



23 November 2016

Dear Shareholders,

### **Our Journey from Pastoral Company to a Luxury Brand Business**

You would notice a lot of change if you first invested in AACo 5 years ago. We are still the leading beef producer in Australia. We still have the largest Wagyu herd in the world. We still raise our cattle in the beautiful, wide-open spaces in Queensland and Northern Territory. But so much else has transformed, for the better.

Over the past few years, we have shared goals for our company. We wanted to vertically integrate. We needed to expand and exploit our investment in innovation and technology. We understood the best path forward was to become a price maker rather than price taker, which mandated creating and promoting our branded products. We demanded a focus on managing our cost structure.

We knew there would be many changes required to achieve these goals. It would require us to invest in the business, change our business practices, and even modify our culture. Change can be hard and time consuming, but when the rewards are as great as we envisioned, we had no choice but to move forward.

In FY16, we started to see some returns on our investments, but the returns were just the beginning. For FY17 and beyond, we will continue to make investments and changes, and we expect to continue to see rewards.

We would like to highlight some of the exciting developments that occurred in the first half of FY17. First and foremost, our aspiration to be a differentiated branded beef company came to life in October 2016 with a local launch in Singapore of our flagship luxury brands, Westholme and Wylarah. The company strategy is to launch these brands into other key markets over the next 18 months. The launch was the latest step to transform AACo to a vertically integrated business selling luxury beef brands, fundamentally changing the way we sell and deliver our products to consumers. This strategy will underpin the ongoing incremental increase in our average sale prices.

Second, we continued our commitment to innovation and technology. We co-founded and invested in a San Diego based biopharmaceutical supply company, Nucleus Biologics, that produces products based largely on raw material supply from AACo. Further, we formed a Scientific Advisory Board under the chairmanship of Dr Megan Clark, former CEO of CSIRO, to review and guide our future innovation and technology programs.

Third, we continued our efforts to integrate our supply chains and ensure consistent supply for each of our beef programs. For example, our increased knowledge of supply and demand across the supply chain signalled that we needed to build cattle inventory in the first half of the year to ensure consistent supply in the second half of FY17 and throughout FY18. While this has impacted cash flow in the short term, it will ultimately result in improved returns from beef sales in the coming periods.

While a better operated company is an admirable goal, ultimately it must translate into profits. We committed to developing consistent high quality earnings. Our latest results demonstrate this progress: increased earnings, increased average sales price for our Wagyu products, reduced operational expenses, and reduced production costs.

There is more detail in our ASX announcements. We are pleased with our progress but we are far from finished.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'J Strong', written in a cursive style.

Jason Strong  
Managing Director

# AUSTRALIAN AGRICULTURAL COMPANY

Financial Results Presentation for the Half Year ended 30 September 2016

23 November 2016



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# Agenda

1. Half year in review – Jason Strong
2. Financial performance – Andrew Slatter
3. Q&A

# AACo H12017 vs H12016 – at a glance

## Financials

- Operating EBITDA of \$13.9m up \$2.4m
- Cattle inventory build was \$41.4m (at standard cost) up \$36.0m
- Operating cash flow of (\$34.5m) down \$31.4m

## Operations

- Production costs decreased 25% to \$2.09/kg from \$2.77/kg
- Livingstone Beef achieving target throughput
- Continued significant improvement in safety

## Brands

- Wagyu branded beef sales price increased 6% to \$13.59/kg from \$12.88/kg
- Branded beef sales as a share of total sales of 92% up from 86%
- Commenced joint business planning with strategic customers

# Intentional actions resulted in tangible outcomes

## Inventory

- Intent – secure consistent supply for our branded beef programs
- Action – purchased cattle in H1 for supply in H2FY17 and H1FY18
- Outcome – absorbed \$41.4m within operating cash flow in H1; inventory will be monetised in H2FY17 and H1FY18

## Quality

- Intent – focus on premium products to drive long-term value
- Action – improved product quality and sales in the future
- Outcome – delaying sales resulted in lower revenue in H1; better product quality and mix in the future

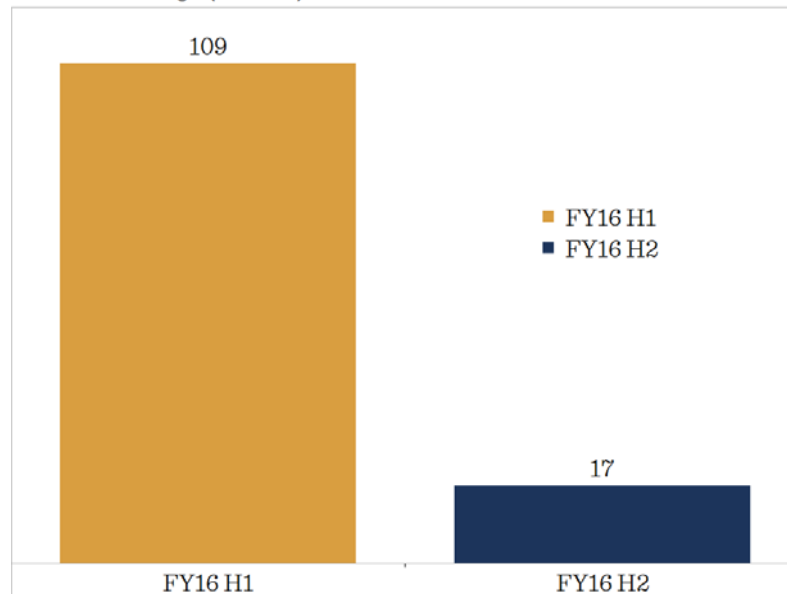
## Costs

- Intent – improve operational efficiency and reduce sourcing costs
- Action – better utilised our own pastures to decrease costs
- Outcome – production costs decreased 25% to \$2.09/kg from \$2.77/kg

