



10 May 2016

## Presentation to CEDA seminar

Attached is a presentation delivered today by Elders' CEO Mark Allison to the Committee for Economic Development of Australia (**CEDA**) agribusiness investment and competitiveness seminar.

**Peter Hastings**

Company Secretary



# Elders Limited

Mark Allison, MD & CEO

**Agribusiness Investment and Competitiveness**

**CEDA - Brisbane**

10 May 2016

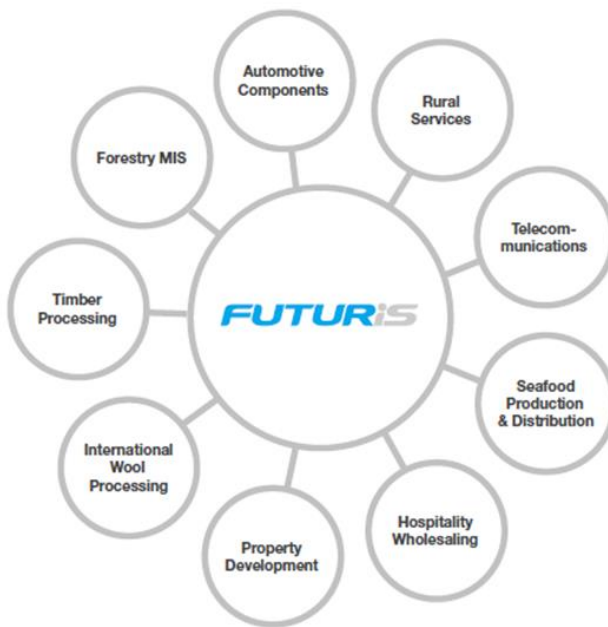


# Agenda

- Elders Story
- Our Global Opportunity
- Our Challenges
- Creating Real Value
- Summary

# Elders Transformation

Then  
(2008)



Now  
(2016)



# Our Journey

- ☑ FY08 to FY13 – Survival
- ☑ FY13 to FY15 – Turnaround
- ☑ FY16 to FY20 – Growth



# Elders Today

- ✓ Iconic Australian agribusiness
- ✓ Over 177 years old
- ✓ 1,800 employees
- ✓ 440 points of presence in Australia, Indonesia, Vietnam and China





# Business Model

## Retail Products



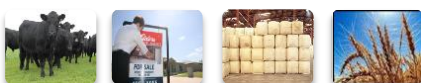
Farm Supplies

Fertiliser

\$926m retail sales

505k tonnes fertiliser

## Agency Services



Livestock

Real Estate

Wool

Grain

9.4m head sheep

1.7m head cattle

\$1.4b real estate turnover

364k wool bales

0.4m grain tonnes

## Financial Services



Banking

Insurance

\$2.7b loan book

\$1.4b deposit book

\$566m gross written premium

Principal positions are held by Rural Bank and Elders Insurance (QBE subsidiary) respectively

