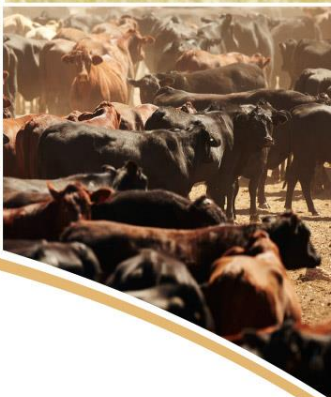
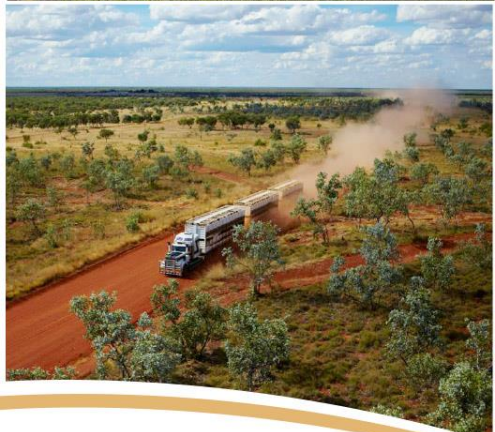


Australian Agricultural Company Limited



# Financial Results for the half-year ended 30 September 2014

19 November 2014



# Disclaimer

## **Important information**

### *Summary information only*

This presentation contains general information about the Australian Agricultural Company Limited and its consolidated entities (“AACo”) and its activities current as at the date of this presentation. It is provided in summary and does not purport to be complete. ***This presentation should be read in conjunction with the Appendix 4D and Financial Report for the Half-Year ended 30 September 2014.***

You acknowledge and agree that you will rely on your own independent assessment of any information, statements or representations contained in this presentation and such reliance will be entirely at your own risk.

### *Disclaimer*

AACo and its related bodies corporate and associated entities and each of their respective officers, employees, associates, agents, auditors, independent contractors and advisers, do not make any representation, guarantee or warranty, express or implied, as to the accuracy, completeness, currency or reliability (including as to auditing or independent verification) of any information contained in this presentation and do not accept, to the maximum extent permitted by law:

- a) any responsibility arising in any way for any errors in or omissions from any information or for any lack of accuracy, completeness, currency or reliability of any such information made available;
- b) any responsibility to provide any other information or notification of matters arising or coming to their notice which may affect any information provided; and
- c) any liability for any loss or damage (whether under statute, in contract or tort for negligence or otherwise) suffered or incurred by any person as a result of or in connection with a person or persons using, disclosing, acting on or placing reliance on any information contained in this presentation, whether the loss or damage arises in connection with any negligence, default or lack of care or from any misrepresentation or any other cause.

### *Forward-looking statements*

This presentation may contain forward-looking statements. All statements other than statements of historical facts included in this presentation are forward-looking statements. Forward-looking statements may include, without limitation, statements relating to AACo’s financial position and performance, business strategy, plans and objectives of management for future operations. Forward-looking statements involve known and unknown risks, uncertainties and other factors (many of which are beyond AACo’s control) and which may cause actual results to differ materially from those expressed in the statements contained in this presentation. Some of the important factors that could cause AACo’s actual results, performance or achievement to differ materially from those in any forward-looking statements include (among other things): levels of demand and market prices, climatic conditions, the impact of foreign exchange currency rates on market prices and operating costs, political uncertainty and general economic conditions in Australia and overseas, the ability to produce, process and transport goods and livestock profitably, the actions of competitors and activities by governmental authorities. No representation, guarantee, or warranty (express or implied) is given as to the accuracy, completeness, likelihood of achievement or reasonableness of any forecasts, projections or forward-looking statements contained in this presentation.

Except as required by applicable regulations or by law, AACo does not undertake any obligation to publicly update or review any forward looking statements, whether as a result of new information or future events.

