**TRANSCRIPTION**

**Company: Australian Agricultural Company Limited**

**Date: 18 May 2023**

**Duration: 23min**

**Reservation Number: 10030273**

**[START OF TRANSCRIPT]**

Operator: Thank you for standing by and welcome to the Australian Agricultural Company Limited FY23 full year results announcement. 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 phones, you will need to press the star key followed by the number one on your telephone keypad. If you wish to ask a question via the webcast, please enter it into the ask a question box and click submit. I would now like to hand the conference over to Mr. David Harris, Managing Director and Chief Executive Officer. Please go ahead.

David Harris: Thank you. Good morning, and welcome to the Australian Agricultural Company's full year results presentation for the financial year 2023. My name is Dave Harris, managing director and CEO of AACo, and joining me on the call today is Glen Stedman, our Chief Financial Officer. I begin today by acknowledging the traditional custodians of the various lands on which we meet today, in Brisbane that's the Jagera and Turrbal peoples. I also pay my respects to the elders past, present and emerging, and extend that respect to nay First Nations people joining us for today's presentation. Before we get underway, I want to take a moment to acknowledge the devastating floods and stock losses that have hit parts of the pastoral community over the recent wet season. Whilst our properties and cattle were spared, we are familiar with the harrowing impacts of flooding after facing the same conditions on our properties in 2019. It's been heartbreaking to witness, and we wish the best possible recovery to everyone who has been affected.

I'll start our presentation this morning by running through the key highlights of our company's performance. We'll take a closer look at the strategy and how delivering against its pillars helped us produce these results in FY23. This will be followed by an update on the important work we are doing in sustainability. I'll then take you through our key markets and share more about our regional and brand progress. Following this, I'll hand over to Glen who will take us through the financials in more detail.

After which I will finish with an update on the operating environment as we move into financial year FY24. However, before I continue, I would like to remind you about our purpose. At AACo, we are evolving together to benefit future generations. This is why we exist, and it's what drives me as I lead the company each day. We take great pride in the people we develop, the culture we create, the land we nurture, the animals we care for, and the exceptional Wagyu we produce. It provides direction as we strive to deliver on our vision, to be trusted globally as the producers of the finest quality Australian beef. We took more strides towards this vision and our purpose in FY23, and I'll elaborate on some of those key achievements in the next part of the presentation.

Our results in FY23 are a credit to the teams of people who work, and in many cases live across our supply chain. I'm pleased to report that we are seeing results of our efforts and are making really good progress against our strategy. We have lifted our margins with improved pricing, controlled costs in a high inflation environment, and achieved positive outcomes in our target metrics, whilst also delivering against each of our strategic pillars. Our operating profit of 67.4 million is a 35% increase on the prior period, and is an extremely strong full year outcome. It was supported by a renewed energy and focus on driving price across all markets as we deliver on the full potential from our brands. Our statutory net profit after tax is 4.6 million dollars, this number is impacted by the reduced cattle prices, because the Accounting Standard requires us to include unrealized gains or losses of our herd, it is not an indication of our operating performance. The Australian cattle market softened during the period creating an unrealized loss and impacting our statutory figure by around 112 million dollars.

Operating profit and operating cash flow give the most accurate representation of our performance each year, and our operating profit today is one of the strongest signs to date that our strategy is having success. The strategy is built around selling branded beef into global markets. It decouples our operation position from the fluctuations of the cattle market, and this year you can see that while cattle prices are falling, our operating profit remains strong.

Our operating cash flow was also a positive 16 million. As I said at the half a growing herd for the future needs to be invested in today. This cash flow reflects this investment, as our herd grew 13% to almost 433,000 animals, that will naturally result in elevated operational costs as the cattle move through our supply chain. This figure was also influenced by more expensive inputs due to the global inflationary and supply chain pressures, noting we've maintained a stable cost of production even in this high cost environment. The NTA has grown 14% to $2.59 per share, driven by a significant increase in property values, taking our net assets to 1.6 billion dollars. I also feel we have made good progress on our sustainability initiatives. Turning now to slide six and the strategy which guides our decision making.

AACo strategy rests on five key pillars, delivering full potential from our brands, developing our natural resources and assets, a simpler and more efficient AACo, executing on our sustainability framework, and finally making AACo a great place to work. We executed on this strategy in FY23, and I intend for that to continue in FY24. My initial focus is on refining and improving the strategy under the same pillars, making the adjustments that are necessary to suit any changing conditions that we face, and continuing to deliver value for shareholders.

With key executive positions filled, including Chief Financial Officer Glen Stedman, we have a highly experienced team to guide a AACo into the next phase of its growth. In FY23 we are seeing the results of many years of hard work, and this gives us a strong foundation to build from. Some of the key FY23 highlights under each of these strategic pillars are found on slide seven, our efforts to place the right cuts in the right markets at the right time drive 17% increase in Wagyu meat sales price per kilogramme, and was a key driver behind our improved operating profit. Our strategic focus on the North American market is paying off with 22% growth in branded sales, demonstrating how the strength of our brands and our strategy drive improved results.

