



# Wellard

ASX Announcement

31 August 2017

## Wellard releases preliminary FY2017 financial results

Wellard Ltd (**ASX:WLD**) (**Wellard**) advises that the Company's preliminary financial results for the year ended 30 June 2017 released today show revenue of \$497.9m, Gross Profit of \$27.6m and a Net Loss After Tax of \$77.3m.

The Company's loss before tax, excluding impairments on vessels, was \$61.4m, which is in line with the \$55m-\$65m range provided by Wellard to the ASX in its announcement dated 18 July 2017. The anticipated additional non-cash write-down on the sale of the MV Ocean Outback totalled \$13.1m as previously disclosed, which formed part of the \$19.8m in asset impairments and write-offs set out the preliminary final accounts.

Wellard finished FY2017 with an improved net cash position of \$33.0m, largely due to the capital raise completed by the Company in May 2017. An amount of \$17.3m, being the net proceeds from the sale of the \$34.9m MV Ocean Outback, was received subsequent to the financial year end.

Key elements of the FY17 results relative to the FY16 results are as follows:

	FY2017	FY2016
	\$m	\$m
<b>Revenue</b>	497.9	573.8
<b>Gross profit</b>	27.7	88.9
<b>EBITDA</b>	(42.2)	2.1
<b>NPAT</b>	(77.3)	(23.3)
<b>Net assets</b>	129.3	188.8
<b>Net cash</b>	33.0	31.9

Wellard CEO and Managing Director, Mauro Balzarini, said he and the Wellard management team were extremely disappointed by the financial results -

*“Management and staff continued to work hard to manage the impact of historically high Australian cattle prices, which are impacting the Company’s volumes and margins, and therefore financial results,”* Mr Balzarini said.

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*“The number of cattle we shipped for the financial year fell by 29 per cent. In addition, the high purchase price of cattle in Australia combined with price resistance in South East Asian markets reduced our margins.*

*“Persistently high Australian cattle prices have allowed frozen Indian buffalo meat to obtain a foothold in the Indonesian market, which is likely to have an ongoing impact on demand for Australian cattle. Whilst a segment of the Indonesian market continues to prefer Australian cattle there is a risk that volumes will not return to historical highs. High prices have similarly impacted demand from Vietnam.*

*“The lower demand for livestock from South East Asian markets during the period also resulted in excess shipping capacity, which forced freight rates lower, thereby reducing our shipping margins.”*

These market conditions led the Company to accelerate expansion in the South America market. Whilst utilising excess shipping capacity, dealing with new suppliers and less familiar customers produced variable results. The Company is re-shaping its operations in this region to address these challenges.

It has also been actively managing its costs, its fleet utilisation and its cashflow.

*“In response to market conditions we have commenced a cost out program, limited capital expenditure, reduced our head count, reinvigorated our sales effort and reviewed the size of our shipping fleet,” Mr Balzarini said.*

*“We sold the MV Ocean Outback in July 2017 and deferred the delivery date of the MV Ocean Kelpie until 30 November 2019, including the majority of related financial commitments, which have been pushed back by 12 months. These initiatives will improve the utilisation of the Company’s remaining shipping assets and have improved our balance sheet with extra cash from the sale. We have also contracted out ships for external charters when this was more profitable than exporting and shipping.”*

Net debt was reduced by approximately \$8.1m as at 30 June 2017 and was further reduced by \$15.6m post-balance date due to the retirement of debt owed on the MV Ocean Outback.

Wellard finished the 2017 financial year with net assets of \$129.3m (FY16: \$188.8m). This consisted of total assets of \$359.0m (FY16: \$474.7m) and total liabilities of \$229.7m (FY16: \$286m).

The financial results caused several breaches of banking covenants on 30 June 2017 that required Wellard to categorise all long-term debt as a current liability, regardless of its tenure. Loans and borrowings of \$138.0m would have otherwise been classified as non-current liabilities as they are due to mature beyond 12 months from balance date. As in the past, the Company has either received or expects to receive waivers for all covenant breaches that occurred on or up to 30 June 2017. The Group made all payments due under its working capital facility and ship financing facilities during the period.

Wellard has maintained a strong focus on animal welfare throughout the year without any major events recorded. Our purpose-built ships, dedicated animal welfare officers and an ongoing R&D program ensured that our success rates continued to be higher than industry averages.

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Wellard will lodge its annual report, including its audited accounts, Directors' Report and Remuneration Report, by 30 September 2017.

## **Outlook**

The Company's performance is sensitive to Australian cattle prices and foreign exchange rates. Pricing for some categories such as heavy slaughter cattle suited for Vietnam have eased. Prices for other categories remain at or close to historical highs, notably the lighter steers that are exported to Indonesia, Wellard's largest market.

*"We are beginning to see increased interest for shipping capacity to China and the Middle East and have recently signed a number of external charters to third parties. The recent fall in prices for heavy cattle is also increasing the viability of shipments to markets such as Vietnam," Mr Balzarini said.*

*"Whilst conditions remain subdued this is helping to improve our financial performance in the first few months of the new financial year, but until we see if price reductions are sustained through the upcoming wet season and into 2018, it remains unclear what impact that will have on Wellard's overall FY2018 results.*

*"We continue to view exports of slaughter and feeder cattle to China as a real opportunity for the business when delivered Australian cattle prices reach a level that is competitive against the Chinese domestic supply.*

*"In the meantime, we continue to actively manage the business through the current challenging trading conditions so that we can leverage the benefits of our strategic assets when the spread between our purchase price and selling price normalises."*

The Company remains the largest exporter of cattle from Australia, with market leading positions in Indonesia and Vietnam. It has reduced overheads by 21%, has an improved cash position, and owns and operates one of the largest and the most modern livestock transport fleet in the world.

## **For further information:**

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