

# RIDLEY CORPORATION LIMITED

INVESTOR PRESENTATION – HALF YEAR TO 31 DECEMBER 2017



- Yamba-produced Novacq™ included in domestic commercial prawn diets.
- Thailand Novacq™ production facility established and production commenced.
- Growth in Ruminant, Poultry and Pig sectors.
- Steady performance in Packaged Products.
- Positive recovery in Supplements following a return to traditional dry season.
- Consistent underlying Aquafeed performance impacted by Huon inventory legacy issues.
- Sharp reduction in Q2 poultry raw material intake at Maroota rendering plant
- Red meat raw material supply still scarce but improving as Victorian herd rebuilding continues.
- Approvals granted for Tasmanian Extrusion Plant since balance date and positive progress on new feedmill for Central Victoria.
- Property segment costs more than offset by \$0.5m profit on sale of Lara land.
- Corporate and Finance costs contained to prior year levels, with reduction in effective tax rate reflective of increased R&D activity throughout the business.

# FINANCIAL HIGHLIGHTS



<b>Consolidated result - in \$m</b>	<b>1H FY18</b>	<b>1H FY17</b>	<b>1H FY16</b>	<b>FY17</b>	<b>FY16</b>
<b>EBIT - Operations</b>	<b>22.8</b>	<b>22.9</b>	<b>27.7</b>	<b>45.8</b>	<b>53.7</b>
<b>Property costs</b>	<b>0.3</b>	<b>(0.5)</b>	<b>(1.3)</b>	<b>(1.0)</b>	<b>(2.0)</b>
<b>Corporate Costs</b>	<b>(4.8)</b>	<b>(4.8)</b>	<b>(4.7)</b>	<b>(9.9)</b>	<b>(9.6)</b>
<b>Net Finance Expense</b>	<b>(2.3)</b>	<b>(2.6)</b>	<b>(2.7)</b>	<b>(5.0)</b>	<b>(5.4)</b>
<b>Tax Expense</b>	<b>(3.5)</b>	<b>(4.4)</b>	<b>(4.6)</b>	<b>(7.3)</b>	<b>(12.6)</b>
<b>Net operating profit before non-recurring items</b>	<b>12.5</b>	<b>10.6</b>	<b>16.6</b>	<b>22.6</b>	<b>24.1</b>
<b>Non-recurring revenues (Dry Creek in FY16)</b>	<b>-</b>	<b>3.5</b>	<b>(6.3)</b>	<b>3.2</b>	<b>3.5</b>
<b>Net profit</b>	<b>12.5</b>	<b>14.1</b>	<b>10.3</b>	<b>25.8</b>	<b>27.6</b>

- Operating half year result of \$22.8m impacted by c.\$2.6m of Huon inventory legacy issues.
- Growth recorded in Dairy, Poultry & Pig sectors.
- Steady performance in Packaged Products.
- Profitability restored in Supplements following return to traditional northern dry season.
- Consistent underlying Aquafeed performance.
- Squeezed margins in highly competitive market for Victorian red meat offal in short supply, but improving.
- Sharp Q2 reduction of poultry raw material input from major supplier at Maroota.
- Property costs reflects temporary suspension of Nelson Cove JV & \$0.5m profit on Lara property sale.
- Corporate and net Finance costs at consistent levels with no material movements or structural changes.
- Tax expense reflects prior year overprovision due to increase in claimable R&D Tax Incentive activity.
- Net profit before non-recurring items after tax of \$12.4m, up \$1.8m on same period last year.
- No non-recurring items in the half year.

The Directors believe that the presentation of the unaudited non-IFRS financial information on slides 3,5 and 17 is useful for users of the accounts as it reflects the significant movements in operations and cash flows of the business.