## Feed & Processing Services



Killara Feedlot

Elders Indonesia

Elders China

Killara

50k head

Indonesia

17k head

China

\$13m sales

## Live Export Services



Short haul livestock

Long haul livestock

119k head short haul

33k head long haul

## Online Platforms

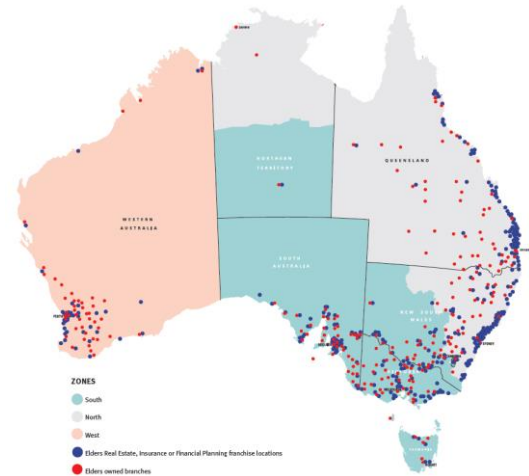
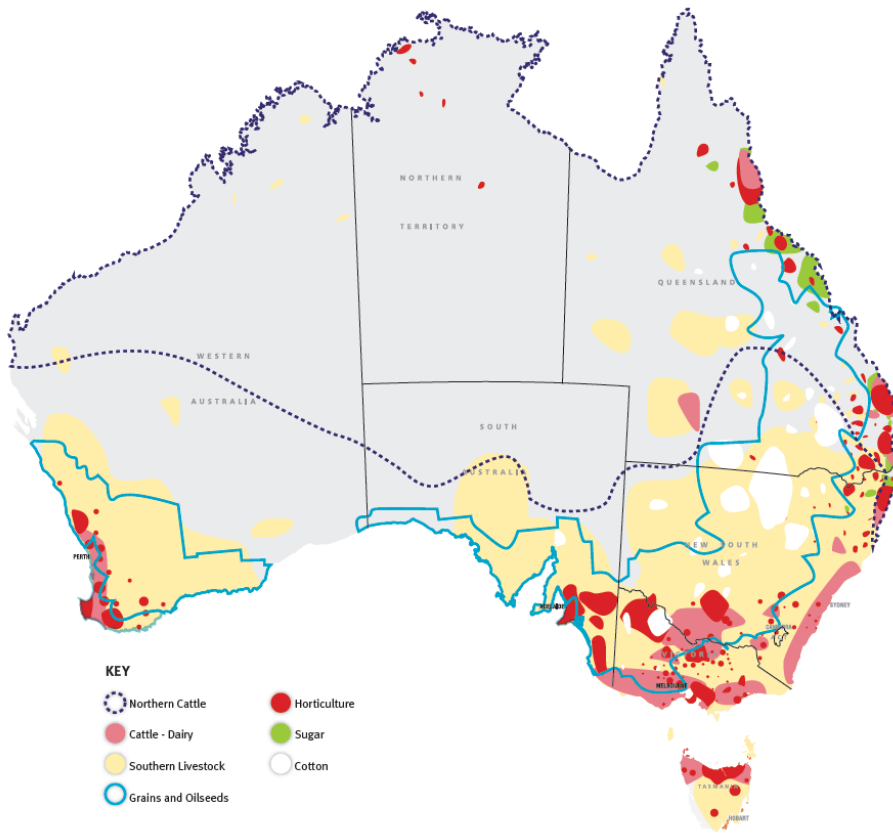
Elders Online

Auctions Plus (50%)

Livestock.com.au

# Points of Presence

*Elders' footprint in Australian agriculture*



- Over 440 points of presence in Australia and overseas including full service branches, real estate and insurance franchises
- Key produce areas covered through our footprint
- Focus on improving reach into horticulture and sugar segments



# Proximity to Growth Markets



- ✓ Key operations in China, ASEAN, North-East Asia, and access to world markets
- ✓ Proximity to Asia provides opportunity to capitalise on growing middle class demand for premium agricultural products

# Eight Point Plan

*Our strategic vision for becoming an efficient user of capital and a business that generates returns for its stakeholders*





# FY15 Year in Review

*Positive environment, solid progress*

- Statutory net profit after tax of **\$38.3m** up \$35.3m
- Underlying net profit after tax of **\$32.6m** up \$23.5m
- Underlying EBIT of **\$45.8m** up \$18.2m
- Operating cash outflow **\$5.3m** for the year
- Return on capital of **21.9%** up from 13.6% at September 2014
- Completed \$30m hybrid acquisition
- Winner of 2015 Large Company Turnaround of the Year Award by TMA
- Added into ASX 300 index in September 2015

# Our Global Opportunity

## Global trends



### Population growth

World population 8 billion by 2025  
85% of growth from Asia



### Increased food demand

To rise 75% in first half of 21<sup>st</sup> century



### Rising middle class

An example is Indonesian middle class  
growing by 20-25 million every 3-5 years



### Increased urbanisation

An example is that 50% of Chinese population lives  
in cities and spends 270% more than rural  
counterparts



