

ASX Announcement
20 August 2018

Appendix 4E

Results for Announcement to the Market

This report covers Wellard Limited ABN 53 607 708 190 (**Wellard** or **Company**) and the entities it controlled during the financial year ended 30 June 2018 (**Wellard Group** or **Group** or **Consolidated Group**), for the financial year ended 30 June 2018 (**FY2018**).

The previous corresponding period is the year ended 30 June 2017 (**FY2017**).

A summary of the financial results and key financial items is set out below.

FOR THE YEARS ENDED JUNE	AUD	2018	2017	movement %
<i>Total revenue</i>	<i>(\$m)</i>	<i>291.1</i>	<i>497.9</i>	<i>(41.5)</i>
Trading and charter revenue	(\$m)	249.3	461.8	(46.0)
Processing revenue	(\$m)	41.8	36.1	15.8
<i>Trading and charter revenue</i>	<i>(\$m)</i>	<i>249.3</i>	<i>461.8</i>	<i>(46.0)</i>
Sales revenue ¹	(\$m)	198.9	440.1	(54.8)
Charter revenue ²	(\$m)	46.5	16.7	178.4
<i>Gross profit</i>	<i>(\$m)</i>	<i>40.0</i>	<i>27.6</i>	<i>44.9</i>
Trading and charter gross profit	(\$m)	36.9	23.4	57.7
Processing gross profit	(\$m)	3.1	4.3	(27.9)
<i>Gross margin</i>	<i>%</i>	<i>13.7%</i>	<i>5.5%</i>	<i>149.1</i>
Trading and charter gross margin	%	14.8%	5.1%	192.1
Processing gross margin	%	7.4%	11.9%	(37.7)
<i>Expenses</i>	<i>(\$m)</i>	<i>(76.4)</i>	<i>(102.2)</i>	<i>25.2</i>
Operational expenses ³	(\$m)	(36.3)	(49.3)	26.4
Administrative expenses	(\$m)	(11.4)	(15.7)	27.4
Impairment expenses	(\$m)	(13.9)	(14.0)	0.7
<i>EBITDA⁴</i>	<i>(\$m)</i>	<i>9.9</i>	<i>(22.3)</i>	<i>144.4</i>
<i>Loss from operations before tax</i>	<i>(\$m)</i>	<i>(36.4)</i>	<i>(74.5)</i>	<i>51.1</i>
Trading and charter loss	(\$m)	(26.4)	(60.5)	56.4
Processing loss	(\$m)	(1.5)	(3.4)	55.9

FOR THE YEARS ENDED JUNE	AUD	2018	2017	movement %
<i>Net loss after tax</i>	<i>(\$m)</i>	<i>(36.4)</i>	<i>(75.3)</i>	<i>51.7</i>
Operating cashflows before interest	(\$m)	7.7	(10.7)	172.0
Current ratio (adjusted)⁵	times	1.0	1.3	(22.5)
Interest cover⁶	times	1.0	(2.2)	145.8
Net debt⁷	(\$m)	136.6	143.3	4.7
Debt to capital ratio⁸	%	58.8	57.3	2.6
Net tangible assets	(\$m)	93.1	122.6	(24.1)
Net tangible assets per security	(cps)	17.5	23.1	(24.1)

1. Trading sales is generated from the buying and selling of livestock including related logistics.
2. Charter revenue is generated from the sale of space on the Company's vessels for the carriage of cargo owned by third parties.
3. Operating expenses include operating expenses and other expenses.
4. 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.
5. Current Ratio (adjusted) equals current assets divided by current liabilities (adjusted by deducting loans and borrowings classified as current, although their scheduled due date is after 12 months from balance date).
6. Interest Cover equals EBITDA divided by net finance costs.
7. Net debt equals loans and borrowings less cash and cash equivalents.
8. Debt to capital ratio equals loans and borrowings divided by total equity plus loans and borrowings.

Dividends

No dividend was declared or paid for the financial year ended 30 June 2018 (2017: nil).

