

# RIDLEY CORPORATION LIMITED

INVESTOR PRESENTATION – HALF YEAR ENDED 31 DECEMBER 2018



- Sales of Yamba-produced Novacq™-inclusive feed for domestic growing season.
- All 14 ponds of Thailand Novacq™ production facility operational by period end.
- Strong Ruminant result with sales volume increases in sustainable core business and drought related beef and sheep.
- Poultry volumes on target (noting the October 2018 expiry of the Ingham's supply agreement for Murray Bridge, SA).
- Improved Laverton intake partly offset by higher prices paid to secure raw material in a highly competitive supply market.
- Increase in Packaged Products volumes offset by high raw materials prices.
- A traditional dry season produced a strong first half year result for Supplements.
- Capital works for new extrusion plant in Tasmania on track for Q4 commissioning.
- Final approvals received to proceed with new feedmill for Central Victoria.
- Property segment recorded a net pre-tax profit of \$6.4 million following two property sales at Lara.

# FINANCIAL HIGHLIGHTS



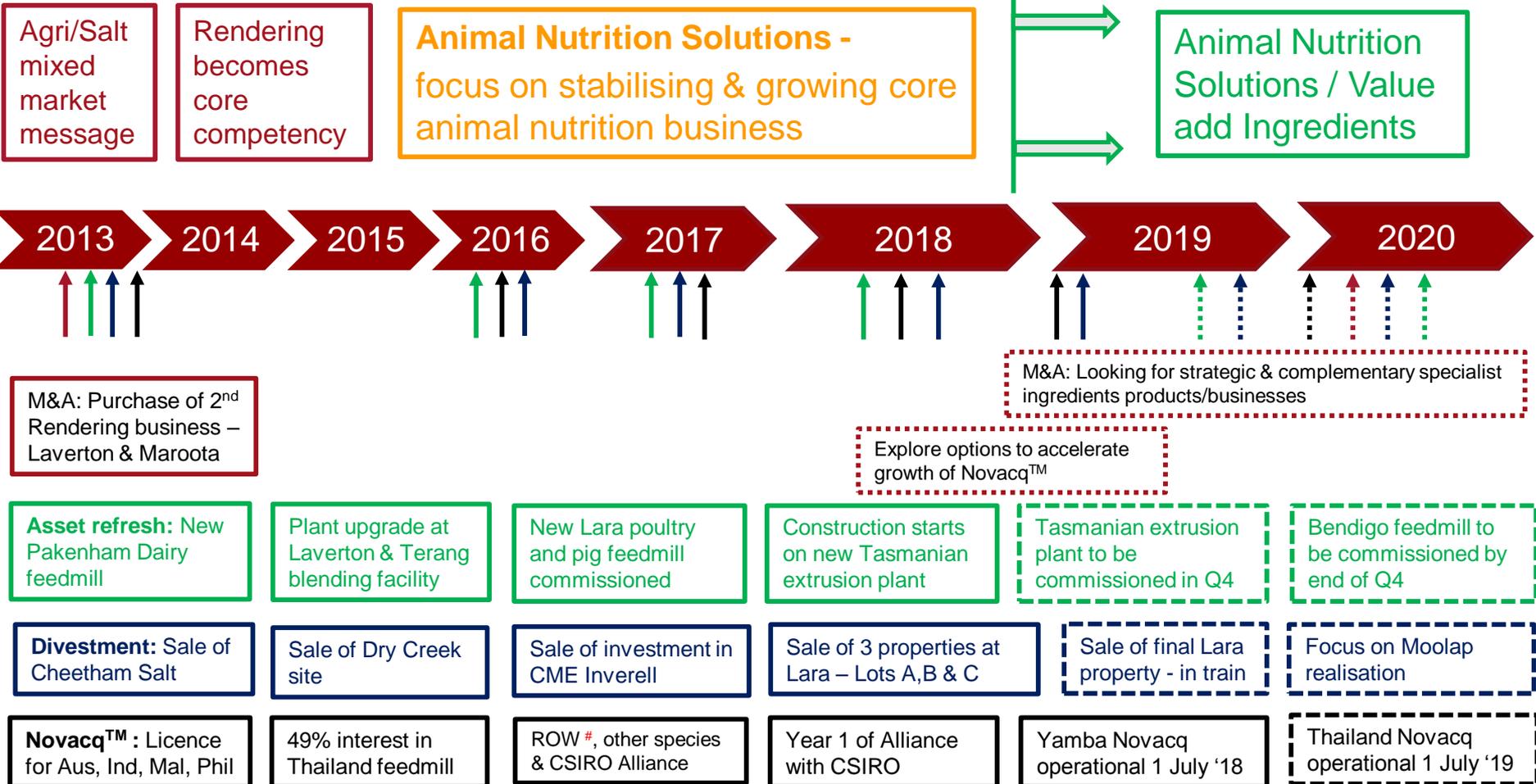
<b>Consolidated result - in \$m</b>	<b>1H FY19</b>	<b>1H FY18</b>	<b>1H FY17</b>	<b>FY18</b>	<b>2H FY18</b>	<b>FY17</b>
<b>EBIT - Operations</b>	<b>21.5</b>	<b>22.8</b>	<b>22.9</b>	<b>43.3</b>	<b>20.5</b>	<b>45.8</b>
Property Revenue/(Costs)	6.4	0.3	(0.5)	4.2	3.9	(1.0)
Corporate Costs	(5.7)	(4.8)	(4.8)	(9.5)	(4.7)	(9.9)
Net Finance Expense	(2.4)	(2.3)	(2.6)	(4.6)	(2.3)	(5.0)
Tax Expense	(3.7)	(3.5)	(4.4)	(7.8)	(4.3)	(7.3)
<b>Net operating profit before non-recurring items</b>	<b>16.1</b>	<b>12.5</b>	<b>10.6</b>	<b>25.6</b>	<b>13.1</b>	<b>22.6</b>
Non-recurring revenues/ (costs)	-	-	3.5	(8.2)	(8.2)	3.2
<b>Net profit</b>	<b>16.1</b>	<b>12.5</b>	<b>14.1</b>	<b>17.4</b>	<b>4.9</b>	<b>25.8</b>
Other comprehensive income - post tax	(0.4)	-	-	0.5	0.5	-
	<b>15.7</b>	<b>12.5</b>	<b>14.1</b>	<b>17.9</b>	<b>5.4</b>	<b>25.8</b>

