16 April 2015

Presentation to Morgans Agrifood Investment Seminar

Attached is a presentation delivered today by Elders' CEO Mark Allison to the Morgans Agrifood Investment Seminar.

Peter Hastings
Company Secretary









Morgans Agrifood Investment Seminar

Mark Allison, MD & CEO Elders

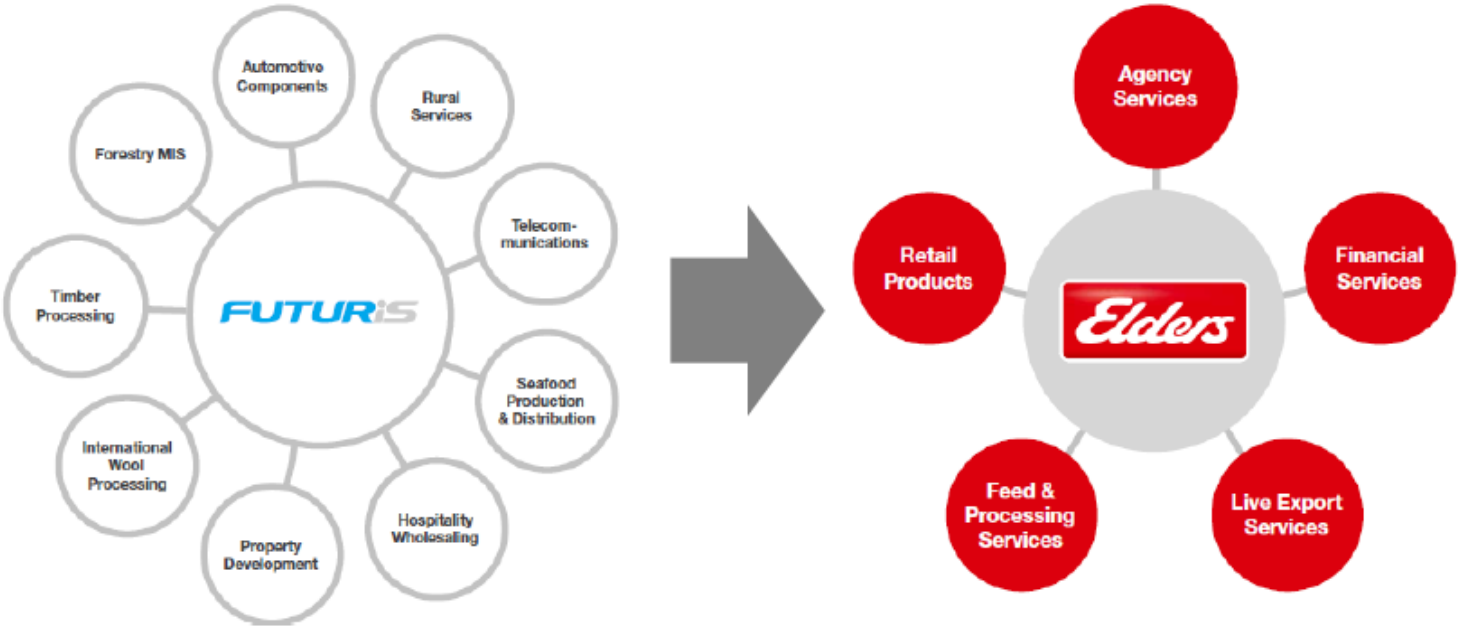
16th April 2015

Agenda

- FY13 – The transformation
- FY14 – The turnaround
- FY15 – The consolidation
- FY17 – The galvanising
- Market Outlook
- Industry Context
- Year 3 to 5

FY13 – The transformation

- Elders has transitioned from a complex and highly geared conglomerate to an agribusiness focused company with lower costs and substantially lower debt
- Elders is one of the leading suppliers of rural services to the Australian farm sector through traditional branch and agency operations and trading businesses that link primary producers with world markets



Business model

Retail Products



- Farm Supplies
- Fertiliser

- $1b retail sales
- 540k tonnes fertiliser

Agency Services



- Livestock
- Wool
- Grain
- Real Estate

- 9.1m head sheep
- 1.6m head cattle
- 386k wool bales
- 1.3m grain tonnes
- $3.4b real estate sales

Financial Services



- Banking
- Insurance

- $2.8b loan book
- $1.6b deposit book
- $560m GWP

Feed & Processing



- Killara Feedlot
- Elders Indonesia
- Elders China

Killara	41k head
Indonesia	18k head
China	$8.2m sales

Live Export



- Short haul livestock
- Long haul livestock

- 77k head short haul
- 56k head long haul

Online Platforms

- Agsure
- Auctions Plus

** Figures based on FY13 statistics, excluding discontinued operations*

Eight point plan

Our strategic vision for becoming an efficient user of capital and a business that generates returns for its stakeholders



FY14 – The turnaround

Safety Performance

- ✓ Lost time injuries from 33 to 20
- ✓ Target is to be LTI free

Operational Performance

- ✓ $77.3m underlying profit turnaround
- ✓ All segments have lifted earnings contribution
- ✓ Eight Point Plan developed and being implemented
- ✓ EBIT margin lifted to 2% from -3%
- ✓ ROC at 12% up from -10%

Leadership Renewal

- ✓ Board renewal with two new NEDs and new Chair
- ✓ Experienced agribusiness CEO appointed with track record of delivering value
- ✓ Executive Committee established to align structure with strategy
- ✓ Ongoing investment in leadership renewal and development

Capital Management

- ✓ ROC improved in line with renewed focus
- ✓ Average working capital reduced 27% from FY13
- ✓ Capital raising, refinance and asset divestments completed in October 2014
- ✓ Return to “good bank” with appropriate working capital facilities for seasonal and live export demand
- ✓ First unqualified audit report since 2011