This presentation should not be relied upon as a recommendation or forecast by AACo.

### *No offer of securities*

Nothing in this presentation should be construed as either an offer to sell or a solicitation of an offer to buy or sell AACo securities in any jurisdiction.



# Half Year Overview

- ❖ The results demonstrate the execution of the stated strategy
- ❖ Sales of branded beef have increased by 38% and now account for 76% of total sales
- ❖ Total Group sales are lower due to significantly reduced cattle sales
- ❖ Construction of the Livingstone Beef processing facility is complete and the facility has commenced commercial operations. Throughput will ramp-up steadily over the coming months
- ❖ Business restructured into three key verticals to increase financial clarity and drive operational focus
- ❖ New earnings metric, Operating EBITDA<sup>1</sup>, adopted to better reflect underlying business performance
- ❖ Investment in inventory through increased cattle purchases, combined with reduced cattle sales has contributed to the negative cash flows from operating activities. This investment in 32 million kilograms liveweight increase in stock is in line with business plan requirements
- ❖ The second half of this financial year will be a busy operational period with branded beef sales expected to remain strong, robust live cattle sales and the generation of sales from Livingstone Beef

Notes:

1. A new metric used internally to measure performance. This measure is based on a standard cost accounting methodology and seeks to avoid the cattle market-price driven volatility apparent in the statutory financial numbers by not recognising any unrealised profit or loss before the point of sale. Operating EBITDA is non-IFRS financial information and has not been audited or reviewed by the company's auditors.



# Summary Financial Results for the Half Year

Sales	\$151.0m	decrease of \$15.7m compared to the pcp <sup>1</sup>
Statutory EBITDA <sup>2</sup>	\$(4.5)m	increase of \$24.2m compared to the pcp
Operating EBITDA	\$(8.2)m	decrease of \$9.8m compared to the pcp
NPAT	\$(13.6)m	increase of \$18.0m compared to the pcp
Cash Flows from Operations	\$(55.4)m	decrease of \$54.4m compared to the pcp
Gearing	31.4%	increase of 8.2% compared to 31 March 2014
Net tangible assets	\$1.37/share	decrease of \$0.03/share compared to 31 March 2014

