



21 October 2015

## Presentation to Morgans Annual Queensland Conference

Attached is a presentation to be delivered today by Elders' CEO Mark Allison to the Morgans Annual Queensland Conference.

Peter Hastings  
Company Secretary



# Morgans Investor Conference

Mark Allison, MD & CEO Elders

21 October 2015

*Elders*

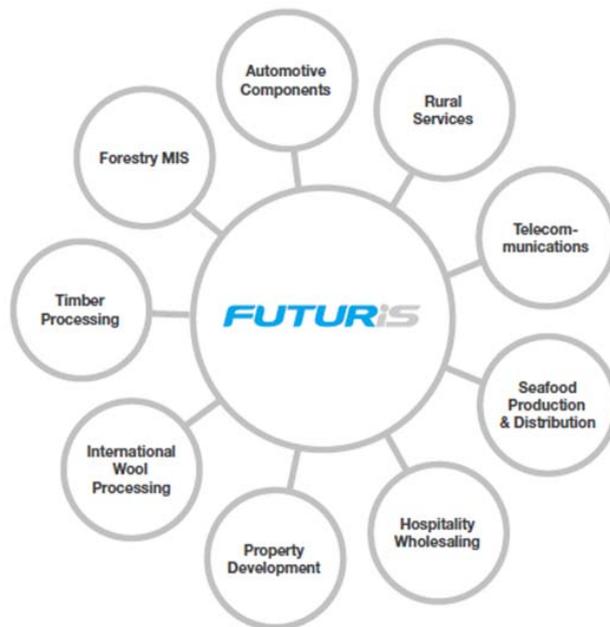
## Agenda

- Overview of Elders
- FY15 Performance
- Growth Opportunities
- Five Agribusiness Megatrends
- Implications for Australian Agribusiness
- Implications for Elders



## Elders Transformation

**Then  
(2008)**



**Now  
(2015)**





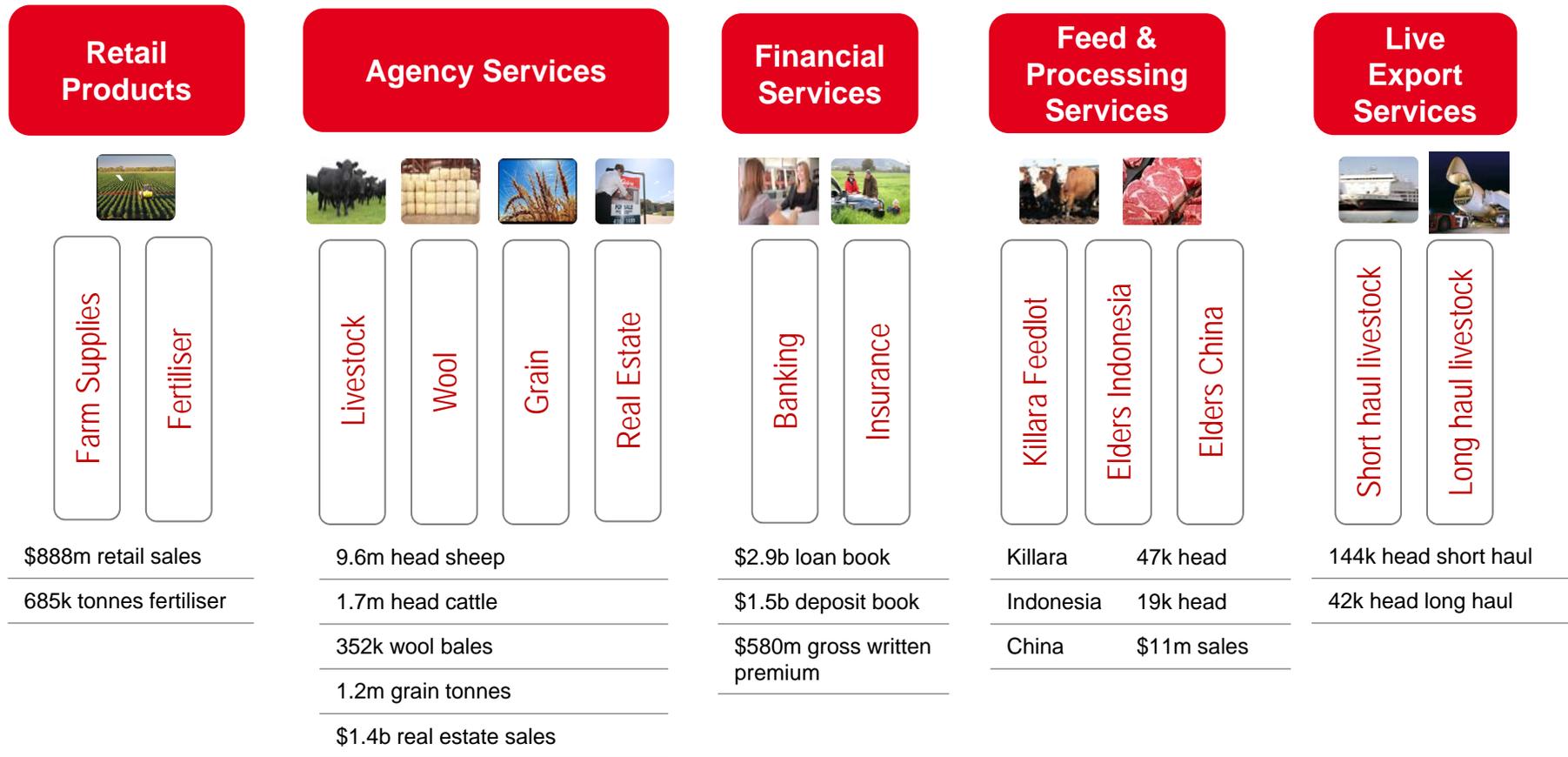
## Elders is...

