**TRANSCRIPTION**

**Company: Australian Agricultural Company Limited**

**Date: 16 November 2023**

**Duration: 24 minutes**

**Reservation Number: 10034204**

**[START OF TRANSCRIPT]**

Operator: Thank you for standing by, and welcome to the Australian Agricultural Company, Limited, half year FY24 results release. 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 half year financial presentation of 2024. My name is Dave Harris, Managing Director and CEO of AACo. Joining me on the call today is Glen Steedman, our Chief Financial Officer.

 I'll begin by acknowledging the traditional custodians of the various lands on which we meet today. In Brisbane, that is the Jagera and Turrbal peoples. I also pay my respect to their elders past, present, and emerging, and extend that respect to any First Nations people joining us for today's presentation.

 I will start our presentation this morning by running through a few of the key highlights of our company's performance. We will then take a closer look at how we are delivering on our strategy in the first half of FY24, including how our brands are performing in our key global markets and our progress in sustainability. I will then hand over to Glen to take us through the financials in more detail, after which I will finish with an update of our operating environment as we move into the second half of the year.

 There have been challenging market conditions in the first half of FY24, but our teams have delivered across the value chain and in the five pillars of our strategy. They've demonstrated resilience and discipline, positioning the company to navigate those challenges over the remainder of the financial year. Pleasingly, I can report an operating profit of $30.1 million, which was supported by an increase in volume while largely maintaining average Wagyu meat sales price per kilogram. Total sales revenue has increased around 2% versus the prior period and has increased for three straight comparative periods. Our cost of production was down 5%, a welcome result in a high inflationary environment. The operating profit and total sales revenue results further demonstrate the effectiveness of our strategy.

 Our focus on selling branded beef and leveraging our global distributor relationships to maximise price largely decouples our operating position from the fluctuations of the cattle market. The cattle market softened further during the period and prices are now at four-year lows. Low cattle prices and the requirement to account for the unrealized change in the value of the herd impacted our statutory performance for the period. The unrealized herd valuation loss of 175.5 million resulted in a statutory net loss after tax of 105.5 million. AACo does engage in some live cattle sales. However, the majority of our herd remain core to our branded beef programme. It is the foundation of our global meat sales and how we are able to produce consistent, high-quality Wagyu beef every year.

 Whilst the reduction in cattle prices impact our balance sheet and our statutory performance, it has a more limited impact on our operating performance. The herd adjustment reflects the value at a point in time, while operating profit and operating cashflow provide a more accurate indication of our progress, both through the period and over time. And as you can see, whilst cattle prices and the statutory result are down, our operating profit remains positive. Operating cash flow was 2.6 million, a similar result to the same time last year, and our balance sheet remains strong, supporting our ability to invest into the future. The Goonoo expansion, North Queensland farming trials, and our sustainability programmes, are examples of our investment within the business and demonstrate progress against our strategic pillars.

 Now turning to slide six where we will discuss our strategic priorities in more detail. AACo has made progress in each of the five pillars of our strategy in the first half of FY24. It's a credit to our people across the value chain and their dedication to the company. Wagyu meat sales volumes increased 15% for the period. Pleasingly, the commercial team was able to largely maintain the Wagyu meat sales price per kilogram. This is a significant result in the context of challenging market dynamics across the globe. As indicated earlier, delivering the full potential from our brands in this environment helped drive our operating profit for this half.

 The Goonoo property expansion took shape in the first half and demonstrates how we are developing our natural resources and assets. Capacity will increase up to 12%, providing flexibility for production in the future. We have conducted successful dryland and cropping trials, with a footprint of more than 6,000 hectares across two of our North Queensland stations. The initial results are positive, and the programme will aim to continue, unlocking further farming potential within the region. As shared in the previous slide, our cost of production reduced 5% over the period, delivering on our objective of becoming a simpler and more efficient business. We achieved this through a disciplined approach that enables us to increase productivity with largely the same cost base. Controlling our costs in this way, in a high inflationary environment, has been a considerable achievement.

 We will discuss how we are executing on our sustainability framework in the next slide, but I can say there has been good progress in this area for the first half. Before that, though, our fifth pillar, making AACo a great place to work. Our employee engagement score of 77% is a 6% increase on the same period last year. That result sits above industry benchmarks and indicates we have both a respectful workplace and a high performing culture. The survey measures a range of areas, including such things as learning and growth, communication and collaboration, physical and psychological safety, wellness, workload, and the employee experience. I have spoken before of the pride I take in the people we develop, the culture we create, the land we nurture, the animals that we care for, and the exceptional Wagyu beef we produce. It is a significant focus for myself and the broader executive team.

 I am pleased to say that we are delivering in this important area and making AACo a great place to work. Now to slide seven and our sustainability update. Sustainability has always been viewed holistically at AACo rather than being focused on one element. As such, our progress in this pillar of strategy has been in a range of areas across nature. We are becoming more sophisticated in how we model, measure, and track our emissions. We also released the results of our Asparagopsis trial during the period, a first for long feed cattle. The trial helped identify both opportunities and challenges for methane mitigation and forms part of a wider programme of work aimed at methane abatement.