FY14 – The turnaround

$ million	30 Sept 2014		2013	Change from 2013
Sales revenue	1,431.5	↑	1,422.1	+ 9.4
Underlying EBIT	27.3	↑	(48.9)	+ 76.2
Underlying profit / (loss) after tax	8.8	↑	(68.5)	+ 77.3
Reported profit / (loss) after tax	3.0	↑	(505.3)	+ 508.3
Net debt	(137.6)	↓	(255.2)	- 117.6
Term debt*	(34.1)	↓	(143.8)	- 109.7
Reported net financing costs	(23.2)	↓	(33.2)	- 10.0
Operating cash flow	15.1	↑	(81.6)	+ 96.7
Return on capital	11.7%	↑	(9.5)%	+ 21.2%

*** Term debt subsequently eliminated**

FY15 – The consolidation

Safety Performance

- Continued emphasis on safety
- Implement employee safety engagement plan
- Target is to be LTI free

Operational Performance

- Increase underlying EBIT
- Improve ROC
- Implement remuneration for agency employees that drives performance
- Margin management program for selected and non price sensitive retail products
- Develop capital light business model for farm supplies and fertiliser
- Ongoing emphasis on cost control
- FY15 AOP implementation

Key Relationships

- Create a values, safety and performance based culture
- Maintain high levels of employee effectiveness and enablement
- Build mutually beneficial relationships with key stakeholders

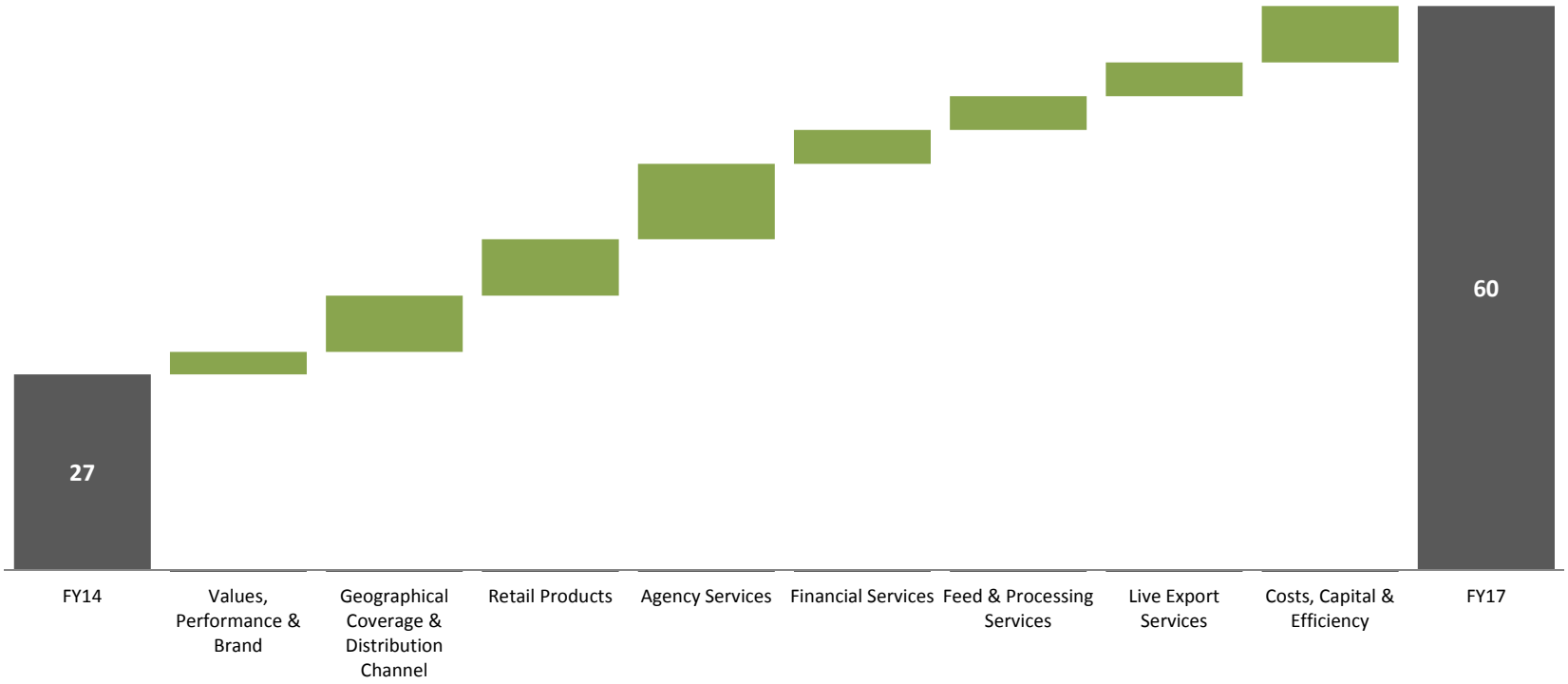
Efficiency and Growth

- Implement comprehensive branch benchmarking program
- Investigate expansion of online platforms
- Implement growth strategies for agency businesses
- Supplier rationalisation for farm suppliers and fertiliser
- Explore opportunities to expand and establish domestic and international red meat supply chains