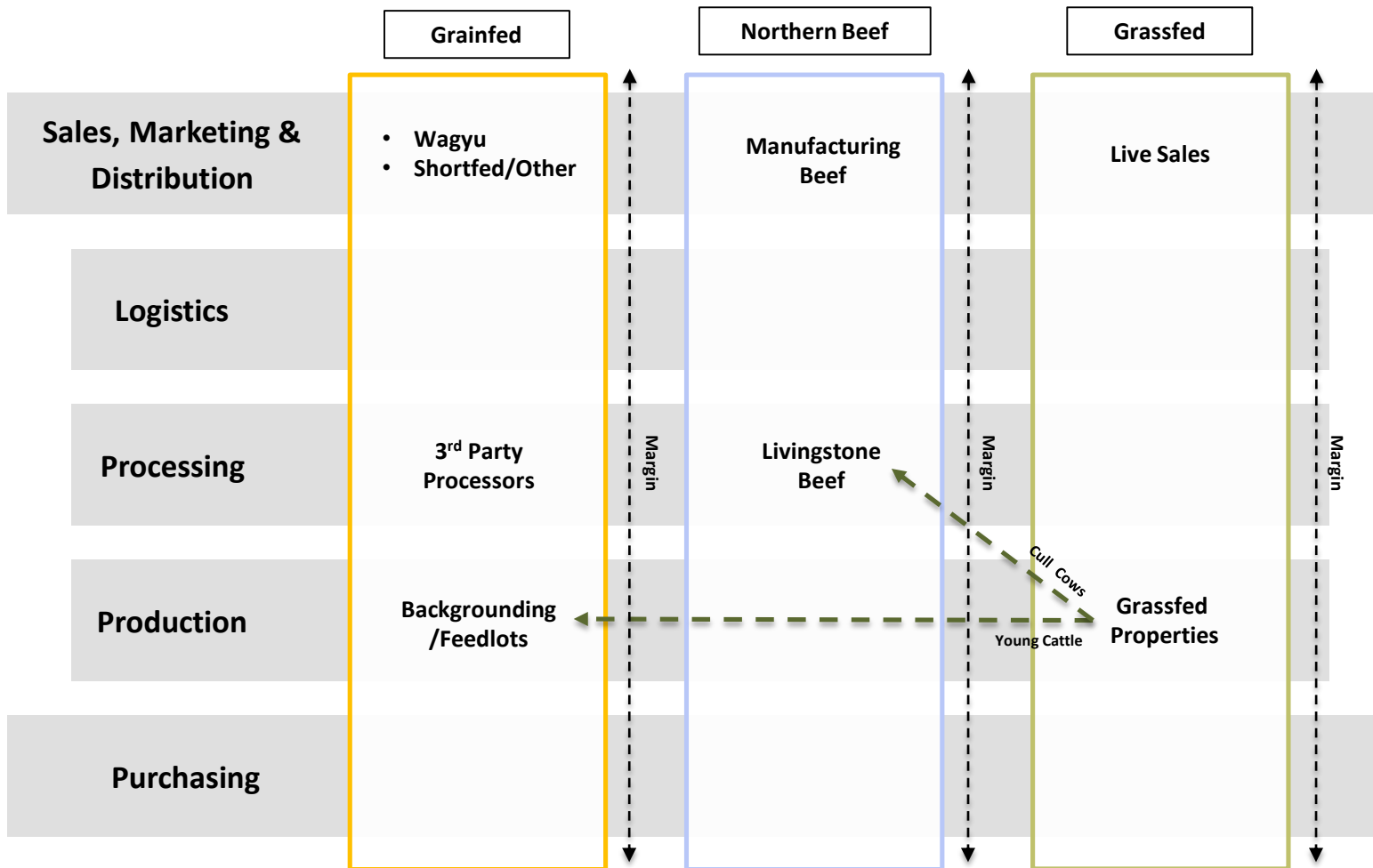
Notes:

1. Prior corresponding period (pcp) – 6 months to 30 September 2013
2. EBITDA represents Net Profit After Tax (NPAT) + tax expense + finance costs + depreciation, amortisation and impairment



# Improved Business Structure

The improved structure follows the key supply chains in the business and will allow for better management and reporting



