**TRANSCRIPTION**

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**[START OF TRANSCRIPT]**

Operator: Thank you for standing by and welcome to the Australian Agricultural Company Limited FY22 half year results conference call and webcast. All participants are in a listen only mode. There will be a presentation followed by a question and answer session. If you wish to ask a question via the phone, you will need to press the star key followed by the number one on your telephone keypad. To ask a question via the webcast, please type your question into the Ask a Question box and hit submit.

Operator: I would now like to hand the conference over to Mr. Hugh Killen, managing director and chief executive officer. Please go ahead.

Hugh Killen: Good morning. And thank you for joining AACo's half year results presentation for financial year 2022. I'm Hugh Killen, managing director and CEO of AACo, and joining me today is our chief financial officer Nigel Simonsz.

Hugh Killen: I will start our presentation today by running through the key highlights of AACo's interim performance. I will then discuss our progress against strategy so far in FY22. And after this, I'll go through our regional and brand progress for the half. I'll then hand over to Nigel to take us through the financials, after which, I'll briefly discuss our sustainability strategy framework. And I'll finish up with an update on our operating environment, as we move into the second half of the financial year.

Hugh Killen: Moving on to slide number four. I'm pleased to report that AACo has delivered a strong set of results for the half. Our operating profit increased by 28% to $30 million. We've continued execution of our branded beef strategy. Our team has improved average price per kilo by 9% through strategic allocation to high value markets around the world. We've continued to increase the proportion of branded meat sold through our Westholme and Darling Downs brands. And this work together with continued cost discipline has helped drive overall improvements in meat sales margins. This half we've seen the continuation of record high cattle prices, and this has helped push our cattle margins higher as well.

Hugh Killen: We've worked hard to develop our new sustainability strategy framework. I'll be formally launching this tomorrow. However, I'll make some brief comments about this important work later in today's presentation.

Hugh Killen: On the finance side, we've successfully refinanced our debt facilities, giving AACo increased capacity and flexibility for the future. And this will be integral to our next phase of growth, as we build on our strong position today. Our balance sheet has strengthened further from a good position last year. The value of our net assets now exceeds $1.1 billion and AACo's net tangible assets per share has increased to a $1.88. This all combined, deliver an $83 million statutory net profit after tax, which is an $85 million improvement on the first half of FY21. Importantly, we've delivered these results despite lower meat volume sold, which I'll talk to in more detail on the next slide.

Hugh Killen: As discussed at our FY21 full year results presentation, we've seen lower volumes of meat sales this half. This comes off the back of lower calving levels between 2018 and 2020, as a result of prolonged drought conditions and also the Gulf flood. Lower volumes have been reflected across the wider Australian beef industry. National herd levels reached 25 year lows in 2020, and the MLA is forecasting slaughter rates dropping to 36 year lows by the end of 2021, as a result of ongoing supply constraints. These rates are only expected to return to normal in calendar year 2023, and at AACo, we anticipate lower meat sales volumes through the rest of this year and also into FY23. At the same time, our AACo cattle herd rebuild is continuing well. Brandings are up during the half year. Total kilogrammes produced are also up 31%, and this gives us confidence that production is continuing to move strongly in the right direction.

Hugh Killen: Turning now to slide six, and our progress against strategy in the first half of FY22. Our overall strategic focus is on delivering outcomes in three key areas, consumer and customer centricity, operational excellence and our team. I'm pleased to report good progress across these areas in the first half of FY22.

Hugh Killen: In terms of consumer and customer centricity, our strategic focus is on building stronger connections with our brands. In particular, we've continued to drive sales through our very strong Westholme and Darling Downs brands. In the most recent half year, 83% of our branded meat sales were through these brands, compared to 75% in FY21. The team have been working hard to build brand awareness amongst consumers, and we've seen strong progress through our Westholme influencer strategy, which has multiplied our audience reach by eight times. This work has driven important results in North America in particular, where branded meat sales have increased 55% compared to the prior period. And this has been supported by strategic reallocation of higher valued cuts into this market at premium prices. And this has supported an overall 9% increase in our average price per kilo of meat sold.

Hugh Killen: Our second strategic focus is operational excellence. This is where we continue to concentrate on creating a simpler and more efficient AACo. Ongoing cost discipline has continued over the half with good results. We've seen 13% lower cost of production this half, compared to first half of FY21. This has included production efficiency through the supply chain, as well as reduced adverse seasonal impacts. Another key efficiency driver within our operations is effective supply and demand planning. We are continuing to become more accurate and forward looking, helping to manage costs throughout the whole supply chain. And importantly, this helps us make better investment and operational decisions as we grow.