FY17 – The galvanizing

Underlying EBIT opportunities

$ million



Market Outlook

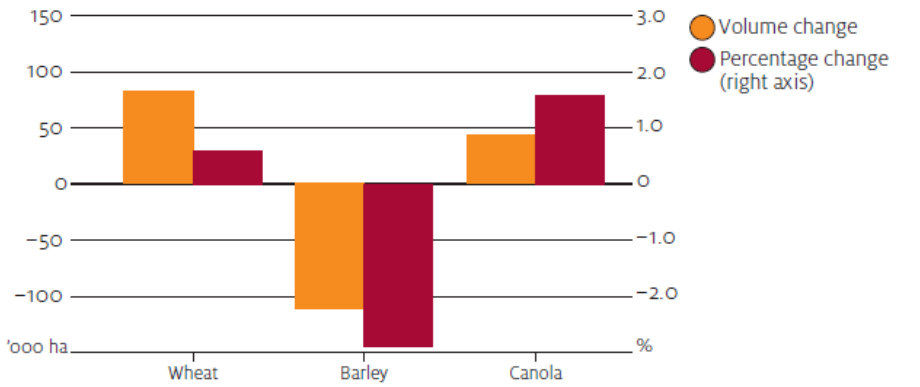
- Grains and oilseeds
- Sugar
- Cotton
- Horticulture
- Cattle, beef and veal
- Live cattle exports
- Sheep & lamb
- Wool



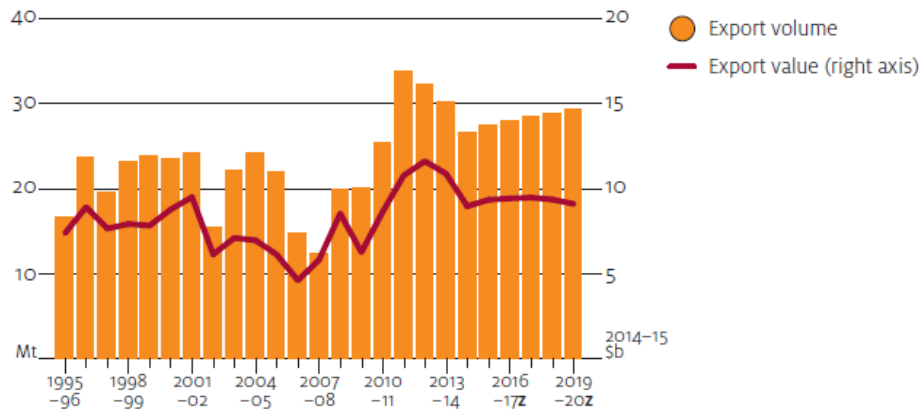
Grains and oilseed production to rise

- **Australian grain and oilseed production is forecast to rise over the next five years to reach 42.6 million tonnes by the end of the decade, but no spectacular price rises are forecast on the horizon**
- The total area planted to grains and oilseeds is forecast to remain largely unchanged at 22.4 million hectares
- The national wheat crop is expected to rise by 3% in FY16 to 24.4m tonnes, driven by an assumed increase in yields
- Barley production is forecast to fall by 6% to 7.5 million tonnes, reflecting a projected fall in planted area
- Canola production is forecast to fall by 4% to 3.3 million tonnes, resulting from a decline in average yield, which more than offsets the increase in area planted
- **Total grain and oilseeds exports are predicted to rise by 1.7% a year to reach 29.3m tonnes by the end of the decade**

Changes in planted area, 2015–16



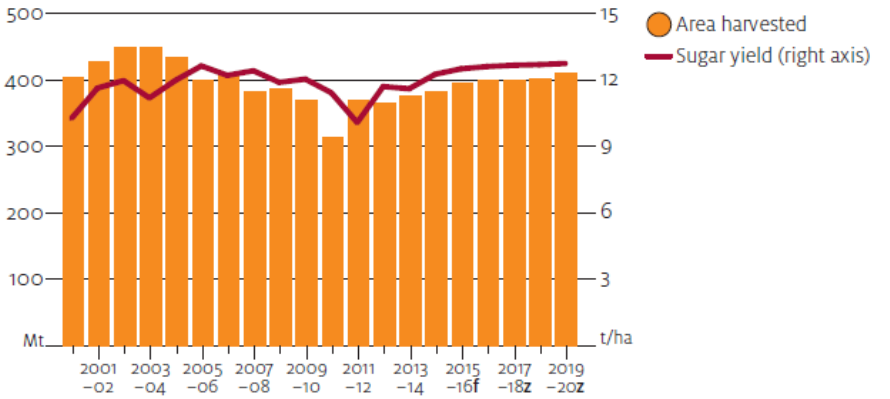
Australian grains and oilseeds exports



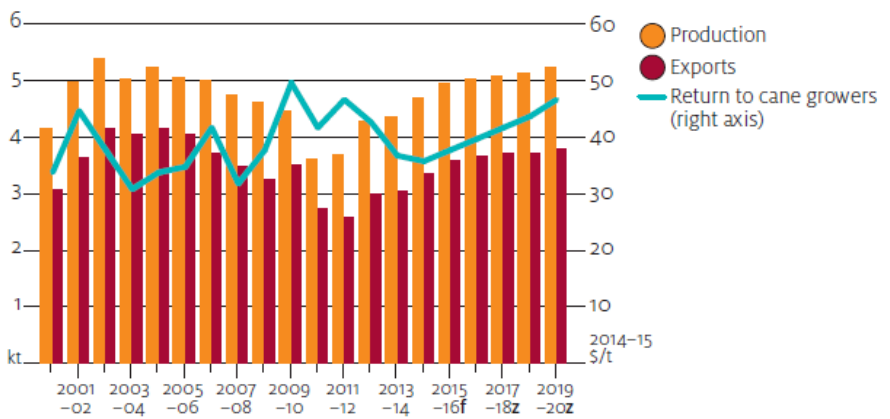
Sugar - growth in plantings, prices and exports

- The world sugar glut will push down mill-gate returns to Australian cane growers by 1% to $36 a tonne in FY15, the lowest since FY08.
- **Prices will rise slightly to $39 a tonne in FY16 on the back of the lower Australian dollar and higher sugar content in cane**.
- The area of sugarcane harvested in Australia is expected to expand to 409,000 hectares FY20 compared with the 10-year average (to FY14) of 380,000ha.
- **Australian sugar production is predicted to grow at an annual rate of 1% from FY17 to reach 5.3 million tonnes in FY20**.
- Sugar exports were forecast to hit 3.8m tonnes by the end of the decade.

