

## Half Year 2020 Results Update to Shareholders

- **Loss of \$697,000 primarily due to lower Namoi Cotton share price**
- **NTA at December 31, 2019 of 34 cents**
- **Cash Levels now of \$ 150,000 enough for this financial year to June.**
- **Cash burn reduced by Directors taking shares in lieu of cash fees**
- **Due Diligence on Potential Acquisition being undertaken**
- **Rainfall starting to move inland to Cotton regions**
- **Unsolicited non- binding indicative approaches to acquire ARC**

## Financial results

The after-tax loss of \$687,036 was not unexpected as the worst drought in 120 years weighs upon the share price of our principal investment in Namoi Cotton shares. We have reduced cash operating costs in the half to \$106,000 and continue to keep expenses and outgoings to a minimum. To put this in perspective the fixed cost of maintaining a listed entity, we believe is about \$200,000 per annum before any fees are paid to Directors.

The Stated Net Tangible Assets ("NTA") was reduced to 34 cents and our share price traded at a discount, which is disappointing but indicative of the subdued outlook for 2020.

## Namoi Cotton Investment

Our current position remains steady with 13,471,11 shares which is the second largest shareholder with 9.6% of the currently issued ordinary shares. The share price is trading at a large discount to the stated asset backing or NTA of 91 cents, which is a realistic industry valuation for the cotton gins and storage facilities (held in the Namoi Cotton Alliance JV) the company presently owns. These are hard assets, land with steel machines, and concrete pads, and they all have a replacement cost well above the stated NTA.

However, in the worst drought in 120 years and with the crop forecast for this year to be 15% of the long term average number of bales of cotton in volumes, then the immediate earnings outlook is poor and this is reflected in the Namoi share price, as it traded back to 30 cents a share. Interestingly this type of situation to some investors is the perfect time to buy into a company and that is what we have seen, with a significant 6% block of Namoi stock being snapped up by a contrarian value investor.

The ARC original cost for the Namoi shares is just above 30 cents a share, having accumulated most of our holding in the former structure as co-operative capital units. It is worthwhile also noting that in the time in which ARC has been a unit holder and shareholder the following initiatives and changes have been implemented

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- Transition from Co-operative to Public Company Structure
- Refreshment of the board and appointment of a new Chairman
- A new CEO started in September of 2019
- The majority of the former senior management team have left the business
- The staffing levels have been right sized to suit the upcoming operating conditions, with staff numbers moving down from 150 to 100 fulltime employees
- A significant review of the entire asset base of the business has been undertaken

These changes now set the base for a new strategic approach for the business that will be:

- Servicing growers in a competitive and commercial manner to win market share
- Focussed on the Return on Invested Capital of the company
- Seeking to drive higher ginning capacity utilisation and rationalise surplus capacity
- Remaining open to the potential for value creating Industry consolidation
- Seeking to lower the overall risk profile of the business

As shareholders we believe this can convert to significant cashflow earnings when the volumes are available, and this lays a platform to then seek to grow the company earnings outside the existing climate zones and catchments. This will further de-risk and reduce the earnings volatility.

The Namoi road has been longer than expected, due to operating conditions and previous sub-commercial behaviours. However, this situation is now being rectified and the core underlying business remains intact with strong cashflow generation potential once the drought breaks.

### **Acquisition Opportunity**

We are currently evaluating an opportunity to grow and acquire assets, cashflow and growth options with the acquisition of a small agribusiness which would be complimentary to our current investment. We are undertaking exclusive due diligence at present from a commercial perspective and if progressed, we believe this opportunity would be value creating and incremental to our existing activities. It is envisaged it would be funded via the issue of new shares to the vendors along with some debt funding secured by property assets.

### **Strategic Direction: Plan B**

If the above acquisition does not proceed, the board, following discussions with major shareholders of the company, has agreed to investigate the process of distributing some or all the assets of the company to the shareholders and winding the operations down. This is being considered due to the lack of success in growing the funds under management and recurring revenues. The board will, if required, be updating shareholders on this initiative if or when it is actioned.

### **Livestock Financing**

Significant rainfall across Eastern and Northern Australia has turbo charged the cattle market with the EYCI moving up from 500 cents per kilo in late 2019 to now levels of 675 cents per kilo.

Restockers have been very active as numbers have been difficult to access and have competed alongside processors for limited cattle supply. We believe the market has run too hard too fast and with the impacts of coronavirus yet to fully filter through to export beef prices. Any set back will have a negative impact for all cattle prices. On this basis and due to the difficulty in accessing debt funds at a reasonable interest rate cost of below 8 % per annum, we are continuing to monitor this situation.

### **Funds Management**

Apart from having to fund our AFSL License costs, our activity here has been slow.

### **Summary**

We are disappointed by the investment return of ARC, particularly when compared with major stock indices and markets, it has been substandard. However, the principal current asset being the Namoi Investment is in turn around mode and subject to relief from the historic drought conditions, has significant upside potential. We continue to progress our acquisition opportunity and will keep shareholders informed when appropriate.

Yours sincerely,



James A Jackson  
**Executive Chairman**  
20 February 2020