AUSTRALIAN FEEDLOT SECTOR

03 August 2017
ANZ has an established regional network across 33 markets which include 15 Asian markets and representation in Europe, America and Middle East. ANZ is a leading bank in Australia and the largest bank in New Zealand & the Pacific Islands (12 markets).

**Note:** *GCC - Gulf Cooperation of Council countries*

**Pacific Islands comprises of Guam, Solomon Islands, Fiji, Kiribati, Samoa, American Samoa, Cook Islands, Timor Leste, Tonga, Vanuatu and New Caledonia. Fiji operations comprises of Commercial/International Banking, Large Corporate & Institutional Banking, and Retail Banking & Wealth Management*
ANZ has been banking clients in the Food, Beverage and Agribusiness sectors since 1865 and covers stakeholders across the global supply chain.

**Connecting you from 'Paddock to Plate' across the globe**
- Producers and growers
- Storage and handling companies
- Agricultural input suppliers
- Global trading houses
- Transport and packing companies
- Global food and beverage companies
- Global quick-serve food establishments

**Partner with ANZ to access**
- 4 out of Australia’s 5 largest milk producers processors
- NZ’s 3 largest dairy processors accounting for over 90% of NZ’s dairy production
- Some of the world’s largest food and beverage companies
- Countries that receive over 85% of Australia’s live cattle exports and over 90% of Australia’s exported beef
- 80% of Australia’s cotton exporters
- 95% of Australian sugar exporters
- Major Food, Beverage & Agribusiness markets across the Asia Pacific region thanks to ANZ’s reach into key origin and destination geographies (China, India, SEA, Greater Mekong and the Pacific)
FEEDLOT SECTOR CONTINUES TO EVOLVE
AUSTRALIA’S FEEDLOT SECTOR

- Important component of domestic feed complex
- Must continue to be strategic in maintaining social licence
- Approaching continuing consolidation
- Facing strong global competitors
- Focus of growing agri investment
- Massive agtech/data potential
- Needs to adapt with customers
AUSTRALIA ACCOUNTS FOR ~3.5% OF GLOBAL PRODUCTION AND ~15.7% GLOBAL BEEF EXPORTS...

Australia Feedlot Capacity
1.2 million head

Australia Cattle Population
27.4 million head

Australia Beef Production & Slaughter

With herd re-building in progress, beef production is likely to decrease and marginally recover through 2021

Note: Feedlot Capacity is based on March 2017 & Australian Cattle Population is as of June 2015

Source: MLA, ALFA
REDUCED AVAILABILITY OF CATTLE LED TO CATTLE HELD ON FEED FOR LONGER PERIODS...

Cattle on Feed ('000 head) by Feedlot Type

Source: MLA, ALFA
EXPORTS TO EU, CHINA & MIDDLE EAST GRADUALLY INCREASED THEIR SHARE...

Grain-fed beef exports (‘000 swt)

Source: MLA, ALFA
~80% OF COST BASE IS MADE UP OF FEEDER CATTLE PURCHASES

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchases</td>
<td>80.7%</td>
</tr>
<tr>
<td>Wages</td>
<td>1.4%</td>
</tr>
<tr>
<td>Depreciation</td>
<td>1.5%</td>
</tr>
<tr>
<td>Utilities</td>
<td>1.7%</td>
</tr>
<tr>
<td>Rent</td>
<td>0.8%</td>
</tr>
<tr>
<td>Other</td>
<td>0.8%</td>
</tr>
<tr>
<td><strong>Profit</strong></td>
<td><strong>13.1%</strong></td>
</tr>
</tbody>
</table>

Source: IBIS Research
FEEDER CATTLE PRICES INCREASED BY ~220% SINCE 2007...

Weekly prices rebased to Sep 2007 prices

Source: MLA
FEEDER CATTLE PRICES ARE NEGATIVELY CORRELATED WITH GRAIN PRICES...

Price comparison of Feeder Cattle vs Wheat price (feed grade)

Source: Feeder Cattle price sourced from MLA, while Wheat (feed grade) sourced from Bloomberg database (AUWH0142 Index – New Castle, NSW)
AUSTRALIAN FEEDLOTS HAVE MEDIUM TO LONG TERM PROFITABILITY OF 11-14%...

Short, medium and long-term net profit margins for beef feedlots (2014)

Source: MLA/ Agribenchmark
FINISHING COSTS IN AUSTRALIA ARE ~23% HIGHER THAN SOUTH AMERICAN FEEDLOTS...