# AACo's Supply Chains



Grainfed



Northern Beef

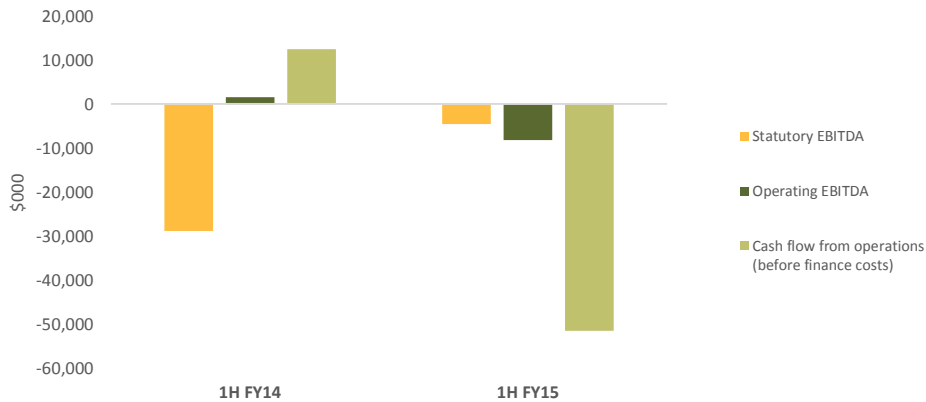


Grassfed

<b>Capital Employed</b>	~\$200m	~\$100m	~\$800m
<b>Main Product</b>	Differentiated, branded beef	Quality manufacturing beef	Live cattle sales
<b>Key Drivers</b>	<ul style="list-style-type: none"> <li>• Global beef prices</li> <li>• Grain prices</li> <li>• Marketing/branding</li> <li>• Feedlot efficiency</li> <li>• Processing costs</li> <li>• FX</li> </ul>	<ul style="list-style-type: none"> <li>• Global beef prices</li> <li>• Domestic cattle prices and security of supply</li> <li>• Operating efficiency</li> <li>• FX</li> </ul>	<ul style="list-style-type: none"> <li>• Climatic conditions</li> <li>• Domestic cattle prices</li> <li>• Operating efficiency</li> <li>• Government policy</li> <li>• Market options</li> </ul>

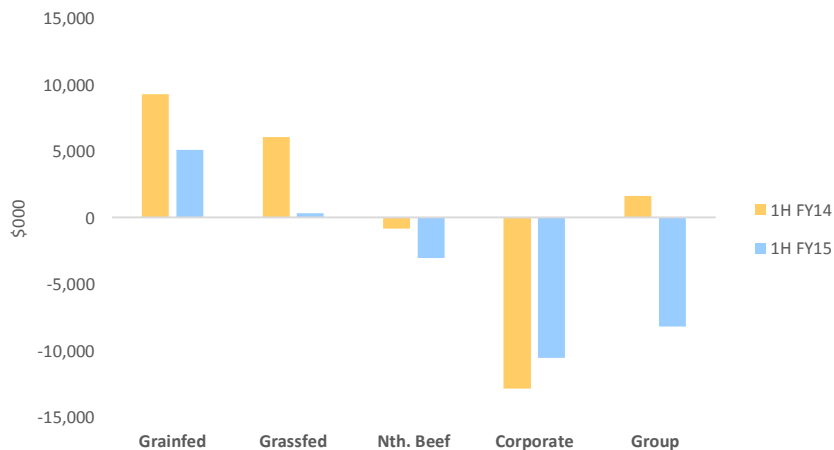
# The case for a new earnings metric

1H FY15 vs 1H FY14 performance according to different metrics



- ❖ A new earnings metric called Operating EBITDA, an internal metric used to measure performance and remunerate staff. This measure is based on a standard cost accounting methodology and seeks to avoid the cattle market-price driven volatility apparent in the statutory financial numbers by not recognising any unrealised profit or loss before the point of sale. Because of the long-term cycle associated with cattle production, cash flows from operations does not always provide a meaningful earnings measure, for instance in times of herd destocking or rebuilding.

Operating EBITDA by Vertical

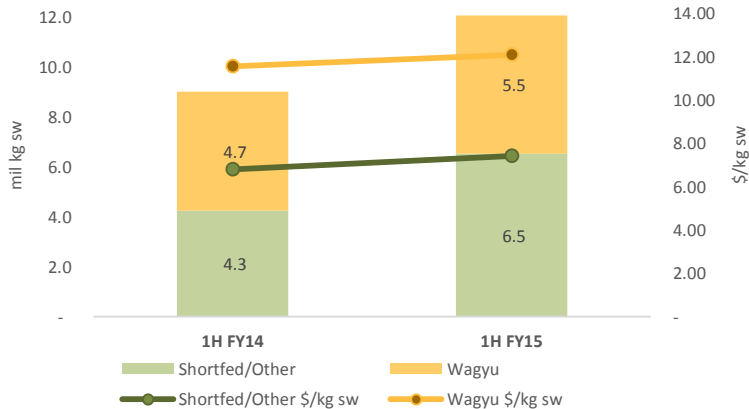


- ❖ Looking at the business along the supply chains previously described, combined with the introduction of the Operating EBITDA earnings metric, will bring more clarity to the operating and financial results and will drive improved focus and performance of the business.