- ❑ **EBIT result for agribusiness of \$22.8m** - Dairy, Poultry, Pig and Supplements sector growth impacted by Rendering raw material supply issues in both NSW and Victoria and c.\$2.6m of Huon inventory legacy issues.
- ❑ **Poultry** - reliable year on year performance, with further volume increases reflective of increasing bird numbers and consumer demand.
- ❑ **Pig** - on a growth path of improved returns and greater industry presence, validating the prior year investment in people and resources in a growing and profitable sector.
- ❑ **Dairy** - positive year on year performance with recovery of sales volumes and uplift in dairy farmer confidence based on published and forecast milk prices.
- ❑ **Aqua-feeds** - peak period salmon volumes affected by influx of warm water in Tasmania while prawn and other fin fish performed well. A number of Huon inventory legacy issues emerged due to the ageing of unsold finished goods and unused raw materials which are being worked through by management.
- ❑ **Rendering** - significant reduction in Q2 poultry raw material inputs at Maroota has materially impacted its half year contribution. High prices continue to be tendered to retain supply of red meat offal in Victoria, which remains scarce during the herd rebuilding stage of the cycle but is improving.
- ❑ **Packaged Products** - steady year on year result, with tight margin management, product refresh and increased store presence.
- ❑ **Supplements** - the return to a more traditional dry season in northern Australia has positively impacted Dry Season block sales and earnings when compared to the prior year.
- ❑ **Energy** - Energy Buyers Group in Victoria secured ACCC approval and improved pricing for group participants for 2H.

# SECTOR VOLUME HISTORY



Sector	FY18 (kt) 1H	FY17 (kt)	FY16 (kt)	FY15 (kt)	FY14 (kt)	FY13 (kt)	FY12 (kt)	FY11 (kt)	Long term Outlook
Poultry	602	1,155	1,044	1,013	1,019	872	933	900	▬
Aqua-feed	16	35	54	65	50	42	47	50	↑
Packaged	36	75	78	83	90	90	85	84	▬
Dairy	124	226	284	291	275	251	260	236	↑
Pig	96	193	177	168	178	184	197	224	↑
Supplements	12	11	20	15	21	22	22	22	▬
Beef & Sheep	21	32	41	36	58	46	26	24	▬
Rendering	77	159	193	184	171	93	34	9	↑
Other	38	46	44	47	32	35	46	44	▬
<b>Total Tonnes</b>	<b>1,022</b>	<b>1,932</b>	<b>1,935</b>	<b>1,902</b>	<b>1,894</b>	<b>1,635</b>	<b>1,650</b>	<b>1,593</b>	

2018:

Bendigo & Tasmania feedmill approval processes in motion

Production of high value PPC (protein meal) commenced

Novacq™ included in domestic prawn diets for summer season

**Livestock Yield / Performance**

**Quality - DIFOTIS, delivery in full, on time, in spec**

**Innovation - develop new value adding raw materials, including by-products e.g. Novacq™: improve output and reduce cost**

**Nutrition - diet formulation, better feed conversion rates (FCR)**

**“Our Mission is to improve the *cost of feed to yield ratio* for our customers”**  
 - maximise sector profitability measured by the delta between the cost of our feed and the performance of the farmers’ animals - in terms of yields of milk, meat, eggs & well-being

**Merchandising - bulk, off farm, expertise, market presence**

**Logistics - backloading, proximity to grain, 1.9mt in/outbound**

**Cost of Ridley Feed**

2018:

Mill run & almond hull supply contracts

Yamba innovation to improve dewatering & drying processes

Chilled tankers for offall storage & long haul transport

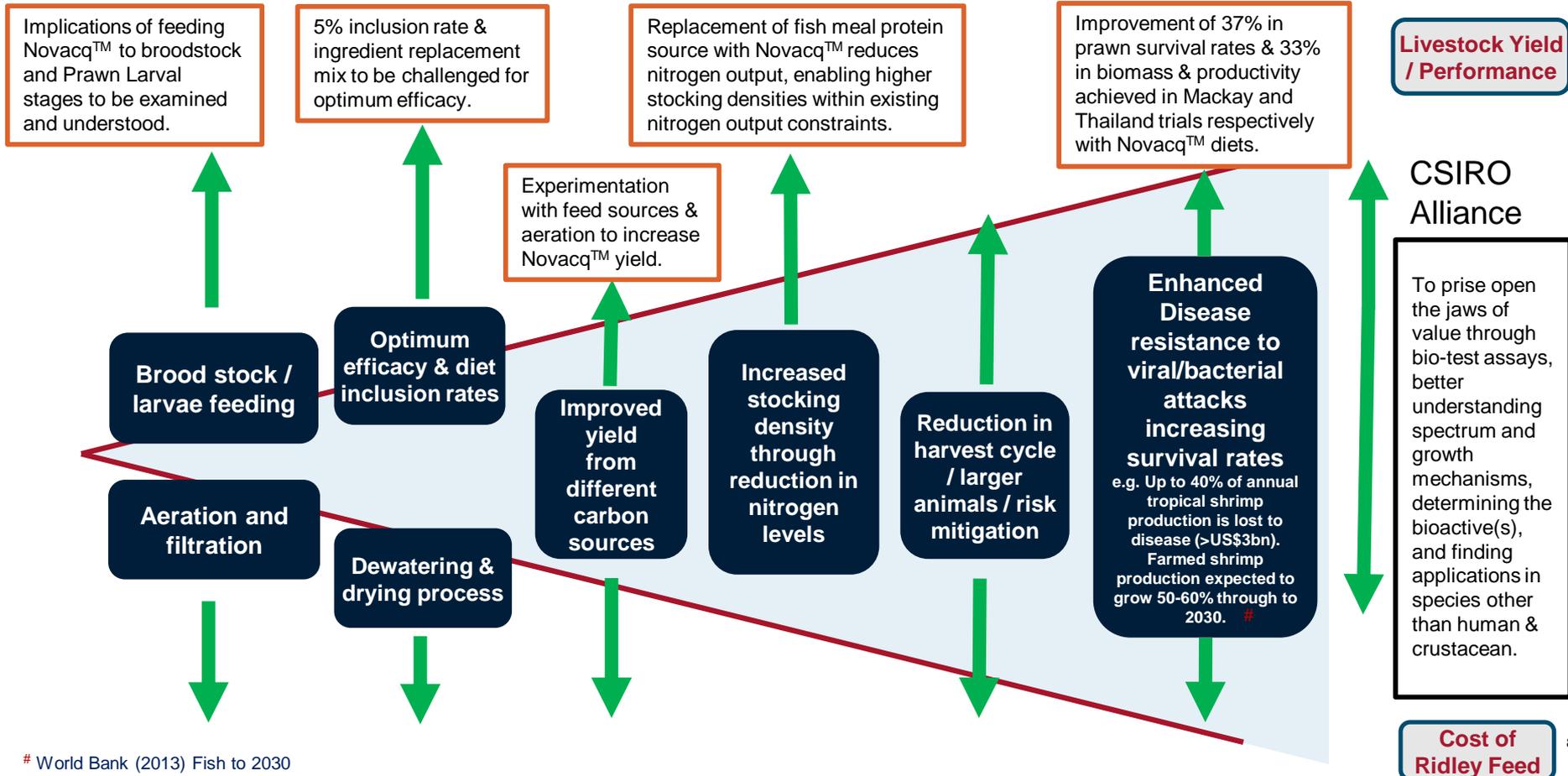
# NOVACQ™

# NOVACQ™ – 1 YEAR AHEAD OF ORIGINAL PLAN



CSIRO Licence

Crustacean – All the world secured in FY17 except for China and Vietnam. For all other non-human species – all the world secured in FY17.