I'm happy to announce that we have commenced a major increase in our production capacity with the expansion of the [inaudible] property. Once operational, we will be able to further improve our value chain and boost our global supply. We have also now converted 62% of our water bores to solar, which is a total of nearly 400 in total. And we are also developing our natural resources and assets by advancing our cropping [inaudible] in the Gulf of Queensland.

Not withstanding our herd growing by 13% and producing 19% more live weight kilogrammes, whilst being operating in a high cost environment, we were able to hold our cost of production stable with a 2% reduction per kilogramme. I think it's a great demonstration of how we are creating a simpler and more efficient AACo as we continue making operational efficiencies throughout the supply chain. I'm proud of our achievements as we continue executing on our sustainability framework, these include driving efficiencies through our Beef Cattle Herd Management carbon project, which are the equivalent of avoiding 191,000 tonnes of emissions. This generated Australian carbon credit units worth more than 7 million dollars for the year. It's one of several key outcomes under this strategic pillar, and I'll share more with you shortly.

Our drive to make AACo a great place to work has benefited teams across the supply chain, including improvements in safety, which resulted in a 37% improvement in lost time injury frequency rates, and a significant reduction in severity on occasions when injuries do occur. We have also made progress in diversity and inclusion, and now have 40% of leadership positions occupied by women throughout the company.

Moving now to slide eight and more on our sustainability programme. It's been 18 months since AACo released its sustainability framework and announced several key commitments to pursue over the following years. Our momentum in this pillar continues to build, with progress under each commitment and in many other areas. In addition to the activities already mentioned, AACos [inaudible] trials concluded in the second half of the year with the results currently being analysed. These outcomes will help inform decisions on the future use of feed additives, and the potential broader market drivers that influence the viability of methane abatement strategies.

We have also progressed our innovative approach to improving the environment with the continued development of a tool to monitor pasture availability and to assist with forage budgeting, and advanced our landscape carbon commitment. Including collecting a significant amount of soil sample data, which will be used to continue building our innovative carbon management tool. Now turning to our regional performance as we deliver on the full potential of our brands in market.

We've previously highlighted North America as one of our highest priority regions, and the results achieved in FY23 demonstrate why that remains the case. With consistent demand and strong pricing across all Westholme cuts, our commercial teams achieved a 22% increase in revenue with consistent volumes. Our investment made in previous years is paying off. The higher proportion of branded sales followed a focused effort on engagement to deepen relationships with our established networks, including our distributor partners and our customers. High profile US-based chefs collaborated with AACo and Westholme on social media, and through targeted in-person events designed to introduce brand to new customers. This helps to create real opportunities for menu placements at new restaurants, one of those chefs is Nancy Silverton from Chi Spacca in Los Angeles, who you can see there on the presentation.

Moving to Asia on slide 11. Asia remains our biggest region by volume and revenue, despite moving higher value cuts to food service markets and increased competition from local cattle breeds and beef brands, we were still able to maintain our strong market position and increased pricing in the region during the period, achieving revenue growth of 13%. Darling Downs still has strong brand recognition across Korea, this was enhanced through our marketing activities, including in-store tasting experiences to encourage and further influence consumer behaviour. We also made investments in our digital presence through social media and a new website that will expand consumer reach and engagement, and support the premiumization of Darling Downs in Korea.

Moving to Australia on slide 12. Australia will always be our spiritual home, we are particular about the restaurant partnerships here to ensure we can honour both the prestige of Westholme and the unique history of AACo in this country. Activations along with restaurant and chef collaborations increase the brand awareness of Westholme in Australia, and resulted in key menu placements during the period. Our focus in this region through FY23 has been on optimising value, which led to a 13% increase in revenue for the period.

Turning to slide 13. There has been a pleasing revenue growth in Europe and the Middle East, up 43% on prior period. It is predominantly a high end food service market that is still recovering post COVID. The region serves a number of purposes for AACo, including creating price tension as higher priced alternatives to other markets, and to help us deliver the full potential of our brands. This market will continue to be a focus area for us with selective expansion into new affluent regions. I'll now hand over to Glen, who will take you through our financial performance in more detail.

Glen Stedman: Thank you Dave, and good morning everyone, it's a pleasure to be with you today to take you through our full year results. AACos trend of positive operating profit has continued this year. As Dave mentioned earlier, total operating profit improved by 35% to 67.4 million dollars this period. We also achieved the higher operating profit margin of 21.5%, which is up 3.4 percentage points. A 17% increase in average Wagyu meat sales price per kilogramme to 2198 was a key driver behind the stronger operating profit, and increased total revenue to more than 313 million dollars.

