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Wellard

Annual General Meeting

23 November 2018

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Welcome, Overview
and Introductions

Agenda



1. Welcome, Overview and Introductions
2. Chairman's Address
3. Finance and Operations
4. Questions and Answers
5. Formal Business of the AGM
6. End of Meeting

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Chairman's Address

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Finance Update

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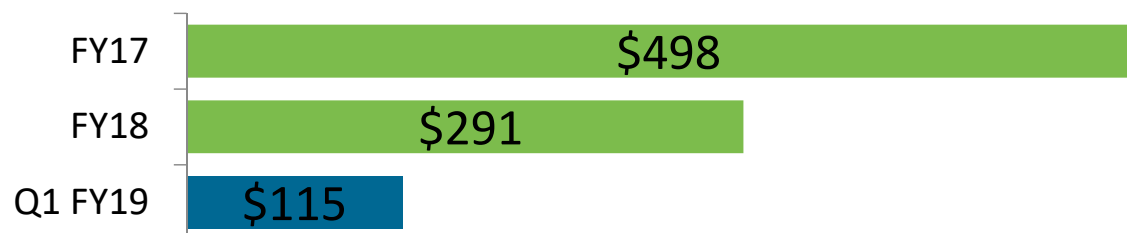
1. Profit Performance
2. Net Tangible Assets
3. Debt Position

Key Financial Results – P&L

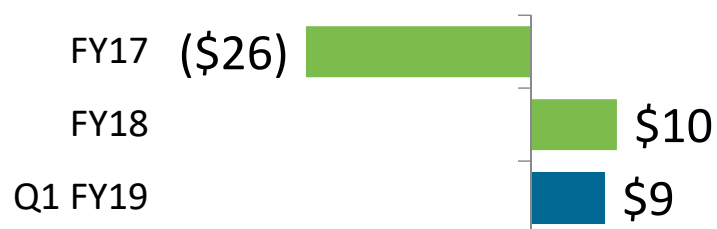


Improved results in FY2018 have continued into Q1 FY19.

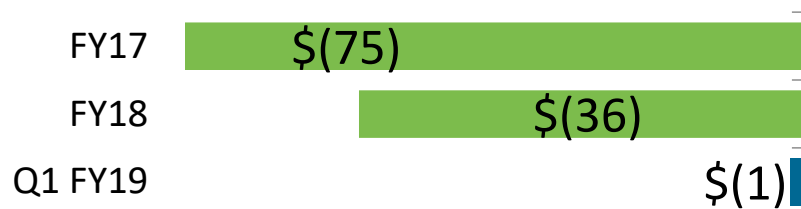
Revenue (m)



EBITDA (m)



NPAT (m)



Commentary

- 70% of shipping capacity utilised on external charters in FY18 versus 15.6% in FY17 (55% external charter in Q1 FY19)
- Lower trading = Lower revenue
- Q1 FY19 Revenue 57% up on pyc*
- EBITDA back to positive territory in FY18 and trend has strengthened in Q1 FY19
 - Turnaround of \$36.0m in FY18
 - Q1 FY19 EBITDA 346% up on pyc
- Net Loss After Tax improved by \$38.9m in FY18, and 50% improvement in Q1 FY19 vs pyc
- Wellard's business is subject to seasonal volatility and Q1 FY19 earnings may not be a representation of future earnings

*pyc – Prior Year Comparative

• Q1 FY19 results displayed are unaudited and produced for internal management purposes

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Key Financial Results – KPI's



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Indicator	FY18	Q1 FY18	Q1 FY19
Voyages loaded	42	12	14
External Charter % ¹	70%	60%	55%
Cattle Traded	141,944	57,818	63,679
GM Index ²	1.6	1.7	2.0
Overheads ratio ³	76c	81c	47c
EBITDA	\$9.9m	\$1.9m	\$8.6m

Source: Wellard Internal Records

- Q1 FY18 & FY19 results displayed are unaudited and produced for internal management purposes
- The business is subject to seasonal volatility and Q1 FY19 earnings may not be a representation of future earnings