# World Bank (2013) Fish to 2030

# YAMBA - LAST SIX MONTHS



## 7.5Ha of former prawn ponds in Yamba, NSW fully operational for Novacq™ production

- ✓ Ongoing process of continuous improvement to further improve yield and drive down the cost of production. Power supply currently restricting aeration capacity - to address in 2H.
- ✓ Dewatering and drying solution achieved in last six months, and technology transported to Chanthaburi, Thailand.
- ✓ Novacq™ from the site already in feed being used by domestic prawn farmers in current growing season on profit share arrangement.
- ✓ 37% improvement in survival rates achieved in Mackay farm trials.



Silo for pond-side settlement of harvested Novacq™ (fore) & silo storage (back).



Standard prawn ponds have to be levelled and lined with protective sheeting. Yamba ponds fully operational for Novacq™ production

# CHANTHABURI LAST SIX MONTHS



- ❑ **Ten year lease** - 14 former prawn ponds now lined and pond sets introduced to commence local production of Novacq™ at Chanthaburi, with infrastructure established (power, concrete pad, site office, storage silos, access road, water intake, etc.).



Lay out of existing 14 ponds



Power, storage silos, site office



Test cages, feedmill in background



Test cages with underwater aeration.

- ❑ **Pond testing** - dedicated pond established with 48 cages and IBC's for internal testing of new diets, Novacq™ inclusion rates, variations in protein content, salinity, etc.

Trial feed delivery



Salinity testing in IBC's



Water testing



- ❑ **Bol** - Board of Investment approval received after balance date to secure new business concessions and facilitate land ownership by 100% Ridley-owned Thailand entity. This concession facilitates expansion to 50 ponds and ability to construct and operate local blending plant(s).

- ✓ Management Committee - fully functional, with meetings held at CSIRO facilities on Bribie Island and at Clayton, Victoria.
- ✓ Science & Operational Committee - similarly functioning effectively, with detailed Position Descriptions in place and Work Package leaders appointed.
- ✓ Nursery ponds and raceways at Bribie Island are stocked with Prawn Larvae (**PL**), Post Larvae, and juveniles for examination and trial populations.
- ✓ Work Package (**WP**) 1 - to increase timeliness and precision of bioactivity predictions from the Novacq<sup>TM</sup> production facilities: numerous experiments conducted and planned to generate a process to test the level of bioactivity of the Novacq<sup>TM</sup> and fractions on a timely basis.
- ✓ WP 2 - Nutrition requirements and digestion: tests conducted to evaluate growth and feeding response, digestibility and utilisation of Novacq<sup>TM</sup>.
- ✓ WP 3 - Metabolism: understanding the metabolic drivers of Novacq<sup>TM</sup> activity and defining growth pathways.
- ✓ WP 4 - Immune competence: can Novacq<sup>TM</sup> change the prawn gut to impact function and immunity? Activity scheduled for later year(s).
- ✓ WP5 - Production of Novacq<sup>TM</sup> in bioreactor facility: Novacq<sup>TM</sup> has been successfully on-grown on a small scale in CSIRO's Clayton bioreactor facility.
- ✓ WP 6 - Produce a spectrum of Novacq<sup>TM</sup> samples and assess application for new species: different ingredient inputs to be tested for impact on Novacq<sup>TM</sup> yield and bioactivity. Testing on new species scheduled for later year(s).