### Decreasing arable land

Due to urbanisation and environmental  
contamination

## Australian competitive advantage



**Diversified geography and product base**



**Ample land and water supply**



**Proximity to Asian markets**



**Deregulated markets driving competition**



**World leading biosecurity**



**Best practice farming methodologies**



**First world infrastructure**



**Politically stable**



**Free Trade Agreements (China, Japan, Korea)**



# Australian Agriculture - Fast Facts

## *Industry snapshot*

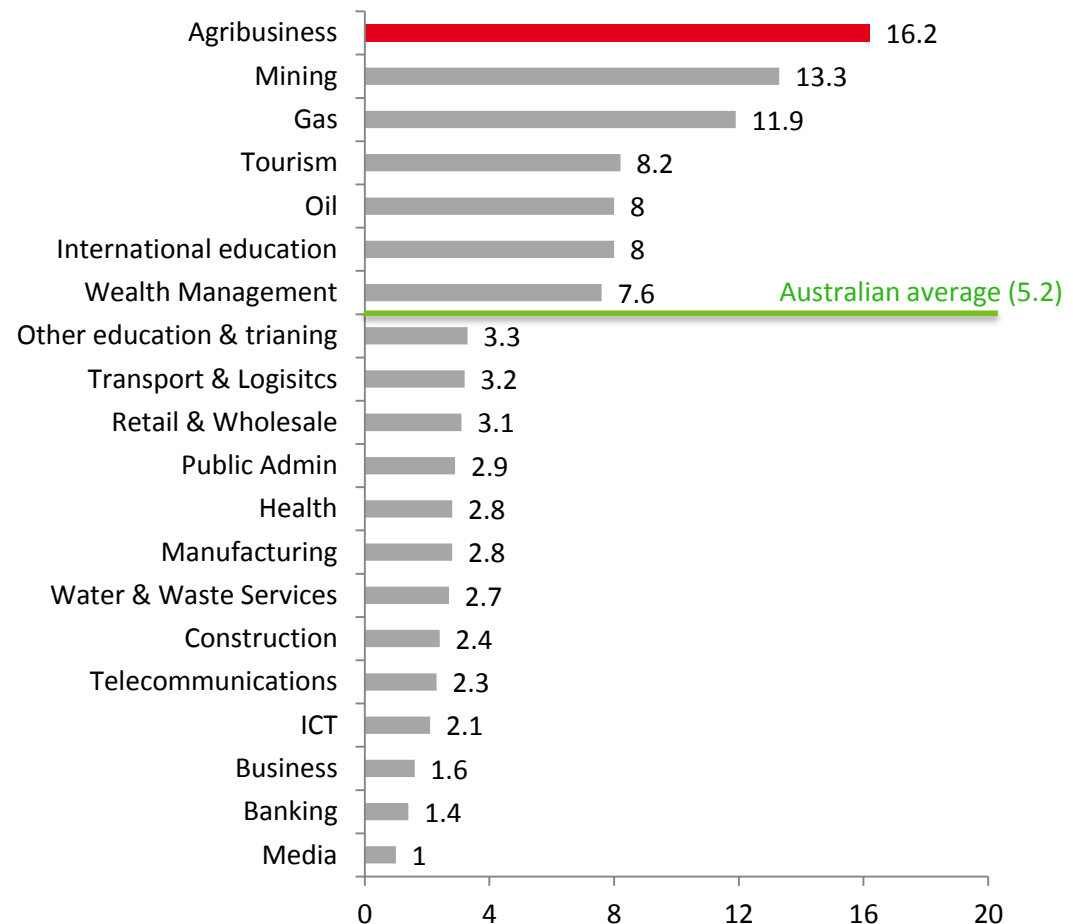
Value of Australian farm production	\$53 billion
Industry contribution to Australia's GDP	2%
Percentage of world agricultural production	1%
Producing sufficient food to feed	60 million people
Percentage of agricultural produce exported	65%
Percentage of Australia's tradable exports	15%
Median age of industry workers	50 years
People employed in the agricultural sector	270,000 (or 2% of the population)
People employed in the food, tobacco and beverage manufacturing sector	223,000
Percentage of agricultural employees living outside capital cities	89%

# Agriculture Growing in Importance

- Australia is transitioning from the mining boom to the dining boom.
- Global demand for food increasing rapidly – 70% more food required by 2050.
- Australia can't feed the world but it can increase production and exports.
- Success will depend on our competitiveness.

