



Australian Agricultural Company Limited
ABN 15 010 892 270

AACo 2020 Annual General Meeting Address to Shareholders

27 July 2020

Manager
ASX Market Announcements
Australian Securities Exchange

Attached is the Chairman's and Managing Director/Chief Executive Officer's Address to shareholders for the 2020 Virtual Annual General Meeting for Australian Agricultural Company Limited ('AACo') to be held 10.00am, Wednesday, 29 July 2020.

This announcement is authorised to be given to the ASX by the AACo Chairman.

Issued by:
Bruce Bennett
Company Secretary and General Counsel



Chairman's Address

AACo AGM July 2020

I'm pleased to welcome you all to the Australian Agricultural Company's (AACo) 2020 Virtual Annual General Meeting (AGM) on 29 July. We will be meeting this year under unique circumstances and I thank each of you for joining us.

Two thousand and twenty has been a year of great progress at AACo against our branded beef strategy. It has also been a year of upheaval. We completed our rebuild, following the Gulf Floods and continued to face drought conditions through the year in other parts of the business. More recently, we have all faced the impacts of COVID-19. I am pleased to report that the progress we have made against our branded beef strategy in 2020 has helped us to meet each of these challenges.

AACo continues to present a unique value proposition and our ability to produce the highest quality beef at scale remains unrivalled. This is underpinned by the unique quality of our assets. Our 26 stations, farms and feedlots increased their value over the year and we added Rewan Station on a ten-year lease for backgrounding and finishing. The market value of our herd has also improved, reflecting both market conditions and our continued investment in quality genetics and breeding.

Our branded beef strategy is designed to realise the full value of these assets. We achieve this by connecting our beef to customers around the world through our own brands, through partnerships along our supply chain, and through a simpler and more efficient AACo at home.

I am pleased to report that the connection we are building with our customers is producing real results. In the year just gone your AACo team achieved record wagyu beef sales. We improved sales in each of our major international trading regions and launched our Westholme brand in over 20 cities and markets around the world – more than doubling Westholme sales by volume and value. At the same time, we increased the average price of each kilo of beef sold while maintaining a disciplined focus on costs. By any measure 2020 demonstrates that AACo's branded beef strategy is the right strategy – and it is delivering results.

Despite this success, AACo ended the reporting period just gone under the uncertainty of COVID-19. This pandemic has decimated the global food service and entertainment industries. It has effectively shut down restaurants of all types, significantly impacting those who rely on them for employment.

This devastating impact demanded swift and decisive action from AACo. I am pleased to report that this was precisely the response your leadership team delivered.

To meet this unprecedented challenge AACo developed and continues to execute a pivot toward retail and direct to consumer sales. Our sales and marketing teams have identified opportunities to capture maximum value for our product. Ongoing work to streamline and integrate our Australian operations has allowed the business to respond swiftly. With support from our local partnerships, we have been able to redirect product into existing and new retail sales channels around the world.

Through this upheaval the market has demonstrated continued demand for quality beef. In particular clean, healthy food products from Australia remain sought after in key markets. The impact of this virus continues to be significant and it is likely that recovery will take some time. But customer demand for quality beef and for our brands in recent months has remained. In particular I have been encouraged by positive demand across our retail channels and by growth in new direct to customer sales. As customers return to food service and fine dining, I am confident that retail sales channels will remain healthy and new direct to customer sales channels will remain a feature of our industry.

The progress we have made in 2020 against our branded beef strategy has been vital in navigating this unprecedented uncertainty. Investment in our brands has driven growth in 2020 and it has helped drive retail sales during COVID-19. Building and strengthening our distributor partnerships has also been critical to our growth in 2020 and these partnerships have been essential in supporting our pivot to retail. Similarly, progress toward a simpler and more efficient AACo has provided the platform for efficient growth in 2020. And I am very pleased to report that these efforts have helped AACo adapt swiftly to the challenges we face today.

In good conditions and in challenging conditions, AACo's branded beef strategy is the right strategy for our business.

