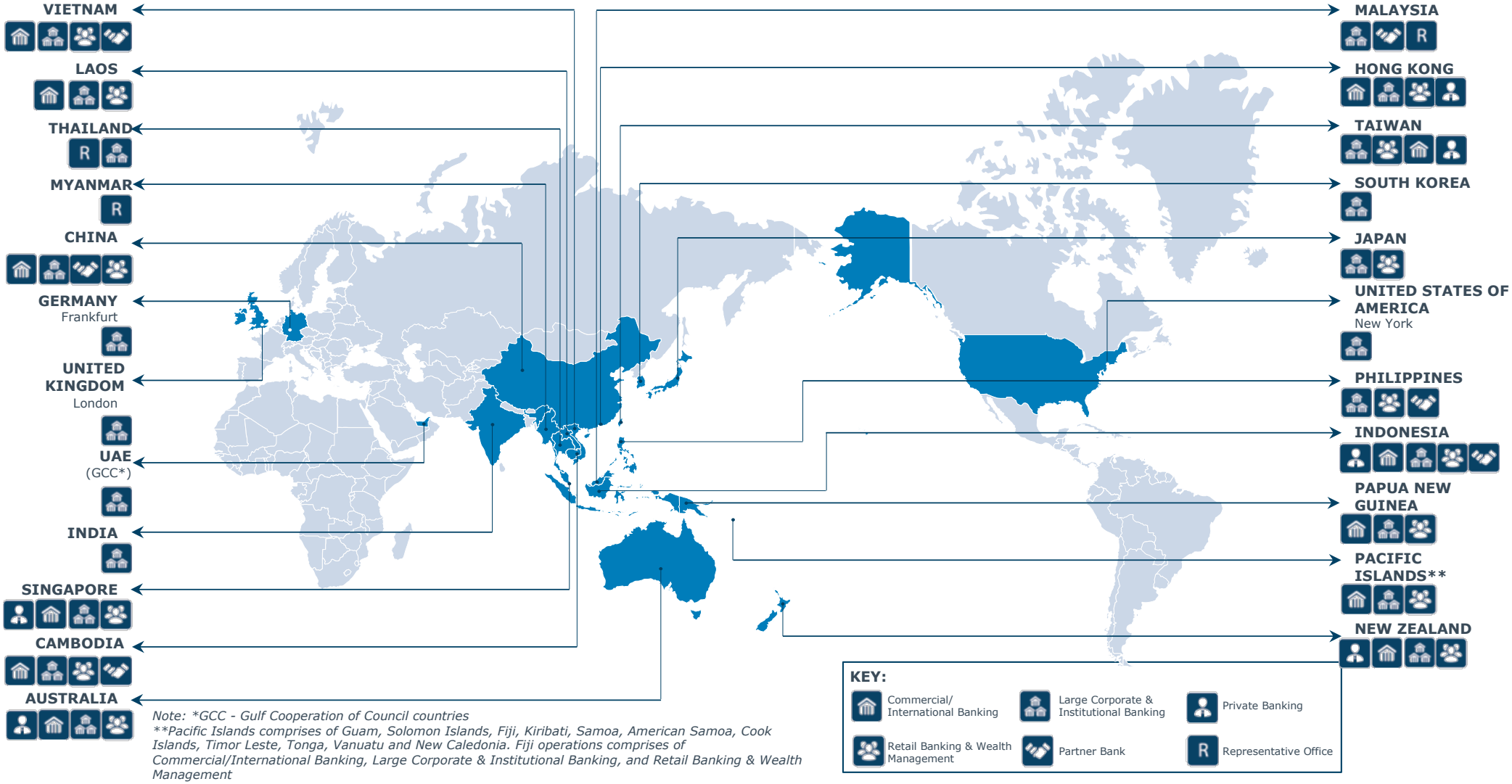
03 August 2017

AUSTRALIAN FEEDLOT SECTOR

ANZ

ANZ'S SUPER REGIONAL NETWORK

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)

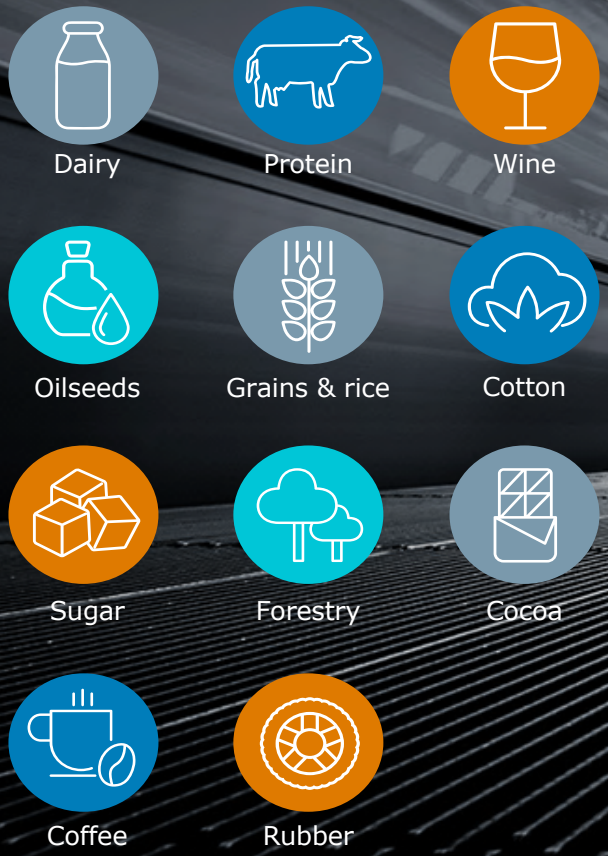


*Note: *GCC - Gulf Cooperation of Council countries*
***Pacific Islands comprises of Guam, Solomon Islands, Fiji, Kiribati, Samoa, American Samoa, Cook Islands, Timor Leste, Tonga, Vanuatu and New Caledonia. Fiji operations comprises of Commercial/International Banking, Large Corporate & Institutional Banking, and Retail Banking & Wealth Management*

CONNECTING YOU TO THE FOOD, BEVERAGE AND AGRIBUSINESS SECTORS

ANZ has been banking clients in the Food, Beverage and Agribusiness sectors since 1865 and covers stakeholders across the global supply chain

BENEFIT FROM OUR INDUSTRY EXPERIENCE AND EXPERTISE



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

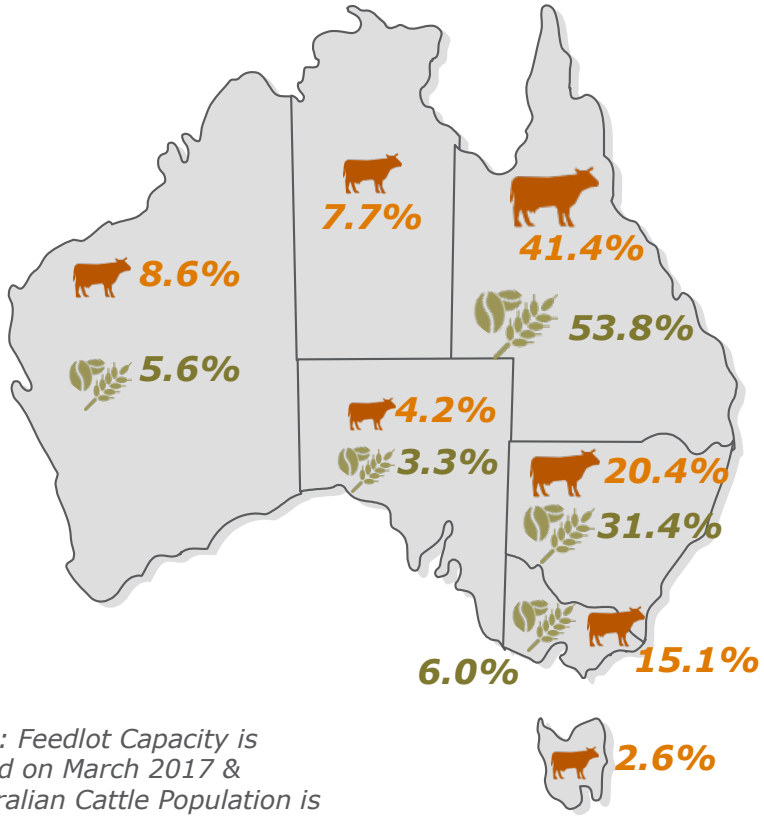
AUSTRALIA'S FEEDLOT SECTOR

- 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

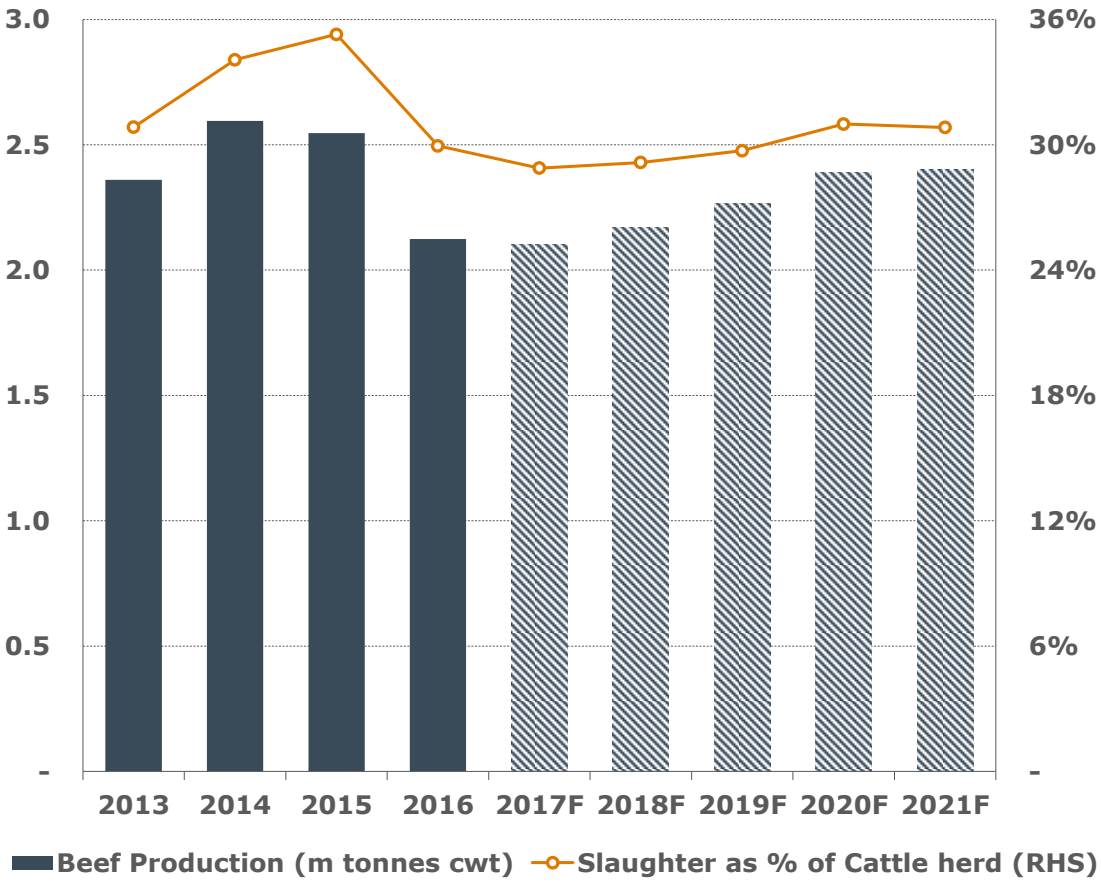
Australia Cattle Population
27.4 million head



