**TRANSCRIPTION**

**Company: Australian Agricultural Company Ltd**

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**[START OF TRANSCRIPT]**

Operator: Thank you for standing by, and welcome to the Australian Agricultural Company Limited FY '25 Half Year Results Conference Call and Webcast. All participants are in a listen-only mode. There will be presentation followed by a question and answer session. If you wish to ask a question via the phone, you just need to press the star key followed by 1 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. Dave Harris, Managing Director and CEO. Please go ahead.

David Harris: Good morning, and welcome to the Australian Agricultural Company's Interim Results Presentation for the Financial Year 2025. I am Dave Harris, Managing Director and CEO of AACo and joining me on the call today is our Chief Financial Officer, Glen Steedman.

I 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 and present 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 key achievements of our company's performance. We will then take a closer look at how we have delivered on our priorities during the year, including how our brands are performing around the world and our progress in in sustainability. I'll then hand over to Glen to take us through the financials more detail, after which I will finish with an update on our current operating environment.

And with that, let's begin our presentation on Slide 5. FY '25 is the 200th year of operation for the Australian Agricultural Company. AACo was established through a British Act of Parliament back in 1824 and was granted land in the Port Stephens area of New South Wales. We had livestock, including sheep, cattle and horses along with a range of crops. And our business was initially established in the early days to export wool to London.

For the two centuries until today, it has remained a largely exporting business. Though in FY '25, this is Wagyu, instead of wool with the majority of our beef supplied to more than 16 major markets around the world. If there is one constant over that time span, it is that nothing stays the same with ever-changing markets and global dynamics that really if ever, stay still.

The ability to pivot and respond to the many challenges we faced along the way has been a consistent key to our success. The same is true of this period as the difficult market conditions and challenges of recent periods have continued into FY '25.

And as with last year, our strategy and unique distribution network were behind our ability to respond in the best possible fashion to achieve a positive outcome. We can have a look at those results in more detail as we turn to Slide 6.

The operating profit of $20.2 million was down on the prior period, but is still one of our strongest half year performances of recent times. The result was impacted by global supply and demand dynamics, which have put pressure on global meat prices, while broader macroeconomic conditions, such as inflation, challenged our cost of cost of production and the general cost of living concerns impacted some consumer spending habits globally.

They are conditions that are being experienced by businesses across the economy. However, we are better positioned to respond now than we have been in previous years. With a disciplined approach and a highly productive and efficient supply chain that has created multiple pathways to positive results.

The challenging conditions I mentioned were a significant contributor to a 17% decrease in Wagyu meat sales price per kilogram for the period. The Wagyu price impacts were partially offset by a 37% increase in kilograms sold with the additional capacity of the Goonoo property realized during the half.

Intentionally, increasing this volume to partially offset those price pressures is an example of different ways -- pathway, sorry, that we can take to improve our outcomes, depending on the market conditions.

The higher volumes were behind a $28.5 million improvement in total sales revenue versus PCP to $195.5 million. As well, as the uplift in our operating cash flow compared to the prior period to $4.3 million. We've encouraged you in previous periods to focus on our operating profit and cash flow as the best indicators of our performance.

That remains the case today. However, this was further bolstered in this first half with a turnaround in the statutory net profit after tax to a positive $23.6 million. This has largely come from -- as a result of a $34 million unrealized mark-to-market adjustment of the herd.

We are required to report the value of the herd, which feeds directly into statutory numbers. However, cattle prices have a more limited impact on our operating performance. The growth in the herd values contributed to an increase in net tangible assets to $2.55 per share.

Turning now to our commercial performance, part of our desire to build a better beef program includes a strong focus on developing our brands in market. So as we turn to Slide 8, we will first discuss our broader global performance before looking at individual progress of each brand.

I referred earlier to our strategic approach to product allocation that has helped us deliver a positive result, despite these challenging market conditions. Global supply and demand dynamics take time to shift. And so it was no surprise that the stubborn market factors that we spoke to you about in previous periods have persisted into this year.

We responded with a tactical approach to our brands in market, leveraging our global distribution network and diverting supply to specific markets to optimize price and support future growth in key higher-paying regions. The result was an increase of 30% in branded Wagyu meat sales. Overall, Wagyu meat sales value increased 14% on the prior period as a result of those increased volumes.