## Sectors of relative comparative advantage for Australia

Relative advantage score

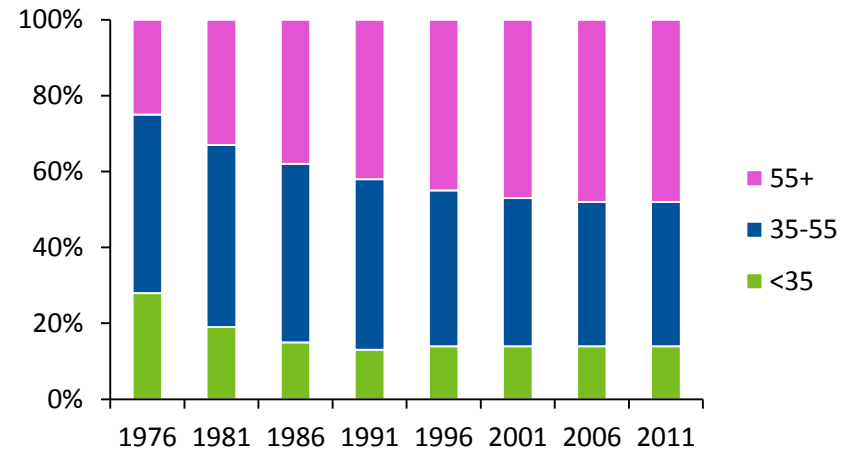




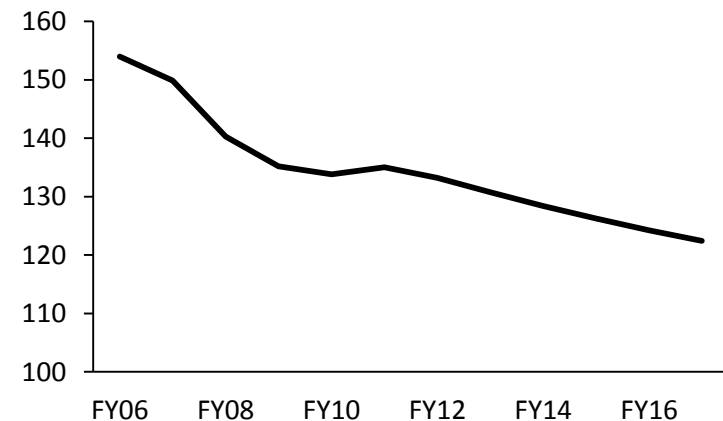
# Our Challenges

- Declining productivity
- Managing drought
- Ageing farmers
- Less farms
- Higher input costs and declining cash income
- Tightening lending criteria
- Quality and quantity of our infrastructure and transport network