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

Australia Beef Production & Slaughter

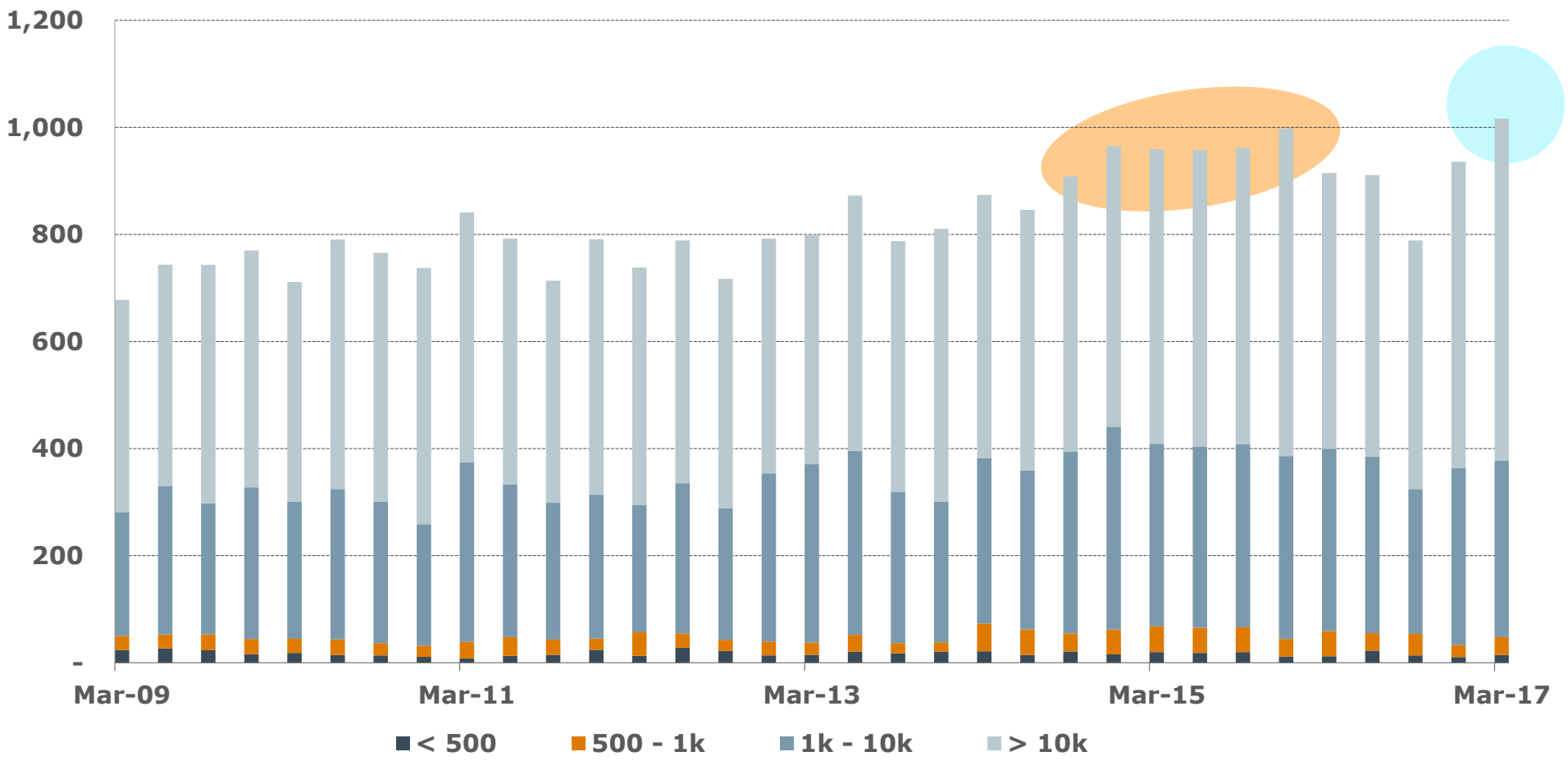
With herd re-building in progress, beef production is likely to decrease and marginally recover through 2021



Source: MLA, ALFA

REDUCED AVAILABILITY OF CATTLE LED TO CATTLE HELD ON FEED FOR LONGER PERIODS…

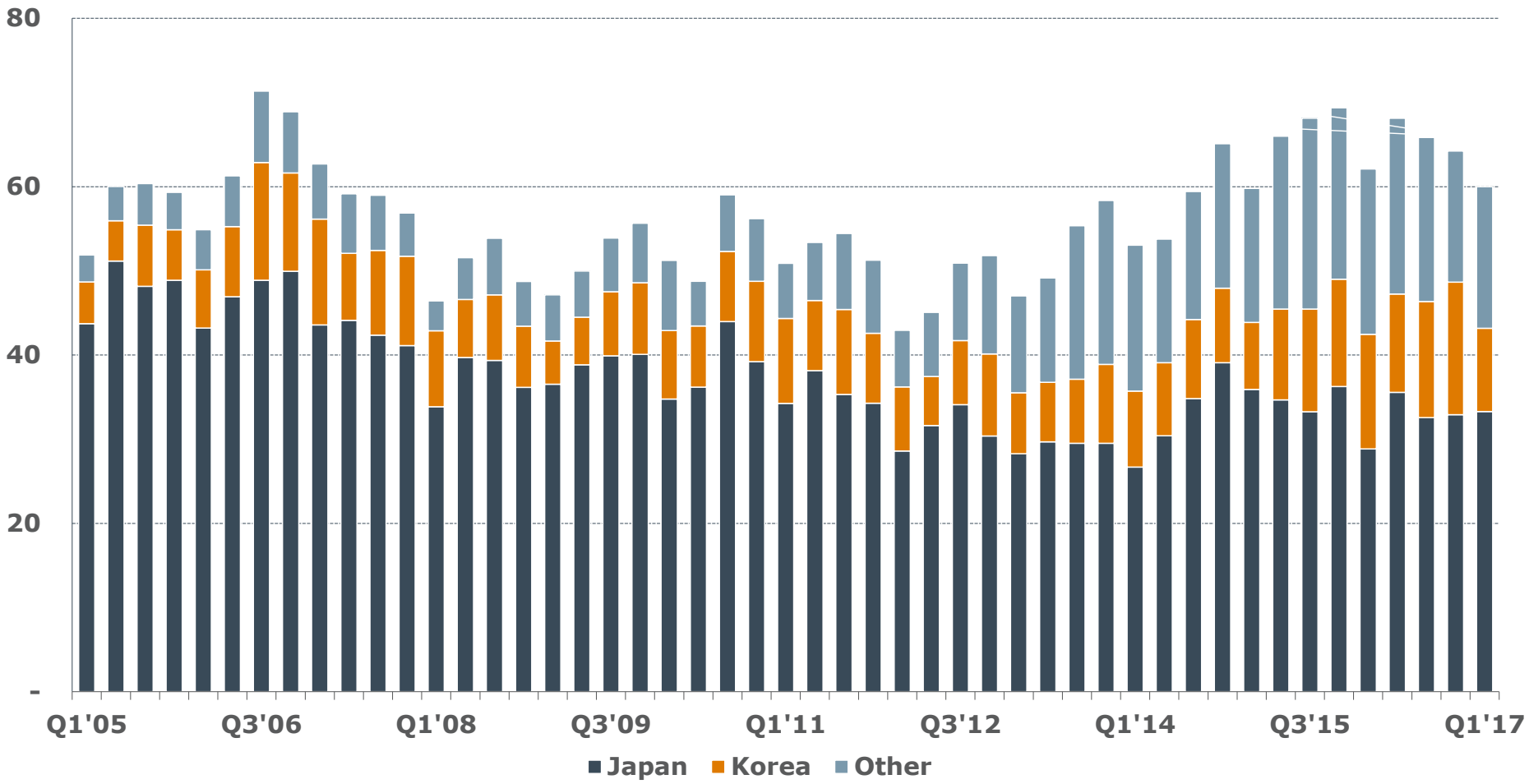
Cattle on Feed ('000 head) by Feedlot Type



Source: MLA, ALFA

EXPORTS TO EU, CHINA & MIDDLE EAST GRADUALLY INCREASED THEIR SHARE…

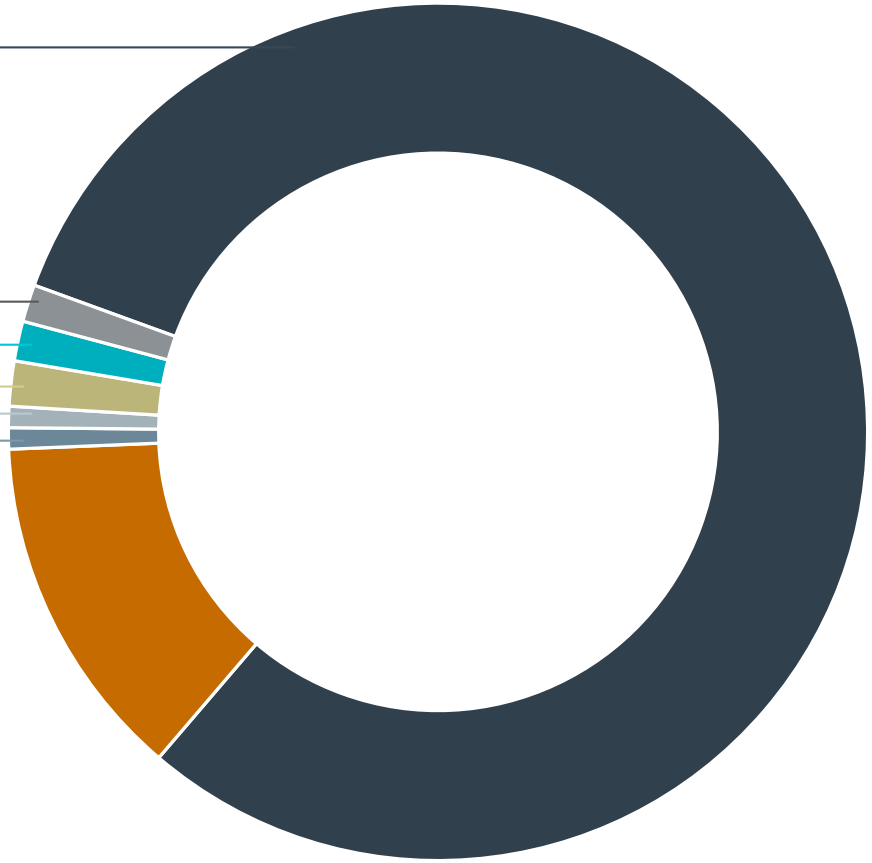
Grain-fed beef exports ('000 swt)



Source: MLA, ALFA

~80% OF COST BASE IS MADE UP OF FEEDER CATTLE PURCHASES

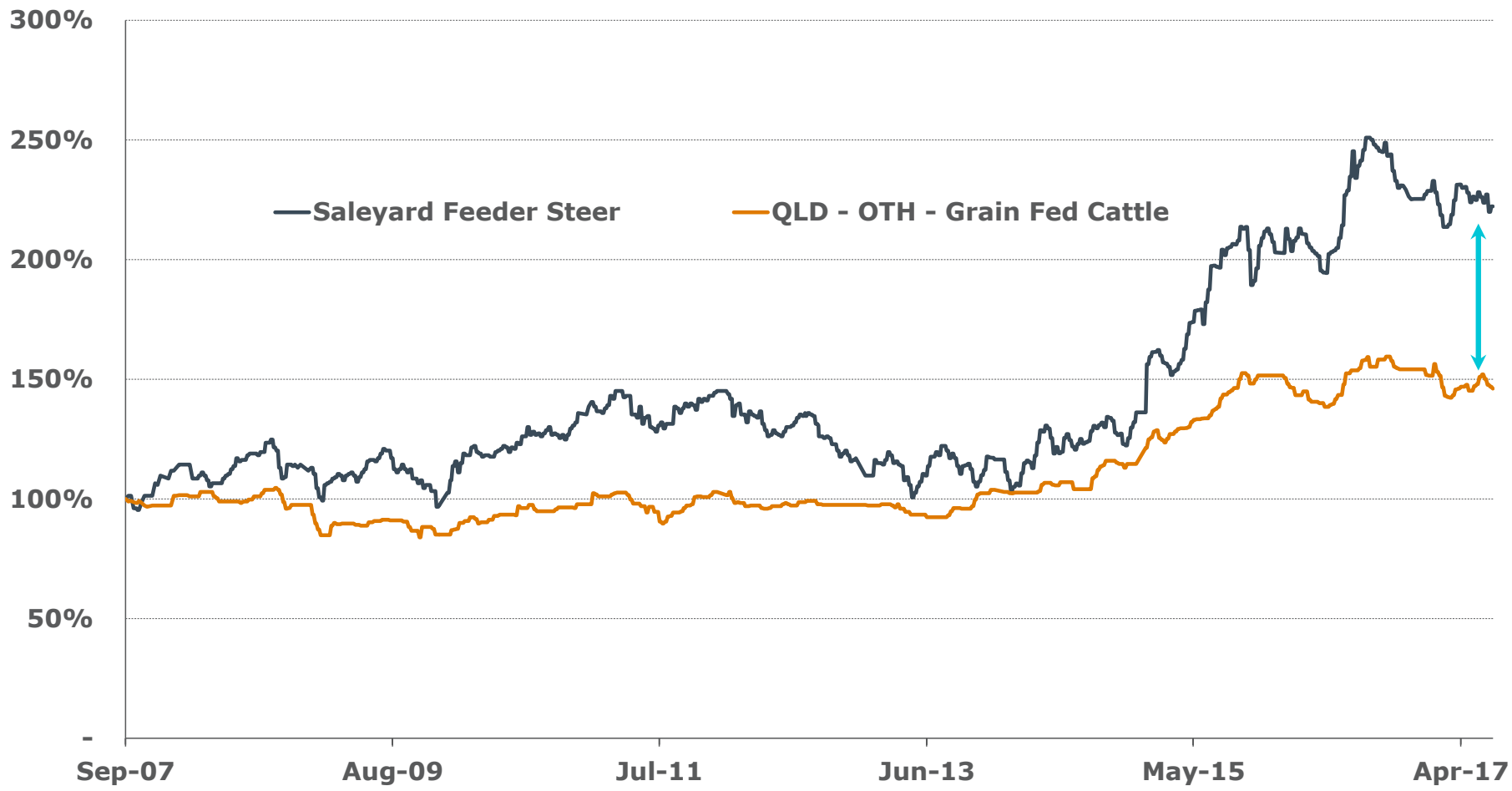
Purchases	80.7%
Wages	1.4%
Depreciation	1.5%
Utilities	1.7%
Rent	0.8%
Other	0.8%
Profit	13.1%



