18 December 2014

2014 AGM - Chairman's Address

Attached is a copy of the Chairman's Address to the 2014 Elders Limited Annual General Meeting being held today in Adelaide.

Peter Hastings
Company Secretary

Address by the Chairman, Mr Hutch Ranck

2014 Annual General Meeting of Elders Limited

INTRODUCTION

It gives me great pleasure to address you today for the first time as your Chairman.

It is an even greater pleasure to report that 2014 has been a year of significant positive change for Elders.

It is quite fitting that the year in which Elders has returned to its agricultural roots is the same year in which we have celebrated our 175th anniversary.

For 175 years Elders has been a part of rural and regional Australia, and many people have joined us on the journey and helped make us the company we are today.

There's no doubt that the journey has been challenging at times, particularly in recent years, so I would like to thank all our stakeholders, particularly our employees, our clients and of course our shareholders, for your ongoing support and loyalty.

As our Annual Report details, 2014 has been the year that Elders has "turned the corner" and established a strong platform from which to create value for our stakeholders in the future.

Financially we achieved a $77.3 million improvement in underlying profit and for the first time in six years recorded a profit at both a statutory and underlying level of $3 million and $8.8 million respectively.

The highlights for the year that I would like to review include:

- Debt reduction and refinancing
- Capital raising; and
- Leadership renewal.

I will also comment on some of the resolutions that will be voted on today, specifically the proposed share consolidation, and remuneration report.

Our Chief Executive Officer Mark Allison will then summarise our operational results, our progress against our three year strategy and opportunities available to us in the future.

Debt reduction and refinancing

For too long Elders has been plagued by high debt levels and there is no doubt this has been an issue of immense concern for shareholders and the Board alike.

At the commencement of the global financial crisis, Elders' debt was in excess of $1 billion. To combat that crippling burden, the Company's focus over the last five years has been on debt reduction.

And we made significant inroads on this front in 2014.

Our asset divestment program during the year, which included the sale of our investments in New Zealand ; Elders New Zealand and JS Brooksbank, and in Australia ; our investments in each of Elders Insurance, Kilcoy Pastoral, Australian Fine China and AWH Pty Ltd, meant that we could apply the proceeds of those sales to reduce debt.

With the benefit of those sale proceeds, at financial year end, Elders' net debt was reduced by nearly half from the same time last year. And subsequent to the balance date, following the completion of the refinancing and receipt of the proceeds of the capital raising and asset sales, term debt has been eliminated. Elders' proforma net debt now stands at $92.6 million or less than 1/10th of 2008 levels.

Debt reduction would not have been possible without the support of our financiers. The completion of the refinancing in October this year sees us now enjoy the support of three core financiers, ANZ, NAB and Rabobank.

Most importantly, our new banking facilities comprise flexible working capital lines on normalised commercial terms to better suit the seasonal and market conditions encountered in agriculture. Management and the Board are committed to maintaining the financial discipline that has been implemented over the last several years.

Free of our debt burden we have shifted our focus from asset sales and debt repayments to reinvigorating and reinvesting in the business in order to meet our strategic targets. The Chief Executive Officer will outline the steps we are taking in his address shortly.

Capital raising and share consolidation

Elders' $57 million equity raising, announced in September this year and completed in October, has been well publicised. This equity raising, along with the refinance package, was an important step for your Company as it enabled us to reset our ordinary share register and pay down our term debt.

The Board is very pleased with the interest shown in the equity raising with $10.2 million taken up in a placement to institutional and sophisticated investors and $47 million taken up by existing shareholders in a three-for-five non-renounceable entitlement offer.

We thank those new and existing shareholders who took the opportunity to invest in Elders. The recapitalisation has provided us with a sound platform from which to create value in the future and will allow the Board and management to direct capital back into the business to grow earnings and returns.

I will now turn to addressing the matter of the proposed share consolidation that shareholders will be asked to vote on later this morning.