Hugh Killen: We've also continued our focus on creating a high performance culture where our people can thrive. As part of this, we worked hard in refining our guiding purpose and vision, which we relaunched during the half, and we invested in the mental health first aid skills of our people. We also saw a 17% improvement in our lost time injury frequency rate compared to PCP, and overall team engagement improved by three points this half.

Hugh Killen: Now, turning to slide seven and our commercial review. Strategic review management is another core part of our business strategy and operations. This includes a relentless focus on maximising returns from every cut of meat that we produce and leveraging our global distribution network to get the right cut to the right market opportunities, at the right time. In the first half of FY22, this has produced important results. Overall, strategic market allocation has helped support a 9% improvement in price per kilo, compared to the prior period.

Hugh Killen: A particular highlight to note is our performance in North America, where our average price per kilo of branded beef sold is up 33% compared to PCP. This reflected strong demand for higher marble score loins and rumps in the region. Our team were able to redirect product away from Asia to capture these premium prices. Asia continues to represent our largest meat sales region at 53% of total meat sales revenue in the half. The Australian market is our heartland and very important to who we are as a company,

Hugh Killen: And we continue to manage volumes to optimise returns in this market.

Hugh Killen: Across all regions, we're seeing COVID-19 vaccination rates wind back restrictions and drive a return to food service options for consumers, and we'll continue to respond to this situation as it continues to develop.

Hugh Killen: Moving on now to slide eight and the development of our Westholme brand. As mentioned previously, we've seen good progress in execution of our branded beef strategy over the half year. A key component of this work is our in-market efforts to build brand awareness for Westholme. This has included engaging with customers and consumers through digital channels in North America. We've adopted the approach of engaging with chef influencers online, and this has been supported by creation of content designed to spark conversations between chefs.

Hugh Killen: As a result of these campaigns, we've seen positive growth in engagement and audience reach. We've also continued build brand awareness through our online gourmet e-marketplaces over the half year, and we are leveraging shopper analysis and insights from these sites to further develop our knowledge of consumer habits.

Hugh Killen: Closer to home, we're continuing to refine and build the value of Westholme in Australia. This includes continuing to support the food service industry in Australia as it reopens. So far, we've run a number of programmes with our Australian food service customers during the half, and we'll continue to partner with good initiatives that let us connect with chefs and the wider food service industry at home.

Hugh Killen: Moving now through our Darling Downs brand on slide number nine. Our focus with Darling Downs in the first half of 2022 has been increased consumer engagement in South Korea, where we have launched our first promotion in South Korea to drive user-generated content. Earlier this year, I mentioned our Darling Downs brand refreshing career, and this has generated good results in terms of sales. Off the back of these positive results, we extended that refresh our Darling Downs brand into Hong Kong.

Hugh Killen: I'll now hand over to Nigel, who will take us through our financials for the half year in more detail.

Nigel: Thank you, and good morning everyone. And thank you for your interest in what has been a positive half year for AACo. I can report that the business has achieved some notable high during the first half of FY22.

Nigel: Firstly, meat sales price per kilogramme grew on average by 9% versus the prior period. This was largely off the back of optimising our strategic market allocation and product combined with continued progress in executing against our branded beef strategy. The increase in price has offset lower volumes of meat sold during the period, as Hugh referred to earlier.

Nigel: The business has delivered increased profitability during the half. This included a 28% increase in operating profit, and notably an improved operating profit margin as a percentage of sales of 20.9%. Both of these results were driven by improved sales margins across both meat and cattle sales. And for noting, the prior comparison period included $6.7 million in operating profit and $4 million in operating cashflow relating to job keep up. Net operating cashflow for the half was a positive $17.3 million for the period. We've also seen a strong 7% improvement in net tangible assets versus year-end FY21 with further strengthening of our balance sheet.

Nigel: And now turning to slide 12, where I'll talk to revenue in some more detail. Overall total revenue has remained largely in-line with PCP at $143 million. This result has been supported by higher pricing, which has been offset by lower volumes sold.

Nigel: Mid-sales revenue has remained flat on PCP at a $102.9 million, and this has largely been driven by a 9% increase in average wagyu meat sales price per kilogramme, which was worth an additional $8.5 million this period. Notably this was achieved despite an adverse foreign exchange variance of $6.9 million versus PCP. And as referred to earlier, lower carving in previous years continue to impact the business, which has translated into an 8% decrease in volume sold during the half, also worth $8.5 million, which equally offset meat sales price gains.