As our leadership team progresses this strategy we continue to invest in our herd and our land assets, and in the quality, capability and safety of our people in 2020. What motivates all of this work is our team's passionate belief in AACo. Our people love this land. They love our animals. They genuinely care for the kitchens, chefs, butchers and families who buy our beef and they live a genuine desire to leave a positive legacy, as proud as the one we have inherited at AACo.

This same desire motivates our commitment to sustainability. As a 196 year old farming concern, sustainability is in our blood. In that time we have survived drought, flood, fire, depression, global pandemic and war. At every stage this company has strived to build, to improve and to leave something greater.

Last year we released our first public sustainability policy to document our sustainability principles. Recently the board approved release of AACo's inaugural sustainability benchmarking report. This document details the measures we adopt to drive sustainability in our business and our industry, including setting our baseline performance across four major focus areas:

- Animal Health and Welfare;
- Environmental Stewardship;
- People and Culture; and
- Livestock Transport.

I urge you to review this document and measure us against our progress.

To understand where sustainability fits within AACo, I repeat the words I used last year: *"We do this because it is the right thing to do, and because our people care passionately about leaving something more than they found. We do this because we have done it for almost 200 years and we do this because it is central to the story that our customers can be proud of"*. I am confident our public commitment to sustainability will stand us in good stead, as we move through COVID-19 and beyond.

On July 31, 2019 we farewelled long standing non-executive director David Crombie AM. I want to thank David for his leadership and commitment to AACo and to our industry and I thank him for his ongoing support as a member of our pastoral advisory group. With David's departure we welcomed Marc Blazer to the Board. Marc brings deep experience across global luxury brands,

fine dining and finance and his expertise has been invaluable in driving progress against our branded beef strategy.

2020 has been a year of great success for AACo in executing against this strategy. 2021 is already a year marked by great uncertainty, but I am confident the investments we have made – in our assets, our people, our operations, our partnerships and our brands – all position us well to navigate this uncertainty. And this will help us continue to grow your company for the future.

With that I thank you, my fellow shareholders, for your ongoing support. I thank the management team and my fellow board members for all of their work and I look forward to further progress against AACo's strategy in 2021.



CEO/MD's Address

AACo AGM July 2020

This year the Australian Agricultural Company (AACo), like many businesses, is conducting our Annual General Meeting (AGM) in a different way which reflects the necessities of a world responding to COVID-19. This is certainly a different setting for our AGM and I thank you all for joining us and for your continued support of AACo.

I am pleased to report real progress at AACo for the financial year just gone. Our unique value proposition is our ability to produce the highest quality beef at scale and in 2020 we translated this into record wagyu sales by volume and value.

We achieved this by focusing on the core drivers of our strategy: We have continued to build a simpler and more efficient AACo; we have continued to build deeper customer brand engagement; and we have continued to develop strong partnerships along our supply chain.

2020 has been a year of great challenge. We began the year rebuilding our Gulf infrastructure following the 2019 floods. We continued to face ongoing drought conditions through the year and we ended the reporting period facing the unprecedented challenge of COVID-19.

Through these challenges the AACo team has continued to lead your company back toward long term sustainable growth. Our land and herd assets are stronger. Our people continue to develop their expertise at home and in key markets. Our brands have been launched and established in dozens of new markets around the world. Our relationships with distributors, chefs and retailers are stronger than ever. And today AACo is a more focused, integrated and responsive business at every level.

In this presentation I report on the steps we have taken across each of these areas and I outline the results we have achieved. I also talk about our sustainability commitment and update you on our response to COVID-19. I also make the point that these are not two different stories – a year of progress, followed by a response to COVID-19. In fact, our work in 2020 has positioned us to respond more effectively to COVID-19 in a number of expected and unanticipated ways. This is a further demonstration that our branded beef strategy makes us a better, more resilient business – and it is the right strategy for AACo.

Branded Beef Strategy

AACo's land, herd and our operations at home are essential to producing quality beef at scale and on demand. Our integrated supply chain, distributor relationships and marketing teams make sure that quality is delivered to our customers under our own unique brands. The end result of this work is the strongest possible emotional connection between our beef and our customers – to keep them coming back for more of that special experience.