1. Ratio of size and time coefficient

2. Ratio of margin versus size and time coefficient

3. Ratio of overhead cost per \$ gross margin

Commentary

- Q1 FY19 improvement is off a low base, but it is across all indicators:
 - Higher volume
 - Better margins
 - Lower overheads
- More diverse Q1 FY19 utilisation spread:
 - 41% to Indonesia
 - 41% to Turkey
 - 12% to Vietnam
 - 6% to China

Key Financial Results – Balance Sheet

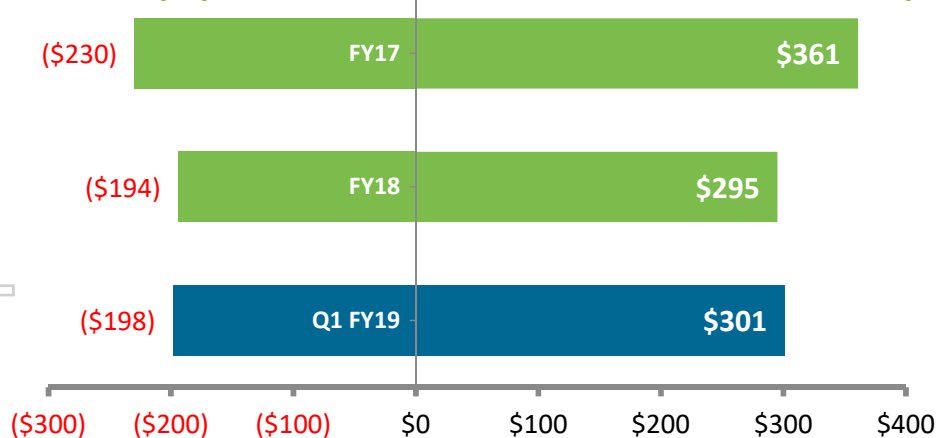


Net assets (m)



Liabilities (m)

Assets (m)



Commentary

- Impairment of the MV Ocean Kelpie was a major impact on Net Assets in FY18
- Position stabilised in Q1 FY19
- Balance sheet rebuild a Board priority
 - Better translation of earnings to NPAT
 - Ongoing debt restructuring
 - Sale of non-core assets

- Q1 FY18 & FY19 results displayed are unaudited and produced for internal management purposes
- Reminder that the business is subject to seasonal volatility and Q1 FY19 earnings may not be a representation of future earnings

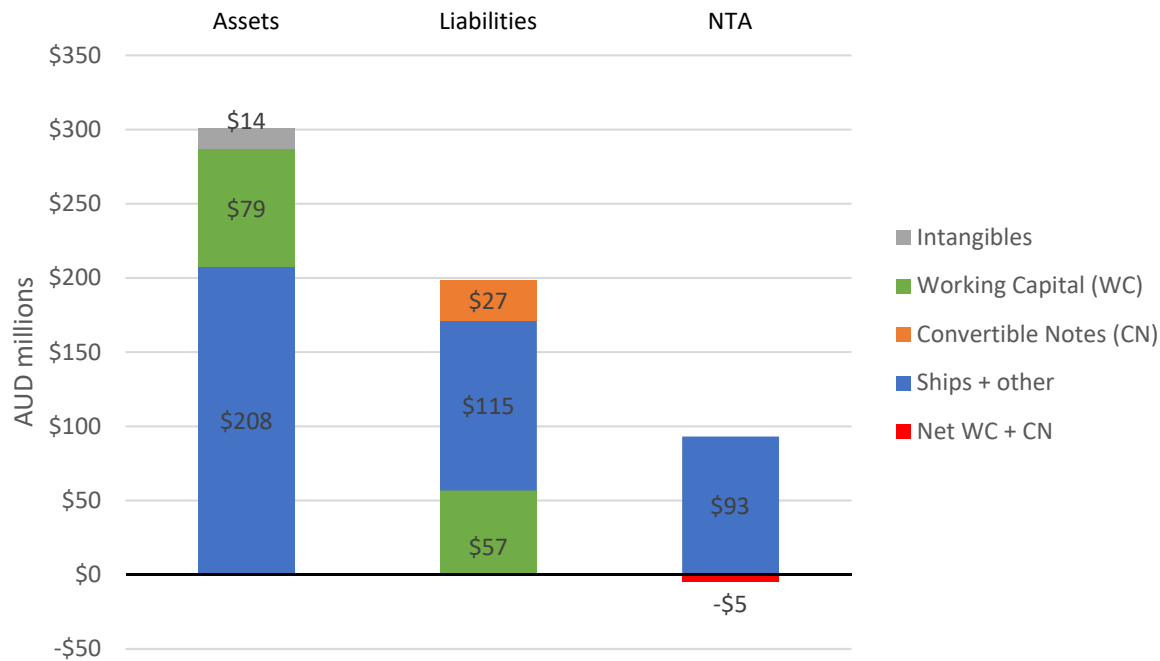
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Key Financial Results – Net Tangible Assets



