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Half year results

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Business update

James Whiteside | Chief Executive Officer

Strong revenue growth, market and legacy issues impact EBITDA.

- Strong **49% revenue growth** driven by an increase in hay production volumes from 27.7k to 44.1k tonnes. Capital investment driving up machine up time.
- **EBITDA** from continuing operations performance falling 66% to \$0.6m (H1 FY21: \$1.7m).
 - Continued to work through high priced inventory and fixed price sales contracts from last season.
 - Rising storage and international shipping costs as a consequence of the pandemic.
 - Unfavourable currency hedges entered 12 months ago.
 - Fewer capital projects resulted in higher allocation of engineering costs to operations
- **Strong market demand** supporting increased production volumes and requiring focus and investment in plant reliability and uptime
- **Investments in H1 have built momentum, which will become evident in H2**, supported by a successful capital raise of \$4.4m, net of transaction costs.
- Austco Polar is now classified as held for sale on the income statement contributing NPAT loss of \$1.6m, unfavourable by 131% from last half. Sales process for Austco has commenced.
- Renewed focus on safety performance and management to drive down high injury frequency rates.

H1 FY22 Headlines

- **Revenue** up \$6.2m (or 49%) strong hay production volume growth to service strong customer demand.
- Record 6 month **hay production volumes** with 59% growth to 44.1k tonnes.
- **EBITDA** down by 66% at \$0.6m.
- Successful capital raise of \$4.4m (net of transaction costs) plus positive operating cash flows up 463% HOH resulting in **Net debt** (excluding finance leases) reduction of 39% to \$5.6m.
- Safety management now a key area of focus, with improving safety management systems and reporting.

Successes

- ✓ \$18.9m of revenue, up 49% HOH
- ✓ 44.1k production tonnes, up 59% HOH
- ✓ 1.0m blast cartons, up 22% HOH
- ✓ \$1.1m of operating cash flows, up 463% HOH
- ✓ Net debt down 39% Vs 31-March to \$5.6m
- ✓ 11.0k MT inventory on hand, down 10% Vs 31-March

Challenges

- ✗ \$0.6m EBITDA before significant items, down 66% HOH
- ✗ 38% gross margin, down 2pp HOH

**Production tonnes refers to hay production for JC Tanloden*

***Blast cartons refers to meat cartons for Austco Polar Cold Storage*

pcp = prior comparative period

HOH = half-on-half

Financial results

Jae Tan | Chief Financial Officer

Consolidated P&L - H1 FY22 Headlines

Financial performance (\$'000)	FY22 H1	FY21 H1	Change
Revenue	18,869	12,683	49%
Gross profit	7,087	5,128	38%
<i>GP Margin</i>	<i>38%</i>	<i>40%</i>	
Other income	35	195	(82%)
Freight expenses	(3,528)	(1,633)	116%
Employee expenses	(1,339)	(879)	52%
Foreign exchange losses	(610)	(239)	155%
Operating and overhead costs	(1,073)	(867)	24%
EBITDA before significant items	572	1,705	(66%)
<i>EBITDA margin</i>	<i>3%</i>	<i>13%</i>	
Depreciation	(660)	(513)	29%
EBIT/(loss) before significant items	(88)	1,192	(107%)
Finance costs	(1,030)	(661)	56%
Income tax expense	0	(36)	(100%)
NPAT/(loss) from continuing operations before significant items	(1,118)	495	(326%)
Loss from operations held for sale	(1,590)	(688)	131%
Net loss before significant items	(2,708)	(193)	1303%
Significant items	(785)	(103)	662%
Net loss after tax	(3,493)	(296)	1080%
Summary of significant items			
Capital raise and share placement costs	0	54	(100%)
Net share based payments expense	54	24	125%
Impairment of capital projects	506	0	100%
Project expenses	85	25	240%
Legal fees	140	0	100%
Total from continuing operations	785	103	662%

- **Revenue growth** of 49% to \$18.9m (H1 FY21: \$12.7m) supported by export volume growth of 59% to 44.1k tonnes (H1 FY21: 27.7k tonnes). Increase in machine up time and longer production hours driving growth.
- **Freight and logistic costs** continue to increase as a result of the pandemic from \$59 per tonne in H1 FY21 to \$80 per tonne in H1 FY22.
- **Employee expenses** increased half-on-half by 52% to \$1.3m
- **Foreign currency** contracts entered into up to 12 months ago resulting in out-of-money position as the Australian dollar has weakened.
- **EBITDA** contraction of 66% to \$0.6m (H1 FY21: \$1.7m).
- **Loss from operations held for sale** (Austco Polar) increased from \$0.7m in H1 FY21 to \$1.6m in H1 FY22. Labour shortages driving increased costs and lower gross profitability.