Audit status

The Annual Report for the year ended 30 June 2018 has been audited. The FY2018 Annual Report, contains an independent auditor's report which includes an emphasis of matter paragraph in regard to the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Additional disclosure has been included in note 1(c) to the financial statements.

Wellard

The Wellard Group is an agribusiness that connects primary producers of cattle, sheep and other livestock to customers through a global and vertically integrated supply chain. The Wellard Group trades and exports live cattle from Australia, New Zealand and South America, and is a supplier of seaborne transportation for livestock globally.

The Group also exports sheep meat from Australia.

Wellard sources livestock in markets where production is surplus to domestic requirements (including Australia, Brazil and Uruguay) and sells livestock and chilled and frozen meat to customer markets where demand exceeds local production (including Indonesia, Vietnam, the Middle East, Turkey and China).

Wellard charters its ships to third parties and earns freight income by carrying live animals on their behalf.

To support its operations, the Wellard Group owns and/or controls critical and specialist infrastructure at various stages of its supply chain, including strategically located pre-export quarantine facilities, an abattoir, a feed mill, and a fleet of purpose-built livestock transport vessels.

Financial review

BACKGROUND

Wellard has delivered an improved financial result in FY2018.

Net Profit After Tax (NPAT) improved by \$38.9 million on the \$75.3 million loss in FY2017 but was still a loss of \$36.4 million for the financial year.

The 'cost-out' program we announced in FY2017 targeted a \$10 million reduction in year on year operating and administration expenses in FY2018. That program has been very successful with total costs (excluding other gains/losses) reducing by 24.3% in FY2018 (which is on top of a 15.9 reduction in FY2017), so much so that operating, and administration expenses reduced by \$17.3 million in FY2018.

While disciplined cost control is important, the Board recognises that revenue growth is ultimately required to drive shareholder returns.

While Wellard's financial results are an improvement on the disappointing results of FY2017, Wellard is committed to a strategic refocus, to target our livestock and chartering business activities into areas that offer the highest returns for the lowest risk.

On 3 August 2018 it was agreed that a new senior manager should lead its implementation, and the Board announced executive management changes that have resulted in the appointment of Mr John Klepec as interim Executive Chairman.

OPERATIONS REVIEW

The 2018 financial year was a period of significant change for Wellard as the Company worked through difficult trading conditions while preparing itself to seize opportunities as markets recovered. Our back-to-basics approach improved competitiveness through a cost-out program and by refocusing on serving key markets.

The main contributors to the improved earnings in the past year were a reduction in overhead costs, balancing a mix of internally-managed shipments and external charter voyages, and an easing in the price of cattle in Australia in the latter part of the 2018 financial year.

To generate acceptable income while also mitigating trading risks, the Company actively managed its charter levels, chartering a higher percentage of its livestock shipping capacity to external companies. By way of comparison, 70.0% of Wellard's shipping capacity was chartered to third parties in FY2018, versus 15.6% in FY2017.

Indonesia has been Australia, and Wellard's, largest market for a decade, however margins have been pressured in the past two years by imported, frozen Indian buffalo meat substituting the sustained higher priced Australian sourced beef. In response, Wellard relocated both the MV Ocean Drover and the MV Ocean Swagman outside of Australia during the Northern Australian wet season. From May 2018 onwards it was evident that trading conditions were becoming more favourable so the MV Ocean Drover has returned to South East Asian routes.

Wellard significantly reduced its permanent operational and administrative footprint in South America in FY2018, however the Company continues to participate in the trade from this location via the chartering of its vessels to other livestock exporters. The Company has also undertaken selected trading voyages from South America.

A falling Australian dollar, the decline in the number of cattle on feed in Indonesia and the return to a profitable trading environment for Indonesian cattle importers did provide import demand and therefore better live export margins in the last quarter of FY2018.

Throughout the first half of FY2018 the market conditions in Vietnam prompted Wellard's largest importer to reduce inventory, thereby limiting our export opportunities. In the second half of FY2018, increased exports of local Vietnamese cattle to neighbouring countries opened up space in the market for Australian cattle. This was aided by a drought-induced fall in Australian cattle prices and increased supply late in the half, which in turn assisted Wellard's volumes and trading margin.