**Australian farmer population by age group**  
%

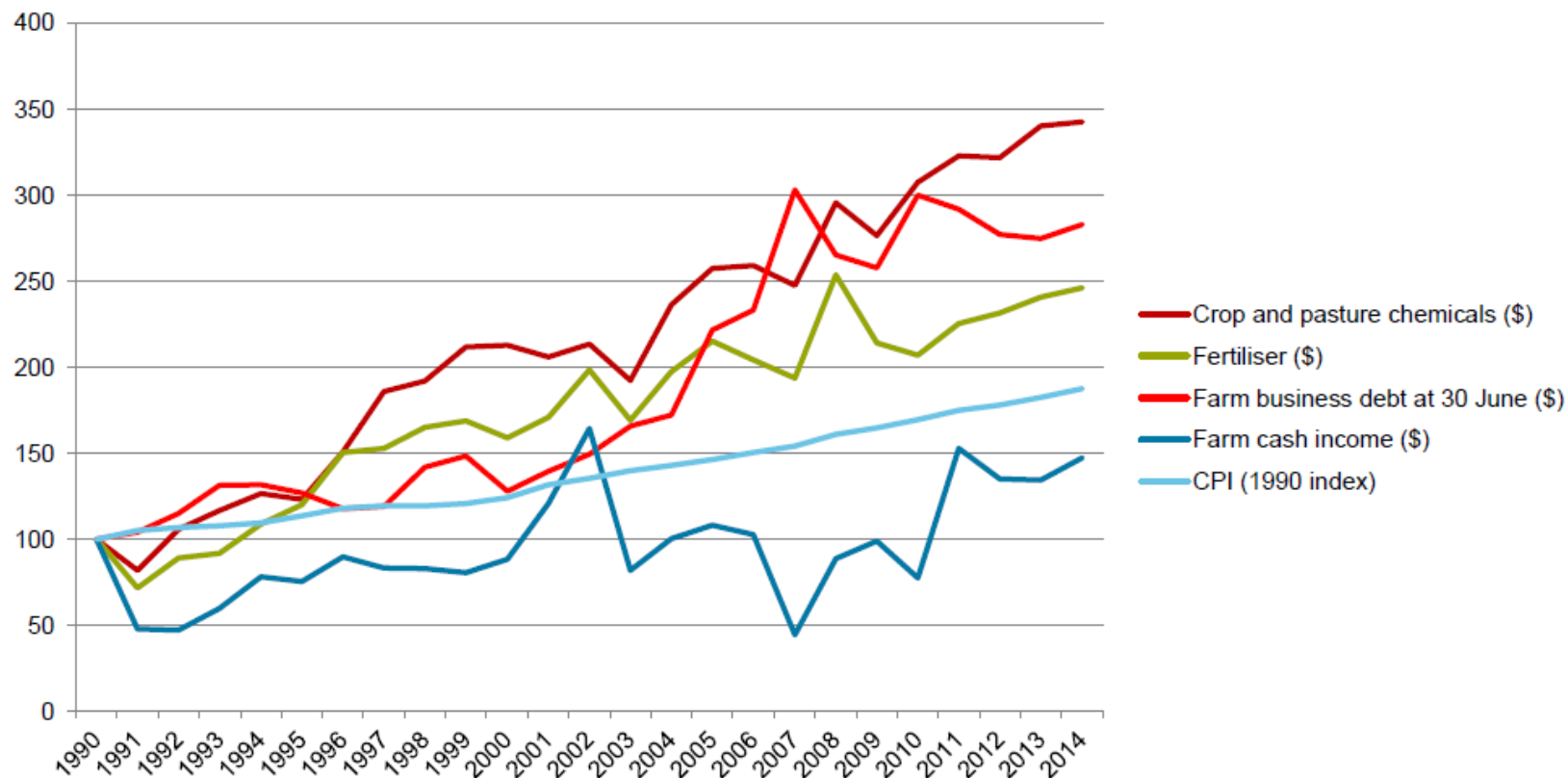


**Number of Australian Farms**  
Thousands

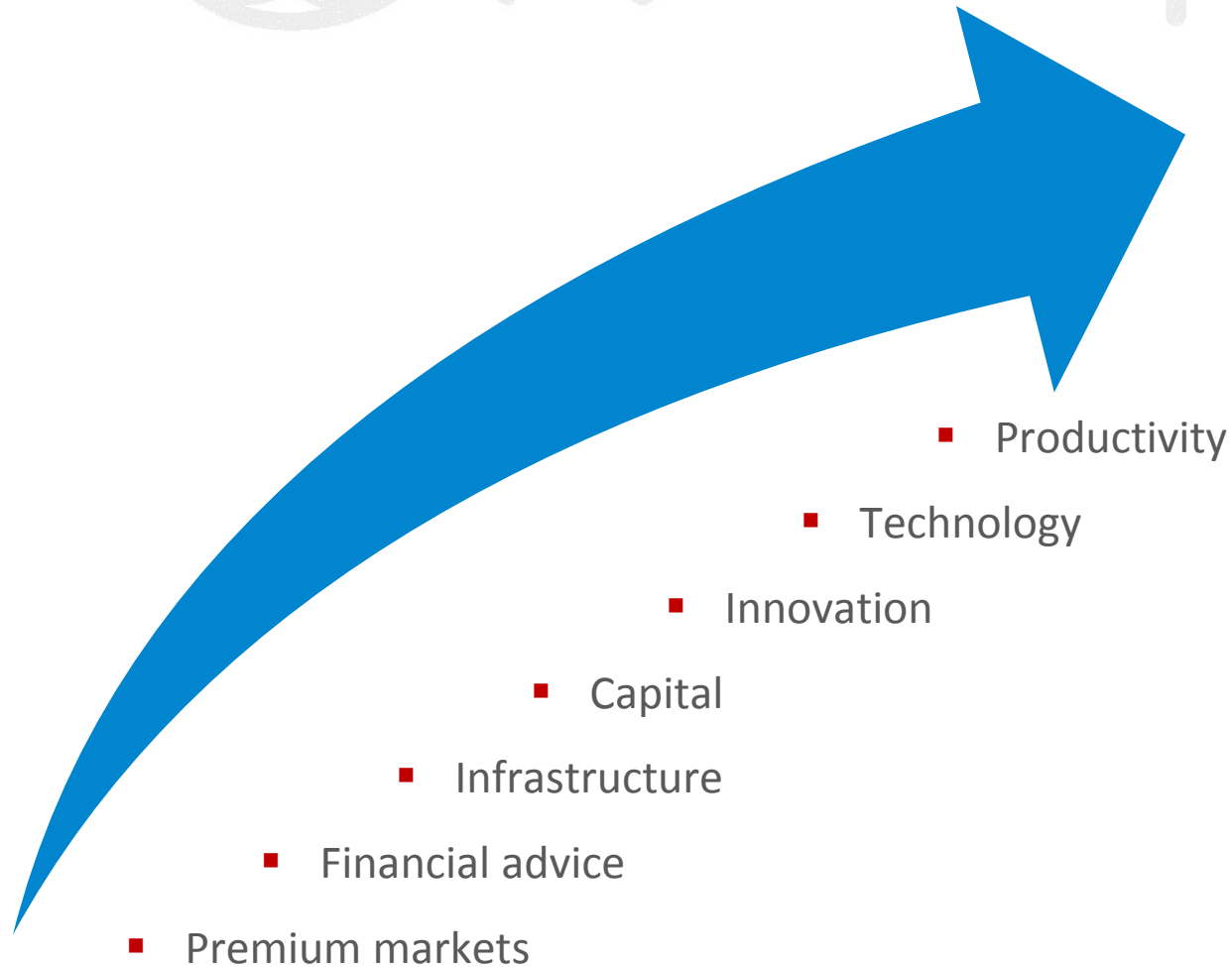


# Costs Outpacing Farm Incomes

On-farm operation factor indexes



# Production Enablers

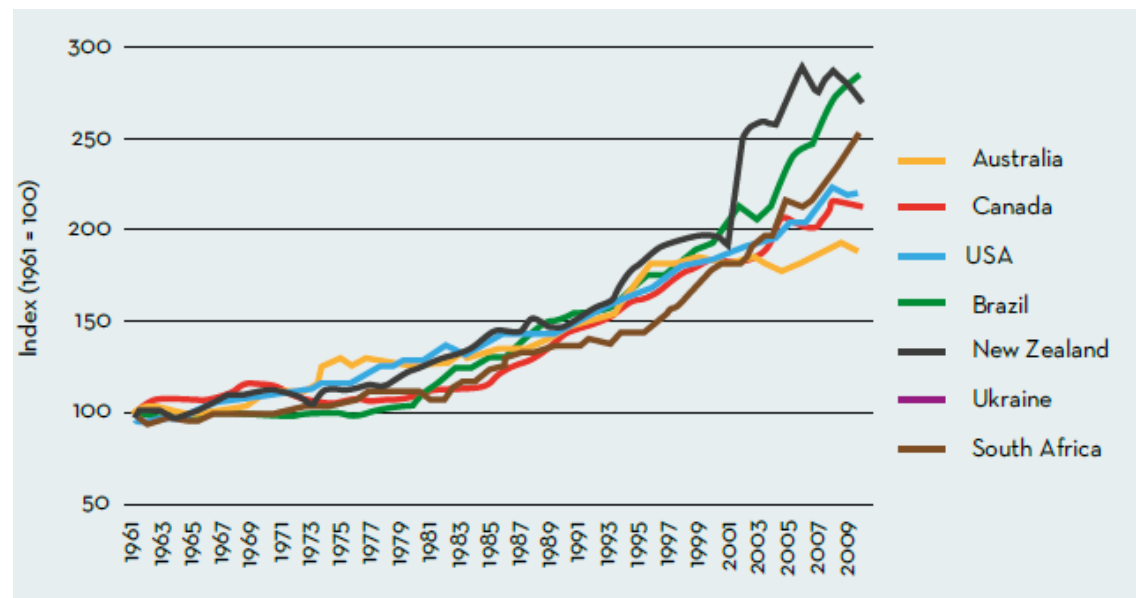


# Sustainable Productivity

*Requires increasing scale and innovation*

- Productivity growth is a major driver of the long-run competitiveness and profitability of Australian farmers.
- Post 1997, Australian agribusiness has experienced a significant reduction in productivity.
- New Zealand, Brazil and South Africa have all experienced strong productivity growth over the past decade.