Australian area harvested of sugar cane and sugar yield



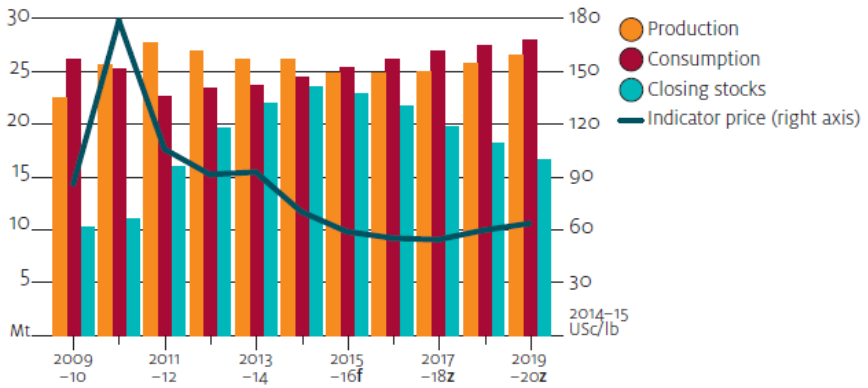
Australian sugar production, exports and returns to cane growers



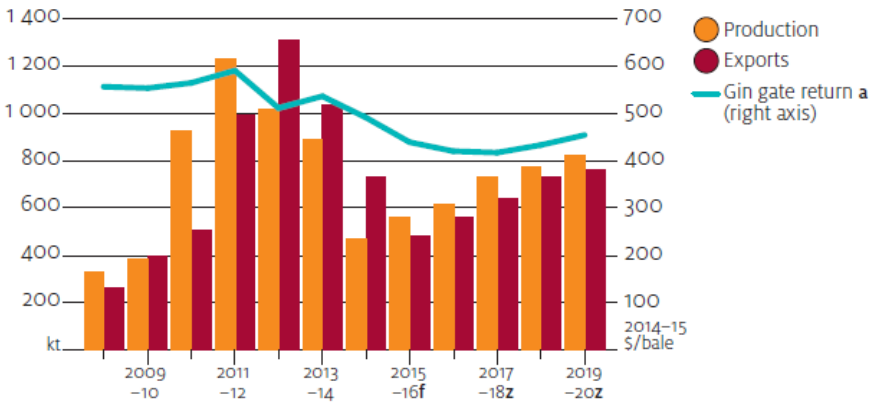
Cotton – growth expected next season

- **Australian cotton production is projected to increase over the medium term** (on the back of better seasonal conditions), almost doubling from a forecast low of 470,000 tonnes in FY15, to 818,000 tonnes by FY20
- **In FY14, the area planted to cotton is estimated to have declined by 46%** in response to low cotton prices and dry seasonal conditions
- Based on lower world cotton prices, Australian gin-gate cotton prices in FY15 are projected to average $490 a bale (227 kilograms) of lint (including the value of cottonseed and net of ginning costs), 6% lower than the previous year and the lowest price since FY06.
- Prices are expected to drop a further 8% in FY16 to $449 a bale.
- **Over the medium term, ABARES expects world cotton prices to recover,** reflecting projected lower world stocks as growth in consumption exceeded production.

World cotton indicators



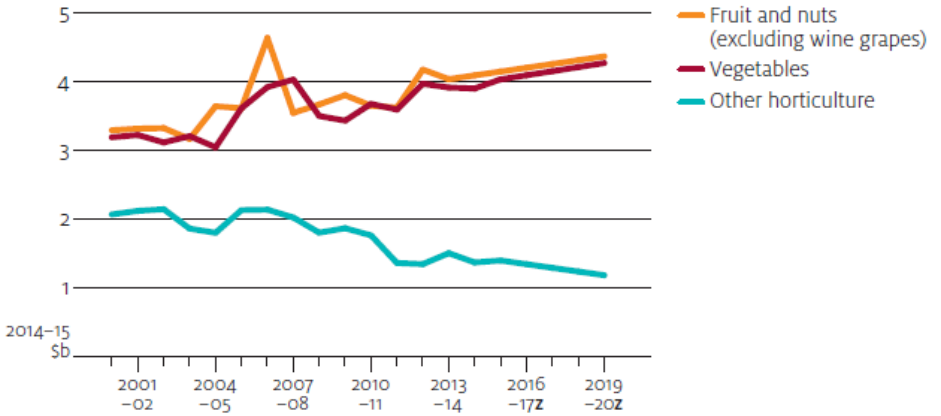
Australian cotton production, exports and gin-gate returns



Horticulture - increasing gradually

- The gross value of horticultural production is expected to increase gradually to $9.8 billion in FY20
- For some fresh lines**, the weaker Australian dollar and increased opportunities in Asia are expected to stimulate an increase in exports**.
- Export opportunities are expected to be enhanced by new trade agreements with Korea, Japan and China
- The weaker dollar will improve the competitiveness of Australian processors, but pressure from imports will continue to be felt.
- **Export demand for Australian fruit and nuts is expected to continue to Australian production**
- **Vegetable production is forecast to expand in line with domestic requirements**