Turning now to Slide 9 and more detail about how we are achieving these outcomes through our brands. Westholme remains our Pinnacle brand sold at some of the best restaurants in Australia and around the world. It's desired by chefs and consumers alike, prompting exciting collaboration opportunities, which in turn, boosted broader engagement and led to increased sales.

New brand positioning was launched for Westholme in the period, further growing and broadening the brand's appeal. It now better reflects the nature led focus of our value chain, recognizing how environment contributes to flavor. Our remarkable properties and people and our authentic approach to sustainability are central to how Westholme is presented.

Alongside our size and scale, it's a value proposition that few, if any, can match. The campaign has received a positive reception from target audiences in our key markets, evidenced by a 200% growth in new user website visits. The brand now encompasses three programs: Pure, Cross and Forage, targeting different customers globally. The result has been a 29% growth in volume and a 21% increase in total revenue through the first half of the year.

Turning now to Slide 10, and our Darling Downs brand, which celebrates the region in Southern Queensland where our annuli property is located. It's a key part of the supply chain journey for many of our Wagyu cattle and we are proud to share it with so many people around the world.

Darling Downs enjoyed 41% growth in volume and 25% growth in total revenue for the period. The increase in volume, combined with targeted marketing and incentive programs helped offset some of the price pressures from an oversupply of the local handler breed in Korea.

Darling Downs remains a household name in the key market and that provided a good platform to expand distribution both within the country and into new markets. Our commercial team activated campaigns that took the brand to new customers through retail partners in Hong Kong, Thailand and Australia. And more than 5 million consumers were exposed to the brand through expanded digital engagement and a growing online community.

Turning to Slide 11 and the 1824 brand, which celebrates the year our company was formed and rich history that followed. As a refreshed brand, we're unable to provide volumes and sales figures compared to the prior period. However, we are pleased to report that in its first complete reporting period, 1824 grew to 12% of total Wagyu meat sales globally.

Partnerships with iconic venues and retail butchers, helped drive the growth alongside new distribution channels that were opened in Singapore and Australia during the period. The brand focuses on opportunities outside of Westholme and Darling Downs, capturing the additional value that we've demonstrated can follow when beef is sold under brand.

1824 is highly recognized, and we were excited to relaunch the brand during this milestone 200th anniversary year. We look forward to pursuing new global opportunities going forward, including the Middle East, where we have seen promising results in the current season so far.

Now turning to Slide 12, and progressing on our work in sustainability. It's a key program that underpins all activities across our supply chain, and we're pleased with the advances we've made in this period. They include the Rangelands Carbon by Satellite project, which is now in final development stages following an extensive program of work, first launched back in 2021.

More than 2,200 soil cores have been collected and are being used to build a tool to estimate soil carbon. There are positive signs in early trials and we look forward to sharing more with you in future periods.

We're also close to completing the on-ground condition assessment of our highest value conservation assets, an important step forward in our aims to have a more positive impact on nature. And the company's first soil carbon sequestration project has now been confirmed and is in the process of registration with a clean energy regulator, and this is now underway.

All that work is being further informed by precision satellite analysis, guiding on-ground decision-making across our state. Other progress of note through the period includes advancing the first projects at the Zero Net emissions, Ag CRC as well as our own ongoing trials in methane abatement.

Also of note is the further progress made to upgrade our active stock water boards from diesel to solar, which is nearing completion and will stop thousands of tons of emissions from entering the atmosphere each year.

I'll 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 and take you through our FY '25 half year results. AACo's performance this period is reflective of the current market environment, and I'm pleased with how we have managed the areas of the business that are within our control. We're responding to the uncertainty and adjusting to meet the challenges that came our way.

The value of building a resilient supply chain over several years is being demonstrated as we've been able to largely protect our position in key markets despite the macroeconomic conditions we've faced.

Total revenue of $195.5 million is up 17% on the prior period as we intentionally increased volumes, which offset the Wagyu meat sales price per kilo, which was down 17% and to $17.46 as a consequence of those in market pressures.

Those challenges contributed to reduced operating profit of $20.2 million, and while this number was down $9.9 million on the prior half, it's still historically strong and would not have been achieved without the focus of our strategy over recent years.

That progress was evidenced by a stronger operating cash flow. Whilst a relatively modest total of $4.3 million, it's still up more than 60% in the prior period, driven by higher meat sales volumes and favorable cattle sales performance.