- Iconic Australian agribusiness
- Over 175 years old
- 2,000 employees
- 370 points of presence in Australia, Indonesia and China





## Our Business Model



### Online Platforms

- Elders Online
- Auctions Plus (50%)
- Livestock.com.au

Based on FY14 statistics, excluding discontinued operations





## Proximity to Growth Markets



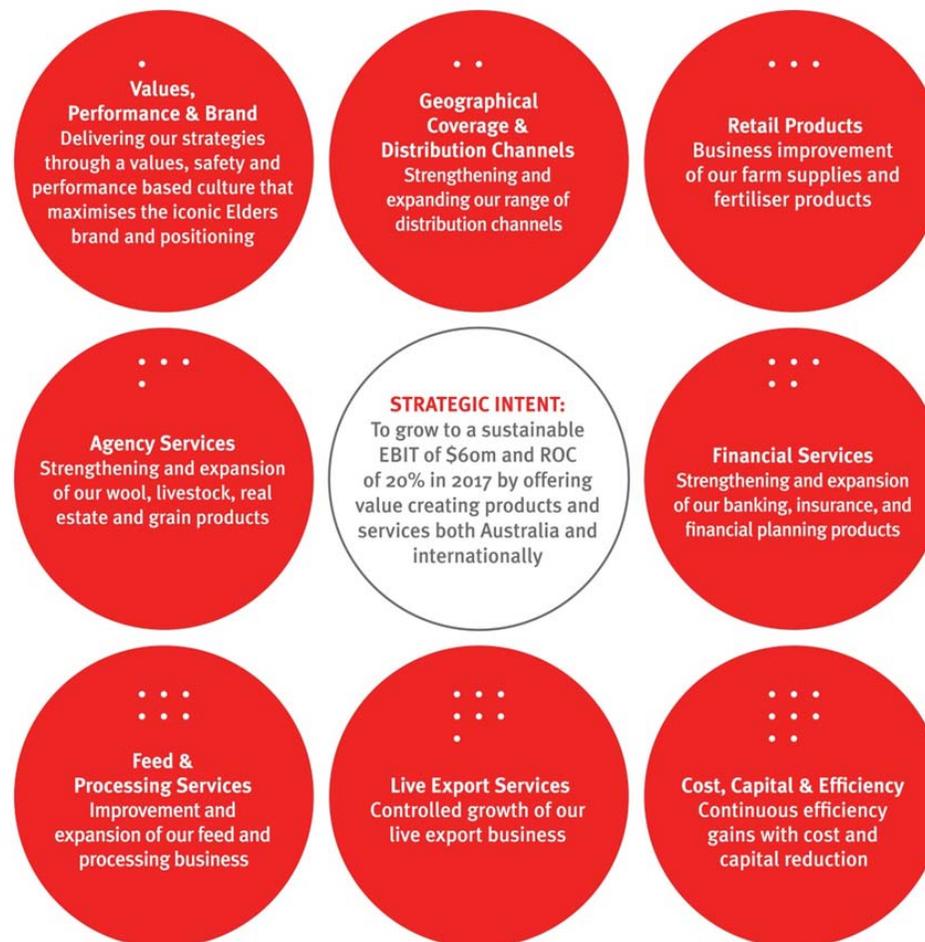
- ✓ Key operations in China, ASEAN, North-East Asia, and access to world markets
- ✓ Proximity to Asia provides opportunity to capitalise on growing middle class demand for premium agricultural products





## Eight Point Plan

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





## Progress on FY15 Priorities at Half Year

### Safety Performance

- ✓ Continued emphasis on safety
- ✓ Delivering employee safety engagement plan
- ✓ 34% increase in team safety discussions since March 2014
- ✓ LTI frequency rate reduced from 5.0 to 4.0
- ✗ 8 LTIs, up from 6 LTIs at March 2014
- ✓ Target is to be LTI free

### Operational Performance

- ✓ \$16.2m underlying profit up \$11.2m
- ✓ ROC at 17%, up from 13% at 30 September 2014
- ✓ Developing capital light business model for farm supplies and fertiliser
- ✓ Margin management program for selected non price sensitive retail products
- ✓ Implemented remuneration for agency employees that drives performance and growth
- ✓ Ongoing emphasis on cost control

