Thursday, 12 December 2019

2019 AGM CEO's Presentation

Attached is a copy of the Chief Executive Officer's presentation to the 2019 Elders Limited Annual General Meeting being held today in Adelaide.

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Good morning and thank you for those of you joining us in person and on line.

When we established our first Eight Point Plan in 2014, we had a clear plan for your company; to reaffirm our position as Australia's leading agribusiness by building on our strengths and focusing on the needs of our customers.

Now we have completed the second year of our second Eight Point Plan it's clear that the strategies we put in place are working.

In your company's 180th year, we're continuing to pursue our philosophy of maintaining a cost and capital position that allows us to deliver good returns in bad seasons and excellent returns in good seasons.

I recognise that it has been a most difficult year for many of our customers, particularly in the Eastern States, who have been coping with floods, drought and more recently bushfires.

The focus on our Eight Point Plan over the last five years has driven increased diversification right across our business, by product, service, business model, crop segment and geographic exposure. This diversification has been underpinned by a strong financial discipline and focus.

Against the backdrop of challenging conditions in many regional areas, we have delivered a net profit after tax equivalent to last year's profit, which was in itself a record profit in the years since we returned to a pure-play agribusiness.

At the start of the second Eight Point Plan and following consultation with many of our investors, we said we were seeking underlying earnings growth of 5 – 10% through the cycles, including seasonal, commodity and economic cycles, based on an acceptable return of capital around 20%.

We are on track to meet those objectives.

As I mentioned, our key measure of underlying after-tax profit was in line with the FY18 year, with Earnings Before Interest and Tax (EBIT) dropping slightly.

Over the cycle, our aim is to generate 50% of our earnings growth organically, with 50% delivered through carefully targeted acquisitions.

This year, we've seen the benefit of that approach. Margins in our Rural Products business were $6.0 million lower due to reduced summer cropping, with Agency Services' margin down $5.2 million impacted by lower wool bales sold across all geographies in line with the overall fall in the market.

Offsetting that was an increase in underlying profit of $10.2 million, largely due to the contribution of recent acquisitions, including the TitanAg and Livestock in Transit businesses.

Our Real Estate business had a reasonably good year, with higher activity in both broadacre and rural residential sales.

In terms of Financial Services, we continue to evolve and refocus our efforts towards ensuring the products and services we provide are aligned with the needs of our customers.

In March, we began a new relationship with Bendigo Bank. As part of the transition, around 90 Elders staff commenced employment with Bendigo Bank, but will continue operating from Elders branches to ensure continuity of service to our customers.

The new relationship reduces our employee cost base whilst securing a stable income stream in excess of $10 million per annum.

In the coming year we expect to see a significant earnings contribution from our most recent acquisition, the AIRR wholesale business, and I'll turn to the opportunities created by that investment shortly.

Underlying Return on Capital of 18.2% was marginally below our 20% target, as a result of lower earnings due to reduced wool volumes and poor summer cropping season, increase in Rural Products and Livestock capital balances and the increased capital associated with our recent acquisitions. That return is still almost twice our average weighted cost of capital.

Taking a three-year average, we have an ROC of 22.8% -- well above our target, and with a reasonably optimistic outlook for FY20. This, combined with a stringent focus on capital management, makes us confident the FY20 result will align with our commitment.

Turning to safety, and we had a number of lost time injuries (LTIs) in the last few months of the year, which is disappointing. Overall, our LTIs were 9, compared to 5 in the previous year.

While those injuries were not significant in terms of harm or damage to the individuals concerned, it did prompt us to refocus on making sure each and every one of our employees returns home safely at the end of the day. Our LTIs target – and the only acceptable result – is zero and pursuing that objective will be a priority of management in the coming year.

Our culture of maintaining a safe and healthy workplace is shared right across the organisation and has been embraced by our employees. This year's Employee Effectiveness Pulse Survey recorded its best results since being launched five years ago, with respondents affirming that Elders fosters a culture of safety and well-being throughout the business.

The coming year will be one of consolidation, as we continue to drive improvements in our business, and maximise synergies from our recent acquisitions.

An internal realignment has seen the appointment of a General Manager Business Improvement, Nick Clark, from 1st October. Nick and his team will be working on multiple projects, which we expect to result in increased earnings of $3-5 million, together with a $10 - $20 million capital reduction on an annual basis.

We'll also have a significant focus on our systems modernisation project in the coming year.

In July this year, we announced the acquisition of the AIRR wholesale business, a transformative step in the growth of Elders.

The proposal was overwhelming supported by AIRR's shareholders, and following completion of the purchase last month, we now welcome many of them as Elders' shareholders.

AIRR provides us with a large wholesale business with a proven history of growth, enhancing our logistics and distribution coverage.

Independent rural retailers are very important to regional communities, and AIRR gives us immediate access to that sector, as well as the hobby farm and produce sector.

The enhanced geographic reach provided by AIRR also positions us well to take advantage of further industry consolidation, including an expected rationalisation of branches by our competitors in many areas.

We expect AIRR to make a positive contribution from day one; not only from substantially increased earnings for Elders this year, but also from the synergies to be gained through this acquisition.

In our 180th year, it's worth reflecting on the communities that support Elders, and our role in supporting those communities.

As I mentioned earlier, there's no doubt conditions on the land have been tough for many of our customers. Over our long history, both Elders and our customers have faced difficult periods. Over that 180 years, we've stood by these communities. We still do, and will proudly do so into the future.

Our partnership with the Royal Flying Doctor Service provides critical access to health services for communities in remote areas. To support that partnership, we ran barbecues across regional Australia earlier in the year, raising another $60,000 to help keep the Royal Flying Doctors in the air.

We understand the importance of mental health services in the bush, and our partnership with Beyond Blue is helping provide access to those services in regional areas across Australia.

At the grass roots level, our branches are closely involved with their local communities, and in the last year we've contributed over $1.3 million in sponsorships and support to a range of organisations including sporting teams, agriculture industry groups, schools and charities.

We understand the importance of keeping regional communities intact and our role in helping them recover after they've been significantly impacted by difficult environmental conditions.

In some of those areas, our branches aren't profitable. To play a role in maintaining the integrity of those communities, we don't close those branches – we absorb the losses because we're confident those communities will not just recover, but prosper.

In terms of outlook for the current financial year, Elders is on track to meet the second Eight Point Plan's target of 5-10% growth in underlying earnings throughout the cycles to the end of FY20.
Elders is more than just a company – it's a team of approximately 1900 people who wear the pink shirt with pride and the new team from the AIRR wholesale business. They live, work and help build our rural and regional communities in every state and territory of Australia, and they're proud to represent an Australian business in those communities and China.

As a member of that team, I thank you, our shareholders for your continued support. I believe our company is delivering on the vision we outlined in our first and second Eight Point Plans, and will continue to reward our stakeholders into the future.

Thank you.
ENDS