Results by business unit

With Austco Polar business unit classified as held for sale, the Group operates one operating segment being its continuing business – fodder. Below is a summary by business unit.

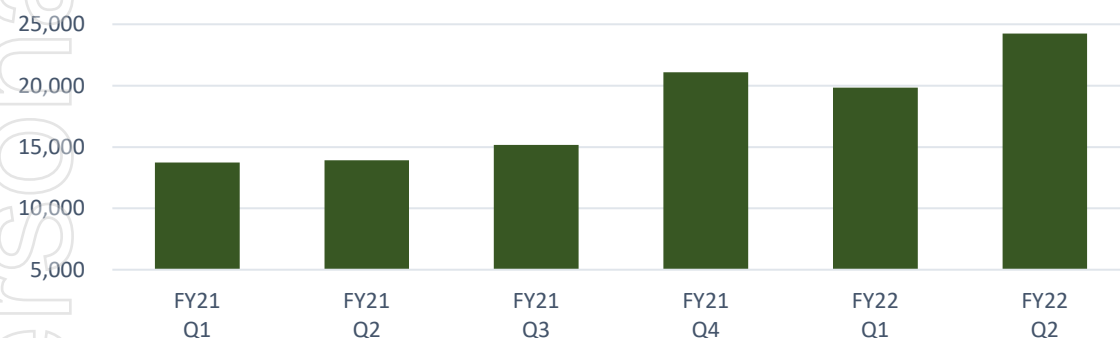
FY22 H1 (\$'000)	Fodder JC Tanloden	Corporate	Total continuing business	Service Austco Polar	Total
Revenue	18,869	0	18,869	5,422	24,291
Gross profit	7,087	0	7,087	1,791	8,878
EBITDA before significant items	1,777	(1,205)	572	59	631
EBIT before significant items	1,149	(1,236)	(87)	(848)	(935)

FY21 H1 (\$'000)	Fodder JC Tanloden	Corporate	Total continuing business	Service Austco Polar	Total
Revenue	12,683	0	12,683	5,667	18,350
Gross profit	5,128	0	5,128	2,365	7,493
EBITDA before significant items	2,512	(807)	1,705	980	2,685
EBIT before significant items	2,026	(834)	1,192	74	1,266

JC Tanloden performance

Financial performance (\$'000)	FY22 H1	FY21 H1	Change
Revenue	18,869	12,683	49%
Gross profit	7,087	5,128	38%
<i>GP Margin</i>	<i>38%</i>	<i>40%</i>	
Other income	35	108	(68%)
Operating and overhead costs	(5,345)	(2,724)	96%
EBITDA before significant items	1,777	2,512	(29%)
<i>EBITDA margin</i>	<i>9%</i>	<i>20%</i>	
Depreciation	(628)	(486)	29%
EBIT before significant items	1,149	2,026	(43%)
Production volumes (tonnes)	44,095	27,657	59%
Revenue per tonne	\$428	\$459	(7%)
EBITDA per tonne	\$40	\$91	(56%)
EBIT per tonne	\$26	\$73	(64%)