### Key Relationships

- ✓ Maintain high levels of employee effectiveness and enablement
- ✓ Conducted client and non-client focus group research across 10 locations Australia-wide
- ✓ Developed national TV brand campaign to be launched in May 2015
- ✓ Engaged in regional sponsorship agreements in key focus regions
- ✓ Rationalising and refocusing our relationships with key suppliers
- ✓ Ongoing briefings with key investors and potential investors

### Efficiency and Growth

- ✓ Completed a comprehensive branch benchmarking program
- ✓ Launched online livestock sales platform and investigating expansion of online platforms
- ✓ Implementing growth strategies for agency businesses
- ✓ Exploring opportunities to expand and establish domestic and international red meat supply chains
- ✓ Actively considering opportunities for acquisition and growth with strong ROC



## FY15: Half Year Financial Performance

\$ million	1H FY15	Change	1H FY14
Sales revenue	645.2	↑ 13.8	631.4
Underlying EBIT	21.9	↑ 8.4	13.5
Underlying finance cost	(4.9)	↓ 2.6	(7.5)
Underlying profit after tax	16.2	↑ 11.2	5.0
Reported profit / (loss) after tax	15.9	↑ 26.1	(10.2)
Net debt	(86.8)	↓ 149.8	(236.6)
Operating cash flow	8.3	↑ 19.8	(11.5)
Working capital	179.9	↓ 19.2	199.1
Return on capital	17%	↑ 26%	(9%)



## Current Projects within Elders

### Agronomic Centre of Excellence

- ✓ Conceptualised an industry leading platform for agronomic best practice and stewardship
- ✓ Launched new agronomy graduate program, and employed first intake
- ✓ Conducting internal skills audit of agronomy team

### Meat Branding Project

- ✓ Developing branded meat product lines for international markets
- ✓ Introduced to Elders' existing Chinese and Indonesian supply chains in coming months

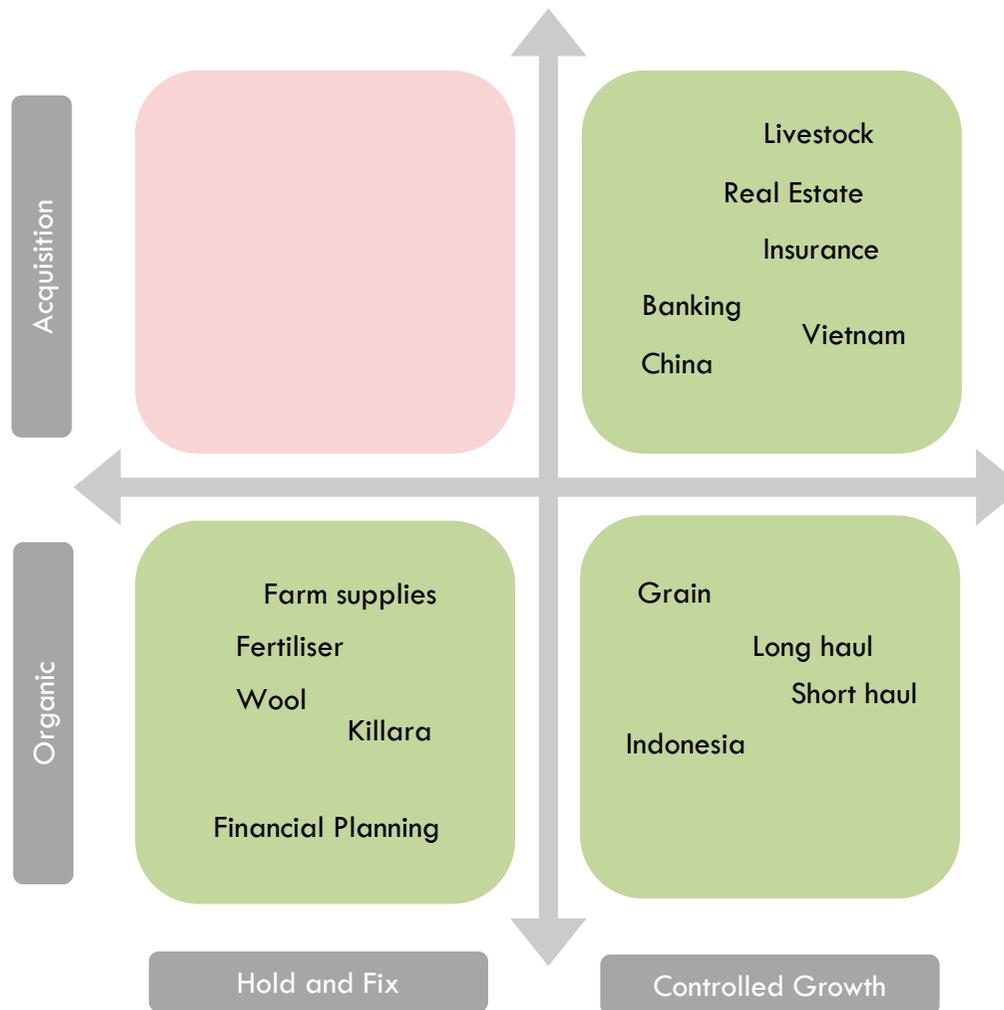
### National Brand Campaign

- ✓ Addressing perceptions of Elders through national media campaign
- ✓ Television, online and print media advertising launched in May 2015
- ✓ Targeted sponsorship in areas with opportunity for improvement