- ❑ **Ridley Operations** - half year EBIT result of \$21.5m achieved.
- ❑ **Property** - reflects two Lara property sales reported in July 2018 for gross proceeds of \$9.5m, a pre-tax profit of \$6.8m, and deferred interest receivable of \$1.4m.
- ❑ **Corporate costs** - consistent with prior year after deducting legal proceedings costs of \$800k.
- ❑ **Post-tax operating & property result** - up \$3.6m to \$16.1m.
- ❑ **Other comprehensive income** - \$0.4m post-tax loss reflects mark to market of Available for sale financial asset.

The Directors believe that the presentation of the unaudited non-IFRS financial information on this slide 3 is useful for shareholders as it reflects the significant movements in operations and cash flows of the business.

# OPERATIONS

# RIDLEY JOURNEY



# Excludes China and Vietnam already licensed

- ❑ **EBIT result for agribusiness of \$21.5m** - Dairy, Beef and Sheep, Supplements and Laverton Rendering all enjoyed growth in the period. The cessation of Maroota Rendering raw material supply from Red Lea in April 2018 will take time to replace.
- ❑ **Poultry** - positive volume growth recorded in core customer base after allowing for expiry of Ingham's supply agreement, which is reflective of increasing bird numbers and steady growth in consumer demand.
- ❑ **Pig** - the industry has recovered from its oversupply issues but is suffering from the impact of high grain and feed prices which are causing widespread distress for farmers, the knock on effect for Ridley being a contraction of pig volume by 14,000 tonnes (kt).
- ❑ **Ruminant** - Dairy has been the real success story for the half year with good growth and solid margins, boosted by opportunistic beef and sheep volumes in drought affected areas of the country.
- ❑ **Aquafeeds** - sales volumes were 3,000 tonnes up on the prior year, softened by a slowing of demand in December 2018 and increases in energy, labour and mill cleaning costs. Prawn and other fin fish volumes were consistent with the previous corresponding period.
- ❑ **Rendering** - a combination of improved plant performance and higher Laverton red meat raw material input volumes contributed to positive earnings growth for the site, while the new revenue stream initiatives at Maroota to replace the loss of Red Lea poultry raw material started to gain traction.
- ❑ **Packaged Products** - margins were squeezed by the lag in passing through the high raw material price rises which warranted a 20% price rise in November 2018. Aggregate sales volumes rose for the first time in several years to vindicate the marketing and product refresh strategies.
- ❑ **Supplements** - the return to a more traditional dry season in northern Australia positively impacted Dry Season block sales and restored the business unit to profitability.
- ❑ **Energy** - energy costs continue to challenge the business and have risen in excess of \$2.6m from the previous corresponding period.

# SECTOR VOLUME HISTORY – IN '000 TONNES



Sector	FY19 1H	FY18	FY17	FY16	FY15	FY14	FY13	FY12	FY11	FY10	Long term Industry Outlook
Poultry	576	1,207	1,155	1,044	1,013	1,019	872	933	900	764	↑
Aqua-feed	19	32	35	54	65	50	42	47	50	47	↑
Packaged	40	75	75	78	83	90	90	85	84	90	↑
Dairy	117	260	226	284	291	275	251	260	236	215	↑
Pig	81	186	193	177	168	178	184	197	224	325	↑
Rendering	84	159	159	193	184	171	93	34	9	-	↑
Beef & Sheep	41	57	32	41	36	58	46	26	24	35	→
Supplements	17	20	11	20	15	21	22	22	22	30	→
Other	44	55	46	44	47	32	35	46	44	64	→
<b>Total Tonnes</b>	<b>1,019</b>	<b>2,051</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>	<b>1,570</b>	

# NOVACQ™

- Establish product efficacy
- Scale up Australian production
- Commercialise in Australia
- Develop Australian sales price strategy
- 100% prawn farmer penetration in Australia
- Scale up Thailand production
- Commercialise in Thailand
- Establish corporate structures in selected overseas countries
- Secure import approval for Australian and Thai Novacq
- Identify potential partners for overseas expansion



- ✓ First commercial sales of Novacq™-inclusive feed achieved in the period.
- ✓ Ongoing process of continuous improvement to further improve yield and drive down the cost of production.
- ✓ Further increase in power supply is being scoped to improve aeration and product yield.
- ✓ Dewatering and drying solution onsite and currently being commissioned.



Yamba aerial of 2 active ponds plus overflow pond



Prawn feed with Novacq™



Dryer

- ✓ **Ten year lease** - 14 former prawn ponds now converted and all producing Novacq™.



- ✓ **Dewatering and Drying** - working through approval process to locate the dewatering and drying equipment within the feedmill.
- ✓ **Pond testing** - dedicated pond established with 48 test cages plus 6 IBC's for further testing
- ✓ **Tank testing** - conducting series of tank tests at accredited third party facility, including disease challenges.



## CSIRO ALLIANCE

- ✓ Management Committee and Science & Operational Committee - both fully functional, with regular meetings, agendas, minutes and venue rotations.
- ✓ CSIRO - Bribie Island providing trial populations and undertaking test program. Clayton bioreactor has on-grown Novacq™ in 2 litre and 50 litre facility.
- ✓ Work Package (WP) 1 - to increase timeliness and precision of bioactivity predictions from the Novacq™ production facilities: good progress made to establish a process to test the level of Novacq™ bioactivity and mineral composition on a timely basis.
- ✓ Initial tilapia and poultry trials conducted with improvement opportunities identified for next testing phase on both species plus pig trial protocols agreed and location confirmed.

