ASX Announcement
6 February 2018

Wellard Releases H1 FY2018 Financial Results

Highlights

- **Operating EBITDA[1] positive at $8.9 million, a $14.2 million turnaround**
- **Net loss after tax of $7.5 million, a $10.4 million improvement on 1HFY17**
- **'Costs Out' program achieves $7.9 million reduction in total operational expenses and is ongoing**
- **Increased demand for charter vessels out of South America, but competition increasing**
- **Focus on converting lower administrative costs and revitalised marketing effort into a compelling customer proposition**

Wellard Ltd (ASX:WLD) (**Wellard** or the **Company**) advises that improved vessel utilisation and a successful costs out program has enabled the Company to book a positive operating EBITDA[1] of $8.9 million for the first half of FY18 (**1HFY18**), a $14.2 million turnaround on the negative $5.3 million operating EBITDA[1] in the prior corresponding period.

The Company recorded a net loss after tax of $7.5 million for 1HFY18, a $10.4 million improvement on the $17.9 million loss for the prior corresponding period. EBITDA[2] was $8.0 million.

Revenue was down by 41.9% to $163.7 million, reflecting the higher mix of ship charters in 1HFY18 compared to the prior corresponding period.

> "*Wellard's financial performance has improved during the first half of financial year 18 but there are still challenges ahead"* said Wellard Executive Director Operations, Fred Troncone.
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> *"We improved our gross margin by 167.2% to 15.5% and reduced our operational expenses by 31.3%, which improved our operating cashflow and helped to reduce our debt. However, there is still more work to do.*
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> *"The biggest change to our operations in the past six months came as a result of the Company taking advantage of chartering opportunities for our large, modern vessels onto the South America to Mediterranean route while using small vessels to retain*

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[1] Operating EBITDA equals EBITDA less non-recurring expenses. Non-recurring expenses during 1HF18 were $0.9 million (1HFY17: $3.6 million).
[2] EBITDA equals loss from continuing operations before income tax less depreciation and amortisation expenses less net finance costs less other gains (losses).

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longstanding customers in a very competitive, low margin South East Asian market, with a resultant decrease in market share in the second quarter.

"Our costs out program delivered savings of $7.9 million in the first half of the year and we are expecting to exceed our full year target of $10 million in annual overhead savings.

"It was pleasing that a higher proportion of voyages in the first half delivered a positive margin. The key now is getting our overall costs right, so the positive margin voyages translate into cash generation for the business and make our vessels more competitive in the external charter market.

"When the time is right we also need to return to higher margin trading contracts, *which deliver a trading margin as well as transport margin*."

Key elements of the 1HFY18 results relative to 1HFY17 results are as follows:

	1HFY18	Prior Period*
Revenue	$163.7m	$281.9m
Gross profit	$25.3m	$16.3m
Operating EBITDA[3]	$8.9m	($5.3m)
EBITDA	$8.0m	($8.9m)
Net loss after tax	($7.5m)	($17.9m)
Net assets	$122.1m	$131.2m
Cash on hand	$12.2m	$33.0m

* Prior period is 1HFY17, except for net assets and net cash which is 30 June 2017.

Operations

During the first six months of FY18 Wellard completed its first shipment of beef steers for processing to China. The shipment of approximately 2,000 cattle performed well and was positively received by the customer.

Wellard also shipped a second consignment of dairy heifers, from Portland, Victoria, to Sri Lanka, as part of the Company's long-term contract with the Sri Lankan Government's Ministry of Rural Economy.

In total, Wellard vessels performed 20 voyages in the first six months of FY18.

The number of cattle exported by the company fell by 46% as both of the Company's larger vessels were chartered out to third parties for long haul voyages outside of Australia. Also, and in line with the Company's strategic decision to match shipping capacity to market demands, the size of the Wellard fleet was reduced by the sale of the M/V Ocean Outback in July 2017.