## Growth Opportunities



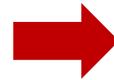


## Opportunities and Challenges for the Industry

### Australian Rural Industry has/is...

### ....Implication

An aging workforce



Requiring continued productivity gains to maintain competitive terms of trade

Predominately export orientated



Sector is reliant on the performance of global markets, diversity is required

Returns are highly variable



Skills and systems to effectively anticipate and manage risks will be crucial

Fewer, larger farms



The family farm faces increasing pressure to grow and maintain efficiency

In the driest continent



Access to quality production resources (arable land, water) is vital for increased production capacity

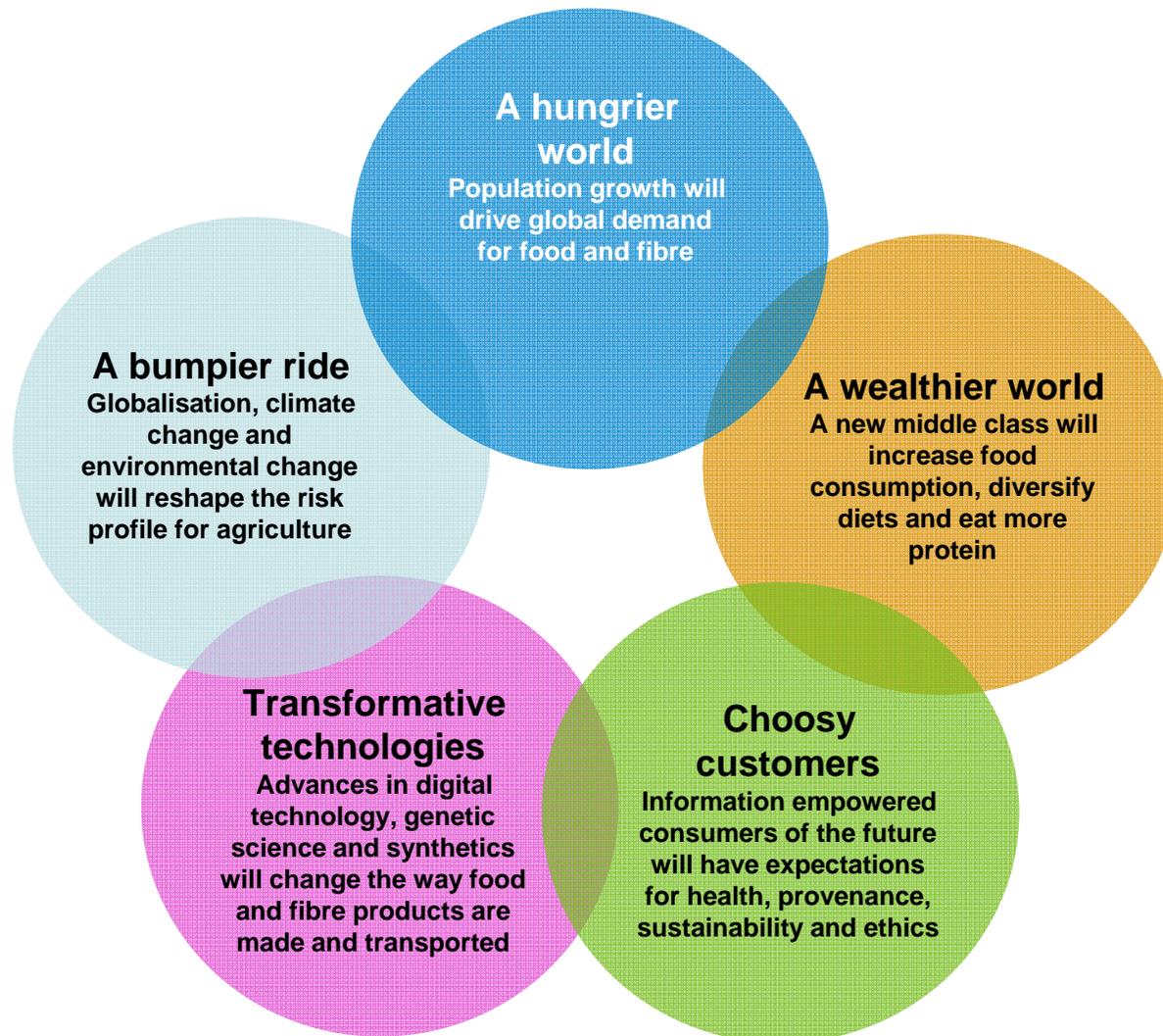
Limited infrastructure



Proximity to markets is key, with additional investment needed



## Five Megatrends impacting Australian Agriculture



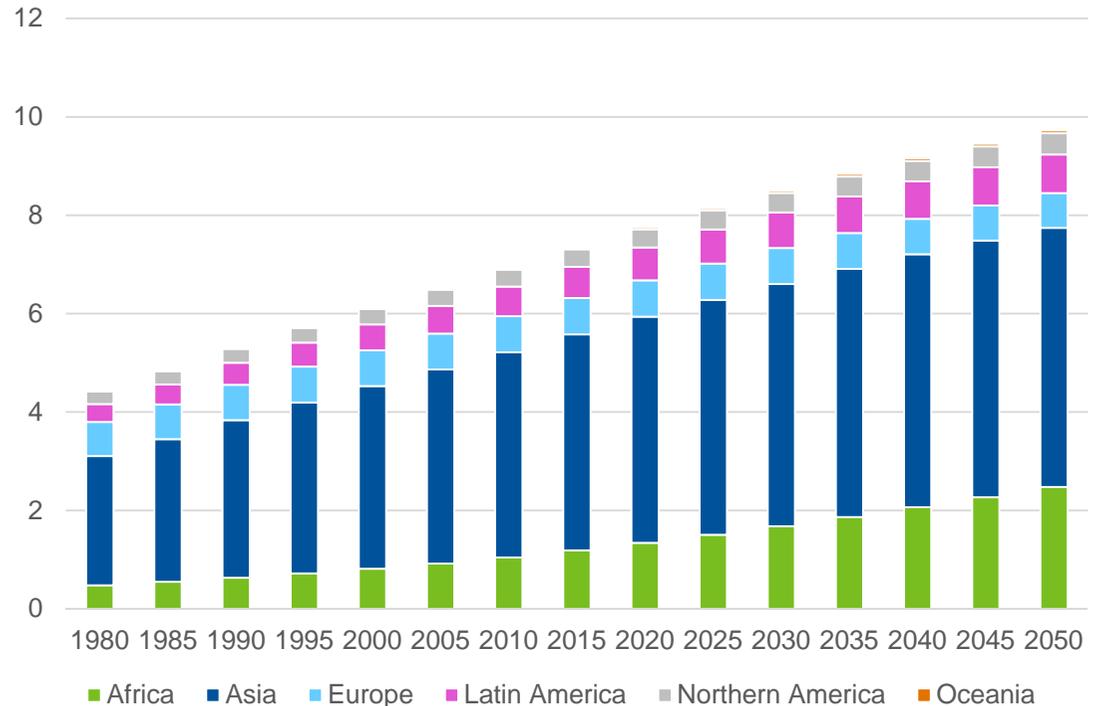