These are the fundamental elements of our branded beef strategy. They have set the agenda for our work in FY20 and focus on these elements has helped us establish our brands in new markets, while cementing our presence in existing ones.

All told AACo achieved record wagyu sales for the year, up 19.7 per cent. Our price per kilo was up 8 per cent overall and this growth has been broad based, with double digit sales growth by value across all major sales regions. This was substantially driven by accelerated roll out of our flagship Westholme brand around the world in 2020, led by product launches in more than 20 key cities across Europe, the US, Australia and Asia. As a result, we increased the value of Westholme sales by 155 per cent – while doubling the total amount of Westholme sold.

Turning now to our performance by region, Asia represented 66 per cent of our total global beef sales in 2020. This reflected 19 per cent growth in sales compared to the previous year. We developed and strengthened our distribution arrangements in Hong Kong and Singapore, and our retail presence has grown in a number of regions – building on our flagship retail presence in South Korea.

North America made up 7 per cent of overall Wagyu sales in 2020 including a very strong 34 per cent increase in sales. Growth was driven by our team on the ground and their focus on rebuilding our business, our brand presence and our distribution relationships. In 2020 we launched Westholme and built new distribution relationships in LA, San Francisco, Las Vegas, Washington, Miami, Chicago and New York and we established important new retail and direct to consumer channels across the US.

Europe and the Middle East accounted for 12 per cent of wagyu sales for the year driven by 17 per cent growth in sales and underpinned by a restructured distribution partnership in the EU. The Middle East has continued to perform strongly off the back of multiple brand launches in the region.

Australia made up 15 per cent of wagyu sales in 2020 driven by a 16 per cent increase in sales for the year – which was achieved with reduced overall volumes. This reflected some strategic redirection of product to other markets as we reposition AACo at the premium end of the Australian market. As with all our sales regions, progress in Australia was achieved through revitalised distribution arrangements and successful Westholme product launches in Sydney, Melbourne and Brisbane.

Financial Performance

I am pleased to report that all of these efforts have generated positive financial performance for the year. As I mentioned, continued roll out of our branded beef strategy has generated 19.7 per cent growth in wagyu meat sales including 8 per cent improvement in price per kilo. We have reduced costs by \$31 million for the year and recorded our highest operating cash flow result in three years – at \$20.1 million. Together this produced a full year operating profit of \$15.2 million. And this was achieved while absorbing \$42 million in additional feed and transport costs.

Overall, our statutory EBITDA result was \$80.1 million. This represents a \$262.8 million turn-around from FY19 which was boosted by strong gains in the market value of our herd year on year. These gains meant we ended 2020 with an improved balance sheet including an 8 per cent improvement in our net asset position over the year. In 2020 we secured an additional \$50 million in borrowing capacity to support ongoing operational flexibility and capacity to develop new markets. At year's end AACo retained comfortable headroom in our banking covenants and our gearing ratio improved on a like for like basis.

AACo's financial position at the conclusion of the 2020 financial year reflects our progress in rolling out our branded beef strategy and importantly, this has positioned us well to navigate the current uncertainty.

Operations

Improvements in our operations have been critical to progressing this strategy in 2020 and, more recently, have proven fundamental to our response to COVID-19.

Since I joined AACo my team and I have worked to build a simpler and more efficient business. This is because so much depends on our ability to control our value chain where we can – so that we get just the right cuts to the right markets at the right time. To achieve this requires a truly integrated supply chain – where each part of our operations understands their role and where they communicate effectively, so they can adapt together.

When market demand opportunities change, I need my team to respond. We assess the benefits of shifting beef from one market to another. We can identify and open new sales channels. We can slow down or speed up meat processing to fit these demands – which allow us to deliver the right cuts in the right place at the right time.

For too long different parts of our business have focused on doing what they do well in isolation: Growing as many of the best animals as possible; processing as much product as possible quickly and efficiently; and then finding markets for the beef we have available. But maximising value means understanding and growing targeted market opportunities and aligning our business to produce the right product, at the right time, to meet those opportunities. This is the reason for our constant goal of a simpler, and more efficient AACo.