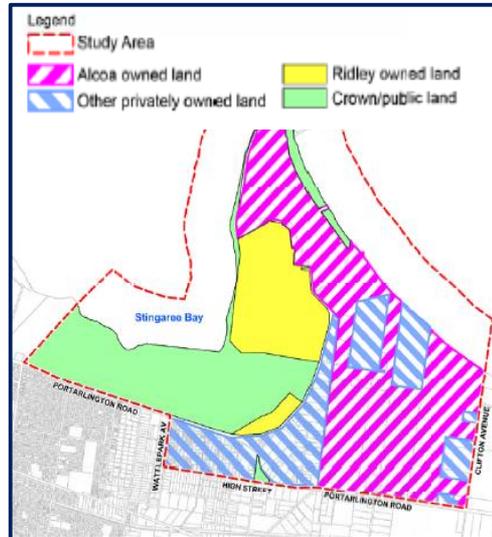
# PROPERTY

## MOOLAP coastal strategic framework PLAN – Designated the “Saltworks and Wetlands Precinct”

- “Environmental with complementary tourism” for Crown land (shaded green and long term leased by Ridley) and “Environmental/tourism investigation” for Ridley-owned land (shaded yellow).
- No commercially viable opportunity at the present time so Nelson Cove JV suspended until impetus exists to revive.
- Land uses include “coastal inundation and protective structures, drainage outlets and retarding basins, nature based tourism and commercial facilities.”

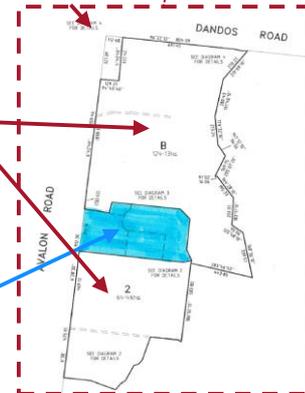
## LARA

- Lot A (417.7 Ha) and Lot B (237 Ha) not part of subdivision & currently marketed for sale.



- Stage 1 subdivision complete.
- Commercial prospects for Stage 2 subdivision under evaluation as an aquaculture precinct.

- Lot 3 sold for proceeds of \$0.7m, pre-tax profit of \$0.5m.



# CONSOLIDATED FINANCIALS

# BALANCE SHEET - ASSETS



Balance Sheet - in \$m	Dec 2017	Dec 2016	Dec 2015	June 2017	June 2016
Assets held for sale	-	2.3	33.5	-	-
Other Current Assets	220.9	234.8	247.8	218.1	228.5
Property, plant & equipment (P,P&E)	190.5	174.8	141.5	182.8	160.2
Investment property	3.0	3.2	3.1	3.2	3.1
Investments	1.3	1.3	2.3	1.3	3.7
Intangibles	80.4	77.4	77.4	79.3	76.4
Non-current receivable	0.8	-	-	0.9	5.5
Non-current deferred tax assets	4.3	6.2	1.5	5.0	7.4
<b>Total Assets</b>	<b>501.2</b>	<b>500.0</b>	<b>507.1</b>	<b>490.6</b>	<b>476.5</b>

- ❑ **Assets held for sale / Investment property** - formerly comprised equity accounted JV investment disposed of in January 2017.
- ❑ **Receivables** - movement reflects \$13.8m reduction in Receivables, net of payment in full of \$17.7m of Huon debt overdue as at 30 June 2017, utilisation in full of the \$1.0m provision for non-recovery, and receipt of the \$6.0m final Dry Creek deferred consideration payment.
- ❑ **Other current assets** - Inventories have increased \$6.9m from 30 June 2017 while cash and cash equivalents have increased by \$9.5m to \$26.0m.
- ❑ **P,P&E** - the \$7.7m net increase reflects \$7.4m of development capex, \$8.3m of maintenance capex, and a DA charge of \$8.0m.
- ❑ **Intangibles** - includes \$2.1m of Novacq™ capitalised assets under development at Yamba and in Thailand offset by amortisation of \$0.9m.
- ❑ **Non-current receivable** - balance reflects long term prepayment of Thailand pond leases.

