



Wellard

ASX Announcement

10 June 2016

Wellard Update

Wellard Ltd (Wellard, ASX:WLD) provides the following update on the Company's operations, forecast profit, outlook and finalisation of its IPO Share Sale Agreement separation settlement quantum and timing.

Operations and forecast profit

Wellard is on target to ship approximately 450,000 cattle in FY2016, a record for the Company. Despite this shipping record it has become evident that the Company's earnings for the year ending 30 June 2016 will be lowered by several factors, principally by recent ship scheduling changes and margin compression created by unexpectedly high record cattle prices in Australia.

As a result the Company now expects to record a pro forma FY2016 Net Profit After Tax* of approximately \$23.5-\$30 million based on current exchange rates. June shipping and trading activity is still being finalised, which could affect the final result, with seven shipments still to load.

The largest impact on the Company's forecast earnings has been the rescheduling of a number of shipments, including two large shipments, one of which is the M/V Ocean Shearer, from June 2016 to July 2016. These shipments will now be accounted for in FY2017.

"The forecast result is lower than anticipated and certainly lower than we would have liked," said Wellard CEO Mauro Balzarini. "Heavy out of season rain in northern Australia has meant the price we have paid for cattle has consistently been 80-100 cents per kilogram higher than the prior corresponding period. There has been strong customer resistance to those high prices and trading margins have been impacted as a result."

Wellard responded to the changed market dynamics by diverting its newly launched M/V Ocean Shearer to South America. However, the additional sailing time and turn-around time in port has meant the vessel will only complete one voyage for the current financial year, rather than the two that were planned. The second voyage is now expected to occur in early July, again loading in Brazil.

"The margin pressure we encountered trading and shipping cattle from Australia to South East Asia supports our decision to increase our focus in countries like Brazil, which has a cattle population of more than 220 million head and strong trading margins," Mr Balzarini said.

Outlook

Wellard expects the shipping and trading margin pressure in Australia will continue in the short to medium term. Farmers across Australia are benefiting from a good feed bank and have moved from destocking to herd rebuilding, reducing the supply in the short term but increasing it in the longer term as herd numbers rebuilds.

“In time the restocking will lead to improved cattle supply in Australia. In the meantime the mobility of our assets allows us to increase our shipping and trading activity in South America, where cattle supply is greater and margins are better,” Mr Balzarini said.

“Wellard remains profitable despite this margin pressure and our outlook remains positive. We have strong and consistent management and liquidity, and a global customer base demonstrated by our volumes of cattle.

“We are continuing to execute our growth strategy, with the successful commissioning of the M/V Ocean Shearer which increases the Company’s shipping capacity by 50%, a growth in cattle shipment numbers, diversification of supply markets, and downstream development in China and Turkey. We expect this to bring significant future benefit to Wellard.”

IPO Share Sale Agreement quantum

Wellard expects to provide notice next week to WGH Holdings Pty Ltd (**WGH**) of the amount owing to Wellard pursuant to adjustments arising from the separation of the two companies as detailed in the IPO Prospectus and expects a net amount of approximately \$15.6 million (**Estimated Adjustment Amount**).

The Estimated Adjustment Amount denotes the estimated adjustment to complete financial settlement between the two companies and includes adjustments as evidenced by the Separation Agreement and WGH Share Sale Agreement (**Agreements**) including adjustments in working capital, drawn debt and planned capital expenditure plus interest on the outstanding amount in order to deliver the Wellard balance sheet in accordance with the IPO Prospectus.

At the time of the release of Wellard’s audited 31 December 2016 Half Year Financial Report on 29 February 2016, the Company estimated the outstanding net amount owing from WGH to be \$14.7 million and accounted for a receivable of that amount.

In determining the Estimated Adjustment Amount, Wellard established a Board Sub-Committee which consisted entirely of independent non-executive directors overseeing the process and engaged independent legal, financial and accounting advisors to assist in determining the quantum of the adjustment.

Once the Estimated Adjustment Amount has been finalised and the Company and WGH agree the final amount, under the terms of the Agreements WGH is required to repay the final amount within 5 business days. WGH has informed Wellard that it is currently making arrangements which will enable it to pay the final amount within a 3 month period. It intends to make such repayment without recourse to selling any of the Wellard shares it owns. The finalisation of the Estimated Adjustment Amount and the terms on which any credit will be provided to WGH is in the process of

being negotiated and documented and will be on a commercial arm's length basis. As part of the negotiations, WGH has offered certain payment priorities and security to Wellard subject to the agreement of its lenders.

Further details of the Agreements and the calculation mechanism to finalise the purchase price post IPO are disclosed in section 9.4.1 of the Wellard IPO prospectus released on the ASX platform on 4 December 2015.

Wellard will provide a further update once the final adjustment is determined.

*Pro forma FY2016 Net Profit After Tax excludes all one-off IPO related costs, normalisation of interest expenses to reflect post IPO capital structure, and tax expense increase to reflect the appropriate company tax rate after removal of one-off IPO related costs.

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