



Australian Agricultural Company Limited
ABN 15 010 892 270

23 May 2018

ASX/Media Announcement

AACo reports full year results

The Australian Agricultural Company (AACo)(ASX:AAC) has today announced its 2018 full year results.

As flagged in the Company's Trading Update on 4 April 2018, the results include Operating EBITDA of \$13.6 million and Statutory EBITDA loss of \$35.3 million. The Company's reported earnings results for the 2018 financial year are generally consistent with the preliminary result ranges announced in April.

In summary:

- Decisive action announced to stop ongoing operational losses at Livingstone Beef before the end of H1 FY19
- Operating EBITDA of \$13.6 million, compared with \$45.0 million in FY17
 - AACo ex Livingstone: Operating EBITDA profit of \$36.0 million
 - Livingstone Beef: Operating EBITDA loss of \$22.4 million
- Statutory EBITDA loss of \$35.3 million, compared with \$133.2 million profit for FY17
- Strong balance sheet with significant liquidity, and improved debt terms through refinancing
- Improved pricing per kg overall, in particular in the Luxury/Prestige brand segment
- Negative net operating cash flow of \$39.9 million, compared with positive operating cash flow of \$29.3 million in FY17
- A review of the carrying value of Livingstone Beef has resulted in a one-off non-cash impairment of \$69.5 million and a provision for an onerous contract of \$5.4 million
- Cost of Production per kg increased 10 per cent compared with FY17, largely as a result of the one-off livestock attrition adjustment included in the H1 FY18 result

Earnings were impacted by a number of factors, including increased competition affecting certain parts of the product portfolio, reduced volumes due to less reliance on external supply, and increased input costs driven by dry weather conditions.

Overall price growth achieved in the Luxury/Prestige brand segment has been pleasing in the context of increased competitive pressures. The performance of the Westholme and Wylarah brands was particularly strong. This improvement supports the Company's brand and marketing strategy, and management intends to accelerate this growth through targeted investment behind AACo's strategic brand portfolio.

Despite the challenging seasonal conditions resulting in higher input expenses, cost of production per kg increases were largely a result of the one-off livestock attrition adjustment

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announced in H1 FY18, and management believes there is potential upside to be achieved through capturing process improvements and efficiencies across the supply chain.

The Company continues to benefit from a robust balance sheet, with comfortable headroom remaining within existing bank facilities. The debt refinancing completed in September 2017 achieved a reduction in the cost of funds and more flexible facility terms.

The balance sheet has been further strengthened by an improvement of 4.5 per cent in the carrying value of AACo's property portfolio (excluding Livingstone).

Hugh Killen, Chief Executive Officer of AACo, commented that:

“Fundamentally, AACo is a strong, branded business with an established presence in high-potential, high-value markets, supported by a portfolio of world-class assets. However, recent financial performance has been weak due to a range of factors. We need to create a simpler, more productive and more profit focused AACo to deliver on the Company's potential.

“We are seeing strong performance from our brands in key markets, and our control over our supply chain as an integrated beef producer offers significant potential that is yet to be unlocked.

“Realising this value will come from aligning and activating our assets to work together efficiently, to produce and deliver our brands at scale. Management is keenly focused on maximising the efficiency and productivity of each asset through robust financial and capital management.

“Significant change is required to improve profitability and cash flow generation across the supply chain, and we have taken decisive action to deliver sustainable, long-term shareholder returns.”

Livingstone Beef Strategic Review

On 4 April 2018, AACo announced a Strategic Review to assess all available options and determine the optimal path to deliver shareholder value from Livingstone Beef. The Strategic Review is now complete and included a thorough analysis of the existing Livingstone Beef operations, market environment and outlook, and considered a broad range of potential alternatives.

The Livingstone Beef facility continues to operate at a loss. To stop ongoing operational losses, AACo today announces a decision to suspend processing operations at Livingstone Beef as soon as practical, having regard to existing employee, customer and other operational commitments. This decision enables AACo to:

- Put a stop to the current operational losses being incurred at Livingstone Beef,
- Further simplify AACo's business model to focus on profitable growth,
- Appropriately consider other credible alternatives that may support shareholder value realisation from the asset in a measured manner, and;
- Retain future optionality over the plant (e.g. cyclical recovery).