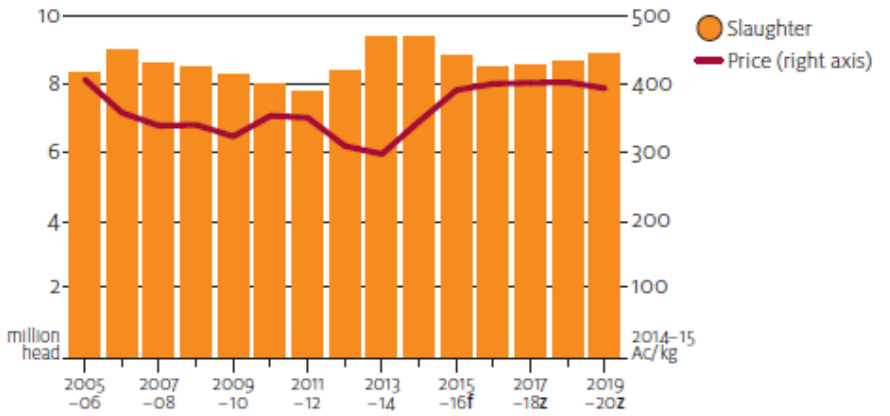
Gross value of production



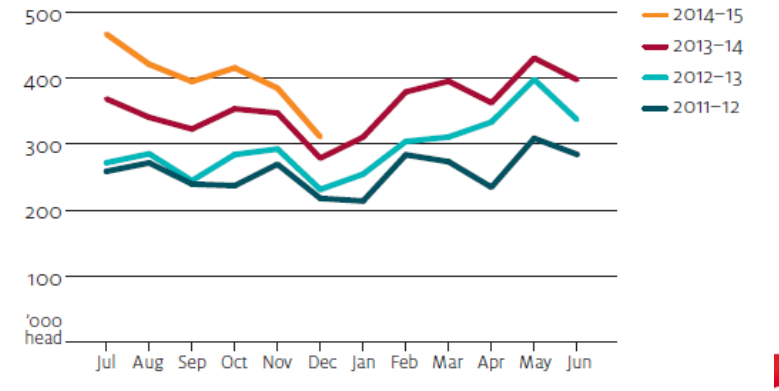
Cattle prices to remain strong

- **Driven by reduced supply and solid export demand**, underpinned by a low Australian dollar.
- Herd rebuilding following two years of drought has to date only put a slight check on the supply of cattle slaughter - largely because the continued threat of drought is by no means absent
- ABARES expects the **high slaughter rate to continue in FY15** (as higher cattle prices encourage producers to offload) **before falling 6 per cent in FY16** to 8.9 million head as herd rebuilding begins in earnest.
- The **Australian cattle herd** has fallen hard from its high of 29.3 million (2013) and is **expected to reach 27 million in mid 2015.**

Cattle and calf slaughter and weighted average saleyard price

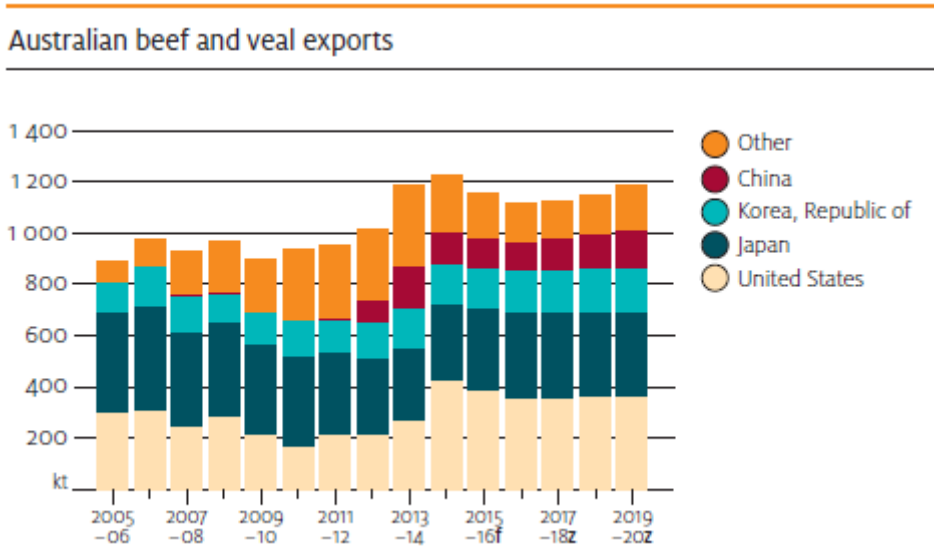


Australian female cattle slaughter



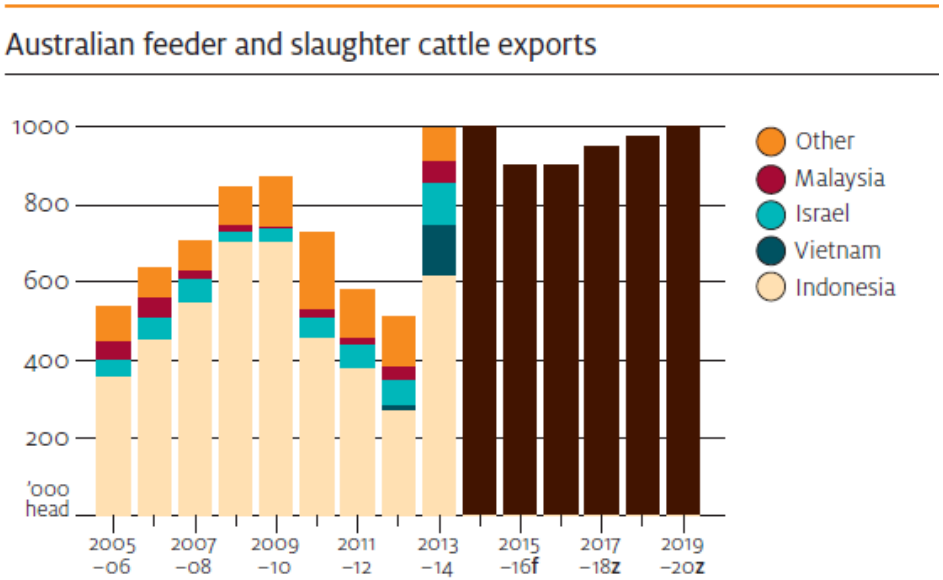
Strong demand for Australian beef to continue