Source: IBIS Research

FEEDER CATTLE PRICES INCREASED BY ~220% SINCE 2007…

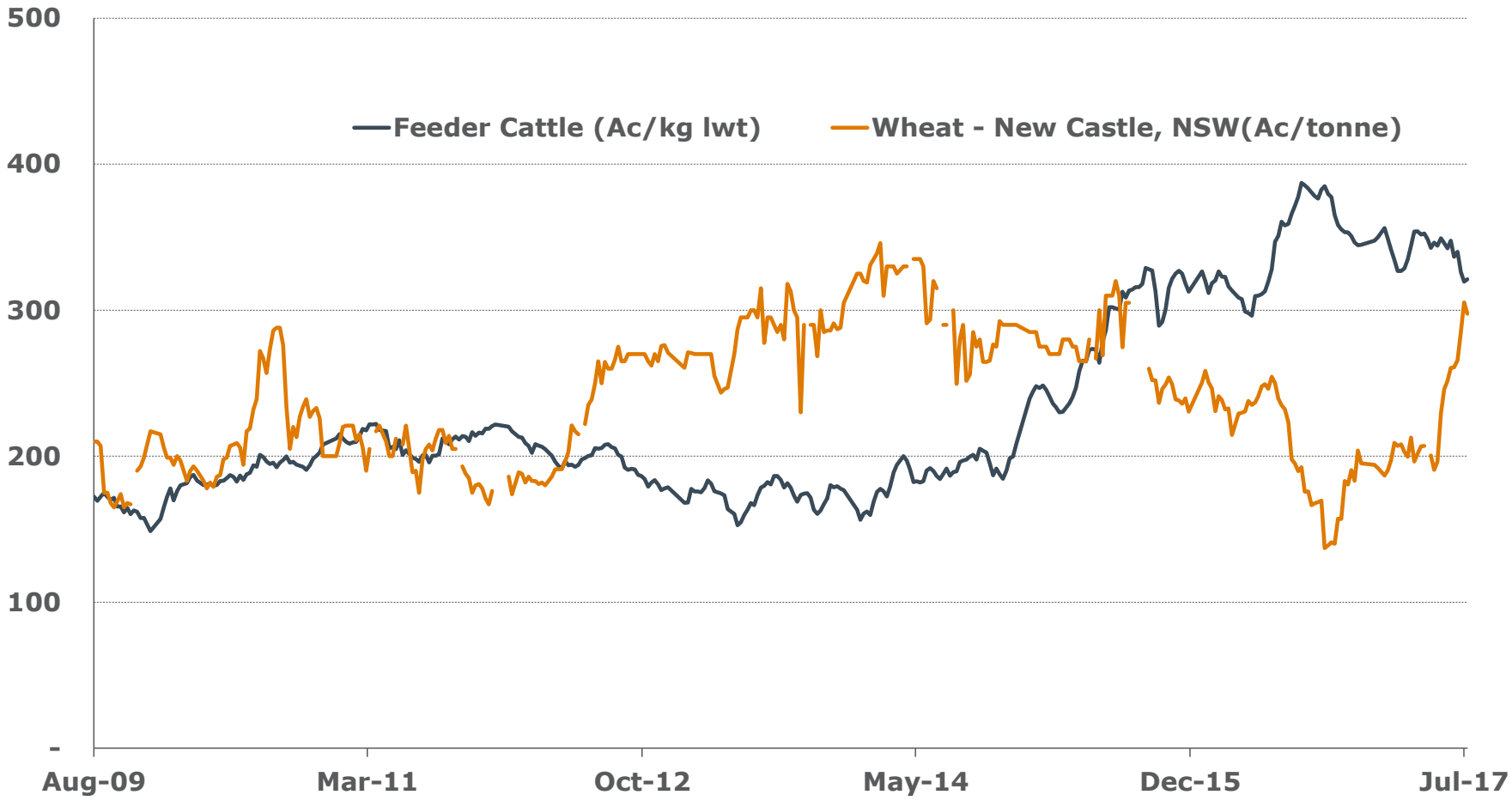
Weekly prices rebased to Sep 2007 prices



Source: MLA

FEEDER CATTLE PRICES ARE NEGATIVELY CORRELATED WITH GRAIN PRICES…

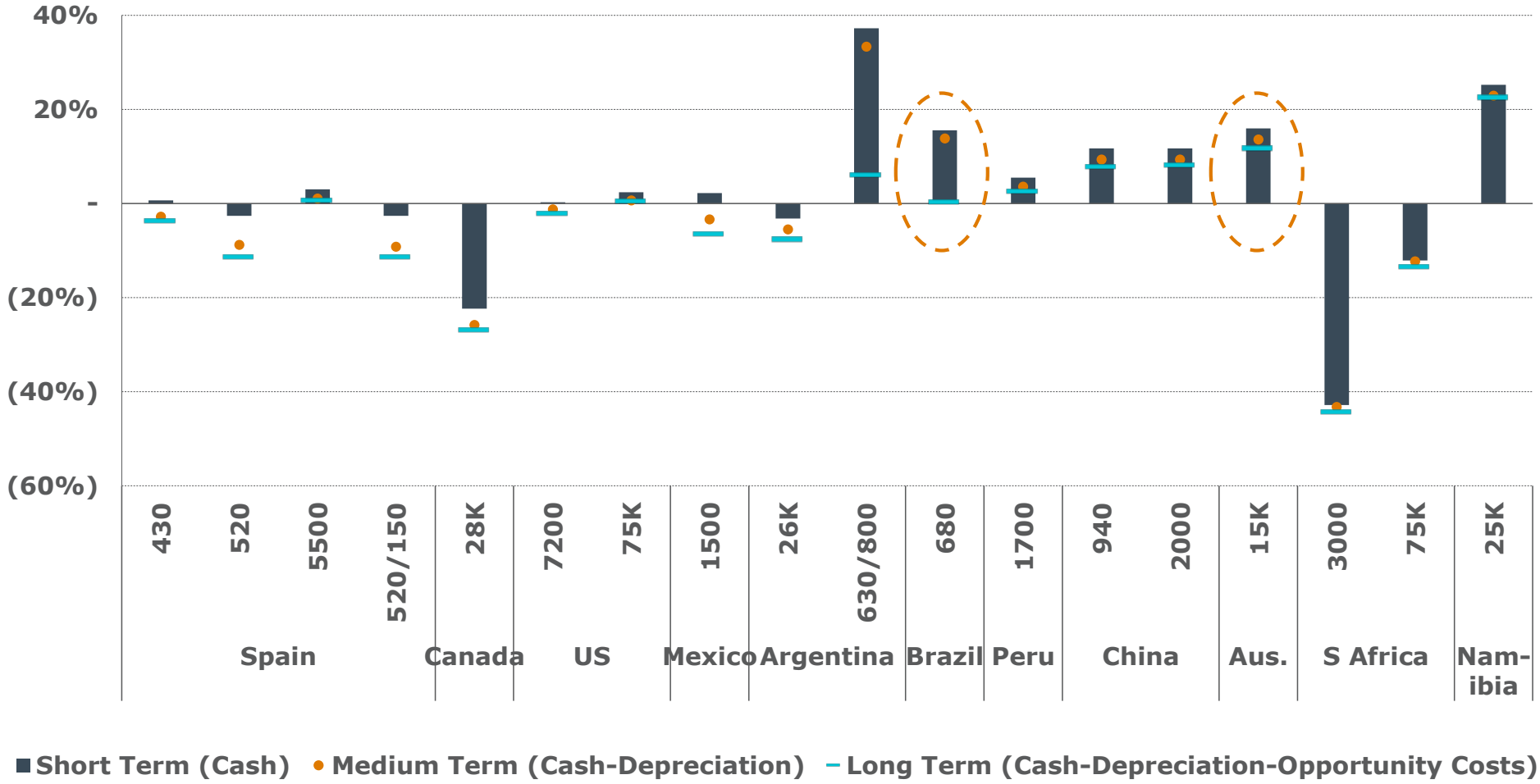
Price comparison of Feeder Cattle vs Wheat price (feed grade)



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)

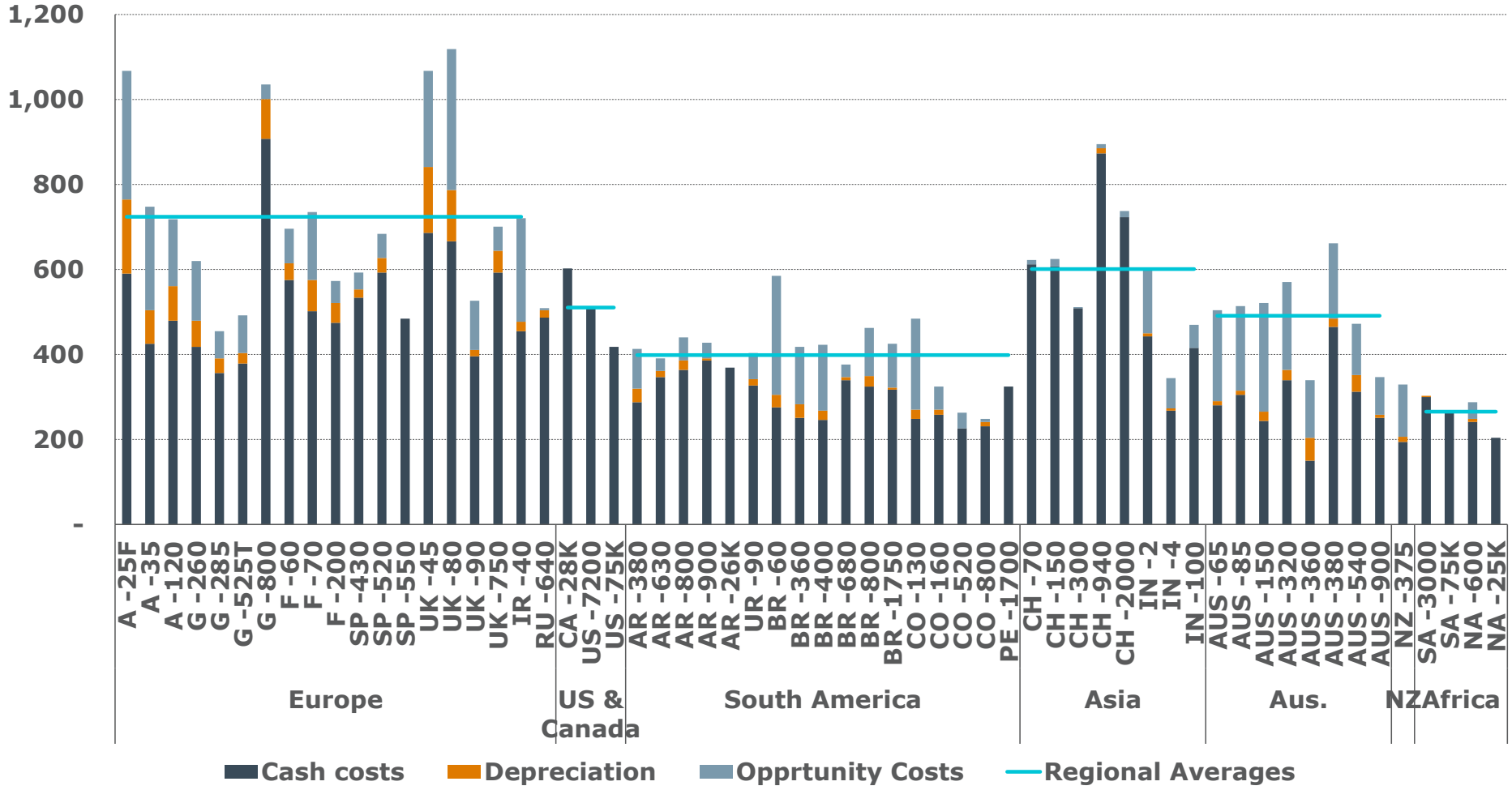


Source: MLA/ Agribenchmark

FINISHING COSTS IN AUSTRALIA ARE ~23% HIGHER THAN SOUTH AMERICAN FEEDLOTS…

Cattle finishing cost benchmarking (2014)