Nigel: Cattle sales revenue decreased marginally on the prior period to 40.5 million, and this has largely come off the back of 17% lower cattle sales volumes worth $7 million, and this reduced cattle sales volume has been partially offset by a 19% increase in price worth $6.4 million. The cattle price increases are reflective of the record high trading and restock of cattle market pricing the industry is currently experiencing.

Nigel: Now moving on to cost of production on slide 13. This half we've seen a 13% decrease in cost of production versus the prior period. This comes off the back of improved seasonal conditions, as well as a 31% increase in kilogrammes produced this half compared to the prior period, particularly in the breeding part of our business. And more broadly, the business has continued its discipline focus on costs. These results contribute to the overall cost of our F1 wagyu animals, which accumulates over their approximate three and a half year life cycle as they progress through the supply chain.

Nigel: And now turning to operating profit on slide 14. As mentioned earlier, operating profit has improved by $6.5 million compared to the first half of FY21. This was largely driven by improved meat and cattle sales margins through higher average sales pricing. And also, as mentioned earlier, this was achieved despite the adverse foreign exchange variants of $6.9 million in sales. And this should be looked at in conjunction with a favourable variance of $4.6 million, primarily in FX hedging gains and losses versus the prior year.

Nigel: And now moving to slide 15 and our profit and loss summary. In addition to the comments on operating profit drivers already noted, we have also seen a strong improvement in net profit after tax of $85 million versus half one FY21. This result comes off the back of a positive unrealized mark to market adjustment in the half of $87 million to the value of the underlying herd. This adjustment was largely driven by current record Australian cattle prices.

Nigel: And now moving on to our cashflow summary on slide 16. The business generated positive net operating cashflow for the period of $17.3 million compared to $22.3 million during half one FY21. The key drivers of this variant are outlined in the waterfall chart on this slide. These include increased cash expenditure, due mainly to higher insurance and freight costs, which were offset by the impact of lower cattle purchases and favourable networking capital movements and the receipts of job keep up in the prior period.

Nigel: And now turning to the balance sheet on slide 17. AACo's net assets now exceed $1.1 billion, reflecting strong growth in the value of our herd and land assets. This is translated into a higher net tangible assets per share of a $1.88,

Nigel: And in all this constitutes a 7% increase compared to our full year 2021 results, and a 22% increase compared to the same time last year. We also successfully completed the refinance of our debt facilities during the half. This has increased our borrowing capacity by another $50 million. And our total capacity is now $600 million, which leaves us with 240 million in available borrowing capacity. Our gearing ratios remain well within our targeted range of 20 to 35%. And we maintain substantial headroom within our covenants. This new refinancing agreement will assist the business through its next phase of strategic growth. And with that, I'll now hand back to Hugh to take you through AACo's sustainability strategy framework.

Hugh Killen: Thanks Nigel. I want to briefly touch on our commitment to sustainability. Sustainability has always been at the heart of AACo, as it is for all rural and regional communities. For almost 200 years, we've cared for some the most important country in Australia, and we take this responsibility very seriously. Tomorrow, we'll take the next step in this journey and release our sustainability strategy framework. This framework will be used to prioritise the work we do, and the goals we set ourselves as a sustainable business. This will include immediate steps, as well as longer term strategies that are our blueprint for action. And this work will underpin the company's future as a food producer, and also as a landowner.

Hugh Killen: Moving to our operating environment. We're starting to see a number of important dynamics playing out in the global beef market in FY22. While we tend to focus on more premium and less commoditized product, these dynamics will have important implications for AACo.

Hugh Killen: The first of these dynamics is very strong global demand for beef. Continued protein shortages in China, as a result of African swine flu, are contributing to this demand growth. And we're also seeing increased demand from developed markets, as COVID-19 restrictions are lifted.

Hugh Killen: The second important dynamic we are seeing is clear immersion constraints on supply. Supply from key export players, including Argentina, Brazil and Australia already appear to be restricted, and US production and export numbers are forecast to be lower in 2022. And this reflects the life and peak in the US herd rebuild this year.

Hugh Killen: Turning closer to home with slide 21. In Australia, the national herd rebuild is still going on in earnest, as producers look to rebuild stock. Demand exceeds supply in the market, which has helped drive the EYCI to an all time high this week. Slaughter rates are forecast to reduce to 36 year lows this calendar year, and MLA are suggesting slaughter will only return to normal levels in calendar year 2023.

Hugh Killen: Off the back of these macro themes, we expect these high cattle prices to remain for some time.