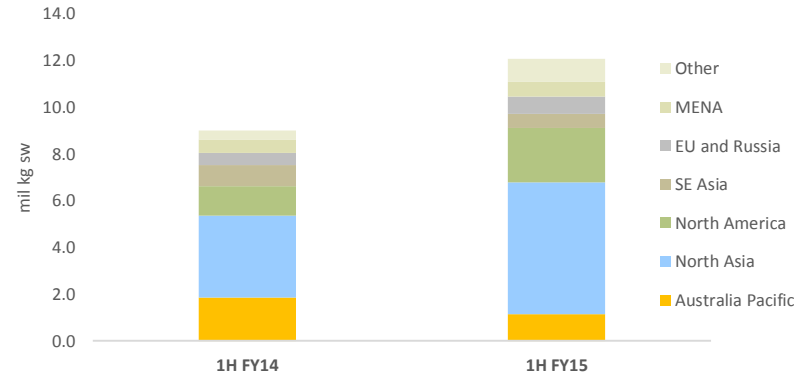


# H1 FY15 Operational Update - Grainfed

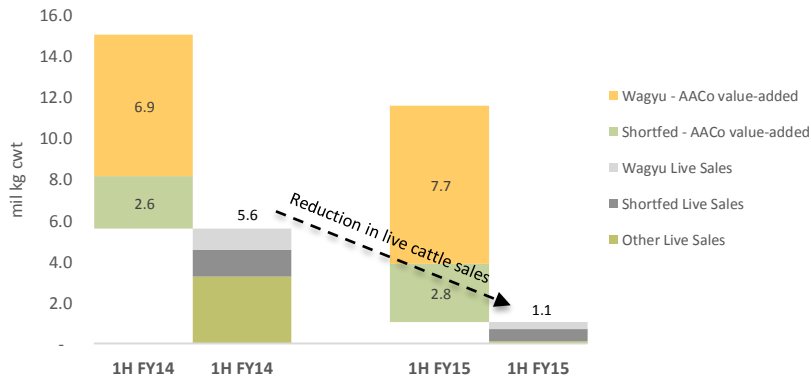
## Branded Beef Sales



## Branded Beef Sales by Region



## Cattle exiting Feedlots/Backgrounding



- ❖ Volume sales of both Wagyu and Shortfed branded beef have increased in line with the company's strategy of adding value by increasing the quantity of cattle we process and sell as branded beef.
- ❖ Strong global demand and the depreciating Australian dollar have led to increases in prices across both the Wagyu and Shorted programs.
- ❖ Offshore sales continue to be robust with the proportion of sales to overseas markets increasing to 90% compared to 80% in the pcp.
- ❖ Value-adding through the AACo supply chain (for sale as branded beef) has increased, at the same time, live sales of cattle to third parties from the feedlots has significantly reduced, in line with our strategy of maximising value adding activities.