## OPTIONS TO ACCELERATE NOVACQ

- ✓ On 25 May 2018 Ridley announced exploration of options to accelerate the growth of Novacq™ into new markets, including the option of third party investment
- ✓ Expansion involves acquisition of production land in Thailand, pond conversion, equipment purchase and installation.
- ✓ Announceable outcome expected before the end of FY19 but no assurance that any acceptable offers will result in any transaction being agreed.

# CONSOLIDATED FINANCIALS

# BALANCE SHEET - ASSETS



Balance Sheet - in \$m	Dec 2018	June 2018	June 2017	June 2016	June 2015
Cash & equivalents	17.1	23.4	16.5	28.5	35.0
Inventory	80.9	76.7	83.7	87.7	81.7
Receivables	117.6	104.0	116.2	112.3	101.0
Assets held and available for sale	1.9	1.1	-	-	34.1
Other - tax asset	2.2	3.0	0.4	-	-
<b>Total Current Assets</b>	<b>219.7</b>	<b>208.2</b>	<b>216.8</b>	<b>228.5</b>	<b>251.8</b>
Investment property	1.3	1.3	3.2	3.1	3.2
<b>P,P&amp;E</b>	<b>225.0</b>	<b>202.6</b>	<b>182.8</b>	<b>160.2</b>	<b>139.5</b>
Investments - equity accounted	1.0	1.1	1.3	3.7	2.3
Available for sale	-	2.3	1.3	-	-
<b>Intangibles</b>	<b>82.5</b>	<b>82.5</b>	<b>79.3</b>	<b>76.4</b>	<b>78.2</b>
Non-current Receivables	12.6	8.6	0.8	5.5	-
Other non-current assets - deferred tax	4.6	3.6	5.1	7.4	1.5
<b>Total Assets</b>	<b>546.7</b>	<b>510.3</b>	<b>490.6</b>	<b>484.8</b>	<b>476.5</b>

- ❑ **Cash and cash equivalents** - closing balance is a function of timing of receipts/payments and draw down/repayment of bank funding.
- ❑ **Inventory** - reflects raw material grain prices >\$100 per tonne higher than as at 30 June 2018
- ❑ **Receivables** - movement reflects traditional rise at half year and increased sales values derived from raw material prices.
- ❑ **Assets held for sale** - comprises sole residual Lara surplus land holding under purchase option agreement of \$0.2m.
- ❑ **Available for sale financial assets** - movement reflects the \$0.6m mark to market period end write down to \$1.7m of the 1.2% interest in a UK-listed specialist ingredients business and reclassification to current asset.
- ❑ **Investment property** - residual balance of \$1.3m comprises 100% Nelson Cove project land at Moolap.
- ❑ **P,P&E** - movement comprises new extrusion plant in Tasmania (\$19.8m) plus \$10.7m of other capital projects.
- ❑ **Investments equity accounted** - investment in Thai feedmill with movement reflecting Ridley's 49% share of loss for the half year.
- ❑ **Intangibles** - reflects the capitalisation of non-P,P&E activity at Yamba and Chanthaburi offset by amortisation.
- ❑ **Non-current receivables** - includes NPV of deferred sale proceeds for sales of Lara Lots A,B and C reported in June and July 2018.

# BALANCE SHEET - LIABILITIES



Balance Sheet - in \$m	Dec 2018	June 2018	June 2017	June 2016	June 2015
Current payables	155.9	155.9	148.6	145.9	158.7
Current provisions	14.7	14.6	13.5	12.9	12.7
Current tax liabilities	-	-	-	8.3	7.1
Non-current borrowings	106.3	76.2	68.1	69.4	67.7
Non-current Provisions	0.5	0.5	0.6	0.5	0.5
<b>Total Liabilities</b>	<b>277.4</b>	<b>247.2</b>	<b>230.8</b>	<b>237.0</b>	<b>246.7</b>
<b>Net Assets</b>	<b>269.3</b>	<b>263.1</b>	<b>259.8</b>	<b>247.8</b>	<b>229.8</b>

