ASX Announcement
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Wellard Releases FY2018 Financial Results

Wellard Ltd (Wellard, ASX:WLD) has reported a significantly improved financial performance for the 2017/18 financial year as it continues towards a return to positive reported earnings.

Wellard achieved an EBITDA[1] of $9.9 million in FY2018, which was a $32.2 million improvement on the EBITDA loss of $22.3 million in FY2017. Net Loss After Tax was $36.4 million, a $38.9 million improvement on the $75.3 million loss in FY2017.

Wellard Executive Chairman John Klepec said the trend was better, but reporting a loss was unacceptable.

“The Board, staff and management are committed to returning Wellard to profitability. We are heading in the right direction, but there is still more work to be done,” Mr Klepec said.

Two significant factors impacted on Wellard’s financial performance during the year.

Firstly the ‘cost out’ program announced by Wellard in 2017 targeted a $10 million reduction in year on year operating and administration expenses in FY2018. That program has been very successful with expenses reducing by 24.1% in 2018, a saving of $17.3 million in FY2018.

Secondly, vessel utilisation, which is an important contributor to the Company’s financial performance, was below budget. This was due to the default of a long-term charter of three long-haul voyages on the MV Ocean Shearer in the third quarter and overall sustained difficult market trading conditions.

Total revenue booked by the Company was $291.1 million, a 41.5% reduction on the $497.9 million revenue recorded in FY2017. This was largely driven by the increase in chartering activity, which in turn reduced the number of cattle and sheep bought and sold by the Company, and therefore the revenue it records.

Of the Company’s shipping capacity, 70.0% was utilised on external charter voyages in FY2018, compared to just 15.6% in FY2017.

This contributed to a 44.9% increase in gross profit from $27.6 million in FY2017 to $40.0 million in FY2018.

[1] EBITDA equals loss from continuing operations before income tax, less depreciation and amortisation expenses, less net finance costs, less other gains/(losses) arising from other activities, less impairment expense.

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Wellard's operating cashflows before interest improved from an outflow of $10.7 million in FY2017 to operating cash inflows of $7.7 million in FY2018.

	FY2018	FY2017
Revenue	$291.1m	$497.9m
Gross Profit	$40.0m	$27.6m
EBITDA[1]	$9.9m	$(22.3)m
NPAT	$(36.4)m	$(75.3)m

Balance Sheet

Wellard improved a number of key balance sheet metrics in FY2018. Net debt reduced from $143.3 million to $136.6 million, interest cover ratio improved from (2.2):1 to 1:1 and its total loan to total asset book value decreased from 76.4% to 70.1%.

However, FY2018 net assets reduced from $131.2 million to $101.5 million, with the impairment of the Company's previous MV Ocean Kelpie progress payments contributing to approximately half of that change.

Despite the improvement in a number of areas, Wellard was in breach of banking covenants at 30 June 2018. As a consequence, all of Wellard's long-term debt was required to be classified as being current. As in prior years, the Company is in discussions with respect to waivers of covenant breaches on its debt facilities. Wellard is working closely with its financiers and to date has maintained a good relationship while engaging with them to obtain the necessary waivers.

The Company therefore does not expect all of its debt will be payable in the current financial year but rather as per the original maturity terms of the relevant agreements.

Improving Wellard's balance sheet and working capital requirements are two principal areas of board focus.

Strategy and Outlook

The improved trading results the Company had achieved in the fourth quarter of FY2018 are expected to flow through to the first quarter of FY2019.

Consistent with its refocused strategy, Wellard has already contracted a significant percentage of its fleet out to third party charterers, which provides the company with greater earnings visibility and security.

As the year progresses, the team will place emphasis on securing contracts for the remainder of the year, with the objective of reducing risks on the bulk of the Company's voyages.

Climatic conditions across northern Australia will have a large bearing on cattle supply and trading margins available to exporters in various markets, and therefore on Wellard's ratio of exporter/charter voyages.

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At the same time, it is important to note that Wellard has developed a loyal customer base in South East Asia, which the Company will continue to service.

"The Company is adopting a more opportunistic approach to trading cattle to South East Asia," Mr Klepec said. "When market conditions in Australia and our customer markets enable a trading margin which is superior to the charter of our vessels, then our ratio of exports will increase."

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