**Total factor productivity of selected agricultural nations<sup>1</sup>**  
*Index*



# Transformative Technologies

*Changing the face of Australian agriculture*

- Robotic technologies have the potential to greatly enhance farm efficiency.
- Genetic technology will improve crop and pasture yields and become more resistant to weeds, pests and climate risks.
- Advanced sensory systems and data analytics will support advanced and highly integrated farm-to-fork supply chains.
- Natural fibres (wool, cotton, leather) will also face increasing competition from synthetic clothing.

***Elders has partnered with SwarmFarm Robotics to develop robotic technology to use in cropping.***



*Described as a golf cart with brains, prototypes like this from SwarmFarm Robotics could change the face of Australian agriculture.*

# Infrastructure is Critical

- For some agricultural commodities, the cost of transport from farm gate to an overseas market can exceed 40% of the value of the product.
- Every cent saved in transports cost goes back towards farm profits.

## Transport Costs in Australian Agriculture

### \$133/tonne Wheat in Northern NSW to Japan

48.5%

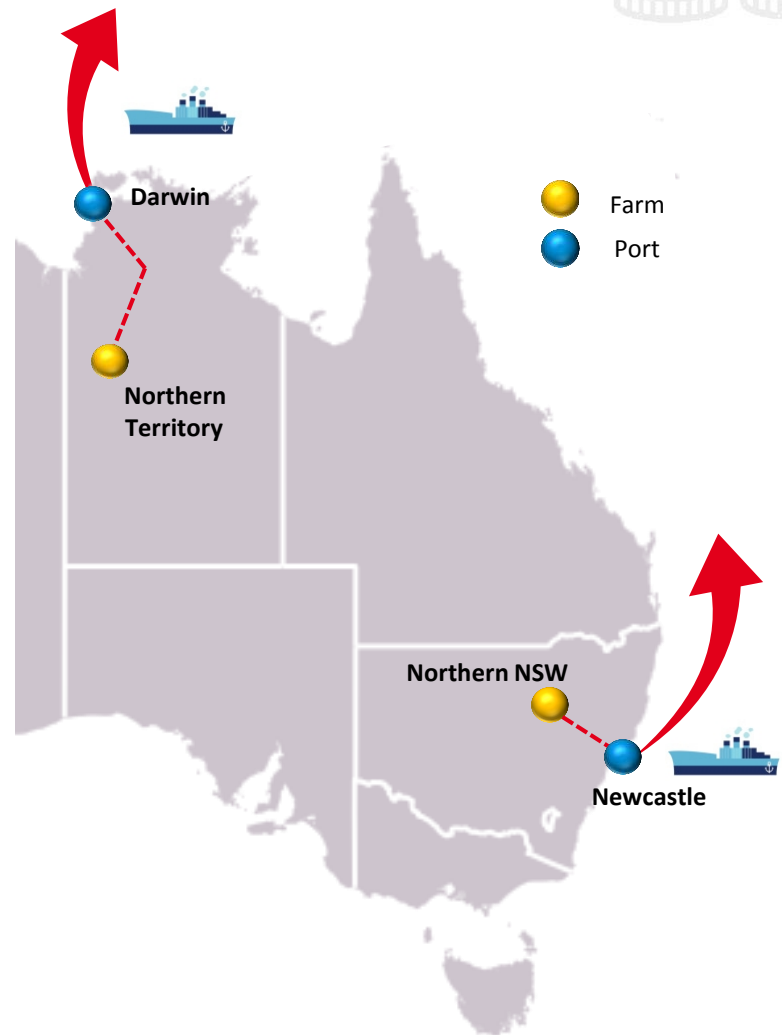
- \$85 Farm to Newcastle (road/rail/storage)
- \$49 Newcastle to Japan (port/ocean freight)