Operating cash flow is down 34% on the prior period, but remains strong at 16 million dollars. The lower operating cash flow reflects a conscious decision to invest in the herd, which is now approximately 433,000. The long Wagyu lifecycle means it takes several years to realise this investment. Total assets are now 1.6 billion dollars, taking net tangible assets up 14% to $2.59 per share. Moving now to slide 16, where I'll talk through the revenue in more detail. Total revenue grew 37.3 million, largely driven by improved pricing on our branded products in market. Price increases in all cuts across all major markets show the value of strategically allocating our product, and ensuring the right cuts are in the right markets at the right times. The 17% increase in meat sales price per kilogramme, or 11.4% on a constant currency basis added 35 million dollars in meat revenue.

Cattle sales revenue was largely flat. The strong trading and restocker cattle markets continued to support cattle prices predominantly in the first half offset by lower volumes sold compared to the prior. Now turning to our P&L on slide 17. As mentioned, operating profit improved by 17.5 million to 67.4 million this period. This is mainly due to 25.2 million dollars in higher total gross margin, a direct reflection of the increased price performance we spoke about earlier. Inflation and global supply chain challenges continue to be felt by the business, with higher processing, freight, and storage costs, all impacting these results.

Net profit after tax is down on the prior period to 4.6 million. However, as Dave indicated earlier, this has been largely impacted by an unrealized mark-to-market reduction in the value of our herd. Moving to the cash flow on slide 18. The business continued to generate positive operating cash flow this period, with the net operating cash inflows of 16 million dollars. The reduction in operating cash flow is due to several factors. We've increased cash outlays for production costs supporting a 19% increase in live kilogrammes produced. This expenditure was capitalised and not impact the current year operating profit. There's been additional funding deployed to rightsize the business post COVID, and our commercial momentum has meant an increase in working capital levels at period end.

Turning to slide 19, our balance sheet. Our balance sheet remains strong and has improved its position from the prior period. Overall net assets grew to 1.6 billion dollars, largely due to a 294 million dollar increase in the value of our properties. The revaluation of the herd due to softening in Australian cattle prices has been offset by an increase in herd size, which as mentioned earlier has grown 13% to 433,000. Net tangible assets are now valued at $2.59 a share, and our gearing ratio of 21.5% remains well within our target range of 20 to 35%. We also have significant borrowing capacity available of approximately 227 million, and continue to maintain substantial headroom within our covenants. With that, I'll hand back today to take you through our operating environment and provide closing remarks.

David Harris: Thanks, Glen. Now let's move to slide 21 and our operating outlook. We have recorded an exceptional wet season across our properties this year, this will put us in good position with strong pasture growth that will benefit our cattle through the supply chain. The rain has also filled our river systems and lakes to levels that in some cases have not been seen in a decade.

More broadly, there are current global conditions influencing AACo, including the ongoing geopolitical tensions that will continue to disrupt the global economy and supply chains. Inflationary pressures that will impact the cost of key inputs. The recent herd liquidations in the US and Korea have increased supply into general beef markets. However, this could also materialise as an opportunity for AACo in the future as supplies are limited while these herds rebuild. Importantly, as we have mentioned throughout our presentation today, continuing to build on our strong foundations puts us in a good position heading into FY24.

In closing, I'd like to thank the AACo team for their hard work to produce this result, as well as our shareholders for their continued support. This result shows that we are making tangible progress against our strategy. We remain laser focused on executing on these strategic pillars, whilst creating a strong culture amongst our teams and driving value across the supply chain as we evolve together to benefit future generations. Thank you for joining us this morning, that is the end of our presentation, and we are now happy to take questions.

Operator: Thank you. If you wish to ask a question via the phone, you'll need to press the star key followed by the number one on your telephone keypad. If you wish to ask a question via the webcast, please type your question into the ask a question box. Your first webcast question comes from Eric Lowe who asks, "Is it pleasing to see the good results and further increase in the NTA? I wonder if the board could share the strategy to address the significant gap between the NTA and the share price."

David Harris: Thank you very much for the question. Look, that's obviously a matter for the board to comment on there. But what I can say is from my perspective, and executive and management's perspective, we're really pleased about the FY23 result, and we think it shows that we're making really good progress delivering on our strategy. It's one of the strongest operating results that we've seen in recent memory with an operating profit up 35%. We've increased our margins and boosted revenue by 14% by securing better pricing on our brands in market. On an operating basis, I think we've done a really good job to control costs in these high inflation environments, keeping that total cost of production per kilo down by 2%, and I think we continue to make really good progress on sustainability. So more broadly, I'll focus, and management will focus on the things that we can control, and that's continuing to try and deliver the best operating profits that we can and delivering on the strategy.

Operator: Thank you. Your next webcast question comes from Eric Chen who asks, "When will the company pay dividend?"

David Harris: Yeah. Look, again, that's a question for the board that one. Like I've said on the previous question, our focus from an executive perspective and a management perspective is to continue to deliver results for all shareholders.

Operator: Thank you. We are showing no further questions from the webcast or the phone lines, and that does conclude our conference for today. Thank you for participating, you may now disconnect.

**[END OF TRANSCRIPT]**