- Supported by an assumed lower Australian dollar and tariff reductions in some major markets (as a result of recent FTA's)
- **The United States** is likely to remain **Australia's largest beef export market** out to 2019.
- Beef **exports to Japan are expected to lift by 7% in FY15 and FY16**, as the results of the FTA begin to reduce import tariffs. Australia's competitiveness against the US in Japan is likely to be also improved by appreciation of the $US against the yen, compared to the $AUD.
- **Beef exports to China will fall by about 25% in FY15** due to the higher prices for Australian beef, and greater competition from South America. Between July-November 2014, Australian exports to China fell 41 per cent on the previous year, while Uruguay's beef exports to China rose 28 per cent in the same time.
- **Shipments of beef to China** are expected to steadily **rise out to 2019, as the FTA comes into effect**



Live cattle exports to remain high

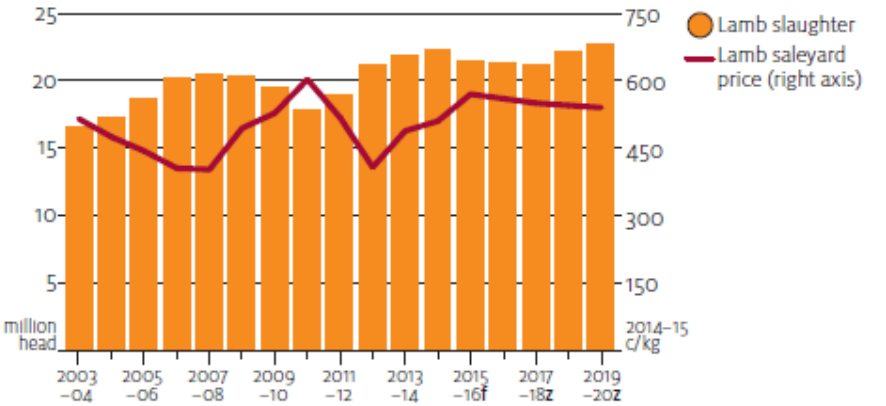
- In FY15 live feeder and slaughter **cattle exports are forecast to remain at 1 million head,** before falling 10% in FY16 as supplies of exportable cattle shrink
- ABARES expects those numbers to rise back to a million head by 2019-20, supported by **growth in Indonesian beef consumption, and increased demand from Vietnam and Malaysia.**
- **New demand** may come **from China, Thailand and Lebanon** if supply chains are developed**.**



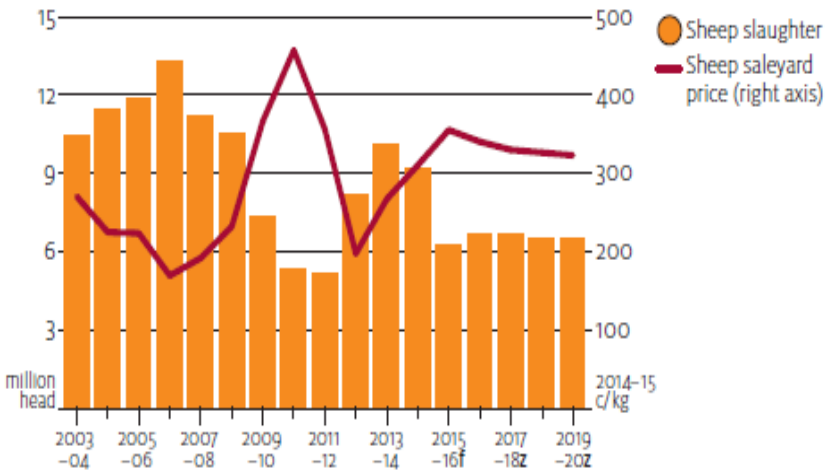
Lamb and sheep prices to rise

- **The national sheep flock is expected to decline by 3% to 70.7 million head** by FY15, before commencing a gradual rebuilding phase to reach 76 million head by FY20
- **Lamb slaughter will riser to 22.3 million** in FY15, **the highest number for 43 years**, as producers enjoy an **expected 7% increase** in the **saleyard price**
- **Sheep prices are expected to increase 17% in FY16** as turn-off decreases and producers begin to rebuild flocks

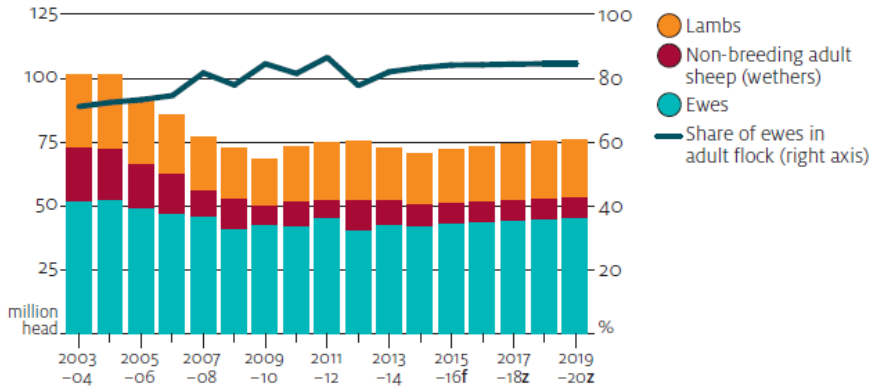
Australian lamb saleyard price and slaughter