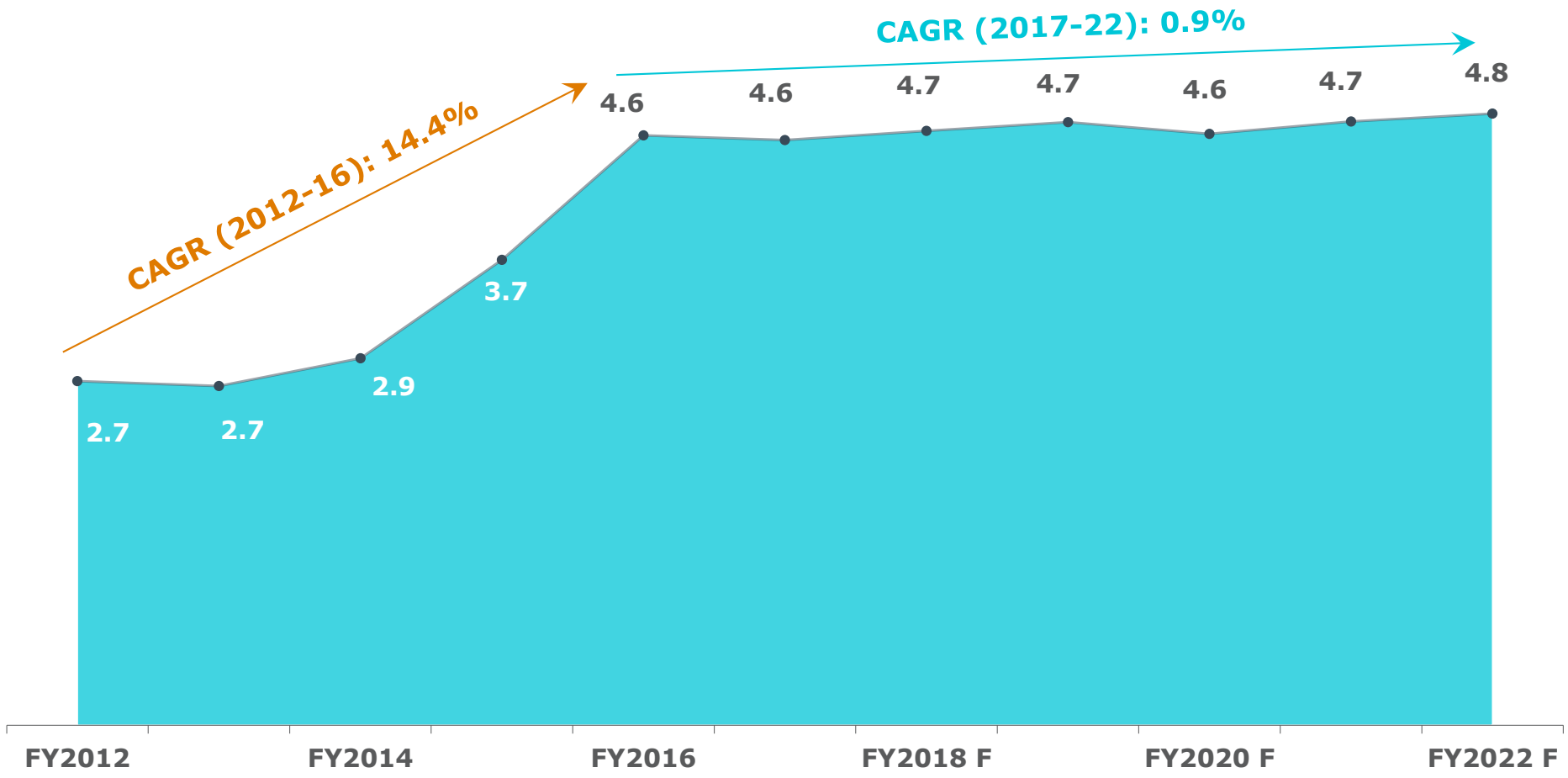
USD per 100lwt



Source: MLA/ Agribenchmark

BEEF FEEDLOTS REVENUE IS FORECAST TO STAGNATE IN NEAR FUTURE…

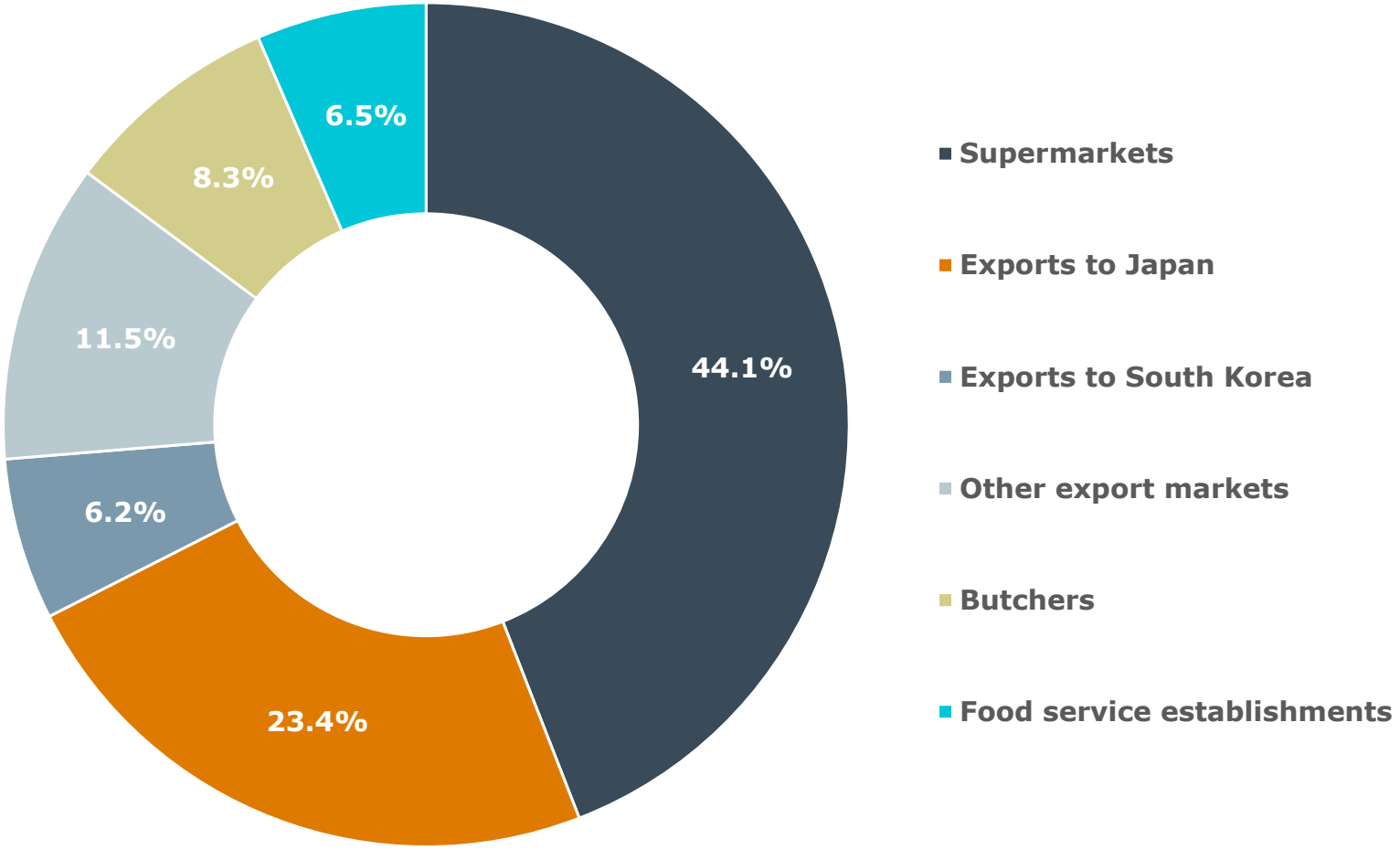
Beef Cattle Feedlot Industry Revenue (AUD bn)



Source: IBIS Research

~59% OF BEEF FROM FEEDLOTS IS UTILISED IN DOMESTIC MARKET…

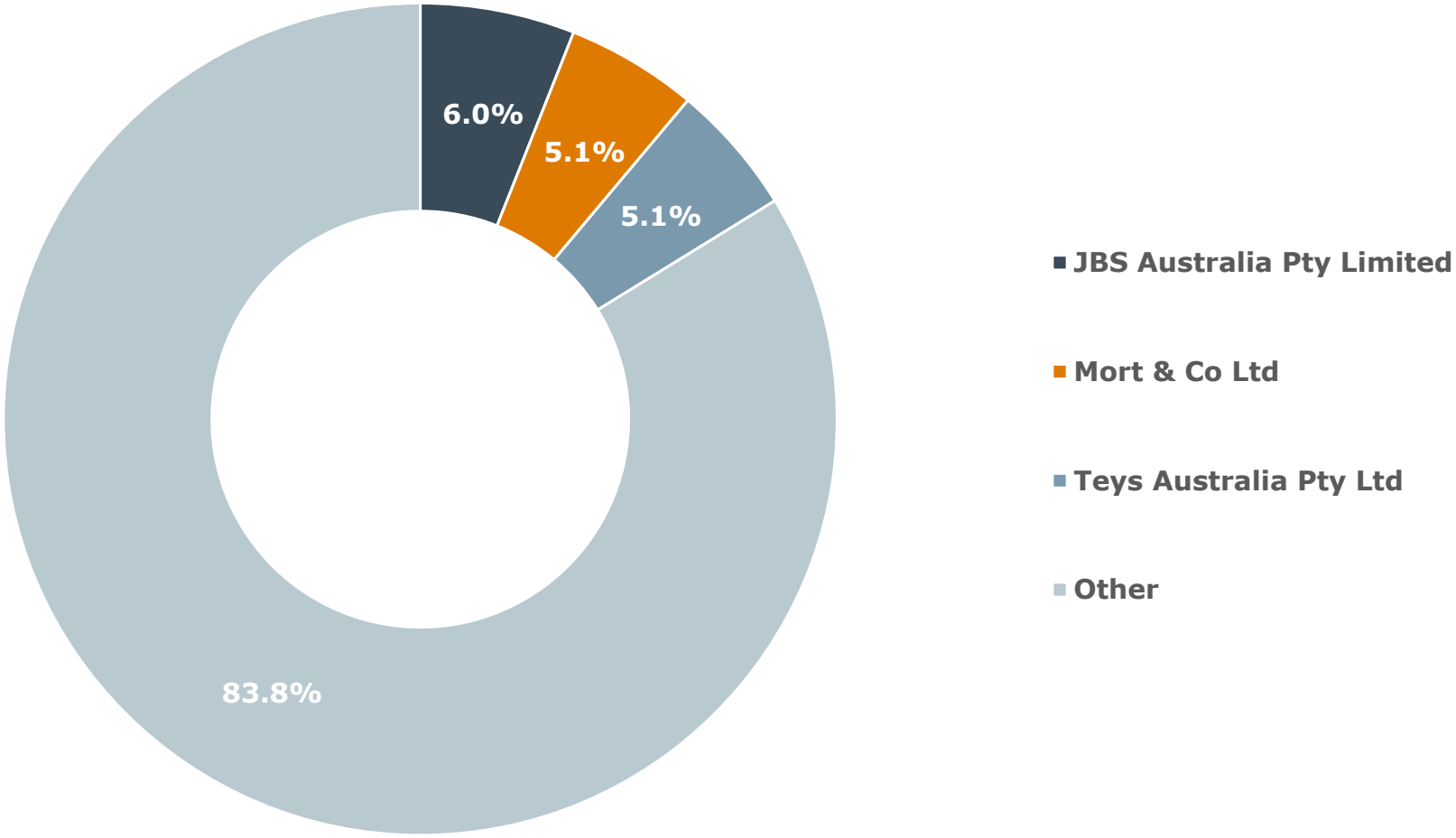
End markets by Share of Industry Revenue