# BALANCE SHEET - LIABILITIES



Balance Sheet - in \$m	Dec 2017	Dec 2016	Dec 2015	June 2017	June 2016
Current payables	143.6	123.0	156.0	148.6	145.9
Current provisions	14.1	13.0	13.1	13.5	12.9
Current tax liabilities	0.1	0.5	4.9	-	8.3
Non-current borrowings	81.2	111.0	97.7	68.1	69.4
Non-current Provisions	0.5	0.6	0.5	0.6	0.5
<b>Total Liabilities</b>	<b>239.5</b>	<b>248.1</b>	<b>272.2</b>	<b>230.8</b>	<b>237.0</b>
<b>Net Assets</b>	<b>261.7</b>	<b>251.9</b>	<b>234.9</b>	<b>259.8</b>	<b>247.8</b>

\$9.8m increase in shareholders' funds in last 12 months

- ❑ **Payables** - \$5.0m reduction reflects a \$9.4m lower drawdown of trade payables facility from \$48.6m to \$39.2m & timing of payments within trading terms.
- ❑ **Tax** - final FY2017 tax refund was received in Dec 2017; first FY2018 instalments were paid in half year, generating a low value current liability.
- ❑ **Borrowings** - gross Borrowings has risen by \$13.2m to \$81.2m, offset by the \$9.5m increase in cash, for an increase in net Borrowings of \$3.7m to \$55.2m.
- ❑ **Equity** - no changes in equity in either period.
- ❑ **Dividend** - final dividend of 2.75cps paid on 31 October 2017, franked to 100% (Prior year: 2.5cps).
- ❑ **Dividend** - interim dividend of 1.5cps proposed but not provided in the half year.

# CASH FLOW



<b>Consolidated Cash flow - in \$m</b>	<b>1H FY18</b>	<b>1H FY17</b>	<b>1H FY16</b>	<b>FY17</b>	<b>FY16</b>
Consolidated EBITDA	27.7	26.9	27.9	54.4	56.1
Movement in working capital	(3.8)	(26.1)	(35.6)	(2.6)	(19.3)
Maintenance capex	(8.3)	(7.3)	(5.5)	(14.2)	(14.9)
<b>Operating cash flow</b>	<b>15.6</b>	<b>(6.5)</b>	<b>(13.2)</b>	<b>37.6</b>	<b>26.9</b>
Development capex	(7.1)	(14.6)	(3.7)	(19.6)	(19.3)
Payments for Intangibles	(2.1)	(1.0)	(0.5)	(3.6)	(0.7)
Dividends paid	(8.4)	(7.6)	(6.1)	(12.2)	(10.6)
Payments for Investments	-	-	-	-	(1.3)
Net asset sale proceeds	6.7	5.7	9.9	13.5	22.0
Net finance expense	(2.4)	(2.8)	(2.8)	(5.5)	(5.4)
Net tax (payments)/refund	(2.5)	(10.9)	(9.6)	(14.7)	(13.9)
Other net cash outflows	(3.5)	(1.0)	(0.2)	(6.0)	(6.0)
<b>Cash outflow</b>	<b>(3.7)</b>	<b>(38.7)</b>	<b>(26.2)</b>	<b>(10.5)</b>	<b>(8.3)</b>
Opening net debt as at 1 July	(51.5)	(41.0)	(32.7)	(41.0)	(32.7)
<b>Closing net debt</b>	<b>(55.2)</b>	<b>(79.7)</b>	<b>(58.9)</b>	<b>(51.5)</b>	<b>(41.0)</b>

- ❑ In another challenging trading period, a steady consolidated EBITDA of \$27.7m.
- ❑ Maintenance capex of \$8.3m contained within overall DA of \$9.0m.
- ❑ \$7.4m Development capex includes plant upgrades at Narangba, pond set up works in Thailand, and Tasmanian feedmill land acquisition and development approvals.
- ❑ Payments for Intangibles reflects \$2.1m of activity in respect of the Novacq™ project both at Yamba, NSW and Chanthaburi, Thailand.
- ❑ 2.75cps final cash dividend paid on 31 October 2017, up 0.25cps from prior year.
- ❑ \$6.0m final instalment received on prior year Dry Creek sale plus \$0.7m from sale of land at Lara.
- ❑ Tax payments reflect reduction in effective tax rate for the current and prior years.