Our sales growth, our price per kilo and our cost reductions in 2020 demonstrate our progress against this goal – and the value of this approach to the business. This was always our intention in pursuing these operational improvements and I am pleased to report the benefits of this work in our annual results. But I am particularly pleased that the onset of COVID -19, and the need for AACo to respond quickly and effectively, has demonstrated just how significant a simpler and more efficient AACo is to our success as a company.

Since the onset of COVID-19 our sales and marketing teams have stood up well. By the second week of March 2020, all 16 of our food service export markets had been impacted by COVID-19 restrictions. In response our team focused on retail opportunities to deliver product at maximum price and their early success has been driven by a number of factors:

- Their planning and preparation work to identify and assess real market changes and opportunities;
- Their knowledge of the regions where they operate to strengthen or build new sales channels; and
- Their relationships with distributors on the ground to support rapid intelligence and adjustment.

In South Korea we enjoy a privileged long-term partnership with local distributors and a prominent supermarket chain. This has been critical in diverting product to an established market, where our Darling Downs brand is a household name. As a result, we now have one of our team members on the ground there permanently, to keep developing growth opportunities. And strong demand is forcing us to review how we can best provide supply – while protecting the integrity and value of our brand.

Through our sales and marketing teams we have also captured new direct to customer opportunities since the onset of COVID- 19. In the US Westholme has done particularly well via online platforms and we have also been moving product through the e-commerce platform of our

mid-west distributors Meat by Linz. Elsewhere the team have placed Westholme with a growing list of gourmet butchers throughout the US.

In response to uncertainty in the Chinese market we have also been able to grow new retail opportunities in North America to divert stock. Under local brands and through our distribution arrangements AACo has diverted substantial product to large retail chain stores in Canada and we have diverted this product with minimal interruption to our production and supply chains here in Australia. Transitioning product from one region to another is a big job and the success of this transition deserves special mention.

Underpinning all of this downstream marketing and sales effort has been the delivery of clear demand signals to our Australian operations – and our ability to operationalise those signals to adjust complex production systems at home.

In the first instance these signals are being heard and understood in our feedlot and meat processing operations. Our teams have been able to slow down or speed up animal movements and adjust animal weight as required. This means we deliver the right cuts at the right time to capture every possible dollar of value – even amid unprecedented global food service and retail sector uncertainty.

These signals are also being absorbed and acted upon by our pastoral team. Long lead times in the beef industry are a fact of life which can make rapid production system adjustments very difficult and often costly. But the quality of our pastoral leadership team, our strategic stocking rates, and the quality of our assets has allowed AACo to maximise this flexibility and improve our ability to adapt. This means we can adjust animal movement right along our entire supply chain. This is fundamental to avoiding bottle necks, missed opportunities and the erosion of value that these problems create. I am really pleased to report this response in each part of our AACo business from the paddock to the kitchen. I believe it clearly demonstrates the value of our commitment to a simpler and more efficient AACo.

These operational capabilities depend significantly on investment in the quality and skills of our people. Today all of our people understand our whole value chain. They have more flexibility to adjust and they have more of the skills, knowledge and experience to make changes that align across our business – and to make them quickly and in unison. We have further to go in building a simpler and more efficient AACo. But the work we have done to date has been critical to the progress of our branded beef strategy in 2020 and it has been fundamental to our early work to navigate the impacts of COVID-19.

I want to reiterate this point because I think it is very important – these are not two separate stories. Our progress before COVID-19 has made us stronger in facing COVID-19. And importantly, the work we have done in 2020 and during the pandemic positions us well for the post-COVID-19 economic environment. I thank my team for their work in putting AACo in this position.

Gulf Rebuild

Another challenge we faced in 2020 was completion of our clean up following the Gulf Floods, a once in one-hundred-year event. I am pleased to report that we completed our rebuild ahead of time and under budget in October 2019. The team have done a wonderful job replacing sheds, tanks, troughs, one homestead, many kilometres of pipe and 572 kilometres of fences. In all we made a capital investment of around \$9 million. But more than this, we lost many animals in this tragedy and the personal impact on our people goes beyond financial cost. I thank the team involved for their strength and resilience through this terrible time.