Hugh Killen: In closing, I'd like to thank the AACo team for their continued hard work through the first half of the year. We've made material progress, executing against our strategy, and we have delivered a strong result. Moving forward, our focus is on continuing to execute against our branded beef strategy, and this still remains the strongest pathway to delivering long-term value for our shareholders. Thank you for your time this morning, and this ends our presentation, and Nigel and I are happy to take any questions.

Operator: Thank you. If you wish to ask a question via the phones, please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star two. If you're on a speaker phone, please pick up the handset to ask your question. We'll pause a moment for any questions to register.

Operator: Thank you. Your first question comes from Jonathan Snape from Bell Potter. Please go ahead.

Jonathan Snape: Hey guys, can you hear me okay?

Hugh Killen: Hey Jono, no problems.

Jonathan Snape: Yep. Hey look, can I ask just a couple of questions? One, around the pricing move that you got in the first half, but you've called out that part of it was I guess, moving stuff to different markets. How much of that 9% gain do you think was, I guess, the underlying commodity value move, relative to, I guess, mixed in there, and then how should we be thinking about that in the second half? Is there a difference in the mixed profile that you've got on hand?

Hugh Killen: Jono, I think there's two parts to your question. Obviously one is, does a rising tide lift all boats? And I think to a degree, obviously we're seeing very strong demand dynamics for red meat, more broadly, and we're obviously getting the benefit of that. But we talk about optimising our revenue and making sure we allocate correctly across the markets. That's definitely a factor in it. And one of the things we're doing is chasing down opportunity in a very targeted way, which is another reason why you see product move from Asia into the US at the moment. So that gives the ability to take advantage of the current dynamics, but it also gives us the ability to optimise our overall allocations.

Jonathan Snape: Okay. And look, I'm just trying to figure out sourcing, and I think you guys flagged back at the full year that there'd be quite a bit of external sourcing of cattle this year, and looking through the numbers, it didn't look like there was much at all, maybe a couple of million bucks, if I was going through the cashflow. Is there a shift in the programme, or should I be expecting that there's more external sourcing to come in the second half than maybe we saw in the first half?

Hugh Killen: Look, I think the first thing for us is, we are, as we've been talking to the market, kilos are down for the reasons we've been describing, around droughts and floods, et cetera. We purchased $14 million worth of cattle in H1. I'd expect to see some supplementary purchases as we flow through in the second half of the year. The important thing I think to note, Jono, is those purchases are obviously done on a margin basis as well. So, our ability to look through from a margin perspective before we buy those cattle is really important part of the results as well. So clearly, we'll remain supply constrained as the Australian industry does for the next little while, and I think some ancillary purchases will be required in the second half of the year, but they're pretty well managed.

Jonathan Snape: All right, great. That was a good number. That's what, five halves of operating profit, if I'm reading it right?

Hugh Killen: That's right, mate. Yeah, no, it's a really pleasing result under the circumstances, so we're very happy with it.

Jonathan Snape: Great. Thank you.

Operator: Thank you. Once again, if you wish to ask a question, please press star one on your phone and wait for your name to be announced. We'll pause again for any further questions to come through.

Operator: To ask a question via the webcast, please type your question in the Ask a Question Box and hit submit.

Operator: Your next question comes from Paul Jensz from PAC Partners. Please go ahead.

Paul Jensz: G'day Hugh. Paul here. How are you?

Hugh Killen: Well, thanks Paul.

Paul Jensz: That's excellent. Similar to what Jono was saying, it's great you got operating profit over five halves. Just wanted to talk through first your metrics around the cashflow and how you are looking to optimise, I suppose

Paul Jensz: Being cash, the free cash flow now and into the couple years

Hugh Killen: I might, Nigel, you might want ask that question.

Nigel Simonsz: Yeah, no problem. Hi, Paul, [crosstalk] I think as we've shown over the last few halves, we've continued to demonstrate an ability to deliver positive operating cash flow, both from a continued discipline on cost side. So, and we've made continued progress on that over the past three years, but also really a relentless focus on maximising value from a revenue perspective that we drive over the whole of the animal. And clearly the focus for our brand beef strategy remains our primary focus. So really is looking at both the revenue and cost side Paul to really drive maximum value across the supply chain.

Paul Jensz: Okay. And I suppose how far are you through [inaudible] I suppose the higher end branding of the beef versus I suppose the cost out story. So maybe you can about a percentages of the way through, on the cost out store and the percentage of the way through, on up upgrading to that high grade, obviously across the Waygu and other brands.