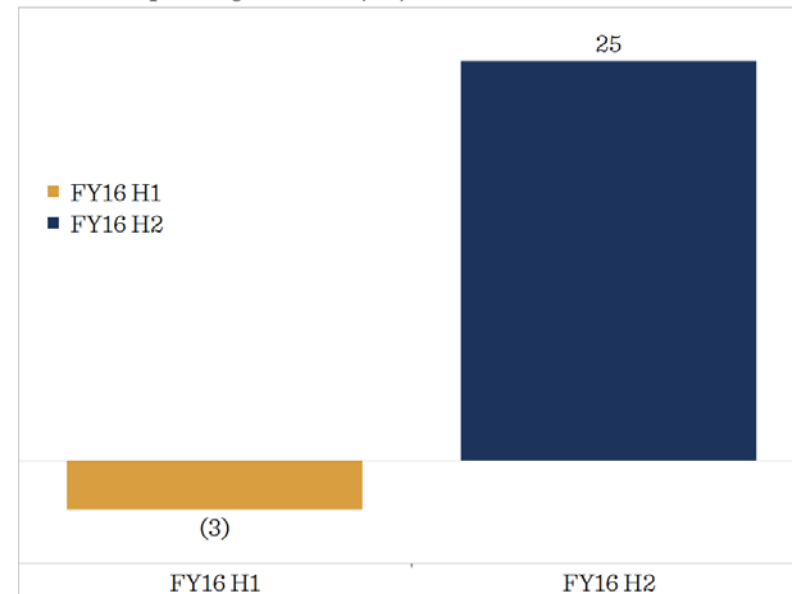
# One year is not equal to twice the first half

- Northern Australian cattle operations naturally fall into three trimesters with each having significantly different operational and cash flow profiles
- Costs that regularly occur in the 2<sup>nd</sup> trimester can fall before or after 30 September (end of financial H1) because of seasonal variation
- Year-on-year comparisons are more consistent and reliable than half-on-half comparisons

FY16 - brandings ('000 hd)



FY16 - net operating cash flow (\$m)





# Implementing a differentiated branding strategy

Our new brand offerings, Westholme & Wylarah, represent our intent to change the global luxury beef segment

- Commenced joint business planning with strategic customers
- Local launch in Singapore on October 4th 2016
- Company strategy is to launch the brands into other key markets over the next 18 months.