Source: IBIS Research

A FRAGMENTED INDUSTRY BUT CONSOLIDATION WILL CONTINUE…

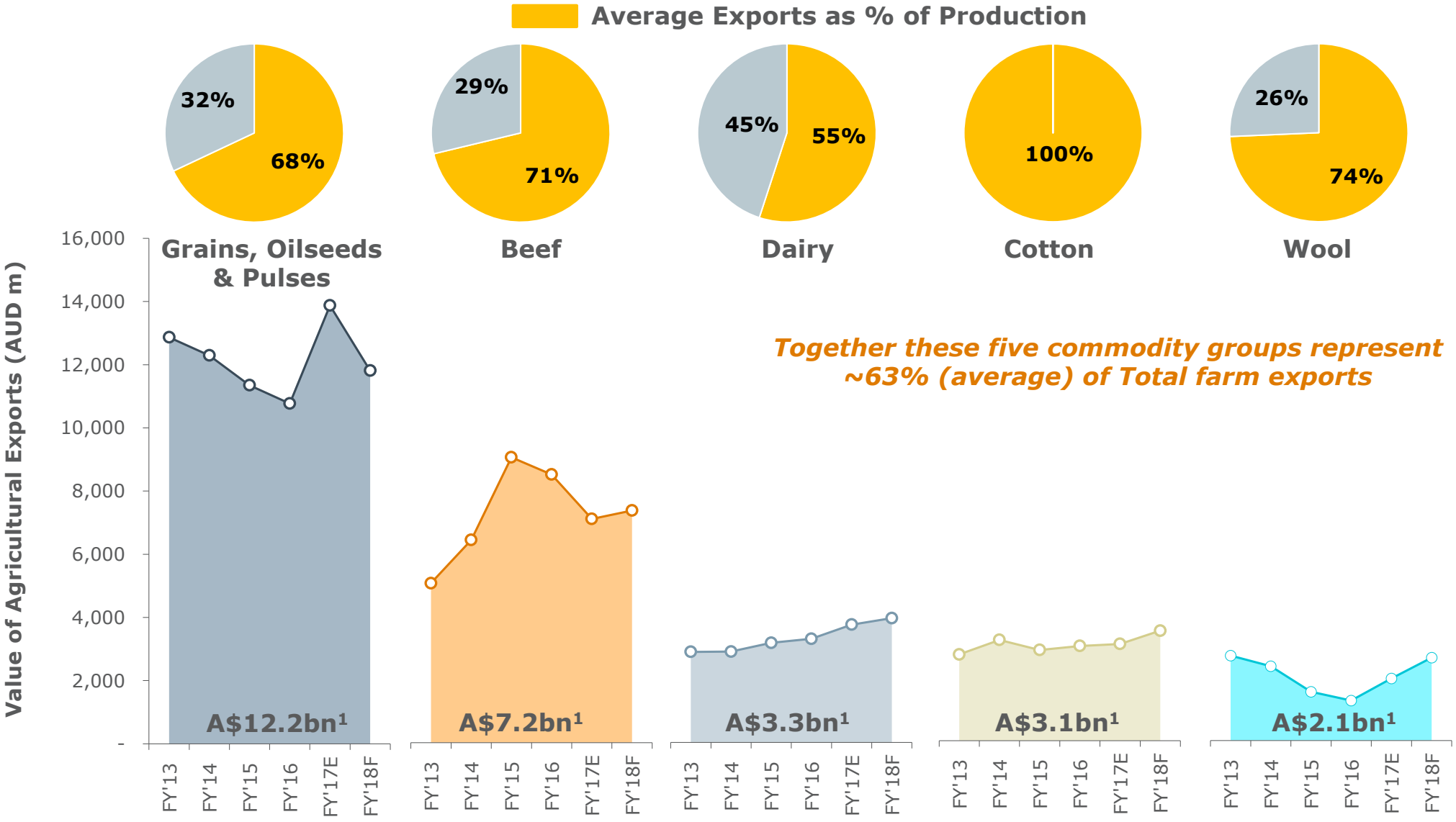
Beef Cattle Feedlot Industry by Major Players



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…



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

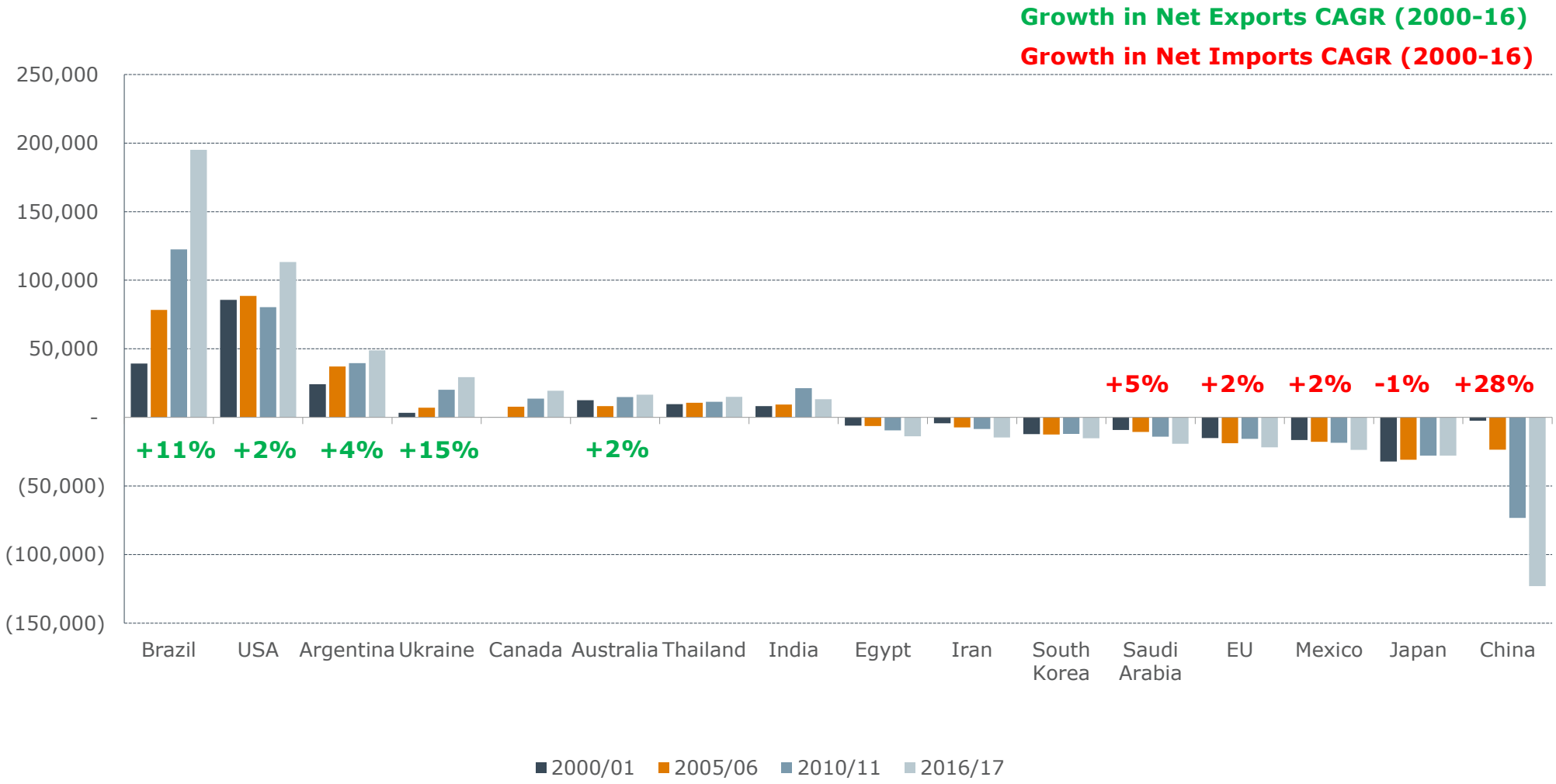
Note 1: Average Value of Agricultural exports between 2012-13 (FY13) to 2017-18F (FY18F)

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

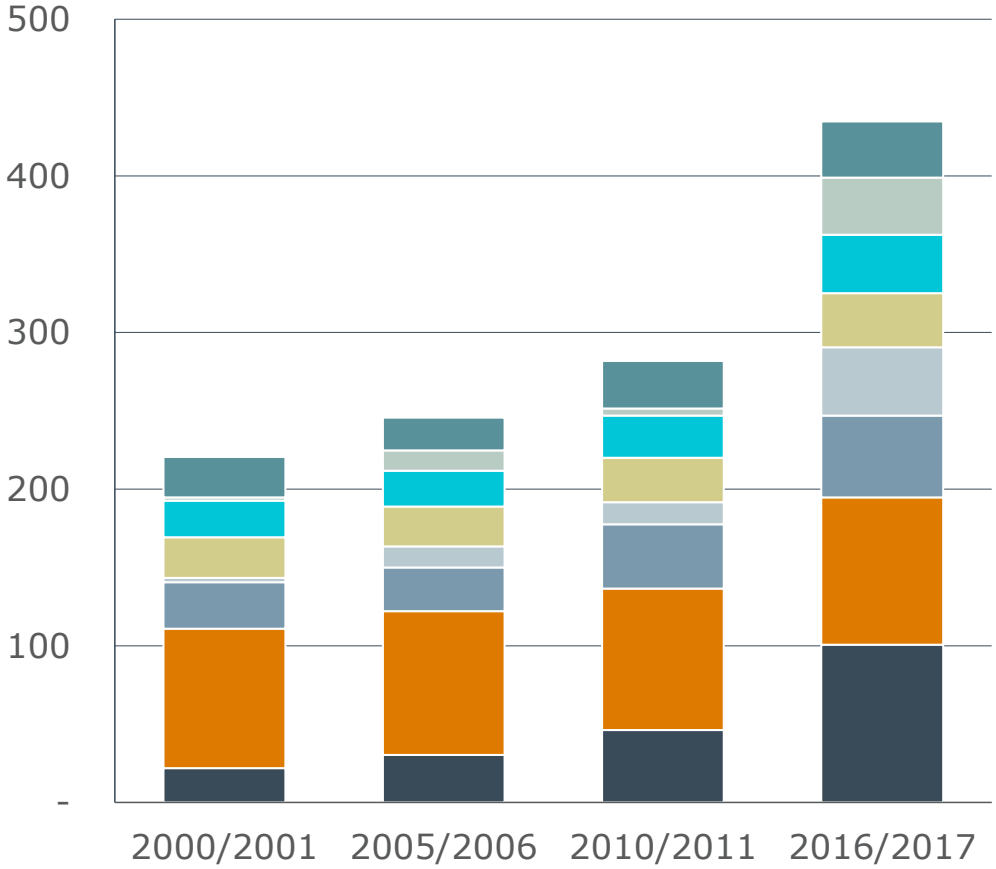


Source: USDA, ANZ Analysis

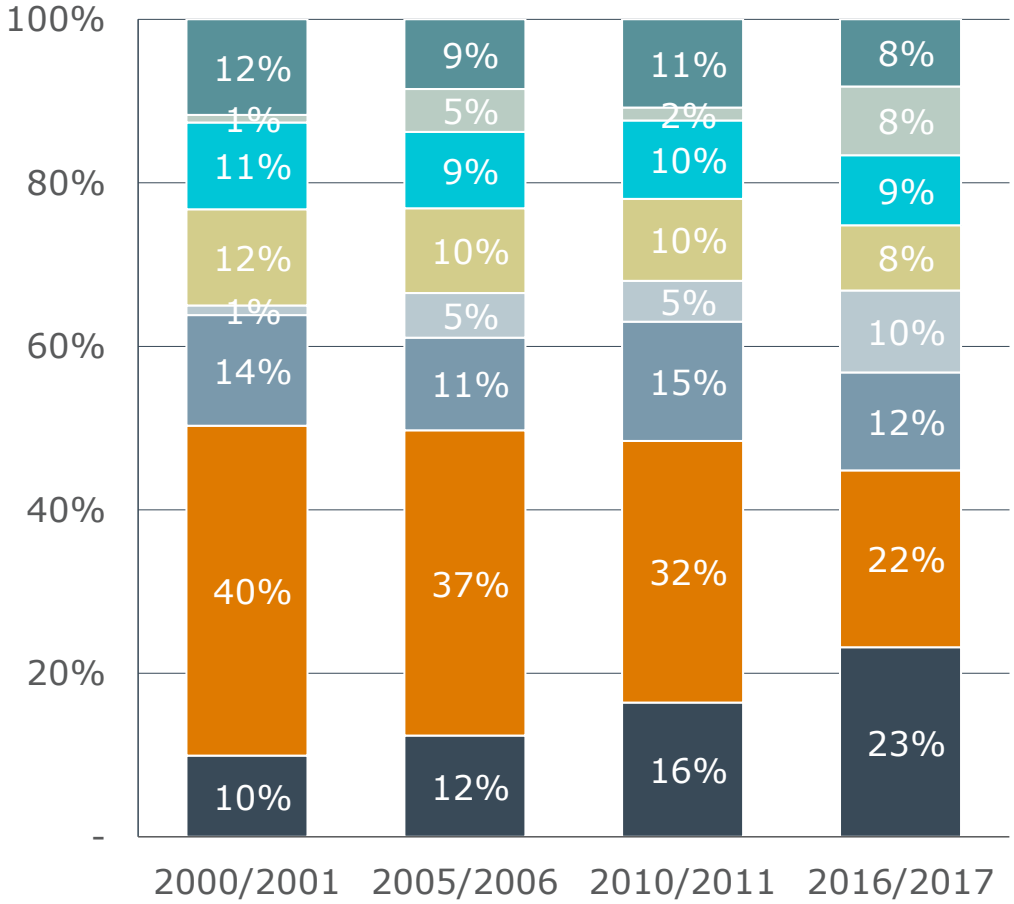
RISING GRAIN & OILSEEDS DEMAND IS INCREASINGLY BEING MET BY EMERGENT PLAYERS IN SOUTH AMERICA, BLACK SEA REGION…