Note: sw = shipped weight of beef, cwt = carcase weight, lwt = live weight



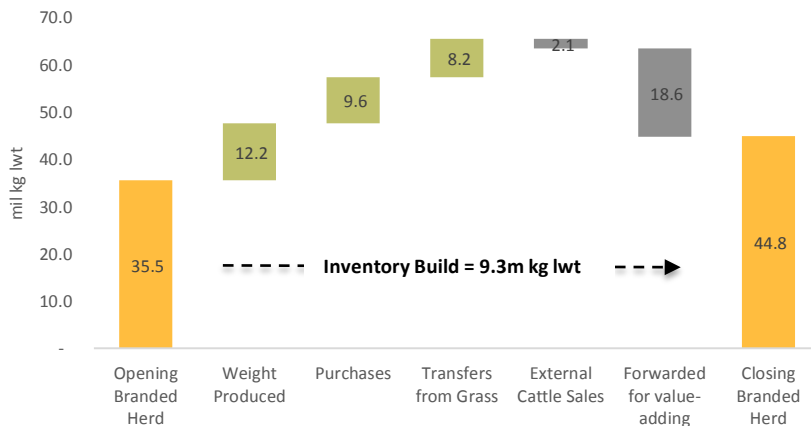


# H1 FY15 Operational Update - Grainfed

## Production and Sourcing

	6 months to 30 September 2014	6 months to 30 September 2013
KG produced - mil kg lwt	12.2	12.1
Finished cattle purchases - mil kg cwt	6.2	3.5
Store cattle purchases - mil kg lwt	9.6	4.3
Processing cost - \$/kg cwt	1.13	1.13
Cost of production - \$/kg lwt	3.50	3.27
Finished cattle purchases - \$/kg cwt	4.22	3.72
Store cattle purchases - \$/kg lwt	2.53	2.95

## Inventory Movements in 1H FY15



- ❖ Production in the vertical is relatively stable compared to the prior corresponding period. Our ability to produce significantly more weight is constrained by our existing feedlot capacity. We are currently in the process of exploring models which would increase our feedlot capacity.
- ❖ Any supply chain production shortfall is supplemented by purchasing finished cattle from third parties for abattoir processing and store cattle for backgrounding and feedlot operations. The strong demand from both the Wagyu and Shortfed sales programs has been met by an increase in both finished and store cattle purchasing in the period.
- ❖ The continuing dry conditions in Queensland have increased grain and fodder costs, which in turn increased costs of production.
- ❖ These dry conditions also negatively affected demand in the store and re-stocker markets as buyers wait for spring rain and better pastures before committing to restocking programmes. This, combined with a shift towards shortfed cattle, is reflected in the lower purchase price of store cattle in the six months to 30 September 2014. However heavier finished cattle are achieving higher prices as processors respond to increased export demand and maintain efficient volumes through processing plants. To meet the market, finished cattle purchases have risen to \$4.22/kg cwt in the six months to 30 September 2014.



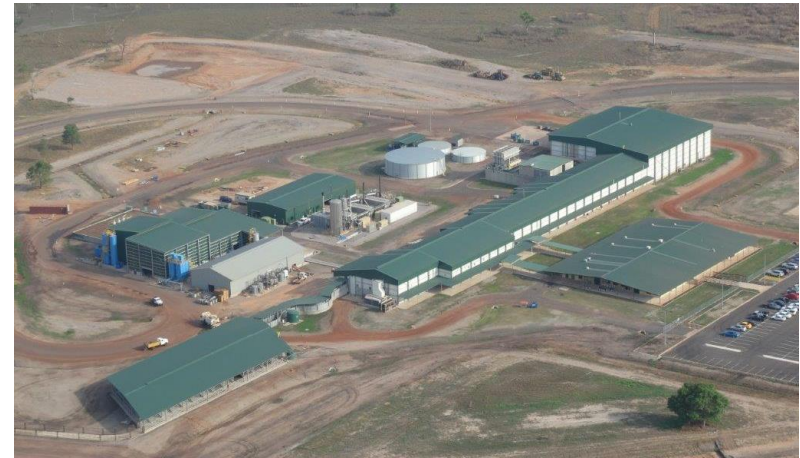
# H1 FY15 Operational Update - Northern Beef