- ❑ **Payables** - reflects timing of creditor payments within agreed terms.
- ❑ **Tax** - period end tax receivable after finalisation of 2018 income tax return and instalment payments made in the period.
- ❑ **Borrowings** - \$30.1m increase reflects draw downs to fund construction of new Tasmanian extrusion plant plus timing differences within components of working capital and cash balance offset.
- ❑ **Net debt** - net debt of \$89.2m, an increase of \$36.4m compared to \$52.8m at 30 June 2018 (calculated after offsetting cash & cash equivalents).
- ❑ **Issued capital** - no changes in any of the last five years.
- ❑ **Reserves** - final dividend maintained at 2.75cps paid on 31 October 2018, franked to 100%.

<b>Consolidated Cash flow - in \$m</b>	<b>FY19 1H</b>	<b>FY18</b>	<b>FY17</b>	<b>FY16</b>	<b>FY15</b>
<b>Consolidated group EBITDA #</b>	<b>24.5</b>	<b>43.7</b>	<b>54.4</b>	<b>61.1</b>	<b>51.0</b>
<b>Movement in working capital</b>	<b>(15.0)</b>	<b>15.3</b>	<b>(2.6)</b>	<b>(19.3)</b>	<b>7.0</b>
Maintenance capex	(6.8)	(15.1)	(14.2)	(14.9)	(12.8)
<b>Operating cash flow</b>	<b>2.7</b>	<b>43.9</b>	<b>37.6</b>	<b>26.9</b>	<b>45.2</b>
<b>Development capex</b>	<b>(23.7)</b>	<b>(21.1)</b>	<b>(19.6)</b>	<b>(19.3)</b>	<b>(20.6)</b>
Payment for Intangibles	(1.1)	(4.3)	(3.6)	(0.7)	(0.4)
Net capital return / cash dividends	(8.4)	(12.9)	(12.2)	(10.6)	(10.6)
Net proceeds from sale of assets	1.5	7.2	13.5	22.0	3.5
Payment for Investments	-	(1.8)	-	(1.3)	-
Net finance expense	(2.7)	(4.6)	(5.5)	(5.4)	(4.9)
Net tax (payments)/refund	(3.8)	(5.9)	(14.7)	(13.9)	(4.3)
Other net cash outflows	(0.9)	(1.6)	(6.0)	(6.1)	(4.3)
<b>Cash in/(out) flow for the year</b>	<b>(36.4)</b>	<b>(1.2)</b>	<b>(10.5)</b>	<b>(8.4)</b>	<b>3.6</b>
<b>Opening net debt as at 1 July</b>	<b>(52.8)</b>	<b>(51.6)</b>	<b>(41.1)</b>	<b>(32.7)</b>	<b>(36.3)</b>
<b>Closing net debt</b>	<b>(89.2)</b>	<b>(52.8)</b>	<b>(51.6)</b>	<b>(41.1)</b>	<b>(32.7)</b>

- # Consolidated group EBITDA of \$24.5m excludes \$6.8m profit on disposal of 2 Lara properties.
- ❑ Increase in working capital reflects the impacts of higher raw material prices.
- ❑ \$23.7m Development capex includes \$19.8m of construction cost for new extrusion plant in Tasmania, plus \$3.9m of other development project activity.
- ❑ 2.75cps final 2018 cash dividend paid, fully franked.
- ❑ \$1.5m of Lara property sale proceeds received with \$8.5m balance as deferred consideration receivable.
- ❑ 31 December 2018 tax position is a refund received after period end.

The Directors believe that the presentation of the unaudited non-IFRS financial information on this slide 15 is useful for shareholders as it reflects the significant movements in operations and cash flows of the business.