I am conscious that this is the second time Elders has conducted a share consolidation of this type in the last five years so I wish to outline the reasons for this resolution

Following the capital raising, Elders now has more than 837 million shares on issue which presents a number of disadvantages for the Company.

They are:

- Our 21.5 cent share price attracts volatility because the minimum permissible share price movement by the ASX of ½ a cent or about 2.5% of the Company's share price;
- the company has many more shares on issue than comparable companies;
- the price and earnings per share are a fraction of one cent; and
- greater administrative cost to service

It is therefore the Board's belief that a consolidation of shares on a 10 to 1 ratio will assist in eliminating, or mitigating these disadvantages. In particular, having a share price more comparable with its peers will position Elders better in institutional investment circles.

All things being equal, the value of your holdings should not change as a result of the consolidation. If, for example, you had 1000 shares at, say, 21.5 cents each before consolidation (a total worth of $215), you should, subject to market fluctuations, have 100 shares at $2.15 each after consolidation (still a total of $215).

The effect of the resolution on ordinary shares and on hybrids are outlined in the Notice of Meeting, as is the timetable so I encourage you to examine that document.

Another topic of interest to many shareholders is how Elders' intends to handle the hybrid instruments.

In the Company's presentation at the time of the capital raising, and in the 2014 Annual Report, we stated that the priority of Board and Management in the short to medium term is to direct cash flow back into the business in order to achieve our strategic objectives of growing earnings and returns.

When Elders is in a stronger financial position, we will then address the hybrids, but only in a way that is beneficial to Elders as a whole.

We are also very conscious that the Company has a large number of shareholders holding parcels of shares worth less than $500. As I noted in my letter to shareholders dated 15 September 2014 (which accompanied the Entitlement Offer Document) Elders will likely institute a non-marketable parcel sale facility to allow those holders to exit their holdings unless they choose to retain their shares. Further details of that facility, if it proceeds, will be made available to shareholders in due course.

Leadership renewal

Turning now to the leadership renewal that has occurred at a board and executive level this year.

With the appointment of two new directors in April, Mr Ian Wilton and Mr James Jackson, together with myself and your Chief Executive Officer Mr Mark Allison, we now have a board with an agribusiness focus.

And of course, the appointment of Mr Allison, a seasoned agribusiness executive with corporate strategy experience, as Chief Executive Officer means your Company has the right industry experience, financial management skills and leadership capability to take it into this next exciting phase.

I know I speak on behalf of your Directors and the management team when I say it is an absolute honour to be entrusted with the responsibility for running your company. It is not something we take for granted.

At the 2013 Annual General Meeting your then-Chairman, Mr Mark Allison, committed to reducing the pool for non-executive director remuneration from the aggregate fee limit of $1.8 million which was approved by shareholders at the 2006 AGM.

As promised, and as reported in the remuneration report of the 2014 Annual Report, the Board reduced the aggregate fee limit to $1.2 million. Current director fees fall within this limit.

Similarly, the Chief Executive Officer base salary has been reduced by 30 percent and my own Chairman fees have been reduced by 20 percent. The new remuneration pool reflects the smaller Board size, but of course we need to balance the need for a smaller pool with the need to remunerate directors for their higher workload and to attract and retain high calibre candidates.

To this end we elected not to reduce the fees paid to Directors.

We have submitted the fees paid to the Chairman and directors to a benchmark review to ensure our fees are consistent with those paid by comparable organisations.

The results of that review revealed our Chairman's fee is at the 50th percentile for companies with similar revenue and number of employees and our non-executive director fees are at the 75th percentile.

In closing, I am immensely proud of the turnaround Elders has achieved this year and this is a great testament to our own people, and those that support us.

I am proud of the nearly 2,000 employees who don their pink shirts every day, who live and breathe rural life with resilience and passion that is second to none.

I am proud of our clients, our customers and our shareholders who have stuck with us through what has been a challenging period in our 175 year history.

I am proud that as a company we have worked together to create a strong platform to create value in 2015 and beyond.

Clearly, there is much work still to be done, but I am confident we have the fundamentals in place to once again become Australia's leading agribusiness.