Production tonnes

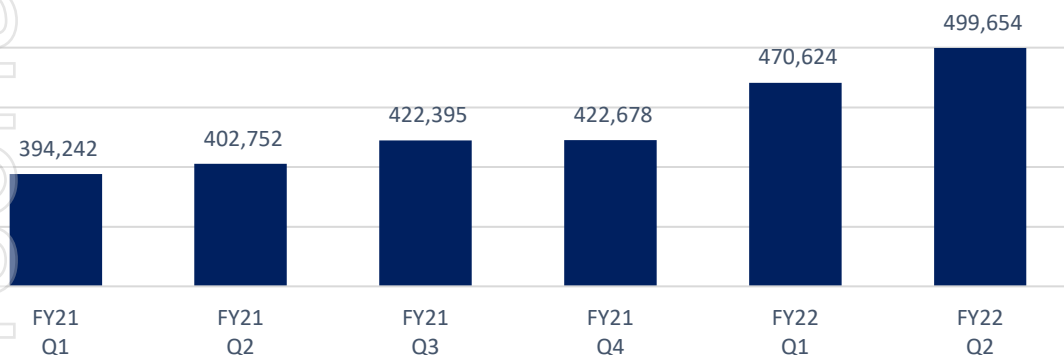


- **Revenue growth of 49% to \$18.9m.**
 - Strong export demand.
 - Increased machine uptime from capital investment and improved maintenance plans.
 - Increased production hours from 20 hours to 24 hours per day.
- **Gross margin down 2pp to 38%.**
 - Working through high price inventory from last season.
 - Strengthening Australian dollar.
 - Lower revenue per tonne due to product mix and fixed price contracts.
- **Operating and overhead costs up 96% to \$5.3m.**
 - Freight costs per tonne still trending up due to impact of the pandemic on global shipping. Increase over \$20/t from pcp.
 - Higher indirect employee costs with less allocation to capital project initiatives and increased focus on operations.
- **EBITDA for H1 FY22 is \$1.8m, down 29%.**
- **EBIT for H1 FY22 is \$1.1m, down 43%.**
 - Increase in depreciation due to heavy FY21 capital investment.

Austco Polar Cold Storage performance

Financial performance (\$'000)	FY22 H1	FY21 H1	Change
Revenue	5,422	5,667	(4%)
Gross profit	1,791	2,365	(24%)
<i>GP Margin</i>	<i>33%</i>	<i>42%</i>	
Other income	3	144	(98%)
Operating and overhead costs	(1,735)	(1,529)	13%
EBITDA before significant items	59	980	(94%)
<i>EBITDA margin</i>	<i>1%</i>	<i>17%</i>	
Depreciation	(907)	(906)	0%
EBIT before significant items	(848)	74	(1246%)
Blast cartons	970,278	796,994	22%
Revenue per carton	\$5.59	\$7.11	(21%)
EBITDA per carton	\$0.06	\$1.23	(95%)
EBIT per carton	(\$0.87)	\$0.09	(1041%)

Blast cartons



- **Revenue down 4% to \$5.4m on pcg.**
 - Meat processing market is recovering as the world emerges from lockdown driving up blast carton volume demand, up 22% from pcg.
 - Revenue loss from a discontinued customer contract only partially recovered from new customers.
- **Gross profit down 24% to \$1.8m.**
 - Unable to fully recover costs associated with higher cost to serve customers given market competition
 - Staff shortage as a result of the pandemic continue to impact the business, driving up labour costs.
- **Operating and overhead costs up 13% to \$1.7m.**
 - Increased focus on safety has led to increased investment in repairs and maintenance.
 - Higher property costs (e.g. insurance and taxes).
- **EBITDA down 94% to \$59k.**
- **EBIT loss for H1 FY22 is \$0.8m, down significantly from prior half year.**

Strengthening balance sheet

Financial position (\$'000)	30-Sep-21	31-Mar-21	Change
Cash	4,644	1,920	142%
Working capital	(1,465)	(1,227)	19%
Property, plant and equipment	15,780	20,748	(24%)
ROU assets	4,301	23,242	(81%)
Intangibles	1,817	1,816	0%
Assets classified as held for sale	23,906	0	100%
Other	21	138	(85%)
Total assets and working capital	49,004	46,637	5%
Lease liabilities	(3,239)	(23,907)	(86%)
Borrowings	(7,809)	(7,872)	(1%)
Liabilities classified as held for sale	(22,112)	0	(100%)
Total liabilities	(33,160)	(31,779)	4%
Net assets	15,844	14,858	7%

Net debt metrics* (\$'000)	30-Sep-21	31-Mar-21	Change
Borrowings**	10,350	11,006	(6%)
Cash**	(4,781)	(1,920)	149%
Net debt	5,569	9,086	(39%)
Net assets	15,843	14,857	7%
Net debt to net assets ratio	35%	61%	(26 pp)