Without Soybean

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



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



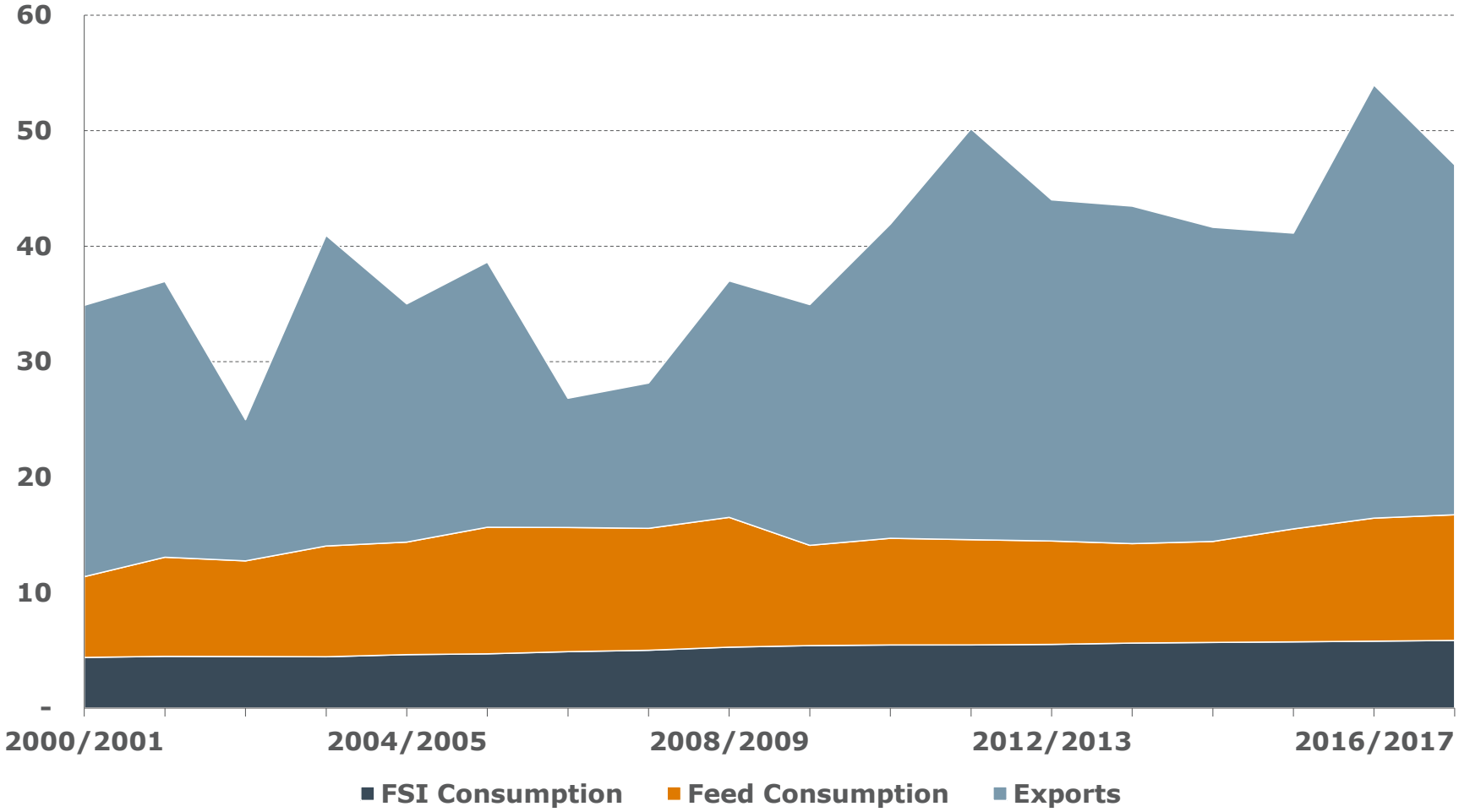
Brazil
United States
Argentina
Ukraine
Canada
Australia
Russia
European Union