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Q1 FY19 Net Tangible Assets



Commentary

- Net Tangible Assets ~16.7c per share
 - Fixed asset book values net of debt = ~17.6 cps
 - Net working capital less Convertible Notes = ~-0.9 cps

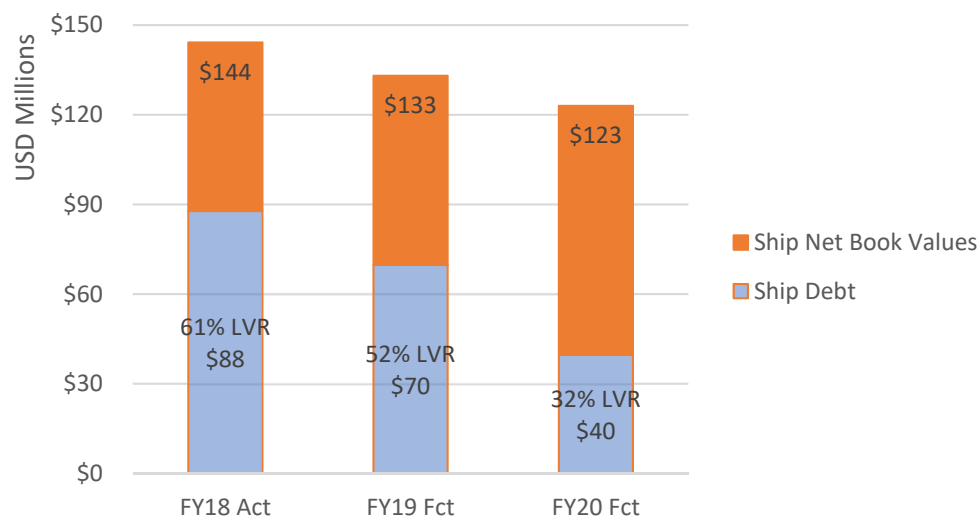
- Q1 FY19 results displayed are unaudited and produced for internal management purposes
- Net tangible assets per security calculations are for management purposes and are based on internal records