### \$200/head Beef Cattle in NT to Indonesia

30%

- \$46 Farm to Darwin (road/health protocols)
- \$153 Darwin to Indonesia (port/ocean freight)

*Transport cost a percentage of farmgate return*





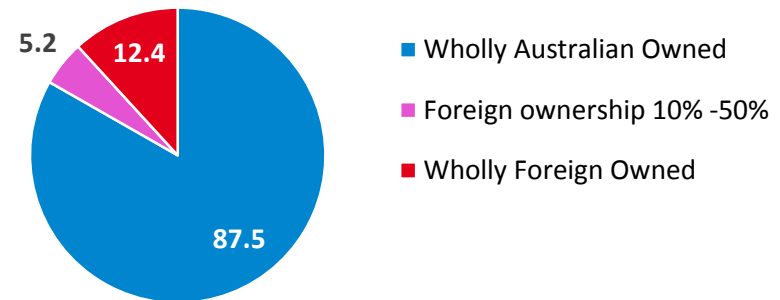
# Rural Australia needs Capital

*Australia requires A\$1 trillion in additional capital investment by 2050*

- New capital investment is required across the entire supply chain.
- Australia's superannuation funds invest on average just 0.3% of their portfolios in the agriculture sector.
- Returns on investment are often volatile, and value is created over the longer term.

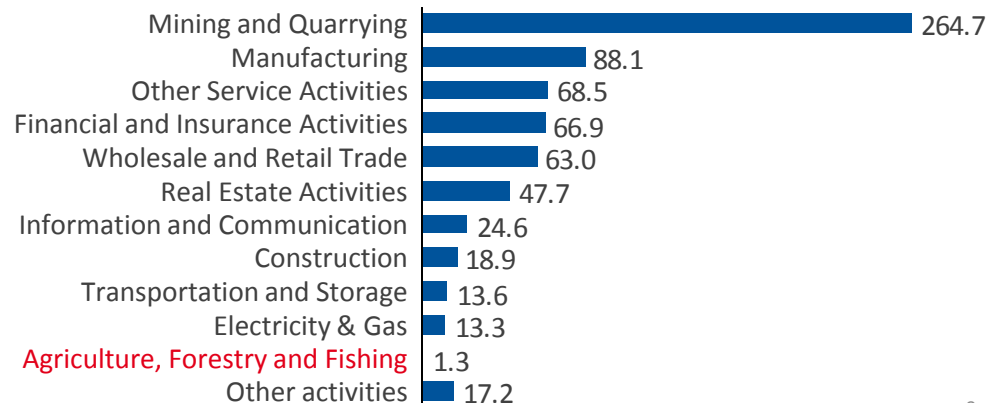
## Ownership of Australian Farmland

*Percent*



## Direct Foreign Investment Levels by Industry

*As at 31 December 2014, Billion dollars*



# Elders is Creating Real Value for Australian Farmers

## Increasing productivity

- Providing expert production advice
- Developing the Agronomic Centre of Excellence
  - Providing technical training
  - Directing R&D investment
  - Improving adoption of R&D on farm
- Investing in plant genetics (potatoes, summer and winter grains, forage)

## Encouraging innovation

- Working with multinational corporations on animal health and nutrition and breeding.
- Partnering with industry bodies and co-operative research centres (GDRC, HIA, MLA, Dairy Australia, CSIRO, AusVeg and private organisations)

# Summary

- ☑ Turnaround phase complete
- ☑ Eight Point Plan largely on track
- ☑ Embracing Growth phase
- ☑ Company and industry fundamentals solid
- ☑ Corporate and National success is not accidental







# Disclaimer and Important Information

## Forward looking statements

This presentation is prepared for informational purposes only. It contains forward looking statements that are subject to risk factors associated with the agriculture industry many of which are beyond the control of Elders. Elders' future financial results will be highly dependent on the outlook and prospect of the Australian farm sector, and the values and volume growth in internationally traded livestock and fibre. Financial performance for the operations is heavily reliant on, but not limited to, the following factors: weather and rainfall conditions; commodity prices and international trade relations. Whilst every endeavour has been made to ensure the reasonableness of forward looking statements contained in this presentation, they do not constitute a representation and no reliance should be placed on those statements.

## Non-IFRS information

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