Live slaughter and feeder cattle exports to China remain a work in progress. To be commercially sustainable and to provide the economies of scale required to be competitive, exporters and importers require large-sized cattle shipments. The ability of the Chinese consumer market to absorb big numbers is unquestionable, however to date very strict import protocols are limiting importers' ability to purchase large-sized cattle consignments.

ASSETS

Wellard is distinguished from most of its competitors due to its ownership of specialty ships, which comprises possibly the most modern and flexible livestock vessels in the industry. All of Wellard's vessels have the highest-class notation and are fully certified by AMSA to carry livestock from Australia and all major exporting countries.

The Company continuously assesses the size and composition of its shipping fleet and may commission the building of new vessels or sell other vessels from time-to-time. In the context of the challenging market conditions described elsewhere in this Annual Report, as well as Wellard's focus on rebuilding its balance sheet, Wellard's FY2018 fleet review resulted in the Company commencing negotiations to either exit or delay the build contract for the MV Ocean Kelpie, which is contracted for delivery by 30 June 2019. As these negotiations continue it is possible the Company may breach future commitments under the contract. At this time, it is too early to determine the outcome of those negotiations, however the Company has chosen to fully impair the \$13.8 million value it had on its balance sheet at 30 June 2018, reflecting advance payments made under the contract to date.

OPPORTUNITIES

Wellard's operating and financial performance in the fourth quarter of FY2018 was encouraging. With the revenue visibility afforded by committed multiple charters of some of our larger vessels, we are expecting to start FY2019 in a better position than FY2018.

The Company's strategic refocus means the Company will actively seek charter opportunities for its vessels.

We will also refocus on the business we know best, that being the Australia to South East Asia live cattle market together with the trade of high quality breeding and dairy cattle.

Managed with care and with good risk management practices, chartering can produce reliable earnings, supplemented by the incremental profit to be earned from cattle trading, particularly to Indonesia and Vietnam.

As livestock markets improve, the South East Asia trading team will focus on improving margins and volume while continuing to concentrate on gaining further operational efficiencies through a continuous process improvement program.

The Company will remain responsive to market dynamics, and as markets recover and the returns associated with livestock trades improve, the Company will reassess the proportion of internally-chartered voyages. In the near-term, however, chartering will be an important part of our revenue mix.

SALES AND REVENUE

Total revenue decreased 41.5% due to a shift away from trading activity into charter activity. Revenue from trading transactions includes the value of cargo plus freight and by its nature is considerably larger than charter revenue which incorporates freight only. Of the Company's internal shipping capacity 70.0% was utilised on charter voyages in FY2018 compared to 15.6% in FY2017.

Following a sustained period of increased input prices and reduced margins, the Company has been more selective on trading opportunities, particularly in the first half of FY2018. Total livestock volumes traded by the Company decreased 53.0% to 141,944 head of cattle plus 7,294 head of sheep in FY2018.

Despite the reduction in total revenue, the more selective approach to trading balanced with a wider range of charters driven by increased demand, resulted in gross margins increasing almost threefold to 13.7% compared to 5.5% in FY2017.

At the Company's BRM abattoir, processing volumes increased by 17.7% to 351,422 head whilst revenue increased by 15.8%. Given the tightening of sheep supply and the resulting increased input prices due to seasonal and other market impacts, gross margins decreased to 7.4% compared to 11.9% in FY2017. The average input price paid by the Company across all types increased by 2.2%, with the average price of lambs in particular increasing by 17.6% compared to FY2017.

COSTS, EXPENSES AND IMPAIRMENTS

Following an extended period of increased input costs and reducing margins, the Company announced a 'cost-out' program in FY2017 targeting to reduce year on year operating and administration expenses by \$10 million in FY2018.

The Company has since restructured its global operations to better fit with changing market conditions and increased competition.