Herd

As a result of the continued drought, we made the strategic decision to destock across our business and this included not replacing those animals lost in the Gulf Floods, selling some animals and limiting the number of animals brought into the business from outside. As a result, we ended 2020 with a 19 per cent reduction in herd size compared to the previous year – at just shy of 350,000 head.

Strategic destocking provides flexibility against future seasonal uncertainty. It helps drive overall quality in our herd and it supports a simpler and more efficient AACo – as discussed above in terms of our operational flexibility to manage animal production in line with changing market demand. I note MLA has identified a nation-wide herd reduction of around 20 per cent, and this places our own transition in line with the wider industry.

People

We continue to build a strong safety culture for our 423 AACo team members. In 2020 we implemented a number of safety initiatives to educate our people about risks in the work place and about their roles and responsibilities in mitigating those risks.

I am pleased to report a number of positive responses:

- Reporting of near misses and minor incidents increased over the year;
- Safety meetings – known as tool box talks – were more frequent in 2020; and
- Our team’s engagement with safety issues increased 6 per centage points year on year.

On another “people” note I am delighted to announce the appointment of Rosemary Scott as AACo’s Chief Marketing Officer. Rose joined us in July to run our global marketing strategy. She brings with her more than two decades experience in marketing and sales here and around the world. Rose also understands the Fast Moving Consumer Goods (FMCG) business including luxury brands and her recent experience in the international beverage sector will be a big contribution to our branded beef strategy roll out.

Sustainability

I also want to reiterate Donald’s comments about our commitment to sustainability. Our recently released Sustainability Benchmarking Report is a major achievement for AACo. As a 196 year old agricultural business we have always been a sustainable operation. However it is only recently that we have made this part of our culture public and measurable. This is the right thing to do – because it matters to us and it matters to our customers and our shareholders.

Today we take every opportunity to review what we do through the prism of sustainability. Our Sustainability Policy states our principles and our newly released Benchmarking Report details specific improvement areas and our baseline performance. This includes our focus on our people, our land, our animals, our communities and our operations.

Examples of our work include: Building a more diverse workforce; supporting regional and remote communities through training, apprenticeships and work opportunities; best practice animal welfare – including mandatory pain relief in all potentially painful surgical procedures; and a switch to renewable power where possible across our operations.

We will continue to update our progress as part of our regular reporting and I urge each of you to review our Benchmarking Report and help hold us to account.

COVID-19

After beginning the year with our Gulf Flood clean up, and ongoing drought conditions, we ended the financial year with COVID- 19. There was a negligible impact on our FY20 performance but COVID-19 has since tested all parts of our business and our team. As a company I am pleased to report that we responded swiftly and decisively.

We immediately put in place management plans to protect our people, our communities and the company. We worked with the Queensland and Northern Territory governments to ensure continued cross border operations. And we made our plans available to the wider industry to support smaller operators.

As I mentioned before, by the second week of March 2020, all of our 16 food service export markets had been impacted in some way. In response we rapidly developed our strategy to pivot sales toward retail channels. This meant increasing supply to existing channels and identifying new opportunities including direct to customer sales channels.

Ongoing demand for quality beef and for our brands during this time has been encouraging. But the impact of the virus remains uncertain and recovery will take time. Our focus at this time is on continuing to work together to navigate this uncertainty, and to positioning ourselves for an eventual return to more normal economic activity.

Conclusion

AACo has delivered real progress against our branded beef strategy in 2020. We have grown our sales and improved revenues while managing costs. This work has been vital in our response to COVID- 19 and it positions to adjust to a new economic normal, on the other side.

These outcomes confirm that our branded beef strategy is the right strategy for this business. It is producing results and it is building a stronger company that is better able to respond to challenges and uncertainties in our operating environment.

I want to thank my team for their work in growing and improving your AACo and I thank each of you for your ongoing support.