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



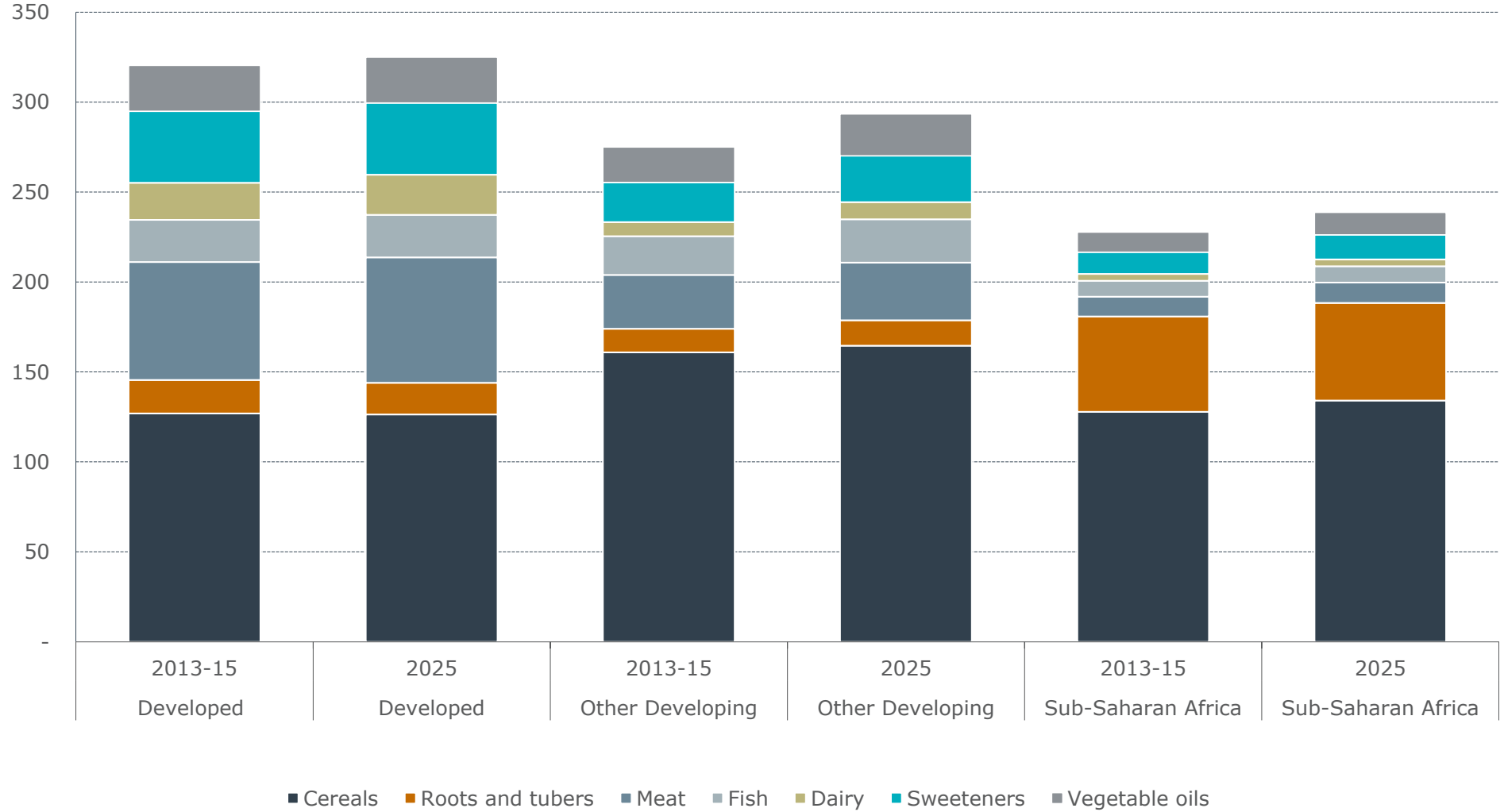
Source: USDA PSD

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

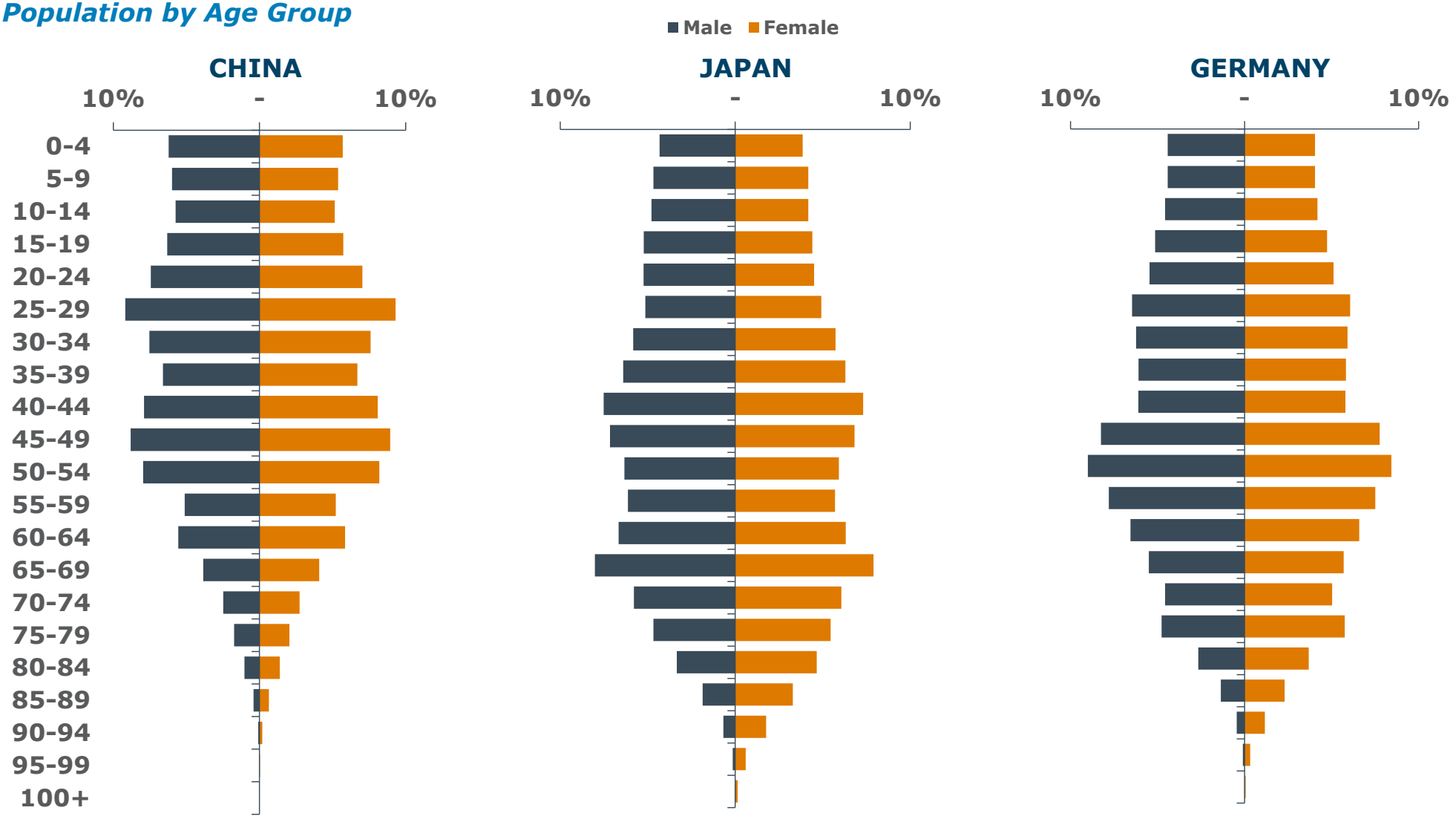
In Kg/cap/year



Source: FAO – OECD Outlook

CHINA DEMOGRAPHICS – INCREASING AGEING

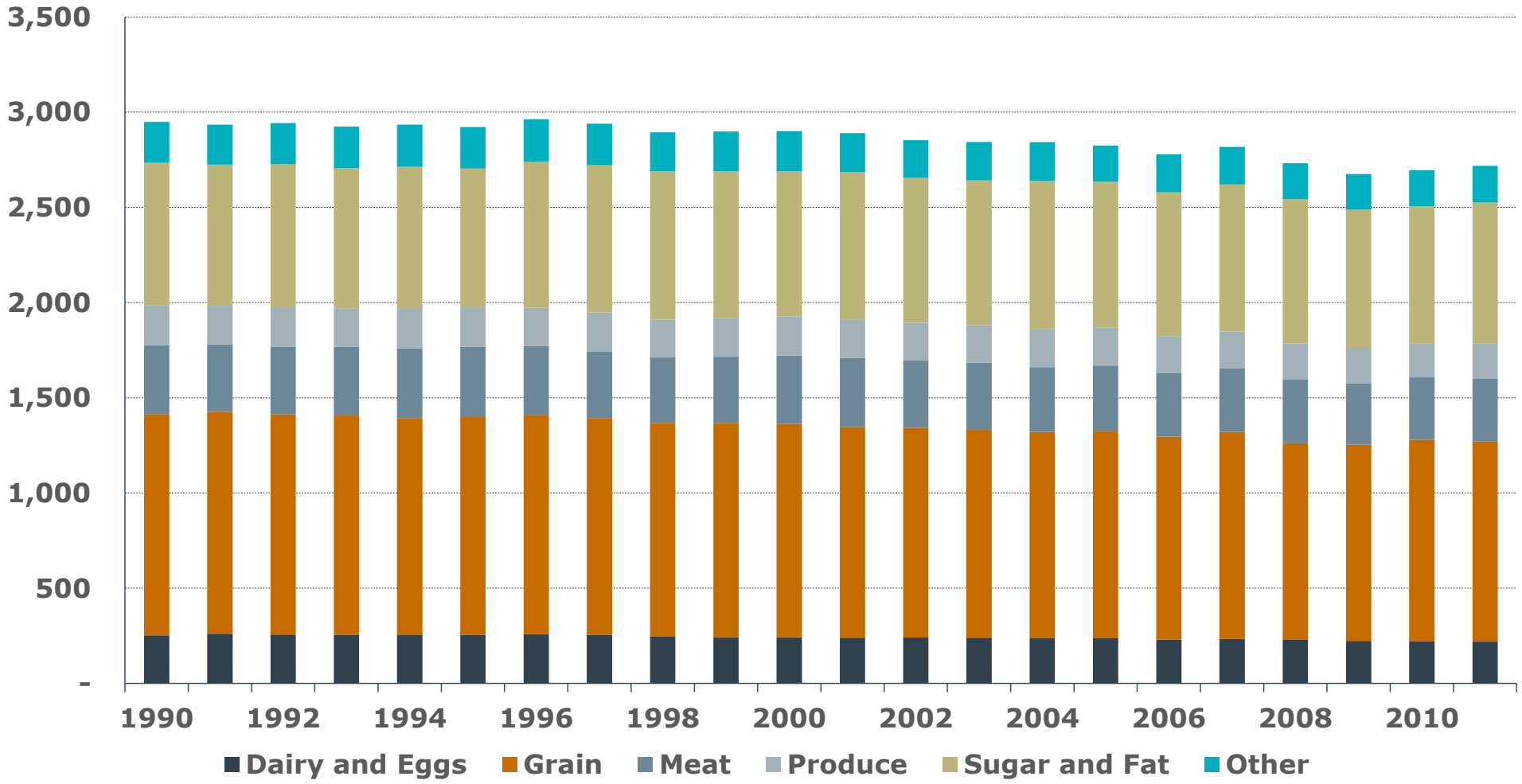
Population by Age Group



Source: US Bureau, International Database

JAPAN'S CALORIE CONSUMPTION HAS CONTINUED TO FALL SINCE 1990

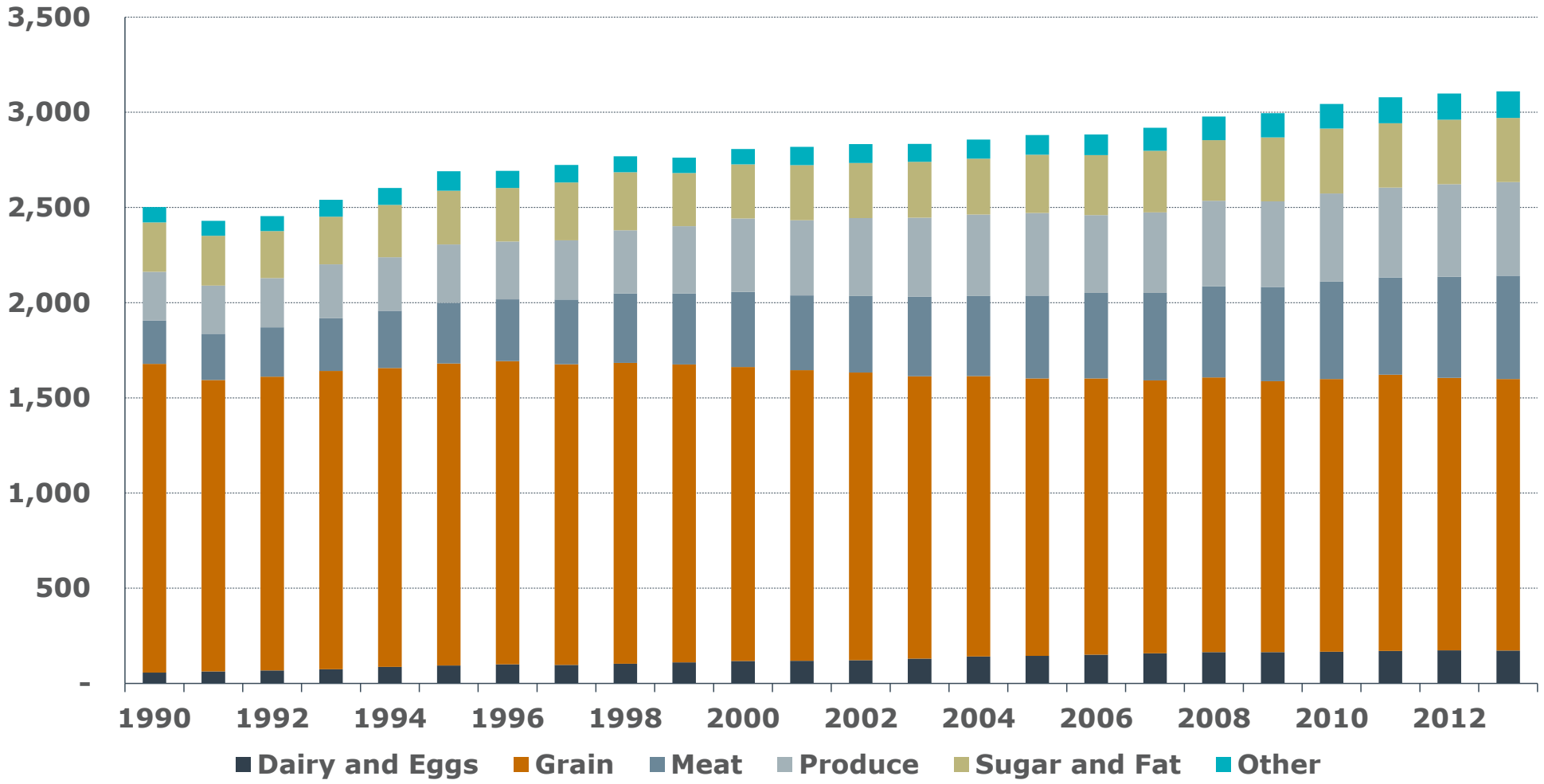
Japan Calorie consumption by Source



Source: FAO Statistics, ANZ

CHINA CONSUMES AS MANY CALORIES PER CAPITA AS JAPAN DID IN 1990

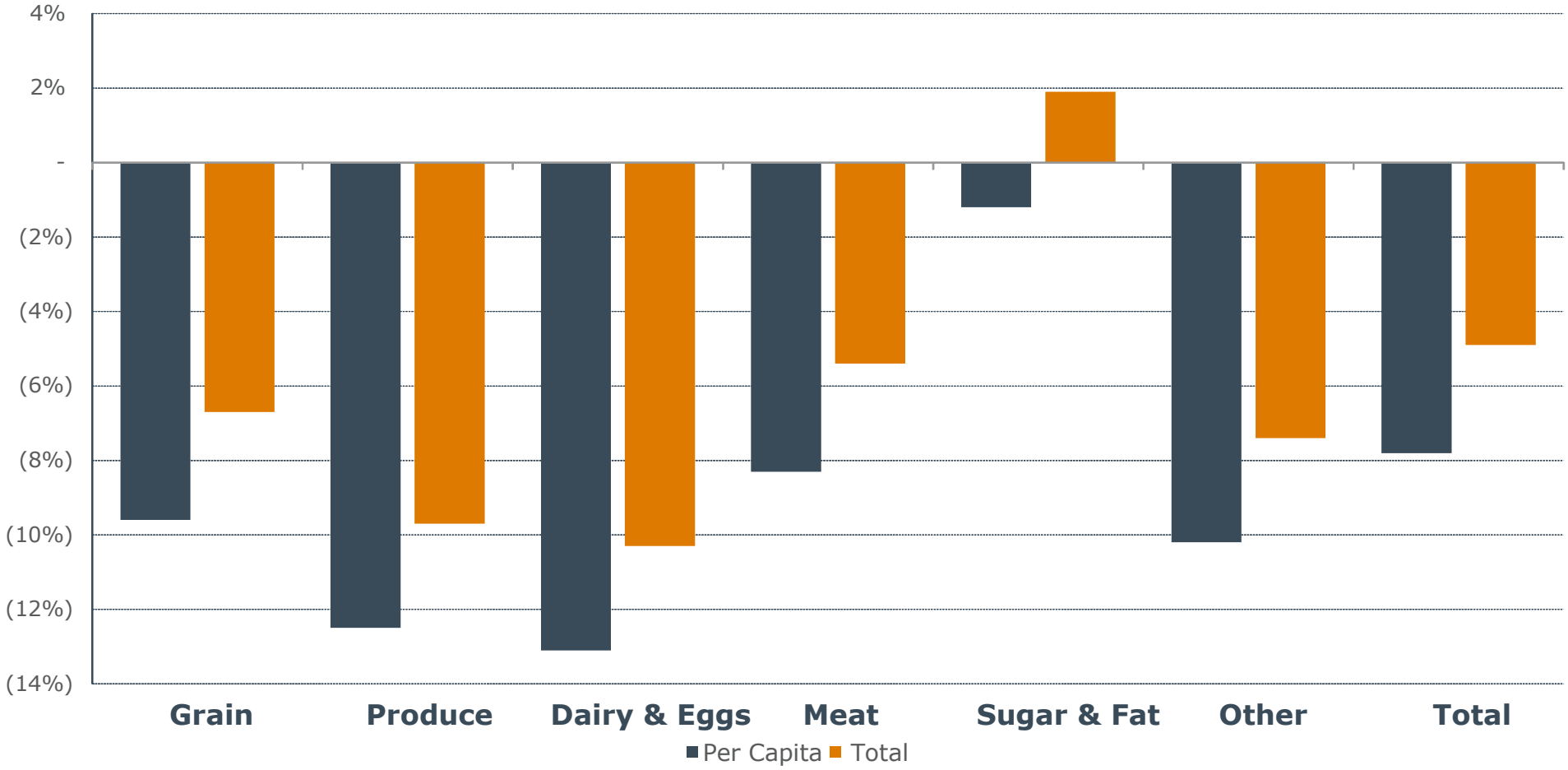
China Calorie consumption by Source



Source: FAO Statistics, ANZ

JAPAN EXPERIENCED A FALL IN CONSUMPTION ACROSS FOOD TYPES

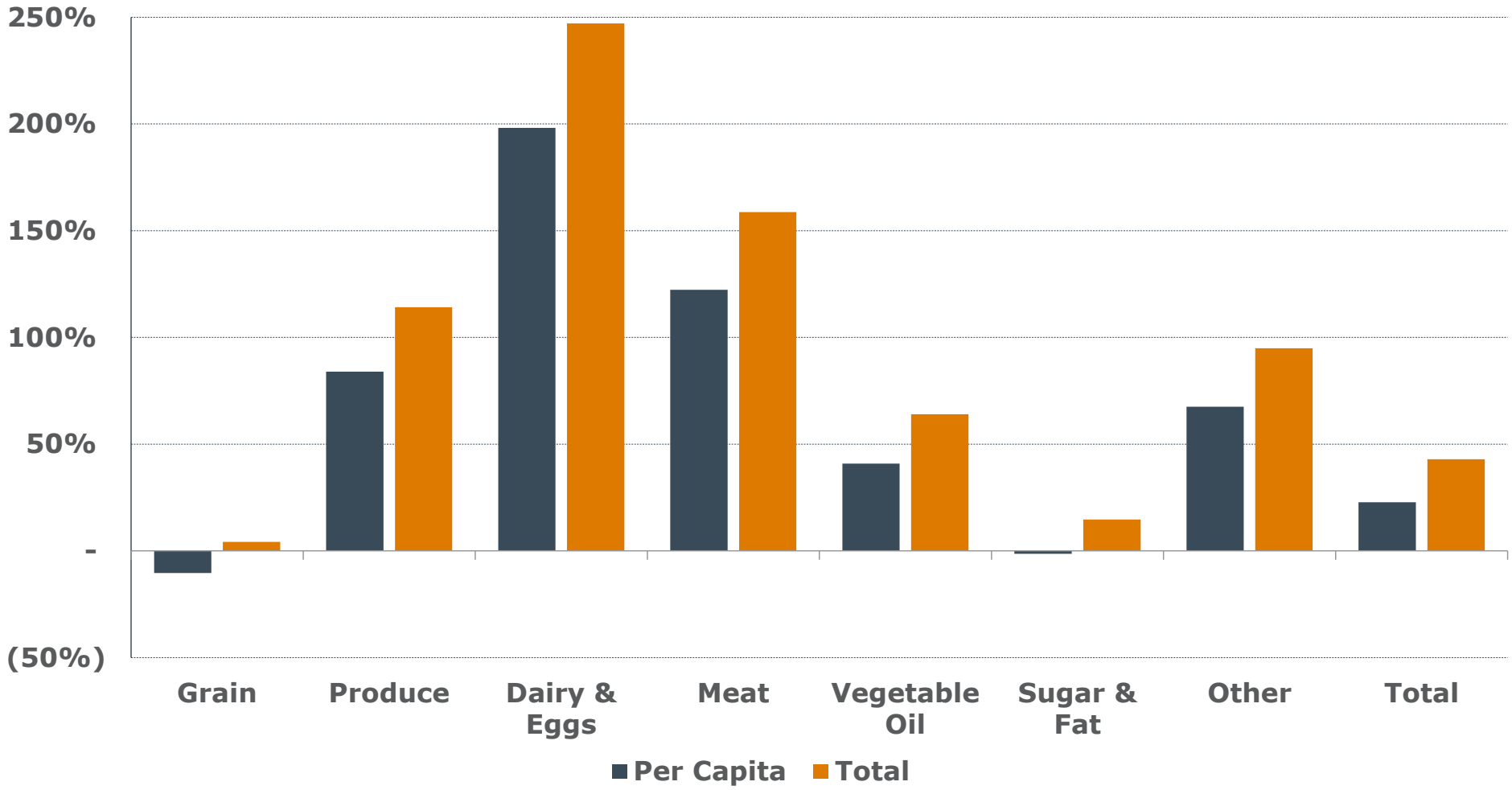
% change in Japan's Per Capita and Total Consumption by Category 1990-2011



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

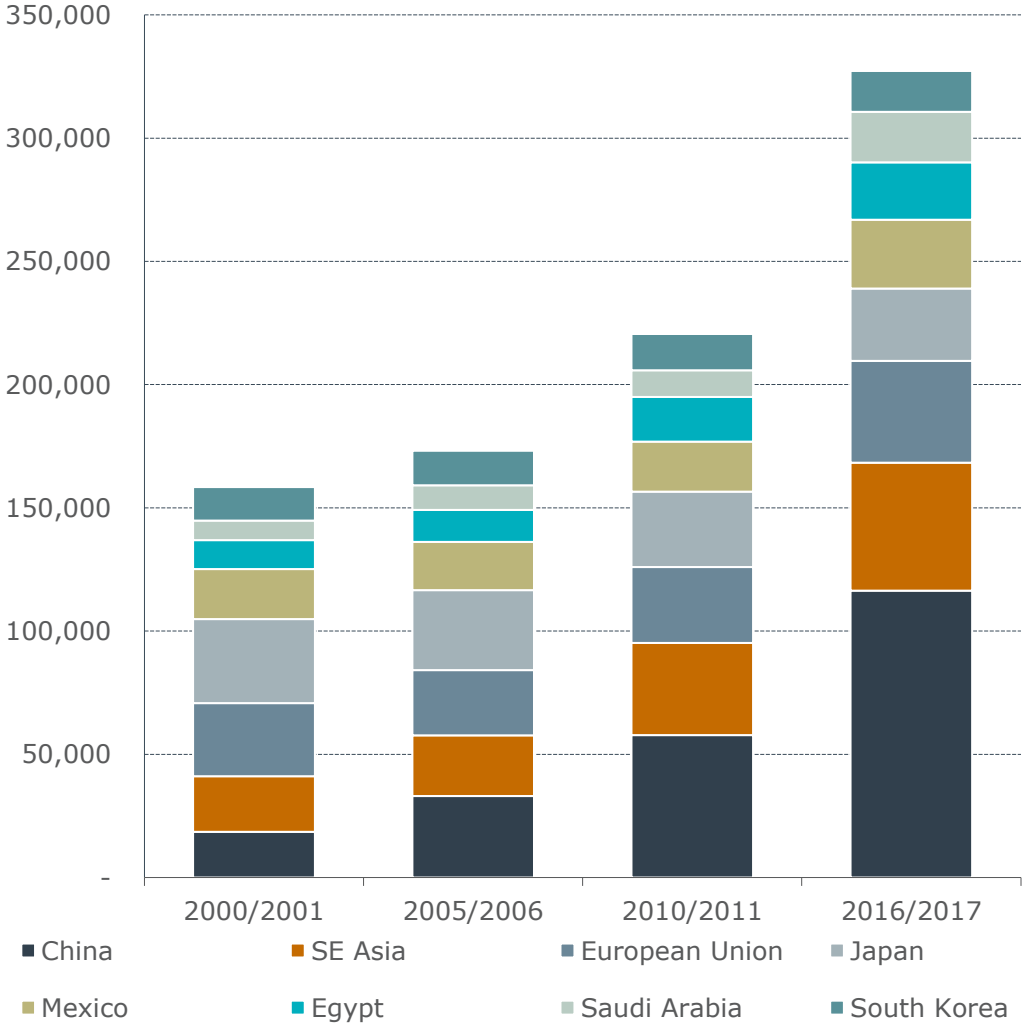