Total costs (excluding other gains/losses) reduced by 24.2% in FY2018 which is on top of a 15.9% reduction in FY2017. Operating and administration expenses reduced by \$17.3 million in FY2018. Over the past two years costs have reduced by over \$42 million. Total costs of \$75.3m in FY2018 compare to \$118.2 million in FY2016. Noting that the Company sold one vessel in July 2017.

The Board's decision to enter into negotiations late in FY2018 to either exit or delay the build contract for the MV Ocean Kelpie has resulted in an impairment expense equal to 100% of all advance payments made under the contract to date, totalling \$13.8 million, representing the bulk of the impairment for FY2018. The prior year impairment expenses of \$14.0 million was comprised primarily of a \$13.1 million loss as a result of the Company's sale of the MV Ocean Outback. Impairments of this nature are considered to be non-recurring in nature and have therefore been excluded from the EBITDA calculations.

Other gains / (losses) of \$1.1 million is comprised of net foreign exchange losses offset by net gains from revaluations and asset disposals. The net foreign exchange loss of \$6.5 million is comprised of a net \$1.5 million realised gain from trading and financing transactions, offset by a net \$8.0 million unrealised loss from conversion of foreign subsidiary balances. The Company operates foreign subsidiaries in multiple countries and is exposed to currency movements via foreign currency denominated sales, expenses, assets and liabilities. The monthly closing USD to AUD exchange rate has traded within an 8¢ band during FY2018, and the FY2018 closing rate is 3.7% lower than last year. Other notable movements in the FY2018 closing rates to the AUD were in the Brazilian Real, up 13.0% and Uruguayan Peso, up 6.3%.

Net finance costs, including interest and amortised borrowing costs, reduced by 3.0% to \$9.8 million, and compared to the Company's average loans and borrowings balance equates to 6.1%.

Provisions for bad and doubtful debts of \$0.9 million equates to 0.3% of reported FY2018 revenue and compares to a rate of 1.2% for the prior year.

ASSETS, LIABILITIES AND CASHFLOW

The Company's statement of financial position continues to be impacted by the reclassification of \$117.7 million worth of loans and borrowings scheduled for repayment beyond 12 months as Current Liabilities. Application of AASB 101 requires the reclassification given the Company has breached certain financial covenants and undertakings on its working capital facility and ship financing facilities.

Despite the breaches, the Company met all debt servicing commitments as scheduled during the year and made an additional unscheduled debt repayment following the sale of the MV Ocean Outback in July 2017. Net debt was reduced by \$6.7 million during the year, although the Debt to Capital Ratio increased marginally from 57.3% last year to 58.8% in FY2018. The outstanding ship loan balances secured against the Company's four vessels represents 61.0% of their combined net book values at year end.

If loans and borrowings due beyond 12 months had not been classified as current liabilities, the Company would have reported a negative working capital position of \$1.9 million as at 30 June 2018 (30 June 2017: \$23.5 million).

Cashflow from operations before debt servicing increased by \$18.4 million to \$7.7 million and was supported by asset sales to fund debt servicing. The Company sold the MV Ocean Outback in July 2017 as previously disclosed and accounted for in FY2017. In addition, the Company sold a property in Northern Australia, considered to be surplus to core assets, for \$5.0 million of which \$3.5 million in cash had been received at year end. This transaction resulted in a net loss on disposal of \$0.2 million. The Company also sold 100% of its shareholding in a joint venture operation in Turkey following the completion of a specific trading arrangement. This was a non-cash transaction resulting in a net gain on disposal of \$0.8 million.

The combined balance of Trade receivables, Inventories and Biological assets of \$61.3 million is 42.9% higher than last year and reflects trading and charter transactions in progress at year end. A large portion of the Company's sales are supported by a combination of advance cash payments and / or letters of credit.

The carrying value of the Company's fleet of four livestock vessels is \$195.0 million with the balance of Property, Plant and Equipment comprising predominantly land and buildings in Australia. The future earnings capacity of the fleet is assessed regularly and compared with independent third-party valuations.