



Thursday, 13 December 2018

## 2018 AGM CEO's Presentation

Attached is a copy of the Chief Executive Officer's presentation to the 2018 Elders Limited Annual General Meeting being held today in Adelaide.

Peter Hastings  
Company Secretary



## **Chief Executive's Presentation, Mr Mark Allison 2018 Annual General Meeting of Elders Limited**

Good morning everyone and thank you for your attendance today both here in the room and via our live webcast.

As I'm sure our shareholders are aware - since 2014, the Eight Point Plan has provided clear, consistent direction. It identifies sustainable competitive advantages as a pure-play agribusiness, by business model, by product, and geography, and anchors our future growth and development on these advantages.

We've now completed the first full year in the second phase of Eight Point Plan. I'm pleased to report that in FY18 Elders continued its commitment to its strategic priorities and its resolve to realise the objective of delivering continuous high quality growth through agricultural, commodity and seasonal cycles.

As our Chairman shared earlier, Elders is committed to the safety of its people and in 2018, our lost time injuries were five, down from six last year.

We continue to strive for an injury free workplace through risk based decision making, training and development, and a continued emphasis on employee and community safety, health and wellbeing. All lost time injuries are recorded in our safety reporting, regardless of the cause of the incident.

In order to strive for zero lost time injuries, we continue to work together to identify and reduce risks and make Elders a safer workplace.

2018 was a year of delivering on what we said we would do. Turning to our financial results, I'm pleased to report that we achieved underlying earnings before interest and tax of \$74.6 million and a 24.2 percent return on capital, despite challenging trading and seasonal conditions.

At a local level, conditions are difficult for many parts of the country and I commend the many customers on their resilience and their management of these conditions. From a business viewpoint, the level of diversification that Elders has from a business model, product and geographical perspective means the overall impact to our business has been limited.

From a shareholder view point, we announced a fully franked final dividend of nine cents per share, taking dividends for the full year to eighteen cents. To have increased dividends from fifteen cents a share in FY17 to eighteen cents this year is very pleasing.

Elders is focused on delivering value for all stakeholders in Australia and internationally. We have continued on from the strong financial performance in FY17, achieving the five to ten percent growth per annum through



the cycles as we set out to do. We've achieved this through our diversification that we've talked about over the last four years.

Firstly, we've had diversification of business model. We've also had diversification through our products and services, ranging from retail through to fertiliser, agency, livestock, wool, banking, insurance, and feed and processing. And finally, through the more traditional means that many companies have - which is the geographical diversification. This is clearly a benefit for an ag stock.

Looking at our operating cash outflow of \$12 million, which compares to an inflow of \$81 million in the prior year, we saw the impact of higher retail debtors due to both late season activity and a delay of receipts due to public holidays over the year end. Pleasingly debtor receipts banked in the first week of October 2018 were \$30 million higher than the previous year. Additionally, some seasonal stock has also been carried over into the new financial year.

Average net debt rose by \$24 million to \$161 million at the end of September 2018 in line with both business growth and increased investment activity during the year. Our funding is largely comprised of self-liquidating facilities. Debt levels fluctuate with sales activities and the dates upon which receivables are sold into our receivables funding program.

For these reasons, we are of the view that average debt and cash levels are a far better guide to the health of our business than period end levels.

Looking at the results from a product level..... overall the Retail business posted a \$14.5 million margin improvement, with contribution from the Ace Ohlsson acquisition and organic growth in Southern Australia.

Agency was down \$3.4 million with declining cattle prices having an impact on margin, which was partially offset by solid wool performance and increased sheep trading volumes.

Real Estate margin improved by \$1.7 million to \$33.6 million with the increase from footprint expansion offset by subdued activity in key residential markets.

Elders' Financial Services earnings were boosted by acquisitions and organic growth in loan book balances, rising from \$35.1 million at the end of FY17 to \$38.3 million at the end of this reporting period.

Feed and Processing margin increased across all business units, with Killara feedlot continuing to perform due to high utilisation levels driving efficiencies in cattle performance.

Costs increased by \$13.8 million to \$280.4 million to drive Eight Point Plan initiatives, including acquisition and organic footprint growth.

This leads to our acquisitions for FY18....



Our network has successfully integrated a number of business acquisitions this financial year, notably Kerr & Co Livestock, which has increased our footprint in Western Victoria.

In addition, the purchase of Titan Ag will extend Elders' participation in the retail supply chain for quality agricultural chemicals, and our 20 percent stake in Clear Grain Exchange represents another opportunity for future growth.

