want to spend some time on our operating environment and the conditions likely to impact us over the coming year. You can see the impact of drier conditions on our costs and bottom line over the last 12 months. We expect these conditions to create continued upward pressure on station operating expenses, feed and transport costs and we would expect to see continued strong cattle sales across the industry.

Turning to the next slide you can see increased demand for Australian beef exports. These are growing year on year. At the same time drought conditions have reduced average carcass weights across Australia. Meat and Livestock Australia has predicted this trend to continue. They are expecting around a three per cent drop in production this year as a result.

The next slide provides additional detail on global beef demand. Generally, demand is increasing as supply is increasing alongside it, but in Australia global demand is rising for our product even as production is decreasing – on the back of tougher seasonal conditions. In this context our growing Wagyu herd and branded beef strategy positions us to really benefit from this positive global trend. Again – I think this underscores that we are on the right track and must continue to make progress.

As a company we want to continue to benefit from what's happening globally into the future. This means really focusing on changes in global consumer trends over the coming 12 months. We know these trends include a focus on sustainability and animal welfare. This is core business for us anyway, but our consumers will reinforce this commitment.

We are also likely to see growth in the digital component of consumer engagement. Some predictions suggest half of all luxury purchases will be digitally enabled by 2025. This means having the right technologies driving and complementing every part of our value chain.

We are also seeing the growing influence of younger consumers. These consumers are driving demand for a full dining experience. This must capture every part of our product, our story and the impact of our production systems and we are ready for this.

To give you a flavour of this, I want to play another short video for you.

AACo's remarkable assets uniquely position us to deliver the highest quality beef on a global scale. Our global branded beef strategy means we can engage directly with consumers all over the world. Together this means we are capturing and will continue to capture the benefits of these global trends. This is the right path to creating lasting value for our investors and we have the team in place to continue driving AACo's progress.

Thank you for your support.