Cattle finishing cost benchmarking (2014)
USD per 100lwt

Source: MLA/ Agribenchmark
BEEF FEEDLOTS REVENUE IS FORECAST TO STAGNATE IN NEAR FUTURE...

Beef Cattle Feedlot Industry Revenue (AUD bn)

Source: IBIS Research
End markets by Share of Industry Revenue

- Supermarkets: 44.1%
- Exports to Japan: 23.4%
- Exports to South Korea: 6.5%
- Other export markets: 11.5%
- Butchers: 8.3%
- Food service establishments: 6.2%

Source: IBIS Research
A FRAGMENTED INDUSTRY BUT CONSOLIDATION WILL CONTINUE...

Beef Cattle Feedlot Industry by Major Players

- JBS Australia Pty Limited: 6.0%
- Mort & Co Ltd: 5.1%
- Teys Australia Pty Ltd: 5.1%
- Other: 83.8%

Source: IBIS Research, ALFA
WITH RISING GLOBAL COMPETITION IN GRAIN, THE DOMESTIC FEEDLOT INDUSTRY HAS RENEWED IMPORTANCE
WHILE MAJORITY OF AUSTRALIAN GRAIN IS EXPORTED, SIMILAR OTHER AGRI PRODUCE...

Average Exports as % of Production

- **Grains, Oilseeds & Pulses**: 68%, 32%
- **Beef**: 71%, 29%
- **Dairy**: 55%, 45%
- **Cotton**: 100%
- **Wool**: 74%, 26%

**Value of Agricultural Exports (AUD m)**

- **FY'13**
  - Grains, Oilseeds & Pulses: ~$12.2bn
  - Beef: $7.2bn
  - Dairy: $3.3bn
  - Cotton: $3.1bn
  - Wool: $2.1bn

Together these five commodity groups represent ~63% (average) of Total farm exports

Note 1: Average Value of Agricultural exports between 2012-13 (FY13) to 2017-18F (FY18F)
Source: ABARES, MLA (data sourced for Beef Production, Exports)
GROWTH IN STRENGTH OF GLOBAL AGRI POWERHOUSES – WHILE THE BSR CONTINUES TO RISE

Agriculture produce – Net trade
In '000MT, Commodities include Grains, Oilseeds, Meat, Dairy and Sugar

Growth in Net Exports CAGR (2000-16)
Growth in Net Imports CAGR (2000-16)

Source: USDA, ANZ Analysis
RIISING GRAIN & OILSEEDS DEMAND IS INCREASINGLY BEING MET BY EMERGENT PLAYERS IN SOUTH AMERICA, BLACK SEA REGION…

**Grain & Oilseeds Export Volume**
*In '000MT, Major Countries*

**Grain & Oilseed Export Share (%)**
*% Share of exports of Select Countries*

*Source: USDA, ANZ Analysis*
FEED INDUSTRY – THE LARGEST DOMESTIC GRAIN & OIL SEEDS
CUSTOMER MAY BENEFIT FROM LOW PRICES...

Grain & Oil seeds consumption share estimates

In Million MT

Source: USDA PSD
RISING PROTEIN CONSUMPTION TO DRIVE FEED DEMAND
PER CAPITA MEAT AND DAIRY CONSUMPTION TO CONTINUE STRONG GROWTH IN DEVELOPING REGIONS OVER 10 YEARS...

Per capita food consumption by region

In Kg/cap/year

Source: FAO – OECD Outlook
CHINA DEMOGRAPHICS – INCREASING AGEING

Population by Age Group

Source: US Bureau, International Database
JAPAN’S CALORIE CONSUMPTION HAS CONTINUED TO FALL SINCE 1990

Japan Calorie consumption by Source

Source: FAO Statistics, ANZ
CHINA CONSUMES AS MANY CALORIES PER CAPITA AS JAPAN DID IN 1990

China Calorie consumption by Source

Source: FAO Statistics, ANZ
JAPAN EXPERIENCED A FALL IN CONSUMPTION ACROSS FOOD TYPES

% change in Japan’s Per Capita and Total Consumption by Category 1990-2011

Grain
Produce
Dairy & Eggs
Meat
Sugar & Fat
Other
Total

Per Capita
Total

Source: FAO Statistics, ANZ
HISTORIC CONSUMPTION GROWTH IN CHINA HAD BEEN EXPONENTIAL

% change in China’s Per Capita and Total Consumption by Category 1990-2011

Source: FAO Statistics, ANZ
CHINA & SE ASIAN COUNTRIES ARE THE LARGEST IMPORTERS OF GRAIN & OILSEEDS

Grain & Oilseeds Import Volume
In '000MT, Major Countries

China & SE Asian Countries are the largest importers of grain & oilseeds.