 Our Pioneering Rangelands Carbon by Satellite Project is taking shape, having passed the halfway milestone. The development of our initial carbon sequestration projects has progressed, and we have undertaken a unique examination of our entire estate, to identify our natural capital assets and opportunities to improve biodiversity. These examples demonstrate how we are taking an innovative approach and pushing the boundaries as we aim to mitigate our impact on climate. We are also working with the government and industry, engaging in processes that are shaping legislation and considering the opportunities that will be available through various sustainability related markets. It's an exciting programme of work that will underpin our operations into the future.

 I will now take you through our commercial performance by region for the period. Our branded beef strategy enables us to strategically allocate products by considering market dynamics and placing the right cuts, in the right markets, at the right time. This creates price tension and maximises our value. We are able to achieve this through relationships with our global distribution partners and customers, underpinned by our in-market teams who provide insights on market performance and opportunities. This is one of our core strengths and is how we have been able to materially maintain price for the period, despite market pressures. Let's now take a look at the performance across each of our key markets as we turn to slide nine.

 North America. Strong distributor relationships and increased brand awareness helped drive a successful first half for North America. Westholme Wagyu is on the menu at some of the region's top restaurants, and the price we achieved and the volume of premium cuts demanded by our customers were both maintained over the period. This result is further proof that the quality and consistency of our Wagyu product is exceptional, considering the significant pressure on price experienced as a result of the continued US herd liquidation. It shows the value of our investment in relationships and engagement with our brand is working. Trade shows, educational opportunities, and other events also supported this work for the period. The results are a testament to the hard work of our commercial teams, with an increased effort focused on collaborating with restaurant partners and influential chefs to build brand awareness and create unique experiences.

 Moving to Asia, on slide 10. During the first half, we celebrated our 20-year relationship with Korean retailer, Emart, with a new, premium, gold tier for Darling Downs. Darling Downs is a household name in South Korea and we used the opportunity to engage more consumers through installed promotions and integrated marketing. We also relaunched the Darling Downs website and created an inspirational brand film that shows customers the beauty of the land on which we operate and the dedication that goes into producing our exceptional beef. Pleasingly, sales for the broader region also grew this period, with strong relationships helping to grow volumes despite increased supply and competition from local beef production in Korea. Asia remains our biggest region by volume and revenue and we will continue to take a strategic approach to considering opportunities there.

 Moving now to Australia on slide 11. During the period, we have focused on building our brand presence and developing deeper relationships with chefs who champion our product here at home. We achieved a menu placement at electronic venues while maintaining our presence at some of the country's best restaurants. We have strong relationships that deepened further over the period, growing the appreciation of Westholme amongst leading chefs through exclusive events and gourmet showcases. As mentioned earlier, AACo strategically allocates products by considering market dynamics. Whilst the price mix was down in Australia for the period, this was due to softening global demand for certain cuts, which we were still able to maximise the value for by selling here at home in the Australian market. Noting, Australia makes up approximately 10% of our global meat sales. It continues to be an important strategic market for us. I've been really pleased with the relationships that we've been able to build and our work year over the period.

 Now turning to slide 12, Europe, Middle East. It was an important in Europe and the Middle East, where we built the foundations that will allow a growing focus and strategic expansion moving forward. We appointed dedicated local resources with established relationships that will help us pursue opportunities in new affluent regions within the market. This investment has led to the establishment of new commercial partnerships that we'll continue to build on. While the market is still small for AACo, it is growing really well. A 12% increase in price mix performance demonstrates the real potential of this region. Overall, we're pleased with our performance and how our teams have navigated the global operating environment and market dynamics.

 I will now hand over to Glen, who will take you through our financial performance in more detail.

Glen Steedman: Thank you, Dave, and good morning everyone. It's a pleasure to be with you today to take you through our interim results. AACo has continued to execute its branded beef strategy and deliver a pleasing performance for the first half of FY24. Total revenue of 167.1 million is up 2%, making this the third successive comparable period of revenue growth. We have achieved an operating profit of 30.1 million and, whilst operating profit and margin are down on the prior period, the results are positive in the context of a challenging market. Operating cash flows of 2.6 million is similar to the result of the prior period, with average Wagyu meet sales price performance materially maintained. Being able to achieve this price point, while facing market macroeconomic headwinds and challenging supply dynamics, helped drive the positive operating performance. Net tangible assets of $2.39 per share reflects our strong asset base, despite the reduction in cattle values over the period.

 Now turning to our P&L, on slide 15. The significant decline in cattle prices impacted our statutory result. 77% of the reduction in statutory EBITDA can be attributed to unrealized master market loss on the herd, which is in line with broader market conditions. It led to a net loss for after tax of $105.5 million. As Dave indicated earlier, our strategy of selling premium beef into global markets limits the impact on our results from fluctuations in the domestic live cattle prices. This is why we focus on our operating results. Resilience in sales performance helped to produce a pleasing operating profit of 30.1 million. It was driven by improved meat sales, with 15% higher sales volume and a disciplined focus on controlling costs, which remain in line with the prior period. Cattle sales revenues are down, in line with market price conditions. However, the impact of this was partially offset by higher volumes.

