



ASX Announcement

29 November 2017

Chairman's Address at 2017 AGM

Wellard Limited (ASX:WLD) (**Wellard** or the **Company**) releases the address to be presented by the Chairman at the Company's Annual General Meeting today at Botanical 4, Lower Level, Crown Convention Centre, Great Eastern Highway, Burswood at 10.00am (WST).

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Chairman's Address at 2017 AGM

In my message to Wellard Limited shareholders contained in the FY2017 Annual Report I set out in some detail the conditions our Company experienced in FY2017, how the Company has acted to counter these conditions and the Company's most recent financial results.

I do not propose to repeat this message other than to say the statutory Net Loss of \$75.3m (which included the \$13.1m write down of the MV Ocean Outback prior to its sale) was a great disappointment to shareholders and to the Board, and one that required immediate action as it became apparent that the conditions which severely compressed margins in our traditional markets in FY2017 were likely to persist into FY2018.

The Company's response so far has included significant restructuring, personnel changes, a rigorous 'costs out' program, asset sales, capital expenditure deferrals, market diversification and a capital raising.

In my Chairman's Report we set out the significant progress that we had made up to the time of the publication of the Annual Report, and I am pleased to say that progress with the restructuring and 'costs out' program is continuing. We estimate to have reduced overheads at an annualised rate of greater than \$10 million (or about 27% on FY2017), with further savings and efficiencies expected.

Our Executive Director of Operations, Mr Fred Troncone, will provide more details on the success of these programs and what we expect to come in the year ahead.

The market environment remains challenging, with the continuation of high cattle prices in Northern Australia significantly compressing margins in our key Indonesian and Vietnamese markets. However there does appear to be some relief, with slightly lower prices being seen in the southern herd, which is opening up some opportunities in what will be the increasingly important Chinese market.

Wellard is very pleased to have successfully completed its first shipment of slaughter cattle to China this month and has had positive feedback from our Chinese clients. We are also encouraged by a level of enquiry that may lead to further shipments this Financial Year. We believe that structured properly, the China market represents a massive opportunity for our business, and we are increasingly confident that our first pilot shipment will be recognised as the proof-of-concept that started something much bigger.

We are also encouraged with the level of enquiry we are receiving from well-regarded parties in the Middle East for live sheep export and with the increased demand for the chartering of our two large ships into the South American to Turkey run, which we anticipate will enable Wellard to deploy these ships during much of the Northern Australian "wet season" at reasonably attractive rates without having the working capital burden and risks of shipping our own cattle. This latter development, together with a restructure of business engagement model in South America, has enabled the Company to reduce its infrastructure in South America and Europe and allows us to build up our experience in these important markets at a much-reduced level of risk.

Mr. Troncone will cover the current operations in more detail and while it is clear conditions remain challenging we have seen an improvement in EBITDA Year-on-Year with an unaudited EBITDA for the first four months of the year to 31 October 2017 increasing to \$3.4m, which is an improvement of approximately \$7.6m from the same time last year, with about 78% of this improvement coming from cost savings. We expect the December 2017 half year will be a loss, and we will continue to require waivers from our financiers. While a return to profit is still very dependent on how market conditions play out over the medium term, the Board is confident that Wellard is on a path to improving its capacity to be leaner and better sized to meet the still tough market conditions. These factors I have mentioned lead us to have some cautious optimism in the medium term.

Throughout this difficult period, I am very proud to say that the Company's commitment to employee safety, and to animal welfare, has not faltered. At last year's Annual General Meeting I stated that Wellard had to improve its safety record, and I am pleased to say we have progressed on this journey. I am also proud to say that this improvement has been coupled with longer-term initiatives designed to lock in processes for risk reduction. Safety initiatives undertaken in the last year include a complete ban on four-wheel motorbikes and, at our Beaufort River Meats business, a significant investment in new cutting technology, which automatically shuts down blades when it senses a risk of cutting an employee.

Our commitment to animal welfare remains steadfast. Wellard is one of only two Australian companies to have unconditionally passed an intensive regulatory audit in Vietnam, and we have received no investigations or notices of non-compliance from livestock exported in the past financial year. The community demands that we focus our people, our processes, and our assets on good animal welfare outcomes. We recognise that this is a license to operate issue. We also recognise that looking after our livestock on land, in our ships and in our customer's supply-chain is good for business. Unlike many of the aging fleet of livestock vessels which operate out of Australia and internationally, our fleet is designed for the safety of our people and the comfort of our animals.

So, while we have implemented changes to better ride out market conditions, our high-level strategies remain consistent. As we move forwards, we are focussed on achieving several strategic deliverables, being:

1. The creation of a balanced, more diversified portfolio of markets for our sales, where we are looking to be better placed to withstand single market exposure risk by achieving a spread of sales across the European and Mediterranean, Middle East and Chinese markets;
2. The development and implementation of effective, responsible and efficient processes throughout our business by further restructuring our operations, innovating and streamlining our processes and driving our 'costs out' program;
3. Placing our customers at the centre of everything we do, and preserving our valued and committed relationships with our key clients, in part by tailoring sale strategies to suit local requirements and customs;

4. Establishing more diversified and secure sources of supply by leveraging the work we have done in the Americas and by securing priority access to quality livestock where possible; and lastly
5. Over the longer term, further developing and exploiting additional strategic vertical integration opportunities.

Lastly, and notwithstanding the challenges we are working through, I would like to take time to thank our suppliers, bankers, advisers, and most importantly, our staff, who have all worked very hard these past twelve months, to continue to steer our Company through these difficult times. On behalf of all the Wellard directors, I thank you for your efforts.