## Introducing Livingstone Beef

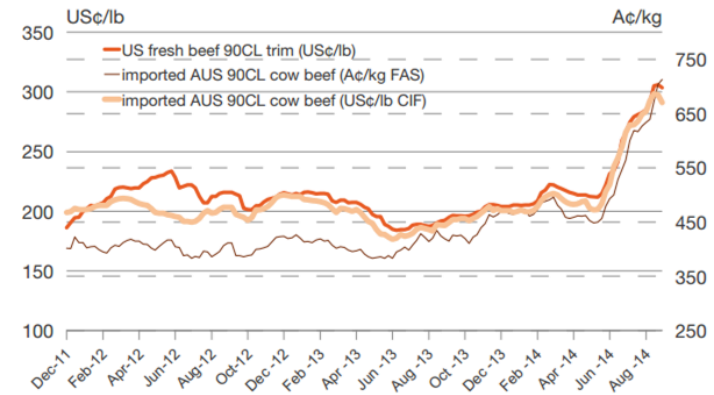


- ❖ The construction phase of the Livingstone Beef facility is complete and commercial operations have commenced.
- ❖ All material operating licences and permits are now in place and management is focused on ramping up and optimising operations.
- ❖ Since the original business case for the plant was first developed, there has been a significant improvement in manufacturing meat prices (see adjacent chart) which are being underpinned by improved fundamentals for US beef producers who are rebuilding their herds. In recent months we have been working hard to strengthen relationships with potential offtake customers.