Grain & oilseed demand increased by 6.3x (2000-16)
Population increased by 115m (2000-16)
GDP pcp increased by 5.3x (2000-16)

Source: USDA, IMF and ANZ Analysis
FEED CONSUMPTION IN ASIA PROVIDE SIGNIFICANT OPPORTUNITY.

Asia Feed Consumption Share – Grains & Oilseeds

Note: Year noted 2001 represent marketing year 2000/2001

Source: Data is sourced from USDA PSD Query.
AGTECH AND DATA PROVIDE UNIQUE OPPORTUNITIES
MLA IDENTIFIED FOUR AREAS FOR USE OF DIGITAL TECHNOLOGIES IN LIVESTOCK ENTERPRISES...

<table>
<thead>
<tr>
<th>Area</th>
<th>Productivity Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Soil fertility monitoring</td>
<td>+13% – 26%</td>
</tr>
<tr>
<td>Feed allocation systems</td>
<td>+9% - 11%</td>
</tr>
<tr>
<td>Animal production monitoring</td>
<td>+4% - 9%</td>
</tr>
<tr>
<td>Animal disease monitoring</td>
<td>+4% - 13%</td>
</tr>
</tbody>
</table>

Source: Meat and Livestock report, retrieved from Beef central website
HOWEVER, NEED TO ADOPT REALISTIC TIMELINE FOR IMPLEMENTATION OF EMERGING TECHNOLOGIES...

Key driving factors that affect level of adoption of a technology or practice by agribusinesses

**Characteristics of the Technology or Practice**
- Cost of Technology
- Difficulty of implementation

**Characteristics of the Target Population**
- Financial Capacity
- Education levels
- Social norms

**Relative advantages of using the technology or practice**
- Improved efficiency
- Better crop yields
- Higher Profitability

**Capacity to learn or adapt to generate a relative advantage**
- Support infrastructure to aid decision-making and learning
- Update to latest available technology/techniques

“No one technology or technologies would be transformational, and progress on technologies would be incremental, because of the nature of innovation and adoption”

Source: Smart Farming – May 2016, Inquiry into agricultural innovation
BANKS REMAIN INTEGRAL PART OF SUPPLY CHAIN

1. $ purchase cattle
2. $ extended based on the value of the cattle & receivables
3. $ profits
   $ buyer purchase cattle
4. $ loan repaid from proceeds of sale
TRADITIONAL VS REAL TIME FINANCING

Funding Against Land

*Failure to tap the working capital finance opportunity*

**Traditional Financing**

- 300 Kg: Day 0, $\
- 400 Kg: Day 50, $\$
- 500 Kg: Day 100, $\$$$

**Real Time Financing**

- 300 Kg: Day 0, $\$$
- 400 Kg: Day 50, $$
- 500 Kg: Day 100, $\$$$

- Technology provide opportunity to unlock working capital
- Works well with operators with long operation history
ABILITY TO ATTRACT NEW CAPITAL IN THE INDUSTRY BY UNLOCKING WORKING CAPITAL

Note 1: Dressing % = 52%, 85% of market value for feed lot with 100 day cycle
THE WAY AHEAD

Drivers

Platform

Cattle in feedlot
2,000

Funding Based on Land
AUD 1.0m

Working Capital Opportunity
AUD 0.4m

Swipe Right to unlock AUD 400k

Australia Eastern Young Cattle Indicator

AUD / Kg
MANAGING COMMUNICATION BETWEEN DIFFERENT PARTS OF VALUE CHAIN REMAINS VITAL...

Production end
Smart agricultural production alliance

• Strengthen resource management system
• Mass production of excellent traceable products
• Link e-commerce

Consumption end
Convenient services offered by digital agriculture

Product information
- Accurate estimates of crop yield, input applications etc.,
- Storage and Marketing of harvest crop
- Data to help increase efficiency in operations

Consumer habit
- Where, What & How produce is consumed?
- Change in consumption patterns
- Key factors affecting consumer choice

Source: Taiwan govt. website, ANZ
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THANK YOU

Presented by MICHAEL WHITEHEAD
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