Hugh Killen: Well cost out to me, you've heard me present this talking about creating more efficient AACo. I'll never take away that focus on cost. You know, this is obviously a very cyclical business and you need to make sure you manage it throughout the cycle. So we'll continue to do that piece. As you can see in terms of price per kilo achieved, the growth in our brands as well in terms of the percentage of meat that sold under our brands, how that continues to grow.

Hugh Killen: Our focus on key markets, especially now the COVID starting to weigh-in, I think will be a key part of the strategy and continue to build brand awareness. And especially in those really critical markets such as the U.S. So, I don't know if I'll put a percentage on our journey in terms of brand building, but that's something that's absolutely key for us and brands take a very long time to build.

Hugh Killen: We're starting to see really positive traction in terms of West Home and Darling Downs in particular now. And I think there's a whole lot of opportunity there to continue to grow those brands and the focus we're putting into them, I would say guess echo a point that, that Nigel's talking about in your first question and focusing across the entire car and for us, we need to op optimise every kilo of beef that we sell. And from a brand perspective, there are absolutely options for us actually build out and add value in different cuts, in different parts of our business, outside of just our premium West Home and Darling Down Springs as well, which is the key part of our strategy that we'll be working on over the next period.

Paul Jensz: So thank you all that detail and the final areas is what sort of operating cash flow to asset sort of ratio are you after? An all encompassing type number? Is that something that's in your [inaudible]?

Hugh Killen: Well, it's something that we know as a board and management team, we obviously discuss, but I don't think I'd something I'd be willing to share here at the half with you mate.

Paul Jensz: All right. Well, you're going in the right direction. Obviously there's a bit of a hit there with COVID this half. The general direction is very, very solid. So well done then to you and the team, it's not a mean feat.

Hugh Killen: No, no, no. Thank you, Paul. I mean, obviously COVID has been a difficult situation for all companies to manage, but I think the companies navigated that pretty well. So thanks for your question.

Paul Jensz: Okay. Thank you.

Operator: Thank you. Your next question comes via the webcast. The question is what's the future of the meat processing facility outside of Darwin.

Hugh Killen: Thanks for the question. Look, I've been on the record a number of times now saying that I believe there is absolutely key strategic value in Livingston as a cornerstone asset, especially for the North. I think I gave pretty good context in terms of my prepared comments and slaughter levels obviously at 36 year lows. And at the end of the day, I don't think the MLA are forecasting that to return to normal levels until sometime like 2023.

Hugh Killen: So from my perspective, the fact that the Livingston facility is not operational in that environment is a really good thing. I absolutely, and the company shares this aspiration to have that asset running at the right time. I don't think given where we are on the cycle at the moment, it's particularly conducive with the start up. But we are working hard to make sure that when the conditions are right, the asset is in the right position to be able to restart effectively and efficiently.

Hugh Killen: So if a supportive comment around the Darwin facility, I think there's a lot of optionality there. We retain that it's a small cost operation to support it, but certainly at the right time, I think it's an asset we'll be looking to run.

Operator: Thank you. Your next question via the webcast asks, when will the next reevaluation of property assets be completed?

Hugh Killen: We do a reevaluation of our property assets on an annual basis. So actually it takes quite a long time to do actually takes a few months for us to run through given the size of the business. And that just starts in the next few weeks, and we don't report our valuation until the full year on 31st of March.

Operator: Thank you. Your next question asks, please explain company attitude to retaining heifers from the branded programme versus feeding them. Are you retaining significantly more heifers?

Hugh Killen: Look our focus is always on maintaining a core herd to support our branded beef programme. So obviously there's a balance between having the right breed stock coming through a heifer perspective and obviously supporting our branded beef business. Now, we don't disclose the mix of that, but ultimately given where we've been from a seasonal perspective, as well as the industry, in terms of the impacts of the drought and the flood, we we're retaining as productive females in our herd as we possibly can. So we'll continue to do that.

Hugh Killen: That's a fine balance between actually making sure we've got the right number of cattle and our feed lots for our branded programme, but ultimately I want to make sure we have the right cattle in hand from a breeding perspective. And so what I would say is the productivity of the female herd, both in terms of the age of our cow herd and heifers retained across AACo is very supportive of growing our herd in the right way over the next couple of years.

Operator: Thank you. There are no further questions via the webcast. We'll pause a moment for any final questions to come through.

Operator: Thank you. There are no further questions at this time, and that does conclude our call for today. Thank you for participating. You may now disconnect.

**[END OF TRANSCRIPT]**