Key Financial Results – Ship & Working Capital Debt

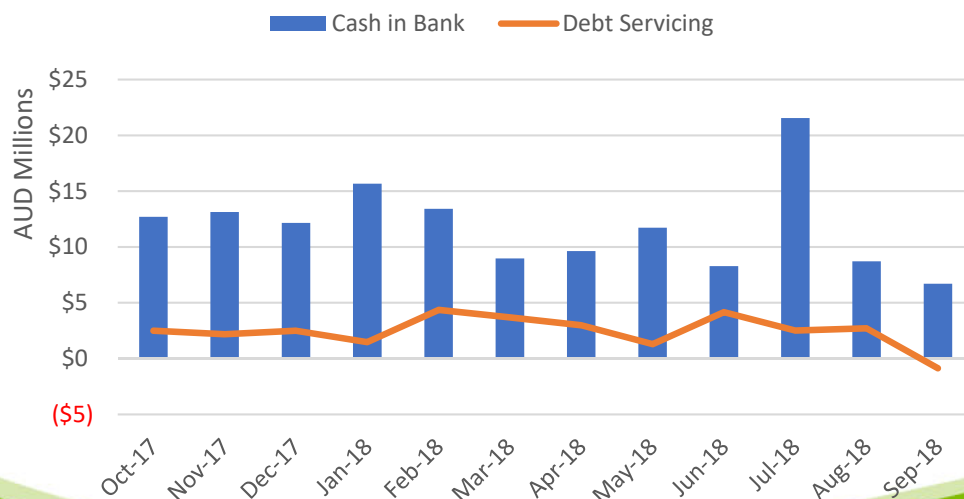


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Ship Debt to Book Value



FY2018 Cash vs Debt Servicing



Commentary

Ship Debt

- All debt servicing commitments paid as scheduled
- Good relationship and ongoing support from all ship financiers despite covenant breaches due to negative earnings and resultant impact on net asset value
- Ship loan to book value decreasing to ~50% by the end of FY19

Working Capital Debt

- Working capital management has improved
- Healthy bank balance vs debt servicing
- CBA working capital facility of A\$30m will not be renewed beyond Feb19
- The Company is in negotiations with a number of providers for a replacement working capital facility

Source: Wellard Internal Records

- FY18 actual numbers are shown in US\$ and may differ from amounts quoted in the Company's published financial statements due to exchange rate conversion to A\$
- FY19 and FY20 forecast numbers are based on current depreciation and loan repayment schedules which may vary in future

Short Term

- Remove restrictive non-financial covenants
- Reset financial covenants to reflect current trading environment
- Finalise new working capital facility

Longer Term

- Refinance residual payments due in FY20 on the MV Ocean Ute and Drover to align with their remaining useful lives
- Restructure Convertible Notes maturity due in FY20
- Use cash saved from rescheduled debt servicing commitments to build up cash reserves to support working capital
- Pursue fleet financing options

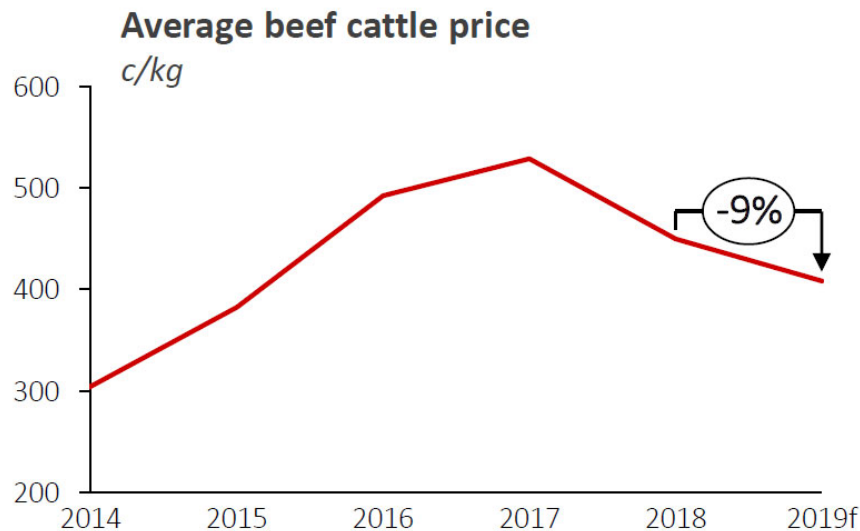
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Operational Update

Looking Back

- Continuing charter demand from South America to the Mediterranean, in particular Turkey.
- Major export market of Indonesia impacted by government imposed selling prices and frozen Indian Buffalo imports.
- Easing Australian cattle prices in Q4 FY18 to Q1 FY19 has improved profitability of trading to South East Asia.
- Moves to phase out live sheep exports.
- Multiple government reviews of industry.