Increased cattle sales prices boosted the unrealized mark-to-market value of the herd, with a rise of $34 million, contributing to a statutory net profit after tax of $23.6 million, which is up on the prior comparable period. And that pushed the net tangible assets up 2% to $2.55 per share.

Now turning to our profit and loss summary on Slide 15. Whilst we've had a healthy increase in our net statutory profit after tax to $23.6 million and a $210 million turnaround in statutory EBITDA, we will continue to draw your attention instead to our operating numbers as the best measure of our performance.

The statutory numbers are significantly influenced by the unrealized face value adjustment of our herd, which jumped more than $34 million this period as we saw Australian cattle prices rebound after reaching four-year lows. Though pleasing to see it's a measure that's largely outside of our control.

Our operating numbers point to areas of the business that are predominantly inside our control and were achieved this period through improved sales volumes and investment in our brands.

Meat sales revenue improvement of $16.1 million, came through an intentional focus on increasing volumes and leveraging our well-established distribution networks. Cattle sales revenue performance materially improved, with higher volumes and continual development in our herd.

Turning to our cash flow slide on Page 16. Increasing meat sales volumes and favorable cattle sales performance, combined with a disciplined focus on controlling costs, enabled us to achieve an operating cash flow increase of $1.7 million on the prior period, investing to build a more resilient and efficient supply chain has allowed us to weather macroeconomic challenges, and we saw the benefits this period.

There has been increased spending as a result of higher commodity prices, the increase in volume coming through our supply chain and inflationary impacts. However, we've mitigated the impacts by maintaining a disciplined approach to cost control.

Net investing cash outflows decreased during the period, following the completion of the Goonoo property expansion, the benefits of which we are now seeing through increased supply into our markets.

Now to our balance sheet summary on Slide 17. The livestock fair value adjustment of $34.6 million was a key factor behind an increase in our NTA to $2.55 per share. Our gearing ratio of 23.7% was maintained and is at the low end of our target range of 20% to 35%. We have significant headroom under existing covenants with $600 million in committed borrowing capacity and $179 million unutilized.

Australian Agricultural Company continues to maintain a strong financial position. We are building on solid fundamentals with increasing sophistication across our value chain and I'm proud of our teams around the world who are delivering high-quality product every day. We achieving results in challenging conditions, while maintaining an eye on the future in our business and in our markets.

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

David Harris: Thanks, Glen. Now let's move to Slide 18 and our operating environment. We're enjoying the cumulative benefits from several positive seasons, and our properties are well positioned as we move into the second half. These FY '25 half year results are the financial outcomes of building a resilient business, but the physical outcomes can be seen across the value chain in key production drivers such as consistent and improved branding rates and over time, they flow into improved financial performance.

AACo's size and scale, along with our integrated supply chain enable us to maximize productivity improvements with a greater level of control. Driving quality and efficiencies in a volatile global environment will remain the focus through the second half of the year.

Industry analysts report signs the global oversupply meat will begin to ease through FY '26 as different markets into rebuild phases. Westholme, Darling Downs and 1824 remain well positioned should this eventuate. We will stay focused on continuing to build a better beef program with ongoing investment in our sales and marketing activities to support our brands in market, and sustainability will continue to be a priority area through the second half as we grow our efforts to have a positive impact on nature and turn our intentional initiatives into business as usual activities.

We will also continue progressing AACo's first soil carbon sequestration project with the clean energy regulator. We appreciate you joining us for today's presentation and acknowledge your ongoing support. I'd like to thank the Board and management team here at AACo and to our people across the value chain who work hard to deliver this for the company every day.

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 phones please press the star key followed by the number 1 on your telephone keypad. If you wish to cancel your request please press star 2 and if you're on a speakerphone please pick up the handset to ask your question. And again to ask a question via the webcast please type it into the Ask a Question Box.

The first question is a phone question from Jonathan Snape from Bell Potter.

Jonathan Snape: Just a couple of questions. First of all, just on the meat volumes. I mean obviously, you've lifted that over the last few years and 8.5 million kilos is probably the highest a long time. Is this kind of the new level in where production volume should be going forward? Or is there a pull forward? Or was there something in this half that means it's over relative to where you think it should be landing?

David Harris: Hi Jon, thanks for the question. Whilst you'll appreciate we don't give guidance. I think I'm really comfortable that the production volumes that we're putting through are adequate for the business.