[3] Operating EBITDA equals EBITDA less non-recurring expenses. Non-recurring expenses during 1HF18 were $0.9 million (1HFY17: $3.6 million). EBITDA equals loss from continuing operations before income tax less depreciation and amortisation expenses less net finance costs less other gains (losses).

Sheep processing volumes in the Company's abattoir were down 27% on the prior corresponding period due to restricted supply and high prices, however that trend eased later in the half, leading to improved profitability in the final two months of the calendar year.

As part of Wellard's 'Costs Out' program, the number of full time staff in the Company's South American operations was reduced to key management positions, and cattle will be sourced through contractors who can provide a buying and aggregation service more cost-effectively. These changes have also enabled the closure of the Brescia (Italy) office and a further reduction in full time staff numbers.

Balance Sheet

Wellard finished 1HFY18 with assets of $293.1 million (FY17: $360.6 million) and liabilities of $171.1 million (FY17: $229.7 million).

The reported financial results caused breaches of Wellard's banking covenants and the terms of its convertible notes on 31 December 2017, requiring the Company to continue categorising all long-term debt as a current liability, regardless of tenure. Loans and borrowings of $123.2 million in the absence of these breaches would have otherwise been classified as non-current liabilities as they are due to mature beyond 12 months from balance date. As in the past, the Company has requested and expects to receive waivers for all covenant breaches that occurred on or up to 31 December 2017. The Group made all payments due under its working capital facility and ship financing facilities during the period.

Cashflow

Cash as at 31 December 2017 reduced by $20.9 million to a balance of $12.2 million. This was primarily due to debt repayments, with net debt reducing by $22.6 million to $136.6 million.

Outlook

Mr Troncone said that while it was pleasing that Wellard was able to post improved results in the first half compared to the prior corresponding period, market conditions remain challenging for the second half of the financial year. While there are some early signs of minor improvements in selected markets, strong competitive pressures will continue to require sustained effort to claw back market share in the Company's traditional markets and profitability.

> *"Demand for live cattle from countries in the Mediterranean, including Turkey, continues to be strong and we expect that a significant proportion of these will continue to be sourced from South America. We are seeing more shipping capacity being diverted into servicing these markets which creates greater competition, but we are receiving a good level of inquiry for our high quality vessels which importers recognise produce improved animal welfare and commercial outcomes.*
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> *"The number of inquiries for live sheep delivered to Middle Eastern markets is also increasing, which is also suited to Wellard's fleet profile. In the December quarter the company renewed its marketing efforts in the Middle East which resulted in a charter being signed in January for a large vessel from Australia into the Arabian Gulf. The Company has since received further inquiries for other voyages into the region.*

“Live export from Australia continues to be challenging, however, the price of heavy cattle is trending downward. The eastern young cattle indicator for January 2018 is about 15% lower than the corresponding period last year. This improvement has opened opportunities for small shipments of heavy cattle to China, which we expect will gradually increase as quarantine and processing infrastructure in coastal China develops, and assuming that Australian livestock prices remain attractive. We were pleased with our first shipment of slaughter cattle to China in November 2017 and we have since received inquiry for further shipments. Negotiations commenced in the December quarter have resulted in Wellard securing a contract to supply a large shipment of 10,000 breeding cattle to China before financial year end.

“Shipments into Vietnam and Indonesia which are Wellard's traditional markets continue to deliver tight margins. Although the price of heavy (slaughter-ready) cattle has eased, this is partly offset by the appreciation of the Australian dollar to approximately US80c. The supply and price response at the end of the northern Australian wet season will be an important determinant of the profitability and size of our Australian operations for the remainder of the financial year.”

The Company’s ‘Costs Out’ program continues and remains on target.

“We are pleased with what the Company has been able to achieve with the reduction of overheads and expect to be able to exceed our target of a $10 million reduction in overheads in the financial year.” Mr Troncone said.

“With a lower administrative cost base and a renewed marketing effort across all main livestock demand centres, Wellard is better positioned to make compelling and more competitively priced offers across shipping charters and livestock trades.”

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