 Now turning to our cashflow, on slide 16. Being able to increase volumes while controlling costs enabled us to achieve a positive operating cashflow, in line with the prior period. We used this half as an opportunity to progress our strategic priorities, the business invested in initiatives outside of normal business activities on projects we expect to realise future benefits. This included the Goonoo property expansion which, as Dave said earlier, will increase capacity by up to 12%.

 Turning to slide 17, our balance sheet. Notwithstanding the unrealized reduction in herd value, our asset base remains strong, with total assets marginally down on the prior period. Our livestock herd numbers remain in line with the last reported figure, with fair value adjustments on the herd driven by cattle prices, which remain at four year lows. The livestock fair value adjustment is the main cause of a decrease in our NTA, down 8% to $2.39 per share. Our gearing ratio of 23.8% is at the lower end of our target range of 20 to 35%. The increased gearing from the prior period is the result of investments made to improve our supply chain. There is significant headroom with our covenants, with more than 200 million of borrowing capacity available. Our results demonstrate the resilience of our business and show that our brand based strategy is driving positive outcomes in tough market conditions. I'm proud of our dedicated team across the globe who have been working hard to achieve this result.

 I will now hand back to Dave to take you through our operating environment and provide closing remarks.

David Harris: Thanks, Glen. Now let's move to slide 19 and our operating outlook. The variable weather across the Australian continent continues to provide its own challenges. Over the years, AACo has invested heavily in initiatives to create a more resilient supply chain that is better able to manage these risks. This includes consciously optimising our stocking model, upgrading our water infrastructure, and more. The increased capacity through the Goonoo property expansion will also play an important role here in the future. We acknowledge the fires that have been felt over parts of Northern Australia in recent weeks. Whilst we are not immune to this, we manage and mitigate their impact, ensuring the safety of our staff and animals. We recognise the efforts of all of those who are fighting fires, including our friends in the pastoral community.

 We also acknowledge the El Nino weather pattern and will continue to manage our assets over a diverse property portfolio to minimise the impact of potentially tougher seasons. We will continue to focus on maximising our performance through strategic allocation of product across the globe, which is underpinned by adapting to market dynamics. Reduced cattle prices, along with greater local supply, continues to challenge performance in the domestic beef and cattle market. Herd liquidations in the US and Korean markets are ongoing, creating pressures on overseas market performance. Our relationships, our brands, our in-market sales and marketing teams will continue to focus to support our brand of beef strategy.

 While our operating environment remains challenged by external factors, we will continue to focus our efforts on things within our control. We'll continue our prudent approach to cost management, improving efficiency, and increasing activity throughout our integrated supply chain. Whilst we appreciate there are challenges in the market, we remain confident that the business is in a good position to capitalise on opportunities as conditions change. The board and executive team believe the positive results this period further demonstrates the evolution of the company and the success of our strategy.

 In closing, we appreciate you joining us for today's presentation and trust that you recognise the continued progress we have made over the period. I'd like to give credit to the entire AACo team here in Australia and around the world for their efforts. We appreciate the support of those of you joining the call today and of all of our shareholders. We will continue executing on our strategic pillars, encouraging excellence and evolving together to benefit future generations. Thank you for joining us this morning. This 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 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 type your question into the ask a question box and click submit. Your first question comes from Michael Cahill, from Cahill Transport. Does AACo expect to benefit from the live trade class action?

David Harris: Thanks, Michael. Yeah, great question. Look, as you're probably aware, a AACo certainly was impacted by the initial Livex challenge. It is a really long running legal matter that is still in train. AACo is a member of that class settlement negotiations and so, look, we would certainly hope to but, as of yet, it's still an ongoing matter.

Operator: Thank you. Your next question comes from Phil Bunn, private investor. Are there any dividends expected in the next year?

David Harris: Thanks for the question. Look, as I typically say, I leave the comments on the dividend for the chairman and the broader board at this point in time. What I can say is that, as an executive team and as a CO of the business, we're focused on continuing to extract value and give the business the best results possible to give itself whatever opportunities it would like, so we'll focus on creating the best business we can and those things in our control at this point.

Operator: Thank you. Your next question comes from Aaron Whittaker, from Global IT Contracting. Will you acquire more land in the current or next financial year?

David Harris: Thanks for the question. Look, at this point in time we're always looking to right size our portfolio alongside the strategy that is in place. We don't have any specific desires to do it at this point in time. Needless to say, that we're always looking to optimise the business, and so if an opportunity arose we'd consider it on its merits. Always looking to improve the business.

Operator: Thank you. Your next question comes from Paul Jones, from Ausbio Limited. With such a high NTA, do you imagine doing a buyback in the future?

David Harris: At this point in time, we're not considering any share buybacks.

Operator: Thank you. There are no further questions at this time. That does conclude our conference for today. Thank you for participating. You may now disconnect.

David Harris: Thanks everyone for joining.

**[END OF TRANSCRIPT]**