We mentioned the development that we did on the Goonoo property some time ago that -- this is that volume starting to work through the business and normalize. And so I certainly think it's -- there's not a pull forward or anything going on here. This is a normal level of production for the business as we've got the supply chain set up for at this present time.

Jonathan Snape: Okay. Can I just ask around the live pricing in particular? I mean the average The Eastern Young Cattle index is up year-on-year through the half. But I think your average price is down 10% year-on-year. I think it was actually below the second half as well, when I think it is probably up half on half.

Is there any particular reason why you underperformed the benchmark in live pricing in this half with the sales program completed in the first quarter? Or is -- I'm just trying to figure out why there's such a big difference in that number relative to when historically, you've kind of been pretty close to it movements. .

David Harris: Thanks, Jon. Essentially, that's the challenge to interval reporting, I suppose. We had a pretty good wet season last year. And so we certainly were delayed from some of our life sales programs, but I would suggest at this point in time that the result that you're seeing there is a mix piece. So, we obviously sell many categories of live cattle through the year from lower value cares through the through the feeders live export. You really need a full year view for that -- to kind of equalize throughout the period. So this first half was -- I think it's a mix breed is what's playing out there.

Jonathan Snape: Great. Thanks.

Operator: Thank you. Your next question is a webcast question from Sam Brougham from Ceres Capital, who asks: how do you see the Wagyu prices since year-end?

David Harris: Thanks for your question, Sam. So I'm assuming that's year-end -- previous year-end. So to the point there, we've seen a 17% decrease in our Wagyu meat sales price, which is obviously a significant reduction. I think what I'm pleased about is, you will have seen different analysts at different times throughout the recent periods, articulate that Wagyu beef prices in a lot of markets have dropped anywhere between 25% and 35%.

And so I think where we've performed over that period really goes to a testament of the value of our brand and our relationships and the spread of where we distribute our product around the globe. And so whilst it's a disappointing result, I think relative to market, we've outperformed that significantly, and I think that's a good testament to our system, our customers and ultimately, our brands for sure.

Operator: Thank you. Your next question is from Robert Burrows a private investor, who asks: What is the company proposing to do with the obsolete 'Abattoirs' south of Katherine, NT?

David Harris: Yes, thanks for the question. As per the Chairman's speech at the AGM, we are in a process of working through what the best alternatives for that plan are. We have maintained the -- we see strategic value in that Livingston plant and we are still maintaining that plant for it to operate as soon as required if the conditions are to improve. And so we'll keep working through that process.

I don't have anything more for you at this stage, other than say that we do see strategic value in it. But as the Chairman said, we are going through a strategic review of that plant to work through what the best way to get it operating again is.

Operator: Thank you. Your next question is from Paul Jones from Mirrabooka Productions, who asks: With reasonable control of finances and a very high NTA versus share price, do you think a share buyback would be a good management of capital?

Glen Steedman: Thanks, Dave. I'm happy to take this question. So at the current point in time, we're not considering a share buyback. And -- when we look strategically across the landscape of the business, we see that there's a number of different areas that we can continue to deploy funds and invest, and we think the deployment of those funds into the business is the best way to grow shareholder value and continue to produce kind of stable and strong returns into the future. So yes, no, I'm not looking at doing a buyback and continuing to reinvest in the business to improve our resilience and stability going forward.

Operator: Your next question is from Jon Condon from Beef Central, who asks: Have you seen any rise in demand/price for highly-marbled Fullblood Wagyu beef since Japan suspended its own Wagyu beef exports recently?

David Harris Thanks for the question, John. I wish I could say yes, but I think it's a bit early at this stage, it was only paid out last week. So no, I think inventory in play, whether they're in Coles stores and those sorts of things, people are working through what I think -- we've had a few of these instances over recent times.

And so people are probably a little bit calmer than they may have been in the past. They're watching to see how it plays out. But the short answer is no, we haven't yet, but certainly watching it very closely.

Operator: Your next question is from Joey Nicotra, a private investor who asks: When will shareholders be rewarded with dividends?

David Harris: Thanks for the question. I'll -- it is one for the Chairman and the Board there. So from my perspective as CEO, we focus on running the business and controlling the controllables from a dividend perspective, I'll leave that to the Chairman.

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

**[END OF TRANSCRIPT]**