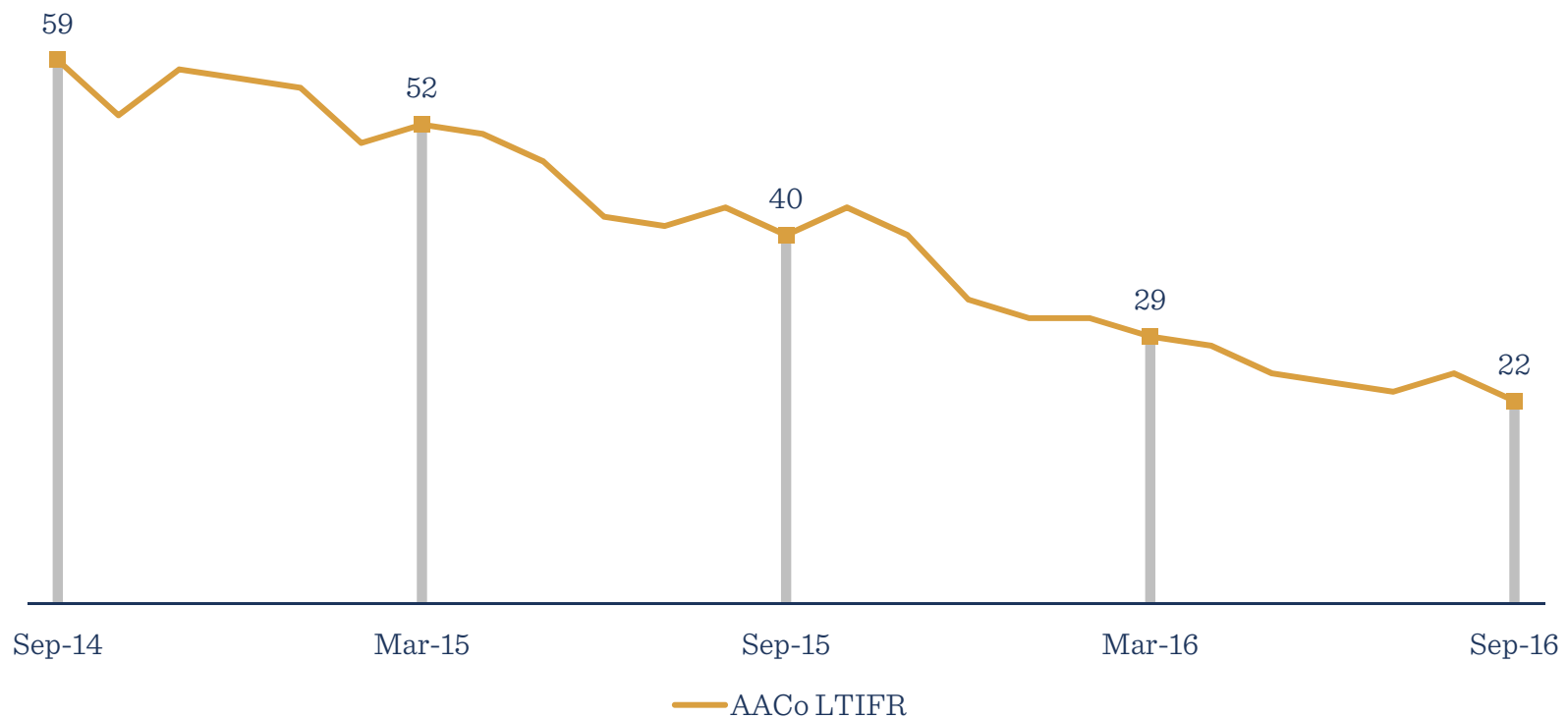


# Applying innovation and technology to the business

- AACo Scientific Advisory Board established with highly credentialed members chaired by Dr Megan Clark AC, former CSIRO CEO
- Nucleus Biologics investment is extending our supply chain into downstream value-added pharmaceuticals
- Developed and implemented technologies for predicting performance of the supply chain including leveraging knowledge of breed type and nutrition with a focus on predicting eating quality

# Safety significantly improved

- People & culture – we continued to focus on training and development for our people
- Our efforts have significantly reduced our lost-time injury frequency rate (“LTIFR”)



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# Improved operating margins and profit before tax

- Increased operating EBITDA and margins on lower revenue
- Total sales revenue for 1HFY17 was lower than H1FY16 because of key decisions:
  - We increased wagyu days on feed which limited wagyu product available for sale
  - We reduced our non wagyu and live cattle sales
  - These revenue reductions were partially offset by improved pricing of our wagyu products as well as higher sales from Livingstone Beef
- Margins improved as total sourcing and production costs fell

\$m	FY17 H1	FY16 H1	Change
Total sales revenue	214.1	260.7	(46.6)
Total sourcing & production costs	177.5	195.7	18.2
Operating EBITDA	13.9	11.5	2.4
Operating margin	6.5%	4.5%	1.9%

## AACo 2017 H1 earnings – at a glance

\$m	FY17 H1	FY16 H1	Change
Branded beef sales	195.9	224.3	(28.4)
Cattle sales	18.2	36.4	(18.2)
<b>Total sales revenue</b>	<b>214.1</b>	<b>260.7</b>	<b>(46.6)</b>
Processing & logistics costs	(43.4)	(56.5)	13.1
Total sourcing & production costs	(177.5)	(195.7)	18.2
Innovation & technology	(5.4)	(2.8)	(2.6)
Sales & marketing	(2.4)	(2.0)	(0.4)
Corporate	(6.4)	(6.3)	(0.1)
Cattle inventory build at standard cost	41.4	5.4	36.0
Changes in finished goods inventory	(10.2)	2.2	(12.4)
Other	3.7	6.5	(2.9)
<b>Operating EBITDA</b>	<b>13.9</b>	<b>11.5</b>	<b>2.4</b>

## AACo 2017 H1 cash flow – at a glance

- External purchases in FY17 H1 contributed to a \$41.4m live cattle inventory build for Livingstone Beef and our branded beef programs; resulted in negative operating cash flow
- All cash needs funded by operations and drawing on existing bank facilities

\$m	FY17 H1	FY16 H1	Change
Net operating cash flow	(34.5)	(3.0)	(31.4)
Cash used in investing activities	(8.9)	(9.6)	0.8
Cash flows from financing activities	40.0	15.0	25.0
<b>Net change in cash</b>	<b>(3.3)</b>	<b>2.3</b>	<b>(5.6)</b>

## AACo 2017 H1 balance sheet – at a glance

- Adjusted days working capital (which excludes livestock) improved due to leveraging systems to manage finished goods inventory and tighter control of debtors
- Subsequent to balance date, AA Trust converted 59 Convertible Notes for 25,683,440 fully paid ordinary shares – reduced cost of debt going forward

	Sep FY17	Mar FY16	Change
Adjusted days working capital (#)	16.4	18.4	1.9
Livestock (\$m)	679.1	563.2	115.9
Property, Plant and Equipment (\$m)	739.6	741.8	(2.2)
Gearing ratio	30.2%	29.0%	1.2%
Net tangible assets (\$/share)	1.75	1.66	0.09



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