Source: Elders Limited 2018 Year End Results Presentation

Looking Forward

- Forward orders and outlook for Q2 FY19 is positive.
- Q3 FY19 should follow normal seasonal trends of short cattle supply and increasing prices.
- Climate conditions in Australia to impact on supply and price. Industry forecasts suggest herd rebuilding in 2019.
- Live export pricing remaining firm due to shipping capacity.
- Only one new livestock vessel to enter the market in 2019 and enforced regulations will phase out older ships therefore rebalancing the market.
- SEA demand expected to be similar for 2019.

Looking Back

- Restructuring of trading division completed.
- South East Asia-only traded market for feeder and slaughter cattle.
- Breeding and Dairy trading ongoing.
- 2nd Half FY18 results were impacted by a failed charter contract. Legal action commenced.
- Kelpie new ship build contract terminated. Arbitration commenced in UK to seek reimbursement of Wellard's historical instalments (~US\$9.9M).
- Wellard not directly affected by live sheep trade issues due to minimal exposure to live sheep exports.
- Social licence to operate is a major risk which we are actively managing.

Looking Forward

- External charters providing greater earnings visibility and certainty.
- South American source market to be charter only, ideally suited to our 2 large vessels.
- Realisation of non-core asset sales, BRM sale completed.
- Elders procurement MOU.
- Pricing in Australia is fundamentally driven by US 90CL pricing with an overlay of live exporters creating the final buying prices. Change is required to align the selling reality with the product sourcing.
- China feeder cattle protocol is major opportunity when occurs.

The proposed regulatory changes favour Wellard

- 60 Minutes program highlighting animal welfare issues onboard a competitor's vessel has caused major regulatory reviews (April 2018). A series of reviews and reports will require changes to "old culture".
- Main focus is on live sheep exports.

REVIEWS AND REPORTS:

- McCarthy Review (*Conditions of export of sheep to Middle East in northern summer*)
- Moss Report (*Review of Federal Regulator capability & culture*)
- AMSA review of Marine Orders (*Technical standards on board ships for live animal export*)
- ASEL review (*Review of the Australian Standards for the Export of Livestock*)
- New legislation and regulations will be adopted, including:
 - ✓ Reduction in stocking densities and mandatory independent observers on vessels - sheep and cattle
 - ✓ Constraints around exports during northern hemisphere summer – sheep
 - ✓ Phasing out of "grandfathering clauses" for older vessels, prohibiting ships with double tiers, inadequate ventilation, manual water distribution systems, poor drainage, etc.

Animal Welfare and Shipping Standards



Wellard is already well positioned

- Wellard is not active in the Australia-to-Middle East sheep trade
- Our vessels already comply with proposed AMSA amendments
- Competitors with sub-standard vessels will need to invest significant sums to make them compliant, send them to alternative markets or scrap them
- In either case, demand for higher quality vessels is a likely consequence

Wellard supports strong and positive action by the industry to defend live exports

- Wellard is supporting Australian Live Export Council (ALEC) initiatives, including a very strong industry Code of Conduct
- Significant resourcing and support required to win back the hearts and minds of Australians
- The animal activist lobby is sophisticated and well funded
- The industry has reacted slowly and has not proactively managed the issue

Operational Outlook



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MARKET

Improved chartering and export margins compared to this time 12 months ago

Actively seek charter opportunities to provide less volatile revenue mix

Trading business refocussed on what we know best: export cattle to South East Asia, plus high quality breeding and dairy cattle

ASSETS

Fleet allows for charter opportunities, premium rates and significant ability to capture any improvement in market conditions

Sale of non-core assets and redeployment of funds to higher value business activities

FINANCING

Board focussed on strengthening balance sheet

Multiple options being assessed

Ship financiers have remained supportive of Wellard and we anticipate their continued support