## A hungrier world

- Growing population - 2.4 billion more people by 2050, majority in Asia
- Population and income growth driving ~70% increase in food demand by 2050
  - 46% growth in demand for staple grains
  - 76% growth in demand for animal proteins
- 12 million hectares of agricultural land are lost to desertification and urbanisation annually

## Rising population, increasing consumption, shrinking agricultural land and water scarcity

**World Population**  
Billions



Source: UN World Population Prospects



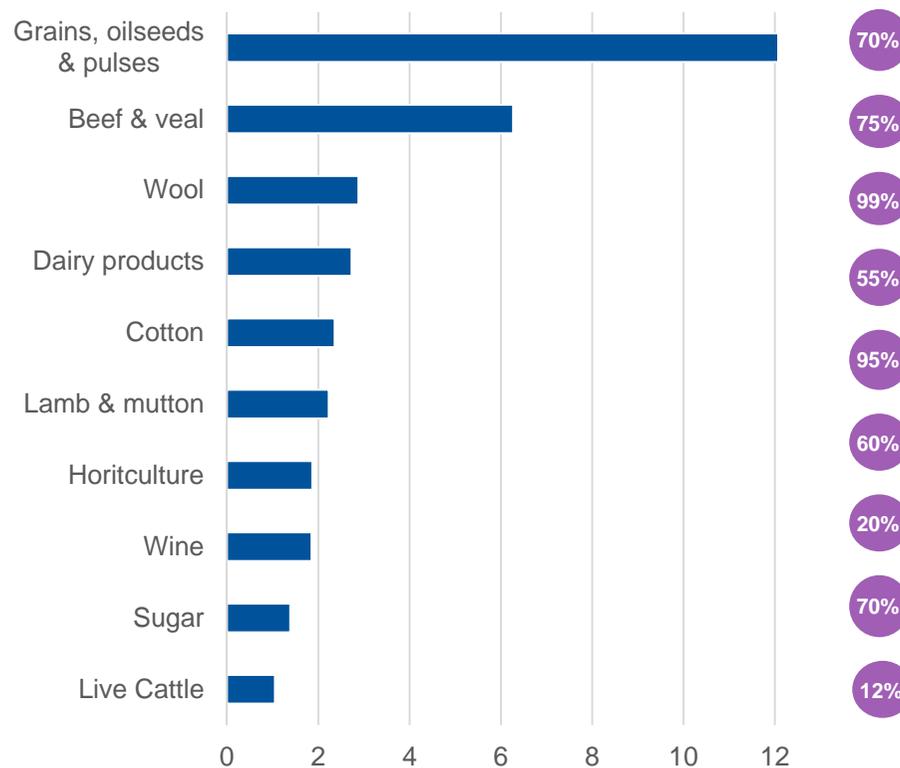
## Industry implications

- Increasing supply requires;
  - ~90% improvement in crop yields
  - Annual growth of 1.4% in livestock numbers and carcass weights
  - More land converted to agriculture
- Growth in Australian exports will hinge on global competitiveness
- Australia likely to supply basic food commodities, and high value niche products (wine, dairy, beef) to more affluent sectors