Australian sheep saleyard price and slaughter



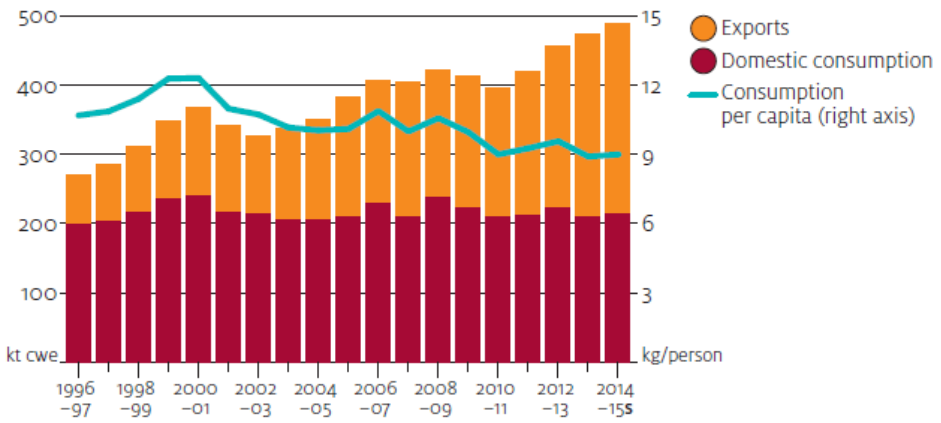
Australian sheep flock



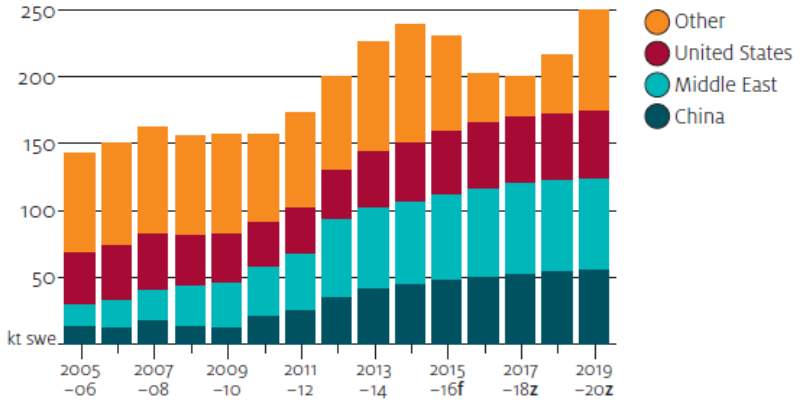
Lamb production and exports

- Domestic lamb consumption is expect to remain at the current level over the next few years
- **Lamb exports are predicted to reach a record 240,000 tonnes in FY15**, driven by strong demand from the US and the Middle East, and corresponsing forecast rise in lamb slaughter.
- Export volumes are forecast to fall by 10% in FY16, in response to decline in lamb slaughter as a result of flock rebuilding

Australian lamb production, exports and domestic consumption



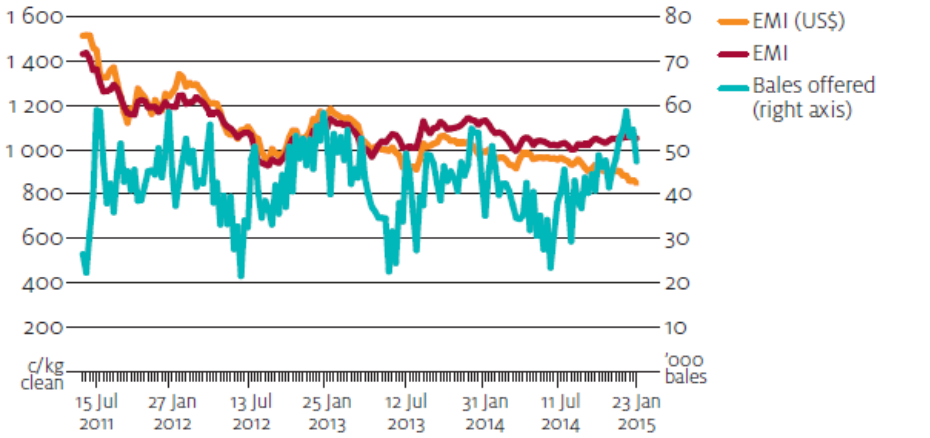
Australian lamb exports, by major destination