# PROPERTY

## LARA

- Sale of Lots A & C for aggregate proceeds of \$9.5m in July 2018, generating \$6.8m of profit before tax plus \$1.4m of deferred interest receivable, to be released to profit and loss over the coming three years.
- Lot D under option agreement for land-based aquaculture purchaser to acquire by 30 June 2019 for \$1.5m subject to positive due diligence outcome.
- Sale of Lot D would complete divestment of Lara assets for total proceeds of \$17.1m.

## MOOLAP

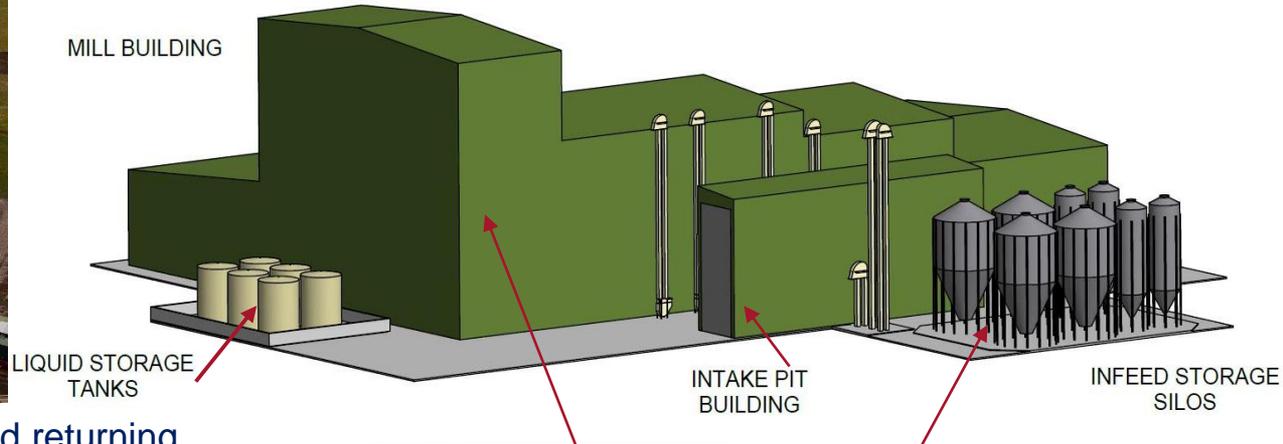
- No meaningful progress to report for the year. No discernible change following re-election of Victorian Labour Government with significant majority.



# OUTLOOK

- ❑ **Poultry and Pig** - our Commercial Feeds team is working to generate new sales customers and feed volumes in an industry which has maintained its positive long term outlook for many consecutive years. Ridley's growth prospects will be boosted by the new 350kt capacity feedmill in Central Victoria, for which the major construction contracts are now in place at the date of this report. As a price taker, the Pig industry will continue to grapple with the high grain and feed prices.
- ❑ **Ruminant** - the watch outs for the Dairy sector continue to be the high price of raw materials relative to the milk price paid to the farmer and the availability of on farm forage. A pull back from the first half year highs is expected but with the prospect of a strong full year result. Beef and sheep volumes driven high on the first half year through the drought conditions have started to soften in the second half year.
- ❑ **Aquafeed** - Aquafeed is assisting a number of customers in addressing their production and animal welfare issues, with the prospect of incremental second half year sales for Ridley based on successful outcomes from this work. The salmon feed trials being conducted with Tassal will continue through to December 2020 while Ridley has been appointed as feed supplier for Tassal's recently-acquired Australian prawn farms. The new extrusion plant in Tasmania is expected to be commissioned in Q4 with salmon feed volumes to be transitioned from Narangba accordingly.
- ❑ **Rendering** - the red meat raw material supply outlook for Laverton is positive, with plant efficiency and segregation of higher value raw material intake a continuing focus. Maroota is progressing the previously reported initiatives (rendering whole mackerel and whole birds, stabilising raw material) plus the high value Poultry Protein Concentrate (PPC) product and a new intake line for salmon offal generated from sushi outlets. We have recently secured the IFFO Global Standard for Responsible Supply for the rendered mackerel product.
- ❑ **Packaged Products** - margins were affected during the half year by escalating raw material prices, and this necessitated a regimen of price rises. The Marketing team is continually examining the value proposition and market positioning of Ridley's branded products in order to optimise sales mix, and store coverage and presence. A focus for the coming six months is to boost sales of equine and canine products.
- ❑ **Supplements** - first half year profitability was strong, driven by a favourable dry season. Performance for the next six months will be strongly influenced by the wet season weather pattern and from the demand for magnesium capsules.