*Includes operations held for sale

**Excludes AASB16 lease liabilities

- Austco Polar now aggregated into separate assets and liabilities held for sale. Balances therefore reflect the JCT and Corporate business units.
- Cash has increased by 142% due to strong cash flow from operations and successful capital raise from existing institutional and retail investors of \$4.4m (net of transaction costs).
- Working capital increased by 19% due to focus on cash collections and creditor management.
- Reduction in total borrowings (excluding AASB 16 lease liabilities) of 1% (6% including operations held for sale) due to on-time principal repayments.
 - Net debt has decreased to \$5.6m, by 39%.
 - Net debt to net asset ratio has decreased by 26pp

Continued focus on working capital management and balance sheet health into H2.

Cash flow

Cash flow (\$'000)	FY22 H1	FY21 H1	Change
EBITDA before significant items	572	1,705	(66%)
Cash outflow from significant items	(169)	(54)	213%
Working capital movements	1,279	(1,142)	(212%)
Cash flow from operations held for sale	402	384	5%
Gross operating cash flow	2,084	893	133%
Finance costs and tax payments	(1,031)	(706)	46%
Net operating cash flow	1,053	187	463%
Capital expenditure payments	(928)	(2,132)	(56%)
Settlement of lease obligations	(1,627)	(1,397)	16%
Free cash flow	(1,502)	(3,342)	(55%)
Cash conversion*	184%	11%	179pp

*Calculated as net operating cash flow / EBITDA

- Operating cash flows have increased by 463% to \$1.1m due to JC Tanloden performance, in addition to strong working capital management.
- Free cash flow (including settlement of all lease obligations) improving by 55% with H1 outflow of \$1.5m (H1 FY21: outflow of \$3.3m).
- Cash conversion of 184% Vs last half of 11%.

H2 Outlook

James Whiteside | Chief Executive Officer

Market headwinds continuing into H2

Staffing shortages

The nation's chronic labor shortage is severely impacting JCT as we seek to build a strong and engaged workforce and this has been exacerbated by the significant increase in production volumes. We are responding by actively seeking to make all roles permanent rather than casual, increasing our investment in skills development and training, and providing incentives for meeting safety and performance targets. However we are also having to engage workforce recruiting services, which add to the overall cost of labour.

Strengthening Australian dollar

The business holds forward exchange contracts to hedge the USD exposure on our sales. Whilst the USD has strengthened over the past 4 months, the business has not been able to capitalise on higher EBITDA margins. This will continue into H2 but will look to ease slightly in the last quarter of the financial year (assuming rates remain constant). The corporate hedge policy will be revisited to ensure our margins are optimised.

Weather

The extremely wet spring weather in SE Australia is impacting hay quality, with much of this season's crop still yet to be baled and shedded. Matching available quality with customers' expectations requires careful management to minimise the impact to trading margins.

Freight and logistics

Global demand for international sea freight is driving up freight costs and increasing port congestion, which severely impacts our ability to deliver on time to North Asian customers. We continue to seek to pass these costs on wherever possible.

Strong momentum into H2

A number of initiatives taken are already showing in improved monthly performance. These include:

- Further increasing machinery uptime by an increased investment in plant and equipment, engineered solutions to address operational bottlenecks and redesign of processes to accommodate the increase in plant output. Plant reliability is expected to improve further in H2 as a consequence of this focus.
- An improved Sales & Operations Planning process, to ensure customer demand is managed, met by optimised production planning, new season hay is appropriately contracted and that supply chain inefficiencies are identified and reduced
- Completion of commissioning of the additional hay baling machine to ensure optimum performance
- Realignment of roles and responsibilities on site to encourage and empower all staff to identify and solve problems in a structured and efficient manner, and that supports a culture of safety and productivity.
- Strong focus on asset utilisation and contract management to improve profitability of Austco Polar Cold Storage, whilst continuing the process of divestment of this business

The company is of the view the EBITDA before significant items guidance of between \$2.85m and \$3.5m provided for the full year is achievable subject to the impact of weather conditions and in turn the availability of quality hay.