## Increasing Agricultural production and exports

### Value of Australia's Agricultural Exports

\$ billion



Exports as % of production

Source: ABARES



Source: Rural Industry Futures: Megatrends impacting Australian Agriculture, Rural Industries Research & Development Corporation & CSIRO

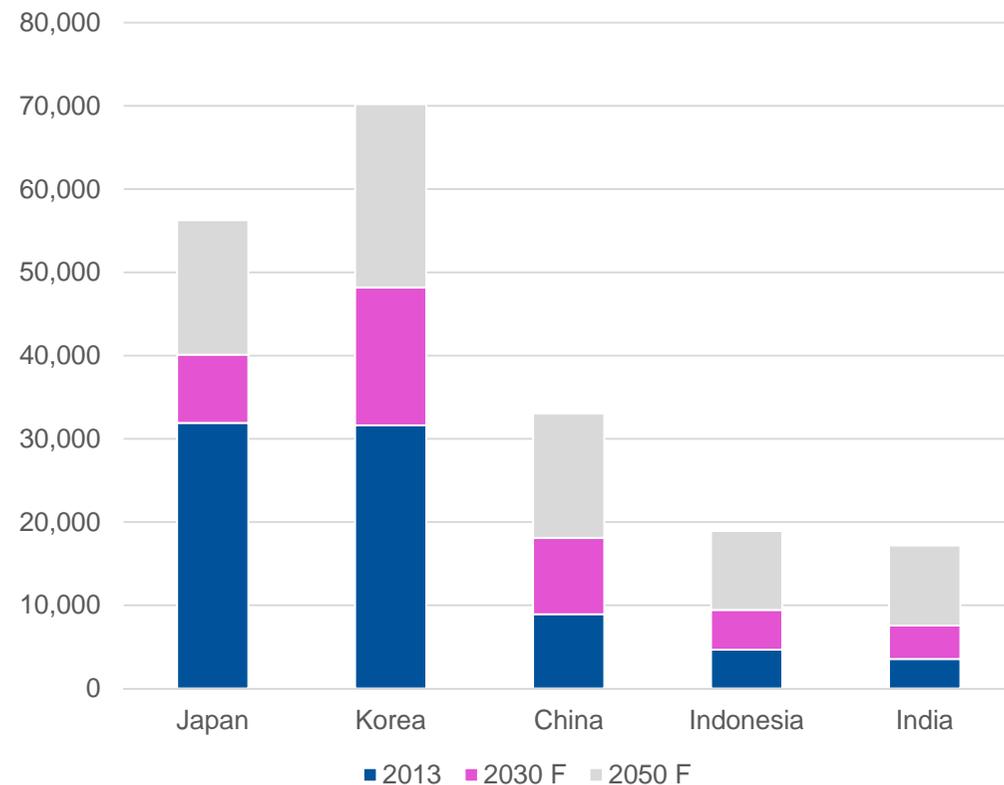


## A wealthier world

- In the developing Asian region, 1.02 billion people will move out of poverty and into the middle class
- Global average annual incomes are forecast to double by 2040
- Increasing westernisation of diets, shifting away from rice and grains towards high-protein foods
- Strong demand growth for boutique and luxury foods such as cheese, wine, beer, tropical fruits, and nuts
- Rising wealth and educational levels driving demand for environmentally sustainable, socially and ethically responsible, food and fibre production