# EXTRUSION PLANT AT WESTBURY, TASMANIA



- ✓ Spare capacity to target new and returning customers & industry growth.
- ✓ Salmon production to transfer to Tasmania - improved supply chain, lead times, diet testing capability & customer collaboration.
- ✓ Extrusion capacity for Petfood & Aquafeed.
- ✓ 50,000t annual capacity on 5 day shift structure.
- ✓ Total capital outlay of c.\$50m supported by existing supply contracts and FY17 restructure of Aquafeed
- ✓ On target for commissioning in Q4 FY19.





- ✓ Site secured, development approvals obtained, project kicked off on 17 Dec 2018.
- ✓ Contracts tendered and placed for equipment supply and installation, mills, presses, liquid tanks, weighbridge and power supply.
- ✓ Underpinned by 10 year supply agreement with Hazeldene's Chickens.
- ✓ At >350,000t capacity for poultry and pig, significantly the largest feedmill in the Ridley portfolio, able to accommodate regional growth in livestock.
- ✓ Total capital outlay of \$45-50m with focus on efficiency and low energy footprint using state of the art technology and mill design.

## ❑ **Novacq™ Australia**

- ✓ First year of commercial operation commenced on 1 July 2018, one year ahead of original 5 year timeline;
- ✓ Increase electrical power supply to the site to improve aeration and product yield;
- ✓ Implement and refine dewatering and drying process;
- ✓ Establish pricing model beyond the current 2018/19 Australian growing season; and
- ✓ Continue to experiment with diet formulation and to improve bioactive content and pond yield.

## ❑ **Novacq™ Thailand**

- ✓ Secure additional ponds for Phase 2 expansion of production capacity from current 14 ponds;
- ✓ Install and implement dewatering and drying equipment;
- ✓ Commence sales to local and overseas customers of Novacq™-inclusive trial feed; and
- ✓ Prepare for anticipated 1 July 2019 commercial go-live.

## ❑ **Thailand feedmill**

- ✓ Implement strategy to secure local and export sales of prawn and fin fish feed.

## ❑ **CSIRO Alliance and licence**

- ✓ Continue with Work Package 1 to establish bioassays to test the extent of bioactivity and understand spectrum of activity and mechanisms for prawn growth; and
- ✓ Conduct initial series of poultry, pig and fin fish trials.

- ❑ **Poultry** - Commercial Feed team to execute the plan to secure new poultry and pig volume based on customer value proposition.
- ❑ **New extrusion plant and feedmill** - commission the new Tasmanian extrusion plant in Q4 and be well advanced in construction of new Central Victorian poultry and pig feedmill by FY19 year end.
- ❑ **Innovation** - continue to pursue opportunities to introduce novel and value-adding feed ingredients through a process of innovation and/or acquisition.
- ❑ **Novacq™** - conclude the project to explore options to accelerate the growth of Novacq™, including the option of third party investment.
- ❑ **Thailand feedmill** - maintain the focus on establishing a network of domestic fin fish and overseas prawn and fin fish markets using Ridley diets and feed produced locally in Chanthaburi.
- ❑ **CSIRO Alliance** - maintain focus on reaching positive conclusion to Work Package 1 as a platform for identification of the relevant characteristics and the selection process for targeting Novacq™ applications in other species.
- ❑ **Capital management** - to maintain dividend returns to shareholders and concurrently construct two new plants, the Board has reinstated the Dividend Reinvestment Plan effective for the interim dividend payable on 30 April 2019.

# CONTACT DETAILS

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