# OUTLOOK

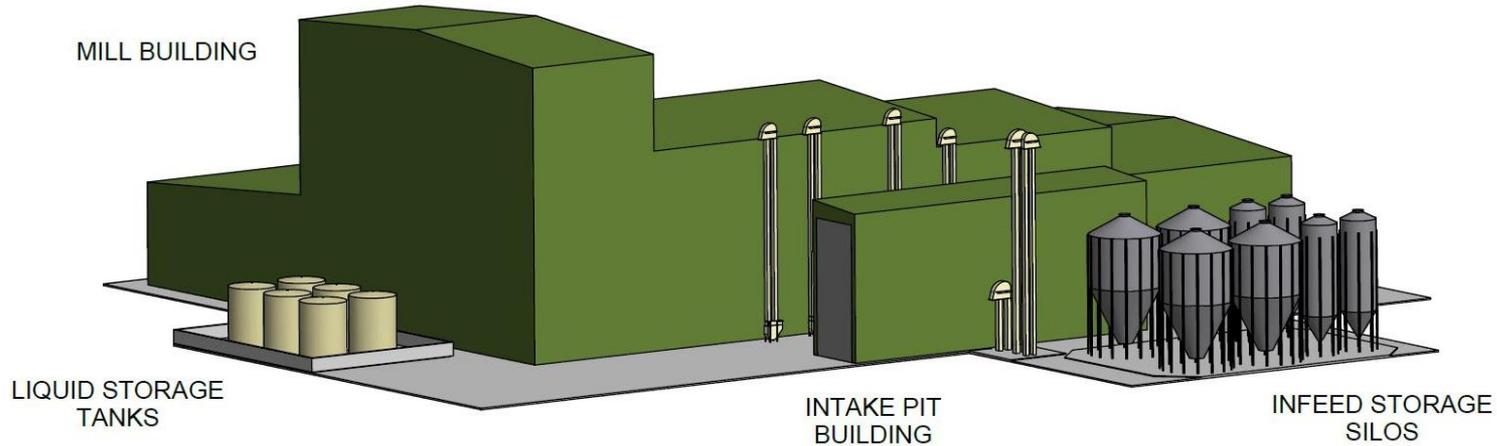
- ❑ **Poultry and Pig** - a full year of operation of the new Lara feedmill to contribute positively to poultry and pig performance in FY18 through operational efficiencies and winning new business. Construction of new Central Victorian feedmill to commence in second half year, almost double the scale of the Lara feedmill and underpinned by long term supply contract.
- ❑ **Dairy** - farmer sentiment more positive than last year with stronger milk price forecast and return to conventional milk pricing models, herd rebuilding, on farm forage and continuing low grain prices.
- ❑ **Aqua-feed** - rebuilding of salmon business supported by installation of second extruder test line and Narangba plant upgrades in first half year, with construction of new Extrusion Plant in Tasmania to commence in the second half year having recently secured the development approvals. Positive outlook for kingfish, barramundi and prawn, with Novacq™ development work building positively towards commercial launch.
- ❑ **Rendering** - rebuilding of red meat raw material supply in Victoria continues. The introduction of new higher specification products such as Poultry Protein Concentrate (**PPC**), now being produced at our Maroota site, is expected to deliver value add and improved margins. New projects are in progress with the medium term potential to offset the significantly reduced intake volumes from the major poultry supplier to Maroota.
- ❑ **Packaged Products** - after four successive years of earnings growth and positive margin management, the focus can shift to consolidation and rebuilding sales volumes on key products following successful implementation of brand refresh campaigns and new distributor agreements.
- ❑ **Supplements** - a return to traditional wet and dry seasons in northern Australia and growth in demand for magnesium capsules is expected to return this sector to profitability in FY18.
- ❑ **Energy** - the ability for the energy market to provide reasonably priced contracts to run energy-intensive plant will influence bottom line earnings in FY18. Positive second half year outcomes have been generated from the Energy Buyers Group established by Ridley in Victoria.