## Domestic and international income growth

**GDP per capita, PPP**  
US\$



Source: OECD Economic Outlook: Production & Statistics





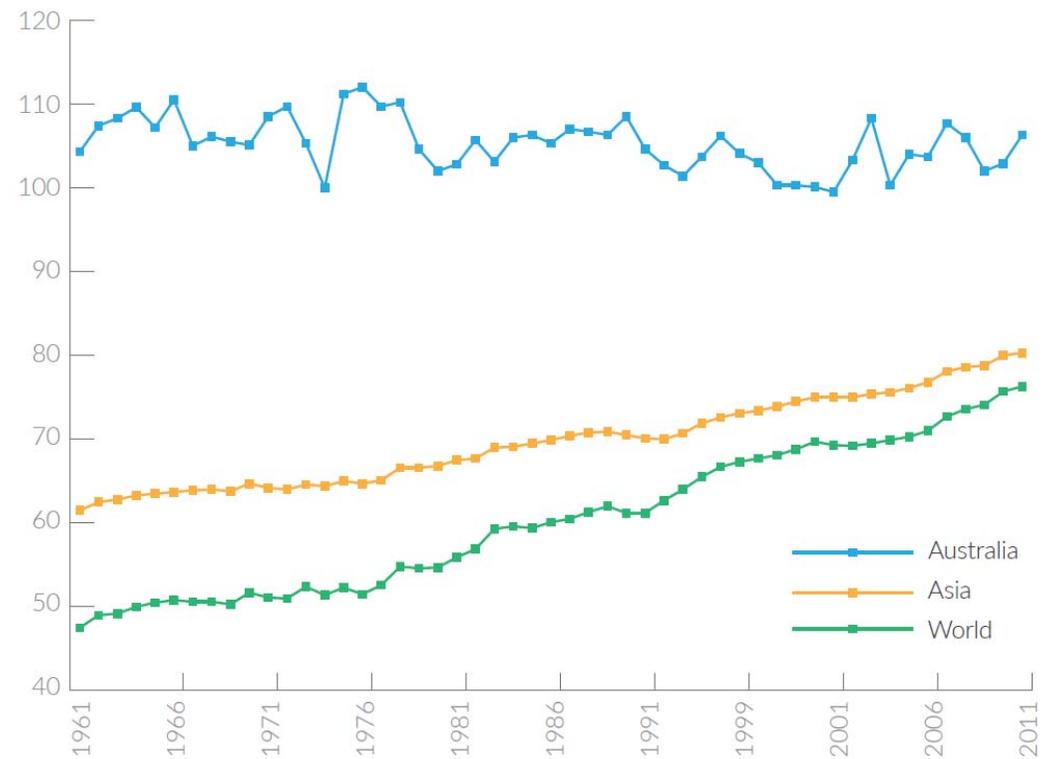
## Industry implications

- Rapid growth in “other” agricultural segments, boutique and specialised products
- Asia’s growing reliance on imports to meet increasing protein consumption
  - Beef consumption in ASEAN increasing by 120% and dairy consumption doubling by 2050
- Emerging economies in East Asia, Latin America and the Middle East are expected to grow imports more rapidly in the short-to-medium term

## Diversifying exports and markets

### Protein consumption

Daily consumption of protein (grams per person per day)



Source: Rural Industry Futures: Megatrends impacting Australian Agriculture, Rural Industries Research & Development Corporation & CSIRO



## Fussier customers

- Informed - consuming becoming empowered with choice
- Selective – choosing specialised food and fibre to improve their health
- Knowledge sharing - information technology enabling consumers to access, share, and validate product information along the paddock-to-plate supply chain
- Provenance matters

## Health to become a prominent driver of food choice and consumption patterns





## Industry implications

- Achieve product differentiation by identifying and communicating health benefits
  - Reduced fat
  - Lowering cholesterol
  - Added protein
  - Weight control
- Industry facing greater community and government scrutiny
- Technology making supply chains transparent

Increased communication on origin, socially responsible production and health benefits of products



Source: Rural Industry Futures: Megatrends impacting Australian Agriculture, Rural Industries Research & Development Corporation & CSIRO

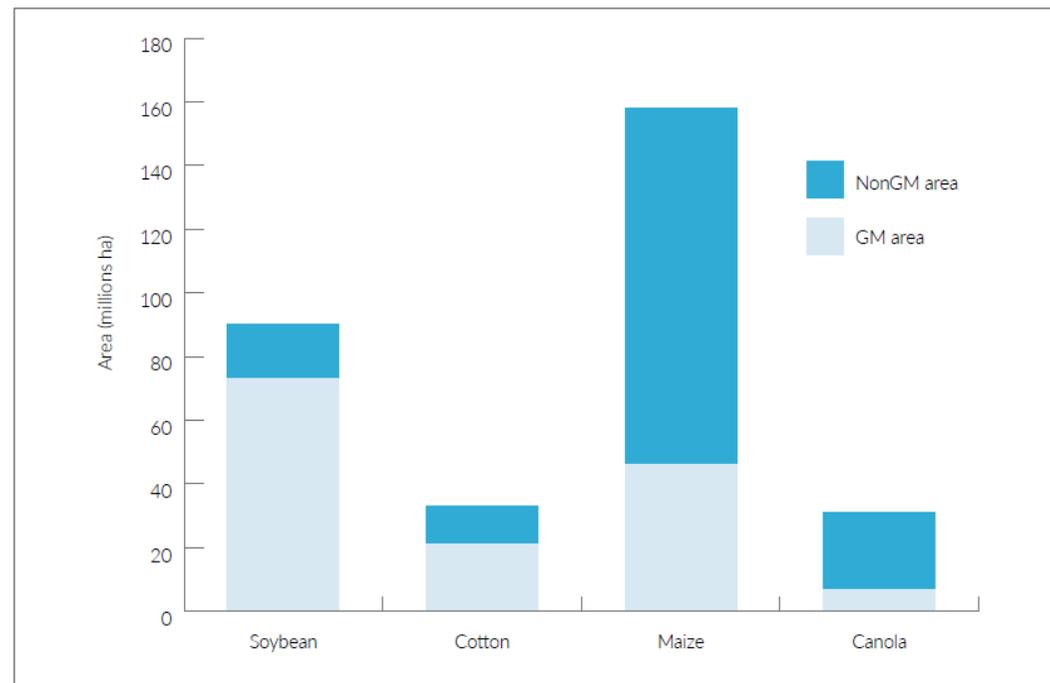


## Transformative technologies

Growth in a selection of key technologies, including digital tech, genetic and material science, will change the way we operate

