



20 November 2019

ASX/Media Announcement

Strong Wagyu sales highlight progress on strategy for AACo

- Strongest half-year Wagyu meat sales to date, up 9.5%, driven by volume and price/mix/exchange improvement
- Underlying* Operating Profit of \$9.4m
- Operating Cash inflow of \$11.0m
- Statutory EBITDA loss of (\$3.4m) compared to loss of (\$82.9m) in pcp
- Positive Operating Profit and Operating Cash Flow delivered despite impact of drought related costs of approximately (\$36m) in H1FY20
- Significant head room remains in debt covenants
- Gearing ratio of 30.6% pre AASB 16 Leases¹ adoption within target range

*Underlying Operating Profit excludes Livingstone, but includes elevated drought costs

Australian Agricultural Company Limited (AACo)(ASX:AAC) today announced its strongest half-year of Wagyu meat sales figures to date with sales growth of almost 10%, highlighting a positive first half of the financial year, as the Company continues to roll-out its premium branded beef strategy.

Managing Director and CEO Hugh Killen said, “This growth helped drive AACo to a positive first-half operating profit and cash flow, as the Company delivered positive operating cash flow in three out of the last four half-year periods.

“Our ambition to grow our premium brands and pursue our strategy as a branded food business has accelerated in the last six months, with encouraging results,” Mr Killen said.

“We’re seeing improvements across the business, culminating in our strongest half yearly Wagyu meat sales and strong growth across key regions.

“We conducted seven launches in the United Kingdom, the United States and Asia of our premium brand, Westholme and increased global sales of Westholme by 106% on last year.

“The one-off benefit realised in H1FY19 from winding down Livingstone and the 1824 supply chains means operating profit and cash flow are down on the same time last year, but the core branded wagyu range has achieved sales growth just short of 10%.

“Statutory EBITDA position is favourable by \$79.5 million compared to the same period last year. A key driver of this result is a slight recovery in Australian Wagyu Cattle Market prices following the declines experienced in H1FY19. Taken together with positive operating profit and operating cash flow for the period, and the ongoing strength of our balance sheet, it has been a pleasing result.”

¹ AASB 16 Leases replaces existing leases guidance and introduces a single on-balance sheet accounting model for lessees. The Company has adopted AASB 16 using a modified retrospective approach from 1 April 2019. Refer to the AACo Financial Report for the half-year ended 30 September 2019 for further detail on AASB 16.

Market growth and the branded beef strategy

Mr Killen said the strong commercial results demonstrate important progress against the Company's global branded beef strategy. In the first half of the financial year AACo:

- Increased sales across Asia by approximately 8%, Europe and the Middle East by approximately 26% and North America by 7%;
- Grew overall Wagyu brand sales by 9.5% compared to last year;
- Achieved a 5.9% increase in the Wagyu price per kilogram; and
- Increased Westholme sales revenue by 106%, from an additional 61% beef sold.

"AACo carried out seven launches of premium brand Westholme over the last six months, including London, Hong Kong, Los Angeles and Chicago," he said.

"We've also upgraded our distributor partnerships in the UK, Europe and the US while embedding sales and marketing teams across key markets in Europe, Asia and the US.

"The feedback from chefs and diners has been tremendous. Our targeted engagement with them, both directly and through our distributors, has helped form strong new partnerships and significant potential for future growth.

"Westholme remains a standout performer and is AACo's major value growth engine, while our regional brands continue to support AACo's profitability and transition to new brands.

"Among these brands, Darling Downs Wagyu is amongst the most dominant international beef brands in Korea.

"This performance further demonstrates AACo's unmatched ability to produce the highest quality beef at scale."

Drought impact

Mr Killen said the results came despite the heavy impact of increased seasonal costs, above normal conditions.

"We absorbed around \$36m in drought related expenses in the first half, with increased costs of production, including feed and transport. That is about \$11 million more than the same period last year, which shows how tough conditions are across the country," he said.

"Our strategic focus on delivering the best possible product and consistency for our customers has seen us continuing to invest in our herd and assets.

"AACo's ability to produce quality, without interrupting supply around the world is one of the things that sets us apart.

"The outcomes achieved by our commercial team, supported by the efforts of our operational personnel, show our approach has worked and has allowed us to weather extreme conditions."

Global conditions support continued growth

Mr Killen said AACo was poised to take advantage of favourable global conditions.

"The demand for Australian beef is strong, and people across the world are looking for sustainable and safe sources of protein. AACo delivers this in a way no one else can," he said.

"We are identifying new opportunities and have created the right foundations for ongoing growth in existing markets.

“AACo has an unparalleled provenance. We have built one of the largest Wagyu herds in the world with industry leading quality and genetics. We manage a substantial and diverse mix of native Australian pastures and we have a track record, with deep knowledge, dating back to 1824.

“These assets mean AACo continues to present a unique value proposition as the only company in the world able to produce the finest quality beef at scale.

“There is still much room for progress, but the results over the last six months should give our shareholders, our community and our industry confidence that AACo’s strategy is the right one and we are heading in the right direction.”

[ENDS]

Investor Briefing

Australian Agricultural Company (AAC) will hold a teleconference briefing for investors and analysts detailing Half Year 2020 Results on **Wednesday 20th November at 10:00am AEDT (9:00am AEST)**.

Conference details:

AACo Conference ID: 10002869

All Participants will be asked to provide the Conference ID when joining the Call.

Participant Dial-in Numbers

Australia Toll Free:	1800 558 698	Australia Alt. Toll Free:	1800 809 971
Australia Local:	02 9007 3187	Hong Kong Toll Free:	800 968 273
New Zealand Toll Free:	0800 453 055	UK Toll Free:	0800 051 1453
Canada/USA Toll Free:	1855 624 0077	Singapore Toll Free:	800 101 2702

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