# CENTRAL VICTORIAN FEEDMILL



- ✓ New poultry and pig feed mill announced in September 2017, with land acquisition under contract and planning approval process well underway.
- ✓ Underpinned by 10 year supply agreement with Hazeldene's Chickens, with capacity to facilitate retirement of existing Bendigo mill and accommodate regional growth.
- ✓ At >350,000t capacity, significantly the largest feedmill in the Ridley portfolio, using state of the art technology and mill design.
- ✓ Total capital outlay of \$45-50m with focus on efficiency and low energy footprint.

# TASMANIAN EXTRUSION PLANT



- ✓ New state of the art Extrusion Plant announced in January 2017, with land acquisition completed.
- ✓ All development approvals received January 2018; commence on site in March 2018.
- ✓ World class extrusion facility to service all aquafeed species, to target new and returning salmon customers & industry growth, and expand in-house pet food capability.
- ✓ Salmon production to transfer to Tasmania - improved supply chain, lead times, collaboration and diet testing capability.
- ✓ 50,000t annual capacity on 5 day shift structure with on site bulk storage.
- ✓ Total capital outlay of \$45-50m supported by existing supply contracts, FY17 restructure of aqua-feed and pet food operations, and future growth opportunities.

## ❑ **Novacq™ Australia**

- ✓ optimise dewatering and drying process using preferred technology solution;
- ✓ increase power supply to improve aeration and optimise pond yield;
- ✓ establish pricing model for 2018 Australian growing season based on 2017 profit share results; &
- ✓ continue to improve diet to determine ideal ingredient mix and Novacq™ inclusion rates.

## ❑ **Novacq™ Thailand**

- ✓ secure 36 additional ponds for Phase 2 expansion of production capacity from current 14 ponds; &
- ✓ utilise recently received Thai Board of Investment approvals to acquire land and commence construction of on-site blending facility.

## ❑ **Thailand feedmill**

- ✓ develop engineering plan to install new pellet press at JV feedmill to increase capacity to 55kt; &
- ✓ identify target customers & develop strategy for local & export sales of prawn & fin fish feed.

## ❑ **CSIRO alliance and licence**

- ✓ establish bioassays to test the extent of bioactivity;
- ✓ understand spectrum of activity and mechanisms for prawn growth;
- ✓ develop a timetable and strategy to target other species; &
- ✓ identify and select another country in which to extend Novacq™ production and commence registration and approval process as required under the Licence Agreement.

- ❑ **Lara feedmill** - Commercial Feed team to execute plan to secure new poultry and pig volume based on customer value proposition for the region and world class facility.
- ❑ **New plant and feedmill** - construction of the new Tasmanian Extrusion Plant to commence next month and Central Victorian poultry & pig feedmill expected to commence construction in 2H.
- ❑ **Innovation** - continue to pursue opportunities to introduce novel feed ingredients through a process of innovation e.g. by developing new processes to extract higher value products from the existing raw material supply, and securing the accreditations and introducing product segregation in order to access higher value export and niche markets.
- ❑ **Novacq™** - prove the value of the Novacq proposition to domestic customers over the Australian growing season in preparation for a targeted commercial launch from 1 July 2018. Develop the sales and pricing strategy for Thailand and expand production capacity.
- ❑ **Thailand feedmill** - (i) establish a customer base in Chanthaburi and other prawn growing regions of Thailand, & (ii) having recently secured the requisite accreditation, develop a network of export prawn, fin fish and other markets, each using Ridley diets and feed produced locally at the JV interest feedmill.
- ❑ **CSIRO alliance** - effectively manage the activities conducted to generate the maximum return in pursuit of the agreed objectives, namely to maximise the development of existing crustacean and new species Novacq™ applications.

# CONTACT DETAILS

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