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20 May 2021 ASX/Media Announcement

AACo posts positive result in challenging environment

- Operating Profit of $24.4m ($17.7m pre-JobKeeper) vs $15.2m pcp and Operating Cash Flow of $18.4m ($11.7m pre-JobKeeper) vs $20.1m pcp, delivered despite uncertain operating environment
- Statutory EBITDA profit of $99.3m, an increase of $19.2m vs pcp
- Progress made in branded beef strategy with 8% improvement in average meat sales price per kg, and further rationalisation of brand portfolio, with Westholme and Darling Downs now representing 74% of branded meat sales
- Net assets now more than $1b and NTA of $1.75 vs $1.53 pcp, demonstrating a further strengthening of the balance sheet
- Headwinds of lower calving rates from prior years' drought and flood have translated into a lower volume of meat available for sale in FY21. Lower meat volumes available for sale expected to continue into FY22

Australian Agricultural Company (AACo) (ASX:AAC) has consolidated its first half position to deliver an operating profit of $24.4 million for FY21.

The company also delivered a positive operating cash flow of $18.4 million and a statutory EBITDA profit of $99.3 million, despite a year that was made more challenging by COVID-19 and in the face of headwinds that impacted red meat production during the year which is expected to continue into FY22.

Managing Director and CEO Hugh Killen said it was a solid year under the circumstances and the entire team should be proud.

"This year will go down as one of the most challenging on record for many companies and AACo is no different, so to post a positive result is commendable," Mr Killen said.

"The fundamentals of the business remain strong and we've made progress with our brands, which is encouraging considering the ongoing challenges that we will navigate over the coming few years.

"A significant reduction in expenditure, improved price per kilo and further progress in our goal of making AACo a simpler and more efficient business helped deliver this result.

"However, reduced meat sales volume is expected to continue into FY22 after AACo experienced lower calving in 2018-2020 due to prolonged drought and the Gulf flood event, in line with the Australian cattle herd."

COVID-19

Mr Killen said AACo had done well to navigate through the initial challenges associated with COVID-19 and the Company would continue to monitor and adjust to changes in its markets and the wider economy through FY22.

"The last 12 months have been dominated by uncertainty across many industries and ongoing disruption across our key markets around the world," he said.

"These risks continue, despite positive progress in virus suppression in parts of the world."

Industry outlook

Mr Killen said the Australian cattle industry is also being impacted by other external forces, including reduced herd sizes as a result of historic tumultuous seasonal impacts in droughts and flood.

"Much attention has been on the Eastern Young Cattle Indicator (EYCI), but the record-setting rate is largely a consequence of supply and demand, with fewer cattle for Queensland producers who are looking to restock," he said.

"Meat and Livestock Australia has revised down cattle slaughter forecasts to their lowest level in 36 years and a fall of 11% on 2020 levels. The national cattle herd is also coming off its lowest level in 25 years, in 2020."

Impact to AACo

Mr Killen said a number of AACo properties are seeing below average rainfall and the Gulf properties are still recovering from the flood, with limited pasture response.

"These headwinds have started to impact our meat production in FY21 due to our average F1 Wagyu lifecycle length of 3.5 years from conception through to backgrounding, feedlots and processing," he said.

"This has translated into 19% lower meat volumes in FY21 vs pcp, with lower sales volume likely to continue into FY22.

"Importantly though, our herd rebuild has commenced, with a 47% increase in calves in FY21 compared to FY20."

Progress made in challenging year

Mr Killen said notwithstanding these headwinds, progress had been made on the branded beef strategy, which remained fundamental to AACo and would continue to help the company navigate through the uncertain environment.

"Being able to make progress in a year that was so heavily affected by outside factors shows that it's the right approach and should remain central to our activities," he said.

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"Our strong brand portfolio and distribution partnerships have helped us connect with new customers and respond to changes in our markets in FY21 and has helped us deliver an 8% improvement in the average meat sales price per kilogram.

"We've also focused this year on strategic market allocation and adapting our channel strategy to satisfy the rise of at home consumption and the home chef.

"In a further sign of progress, Westholme and Darling Downs now represent 74% of AACo's branded meat sales."

Regional performance

AACo's ongoing focus on strategic market allocation and mix optimisation has driven positive outcomes across all AACo regions – with the exceptions of China and Europe/Middle East.

Branded beef price per kilo is up 14% in North America, compared to FY20, driven by a successful growth into retail channels during COVID-19 and a focus on digital and social campaigns to drive brand awareness. The region now represents 19% of total meat sales, up from 7% pcp.

While total meat sales fell across Asia and Australia, both achieved a 5% improvement in price per kilo compared to FY20.

AACo continued to adapt to uncertainty in the Chinese market, which has been a traditional destination for AACo's trim product. The proportion of product sold in China decreased in FY21 – offset by growth in the rest of Asia and North America.

AACo sales in Europe and the Middle East directly felt the impact of COVID-19 on food service. At the same time our major retail focus in FY21 has been in Asia and North America, resulting in a drop in the proportion of AACo meat sales going to Europe.

A culture of sustainability

AACo is due to release its second sustainability report in July, detailing our progress made in this important area. This included:

- The introduction of AACo's Beef Cattle Herd Management Carbon Project, which has commenced the journey of reducing our emissions intensity of beef cattle production
- Focus on animal health and welfare, including the establishment of the AACo Animal Health and Welfare committee
- Continued progress in the poll program
- More than doubling the amount of solar bores.

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Investor Briefing

Australian Agricultural Company (AAC) will hold a teleconference and webcast briefing for investors and analysts detailing Full Year 2021 Results on **Thursday 20th May at 10:00 am AEST.**

Conference details:

Webcast link – https://services.choruscall.com.au/webcast/aaco-210520.html

AACo Conference ID: 10010937
All Participants will be asked to provide the Conference ID when joining the Call.

Participant Dial-in Numbers

Australia Toll Free:	1800 455 963	Australia Alt. Toll Free:	1800 908 299
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New Zealand Toll Free:	0800 452 795	UK Toll Free:	0800 051 1453
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For the purposes of ASX Listing Rule 15.5, AACo confirms that this announcement has been authorised for release to the market by the Board.	