- Increasing use of robotics and automation
- Genetics for crop production
- Controlling pests and diseases through inhibiting gene expression
- Faster and better seed cloning
- Commercial application of unmanned aerial vehicles
- Increasing research for nanomaterials such as nanopesticides

**Global production area for genetically modified crops**  
Area (millions ha)



Source: Rural Industry Futures: Megatrends impacting Australian Agriculture, Rural Industries Research & Development Corporation & CSIRO

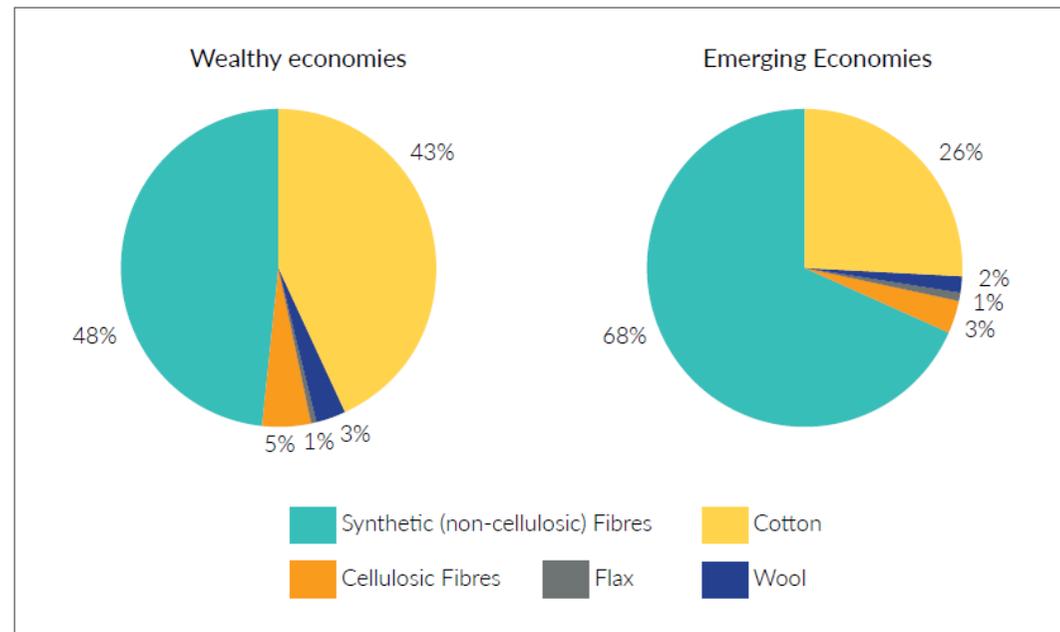


## Industry implications

- Farming going digital (less muscle power and more brain power)
- Traceability and transparency - putting production methods under the spotlight
- Growth towards synthetic textiles in emerging economies – the potential to displace natural fibres

## Farmers will have sophisticated tools to assist with decision making

Comparison of apparel fibre consumption in developed and developing countries in 2010



Source: Rural Industry Futures: Megatrends impacting Australian Agriculture, Rural Industries Research & Development Corporation & CSIRO



## A bumpier ride

Farms will need to operate under increased weather uncertainty with more droughts, floods, heatwaves and bushfires

### Challenges and risks likely to increasingly influence Australian Agriculture are:

- Climate change and extreme weather impacting on food production
- Price volatility through the globalisation of markets
- Increased biosecurity risk from the rise of global movements (both people and ships at ports)
- Increasing reliance on offshore chemical industries
- Greater dependency on global supply chains means an increased risk of disruption, breakdowns, macroeconomics and political changes
- Increasing weed and pest resistance to herbicides and pesticides, reducing their effectiveness and increasing farm vulnerability
- The baby boomer handover means increased aggregation of farms or more ownership by people from a non-farming background



## Industry implications

- Develop climate-resilient agriculture – production systems designed to anticipate, prepare for and respond to changes in climate
- Scenario planning - understand supply chain risks and build migratory mechanisms
- Develop alternative mechanisms for managing pests and weeds
- Develop risk management strategies – techniques such as hydroponics, hot houses, and synthetic foods insulated from the climate.
- Working smarter not just harder

## Australian rural industries are having to become more resilient





## Implications for Elders

### Elders must:

- Invest in technical leadership in inputs (productivity growth) and consumer demand
- Provide lowest cost input options
  - procurement
  - e-channels
- Have customer anchors in ASEAN and China
- Be culturally diverse and have empathetic workforce
- Diverse and balanced international markets
- Strengthen tropical and temperate horticulture, dairy, and sugar cane segments
- Broaden export commodity portfolio



# 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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