The Eight Point Plan continues to guide our sustainable growth and our business units are constantly reviewed to ensure they are generating a consistent return on capital at a level which creates sustainable wealth for our shareholders. This allows us to re-invest in initiatives for our regional and rural clients and communities.

Through this portfolio review process, which had regard to high cattle costs and changing Indonesian governmental policies, we deemed it appropriate to divest our Indonesian feedlot and processing assets.

We remain steadfast in our target to achieve 5 to 10 percent growth year on year, with half from acquisition and half from organic growth.

From a digital and innovation viewpoint, we've had a full year of the Thomas Elder Institute and our technical services and digital strategy. We're attracting some very strong interest in partnerships through multiple institutions, as well as state governments looking at ramping up their activity in this area.

We welcomed our first recruit to Thomas Elder Consulting, our new group of highly specialised agronomic consultants with expertise to offer whole farm management advice across all areas of our clients' operations. Thomas Elder consultants will complement our existing annual investment in agronomy and livestock production advice activities. These activities include trial sites, projects with industry groups, and other research and development activity.

Turning now to our communities and I'm pleased to say our partnership with the Royal Flying Doctor Service has grown this year alongside our community giving program, *Give It*.

At a local level, we have multiple initiatives in place through our branch network in local communities. This is wonderful work and really is, and has been, the fabric of Elders in regional and rural Australia for the last 179 years.

With drought currently affecting many of our clients, people and local communities in large sections of the east coast of this country, we are also a partner of beyondblue and believe it is incredibly important to look out for each other and our clients' mental health. In line with that, we've had multiple drought support programs at a local community level run through our branches and will continue to support regional rural communities around Australia.



It is evident that our people wear the pink shirt with pride in the communities in which we operate and I thank each and every one of our employees for the dedication to giving back to their local communities.

Our 2,000 employees make up our high-performing culture and we believe high engagement and enablement is key within Elders. We measure this annually through our employee effectiveness survey. In 2018, the results demonstrated an increase in both engagement at 75 percent, and enablement at 77 percent. These results place Elders above the Australian benchmarks of 67 percent and 66 percent respectively – which is extremely pleasing.

We pride ourselves on investing and developing our people. We recognise outstanding performance through the One Elders Awards and through incentive initiatives which encourage and reward high performance and achievement.

More than 320 of our people participated in a formal learning and development program this year. We also continued our support for the Australian Rural Leadership Foundation, with participants in the Agribusiness Leadership Program.

Nurturing new talent and our succession pipeline saw 20 new trainees commence the Livestock Trainee Program, with an additional 18 existing employees attending workshops – seven of whom opted to enrol in the certificate four in Agriculture offered through the program.

The trainee program this year included additional training modules at workshops to equip trainees with strategies for helping clients cope with drought, as well as an increased focus on livestock production, and using technology.

We employed 12 university agronomy graduates this year, with three completing the full-time internal agronomy graduate program. This two-year program has seen a completion rate of 100 percent over the last four years.

Looking at our measurable diversity objectives to 2021, and whilst we still have some way to go, we continue to increase the pipeline of female team leaders over our target of 25%, currently we sit at 30%.

Looking now at the broader industry.... the National Farmers' Federation and Agribusiness Australia, signed a Memorandum of Understanding in Canberra this year. As Chairman of Agribusiness Australia, I'm pleased to see two peak agricultural representative bodies committing to work together towards a farm gate production value of \$100 billion by 2030. Elders supports the MOU, and our clients, in achieving this growth throughout the supply chain.



In 2019 Elders will support evokeAG as a platinum partner. This is a leading international ag-tech event and the partnership further signifies the importance of innovative collaboration to generate and disseminate new digital and technical agricultural ideas across the country.

Looking ahead from a financial viewpoint to the end of the current Eight Point Plan, we will continue to demonstrate our strength in portfolio management, geographical segmenting, our core products, innovation and our commitment to Australian agribusiness and our clients.

We believe this will enable us to deliver 5 to 10 percent growth per annum over that period through agricultural, seasonal and commodity cycles and deliver value to you, our shareholders.

2019 will mark another major milestone in the Company's history when we celebrate our 180<sup>th</sup> year in business. Elders anticipates another year of progress and innovation to elevate the business even further – particularly in digital and technical services.

To our hard-working team of employees across our business, thank you for the dedication, commitment and pride you have for the pink shirt.

I would also like to take this opportunity to acknowledge our Chairman for his significant contribution to Elders, and thank him for his service over the last ten years on the Board.

On behalf of all pink shirts I thank you, our shareholders, for your ongoing support. We look forward to sharing another strong period of growth, success and value generation with you all again this year.

Thank you.