To this end, the Livingstone Beef facility will be maintained at a level that enables an efficient plant restart should prevailing macro conditions be sufficiently supportive, while minimising costs in the meantime.

AACo believes there is substantial optionality value in Livingstone Beef. In the right market environment, and with the right operating model, Livingstone Beef can be a profitable

operation with significant strategic value. The decision announced today enables this value to be maintained.

The total one-off write-down of \$74.9 million, including a one-off non-cash impairment of \$69.5 million with respect to buildings, improvements, plant and equipment and an additional \$5.4 million provision recorded for an onerous contract in relation to Livingstone Beef, is slightly higher than the range expected in the April Trading Update following the results of the Strategic Review.

Luxury/Prestige Brand Segment

The price growth and strong margin performance achieved in the Luxury/Prestige market continue to validate the Company's brand and marketing strategy and focus on high-value target markets. Performance in the Singapore and Taiwan markets following the launch of Wylarah and Westholme continues to be pleasing.

Wylarah and Westholme are expected to be launched in one new market before the end of the calendar year, and preparations continue in a number of additional markets.

Premium Brand Segment

As announced in April, AACo's Premium supply chain has underperformed expectations, primarily due to its reliance on external service providers in the later stages of the value chain and its level of exposure to commodity beef price fluctuations.

The Premium supply chain has been further simplified by selling composite steers instead of processing as 1824 branded beef. Management expects the sustainable impact of this decision to be an improvement in Operating EBITDA and Operating Cash Flow.

Volumes sold for the period decreased as an ongoing consequence of the Company's strategic decision to reduce purchases of externally supplied cattle, with sales impacted as a result.

As a long-term strategy, AACo will continue to prioritise the internal supply chain as the best means of producing the branded product at scale for the high-value Luxury/Prestige segments, while maintaining expected levels of reliability, profitability and efficiency.

Operational Review Update

The Operational Review has been completed, and a comprehensive business improvement program has been defined. Management are now focused on executing this program at pace, and key initiatives are currently underway.

This includes the Process & Efficiency Review of the Company's supply chain announced in April, with a primary focus on identifying opportunities to improve processes, realise cost savings and improve profit margin. The discovery phase of this process has now been completed, and has identified material potential ongoing efficiency savings from realising productivity gains. An implementation plan for capturing these opportunities is currently being prepared.

Cash Flow and Balance Sheet

Operating cash flow was a negative \$39.9 million, driven by Operating EBITDA as well as other factors, including an increase in working capital of \$16.6 million, reflecting a normalisation of historically low working capital level balances following a material reduction at the end of FY17.

Closing net debt was at \$348.0 million, representing a gearing ratio of 26.3 per cent, within AACo's stated target range of 20-35 per cent.

FY19 Outlook

Mr Killen said that the macro conditions in the first half of the 2019 financial year continue to be challenging, and management remained focused on continued financial discipline and driving internal cost efficiencies through efficient feed use and cattle movements.

"We have taken decisive action to stem the losses confronting the business and are focusing on ensuring the Company is on an even-footing from which to realise its strong potential for growth.

"What sets AACo apart is our unique ability to produce the highest quality beef at scale. AACo has a blue-chip portfolio of land, herd and brand assets, which the Company has been building and shaping for generations. These are not easily replicable. The decisions we have made as part of our comprehensive change agenda have made an immediate impact on the business and financial performance of the Company, and will enable us to ensure we are realising the potential inherent in our unique integrated supply chain.

"Over the next 12 months, we will be particularly focused on maintaining our robust balance sheet and prudent debt coverage ratios and optimising our supply chain.

"We plan on continuing to advance plans to extend our brand reach in existing markets, as well as new launches in key high-value markets where that makes commercial sense. Work is already well progressed on building the market data and insights needed to support strong, successful expansion of our brand footprint."

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Investor Briefing

CEO Hugh Killen will host a market briefing for investors and analysts today (23 May 2018) at 10.30am AEDT. To listen to this presentation, please visit our corporate website: <https://edge.media-server.com/m6/go/regs-hy2018>.

Alternatively, dial-in details are as follows:

Australia Toll Free: 1800 908 299
Australian Local Call: +61 2 9007 8048
Conference ID: 910824

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