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Live Export Update and Full Year Earnings Guidance

- Elders to undertake managed exit from logistics of shipping live animals
- Immediate cessation of long haul export of live cattle
- Managed divestment as a going concern of the businesses of short haul and air freight of live animals
- Underlying EBIT, excluding Live Export, for FY16 in the range of \$54-57m

Elders (ASX:ELD) announces that it has undertaken a full review of its Live Export business and has determined to immediately exit the long haul live export business and to conduct a managed divestment as a going concern of the businesses of short haul and air freight of live animals.

Elders has determined that its participation in live export no longer lies in the logistics of shipping live animals. Rather, Elders' strategic and operational strengths in the live export supply chain are in finding opportunities with live exporters for its producer clients and accumulation of cattle for exporters.

At present the majority of Elders' long haul business comprises sea shipments of dairy and beef breeder cattle to China. That business is not producing a return on capital or margins at levels that meets Elders', or its shareholders', expectations.

Elders' short haul live export business, which trades as *North Australian Cattle Company*, currently comprises the purchase and sea freight of live feeder and slaughter cattle to Indonesia, Vietnam and Malaysia.

Elders' air freight business consists of the freight of live breeder sheep and slaughter cattle to China.

Elders was a pioneer in the live export of cattle from Australia to Asia. Elders' live export business was established to drive demand for cattle produced by Elders' livestock clients. Today the live export business has matured and there are now many specialist operators offering access to Asian markets.

Long Haul Live Export

Elders' Chief Executive Officer, Mark Allison, said, "a comprehensive review of our Live Export business has determined that poor margins and capital inefficiency in the long haul business warrant an immediate cessation of that business."

"While we continue to support our clients who participate in the live export industry, the export, logistics and shipping of live cattle to long haul destinations is no longer central to Elders' strategy which was devised when demand for live cattle from foreign markets was key to providing marketing options for Elders' livestock producer clients. With the introduction of additional specialist providers of live export services, with many of whom Elders has established commercial relationships, the strategic rationale for Elders conducting its own long haul live export business has diminished.

"Elders reported a loss of \$2.9m from its Live Export businesses in the 6 months to 30 March 2016. That poor result included a loss of \$3.8m attributable to the long haul business. Since that report, performance in the long haul business has continued to be poor and we believe that margins are unlikely to recover in the near to medium term", Mr Allison said.

"In addition, we do not see that the China feeder and slaughter trade, which is yet to fully open, will deliver margins or a return on capital at levels that meets our, and our shareholders', expectations. As a result, we consider that the long haul of live cattle is best suited to specialist logistics operators", Mr Allison said.

Short Haul and Air Freight Live Export

Mr Allison said, "the review has also concluded, on the other hand, that our short haul sea export of feeder and slaughter cattle to Indonesia, Vietnam and Malaysia has remained viable notwithstanding extremely high Australian cattle prices which has placed pressure on margins. Accordingly, Elders has determined it will continue to conduct that business while preparing it for sale."

"We enjoy very good relationships with end user customers in our short haul business. Those relationships have ensured that business has remained viable even in an environment of constrained margins."

Mr Allison also noted that Elders has significant expertise in the air freight of slaughter cattle and breeder sheep to China and that it would continue to undertake profitable air consignments whilst it investigated the potential of sale of this business.

Elders' Clients

Mr Allison noted that the interests of Elders' livestock clients were of the highest priority in making the decision to exit live export.

"Elders remains absolutely committed to the needs of its livestock producer clients and will continue to offer access to a range of marketing options, including sale to live exporters, for their cattle. We will continue to work with industry live exporters to market our clients' cattle" he said.

Financial Considerations

Live Export segment results (for all of long haul, short haul and air freight) will, as a result of this decision, be treated as a non-underlying item in Elders' full year results to be published on Monday 14 November 2016. Elders' underlying earnings will, therefore, be increased by the amount of the full year trading loss from the Live Export business, which is expected to be in the range of \$8-9m. This treatment will have no impact on Elders' statutory results.

In connection with the decision to exit Live Export, Elders will incur restructuring and exit costs totalling approximately \$6m. These costs will also be treated as non-underlying in the results for the 12 months to 30 September 2016.

Full Year Guidance

After adjusting for the non-recurring restructuring and exit costs and the losses incurred in the Live Export segment, Elders expects an underlying Earnings Before Interest and Tax (**EBIT**) for the full year to 30 September 2016 in the range of \$54-57m. This result reflects better than average retail activity due to seasonal conditions, strong livestock prices driving the agency result and solid progress against Eight Point Plan objectives. Conversely, high cattle prices have impacted margins in the Feed and Processing businesses. Elders has provided a ranged guidance due to the impact of timing of spring sheep volumes and post emergent herbicide activity across the southern regions of Australia on the September month result.

Upon finalisation of the Live Export exit, Elders' will have circa \$25m of working capital which can be redeployed in areas that meet our return on capital expectations.

Further Comment:

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