Aerial Photo of Darwin Facility – October 2014



US 90 CL cow beef prices

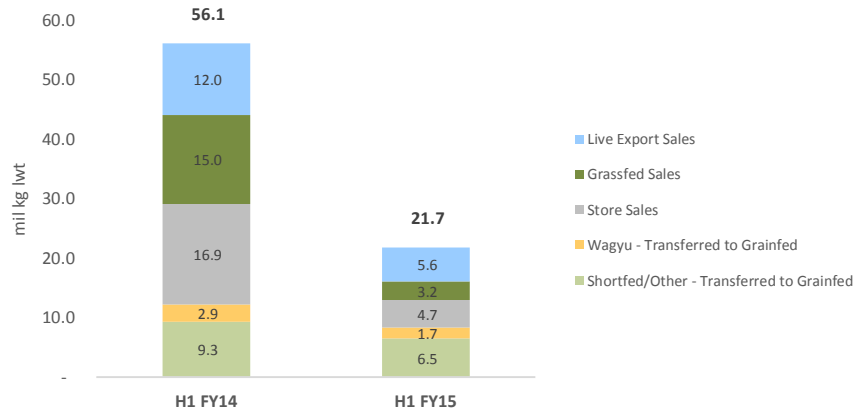


Source: Steiner Consulting Group, Urner Barry

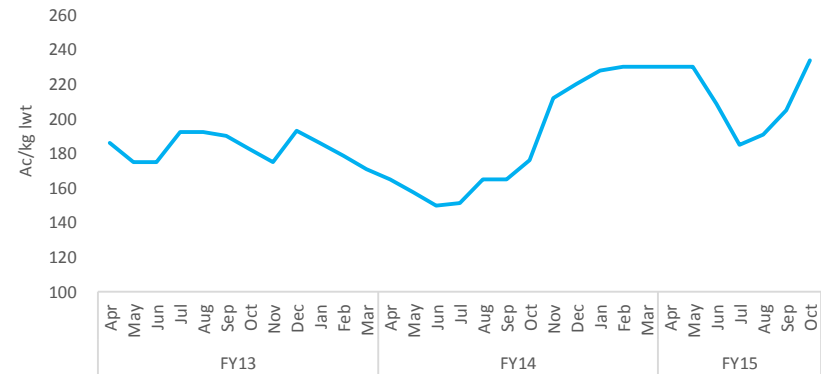


# H1 FY15 Operational Update - Grassfed

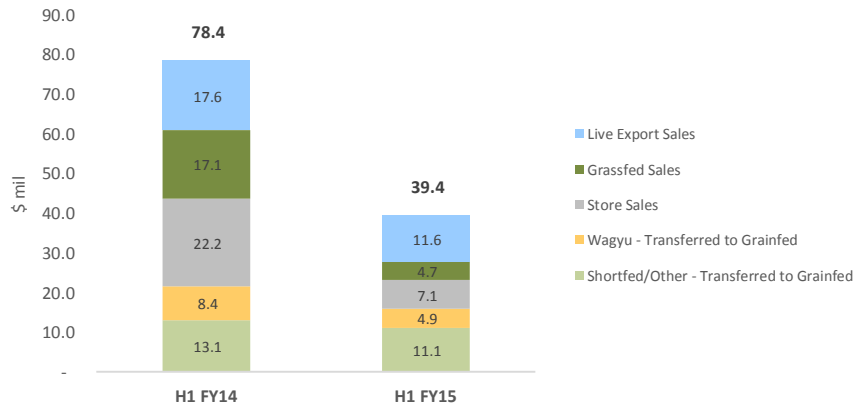
External Cattle Sales / Internal Transfers (kg lwt)



Live Export Market (Indonesian Light Steer Prices)



External Cattle Sales / Internal Transfers (\$ mil)



- ❖ Indonesian import quotas are currently the main driver of live export demand and prices. After several volatile years, import demand driven by both Indonesian, and now other new entrants, have seen the number of exported cattle return to the levels seen before the live export suspension in 2011. Combined with drought induced destocking across the northern Australia in recent years this has led to live export prices reaching historical highs.
- ❖ In the grass-finished market, a shortage of cattle and strong global meat prices have driven up prices. Re-stocker demand has been muted however will likely strengthen significantly if a good wet season transpires in northern Australia.



# H1 FY15 Operational Update - Grassfed

## Production and Sourcing

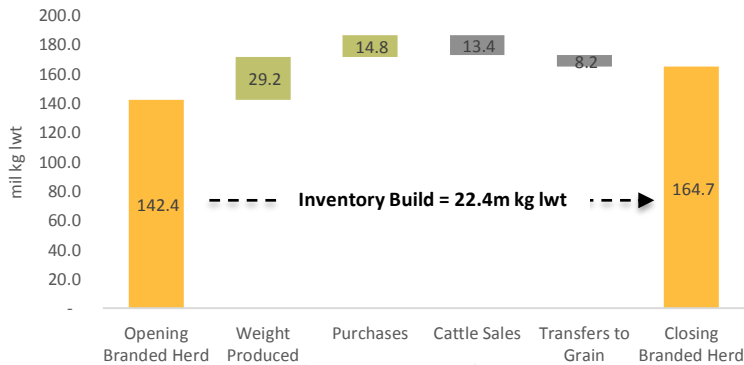
	6 months to 30 September 2014	6 months to 30 September 2013
KG produced - mil kg lwt	29.2	31.2
Cost of production - \$/kg	1.36	1.53
Purchases - mil kg lwt	14.8	0.8
Purchase cost - \$/kg lwt	1.27	1.79

- ❖ Store cattle have been purchased in response to the increased demand and higher prices in the live export markets and to augment the northern herds for Livingstone Beef.
- ❖ Tighter cost controls and lower stocking rates after the wet season have reduced cost of production to \$1.36/kg lwt for the six months to 30 September 2014.

## Breeding herd

('000 head)	6 months to 30 September 2014	6 months to 30 September 2013
Closing Breeding Herd	282.2	294.2
Calves branded	101.1	131.3

## Inventory Movements in 1H FY15



# Summary

- ❖ In July this year we outlined our strategy, which at its core involves transitioning the business towards higher-value branded beef, and away from less stable domestic cattle prices. Since then we have been singularly focussed on executing this strategy
- ❖ The results of the first half of FY15 demonstrate the progress from the changes being made. Benefits of the full execution of the strategy will become evident over time due to the long inventory cycle associated with cattle production
- ❖ Earnings and cash flows from operations reflect the build-up of inventory following drought-induced liquidation in the previous period. This building phase is taking place in a disciplined manner and is focussed on ensuring end markets are identified
- ❖ The construction of Livingstone Beef is now complete and commercially operating. The business structure and reporting is now aligned along three distinct supply chains. Management is focussed and incentivised on maximising the value achieved along these supply chains