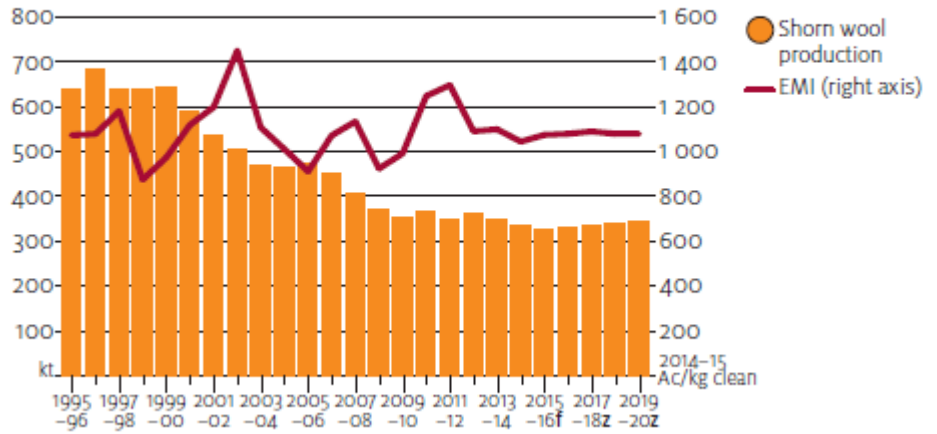
Wool prices to rise in FY16

- The **EMI is forecast to decline 2% in FY15, before rising 3% in FY16**, driven by an increase in the demand for woollen clothing and a lower Australian dollar
- **Shorn wool production is expected to slip 2% in FY16** to 328,000t greasy, and then rebound slowly to reach 345,000 tonnes in FY20.
- Flock rebuilding is predicted to reduce live sheep exports by 6% to 2.3m head in FY16.
- The proportion of non-breeding adult sheep in the flock - particularly wethers - is expected to fall, **reflecting the shift away from wool production**.

Australian Eastern Market Indicator wool price, weekly



Australian shorn wool production and price



Market context

Growing global demand for food and fibre, particularly from Asia, presents opportunities for Australian agriculture and Elders

Global trends

Population growth
World population 8 billion by 2025
85% of growth from Asia

Increased food demand
To rise 75% in first half of 21st century

Rising middle class
An example is Indonesian middle class growing by 20-25 million every 3-5 years

Increased urbanisation
An example is that 50% of Chinese population lives in cities and spends 270% more than rural counterparts

Decreasing arable land
Due to urbanisation and environmental contamination

Australian competitive advantage

- ✓ Diversified geography and product base
- ✓ Ample land and water supply
- ✓ Proximity to Asian markets
- ✓ Deregulated markets driving competition
- ✓ World leading biosecurity
- ✓ Best practice farming methodologies
- ✓ First world infrastructure
- ✓ Politically stable

Proximity to growth markets



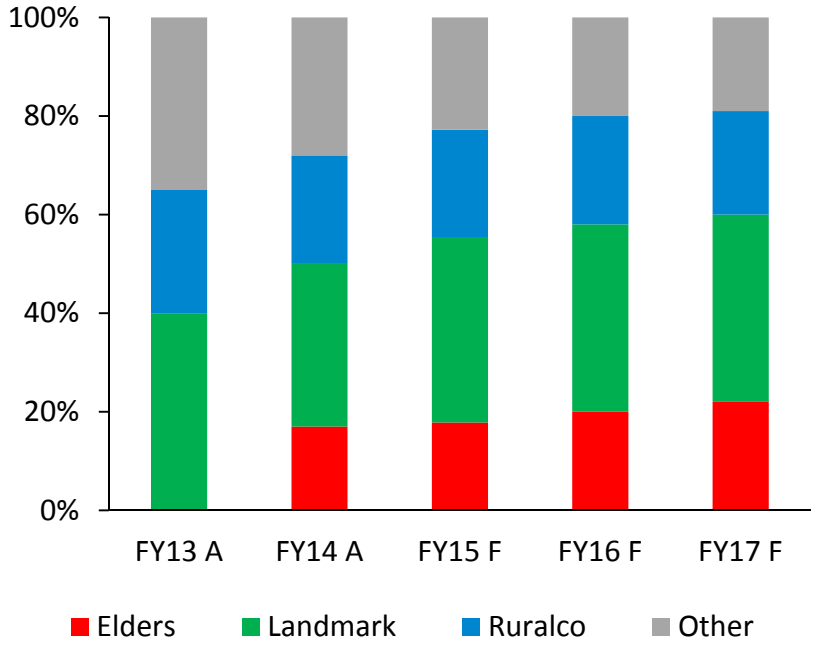
- ✓ Operations in Indonesia, Vietnam, China, Mexico and Pakistan and access to world markets
- ✓ Proximity to Asia provides opportunity to capitalise on growing middle class demand for premium agricultural products

Market position

Pursuing $60M EBIT and 20% ROC by 2017

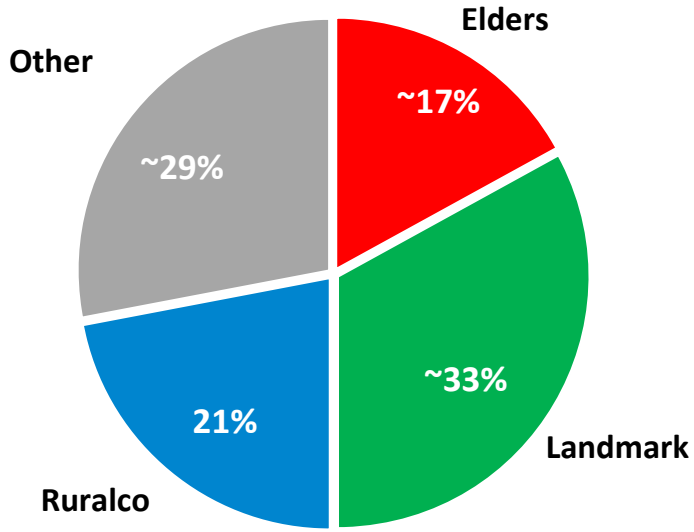
EBIT by Rural Service Company

Per cent



Market share by Rural Service Company

(2014)



Source: PAC Partners Equity Research

Year 3 to 5

- **Solid domestic growth platform**
- **Industry consolidation options**
- **Capital structure optimisation**
- **Strong international growth**






Summary

- Focussed agribusiness
- Strong brand
- Well positioned
- Stable growth platform
- Solid progress