OPPORTUNITIES

Regulatory changes favouring younger, more advanced fleets

China is a work in progress

Process optimisation driving cost savings through efficiencies

Partnerships to drive greater efficiency

RISKS

Social License to Operate

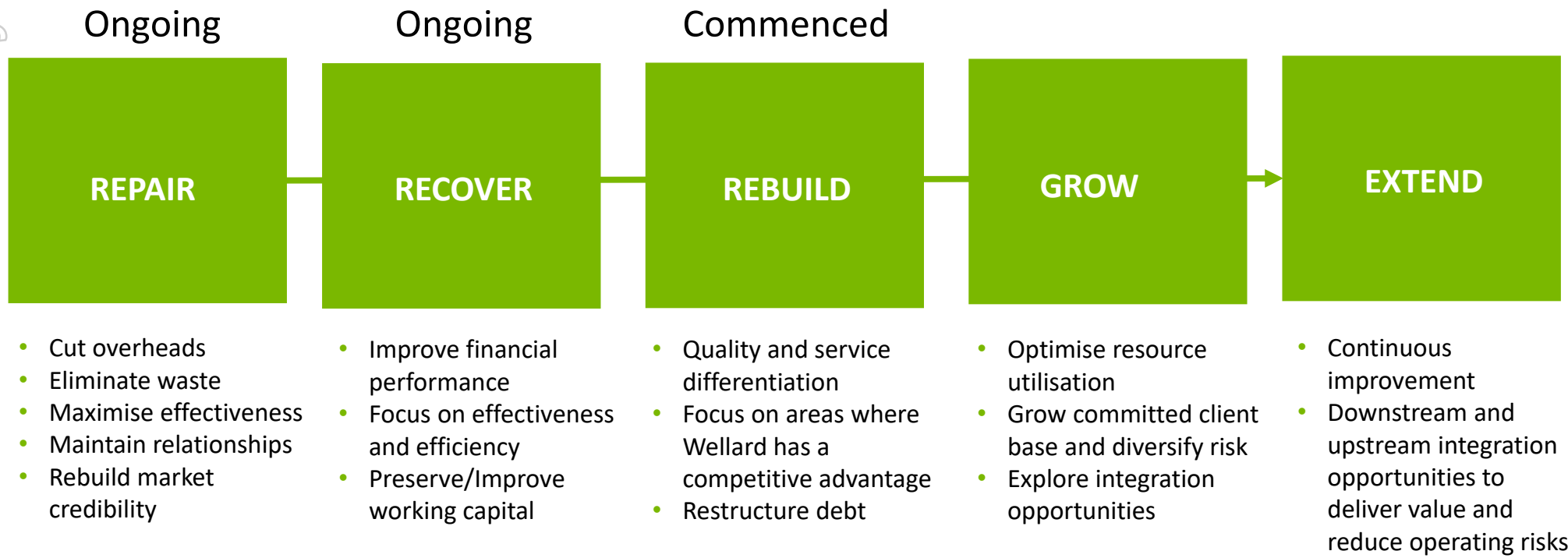
Turkish economy

Climate conditions

Operational Reset – Longer Term



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FY18 into Q1 FY19

- Successful FY18 cost-out program
- Expenses reduced 28%
- Saving of \$18.8m versus target of \$10m in FY18
- \$36m turnaround in EBITDA to positive \$9.9m
- Q1 FY19 EBITDA of \$8.6m similar to full year FY18 result
- Returning to sustainable net profit remains a management priority

Strategy Refocus

- Prioritising vessel utilisation towards lower volatility charter earnings that are sustainable throughout the market cycle, supplemented by higher margin opportunistic trading activities where market and risk conditions are favourable

Key Assets – Livestock Shipping Fleet



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Ocean Shearer



20,000 cattle

- One of the youngest and most technologically advanced fleets in the industry
- All vessels are fully AMSA compliant and can operate across the globe



Ocean Drover



20,000 cattle

- Superior ventilation, fresh water production and automatic feeding systems



Ocean Swagman



7,000 cattle

- Cargo area designed at higher standard to guarantee animal comfort
- On-board stockmen and crew trained in low stress animal handling



Ocean Ute



6,000 cattle

- Fleet managed in-house
- Business optimised at 4 vessels. No vessels for sale.
- Regulatory changes will render some competitor vessels unable to trade to/from Australia from 2020

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Thank you

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