Source: FAO Statistics, ANZ

CHINA & SE ASIAN COUNTRIES ARE THE LARGEST IMPORTERS OF GRAIN & OILSEEDS

Grain & Oilseeds Import Volume

In '000MT, Major Countries

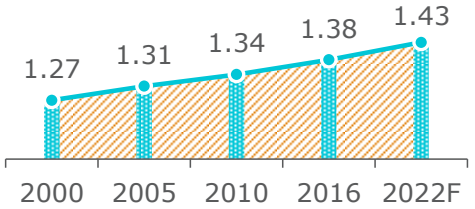


CHINA

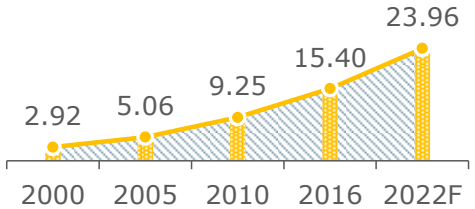
Grain & oilseed demand increased by 6.3x (2000-16)

Population increased by 115m (2000-16)

GDP pcp increased by 5.3x (2000-16)



Population (bn)



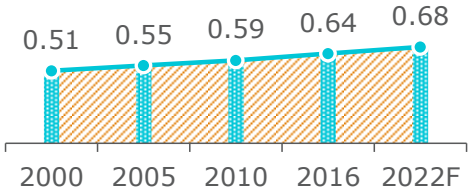
GDP per capita (PPP) in '000 $

ASEAN COUNTRIES

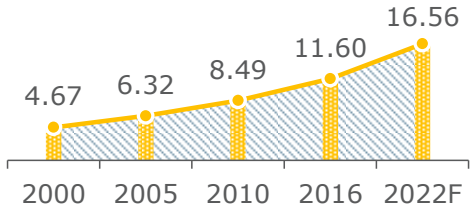
Grain & oilseed demand increased by 2.3x (2000-16)

Population increased by 123m (2000-16)

GDP pcp increased by 2.5x (2000-16)



Population (bn)

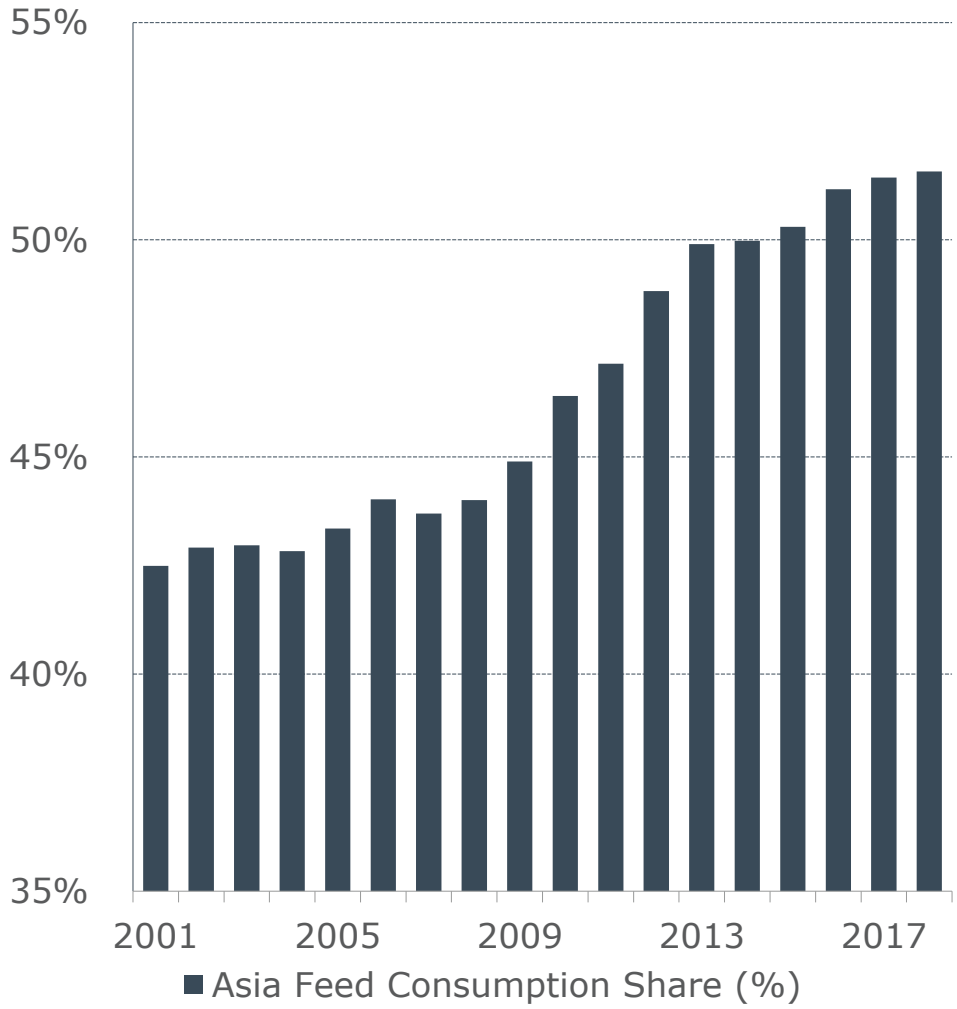


GDP per capita (PPP) in '000 $

Source: USDA, IMF and ANZ Analysis

FEED CONSUMPTION IN ASIA PROVIDE SIGNIFICANT OPPORTUNITY..

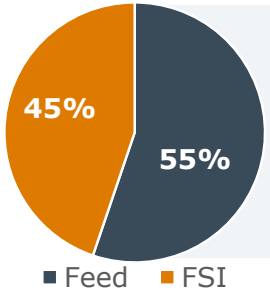
Asia Feed Consumption Share – Grains & Oilseeds



Note: Year noted 2001 represent marketing year 2000/2001

Source: Data is sourced from USDA PSD Query.

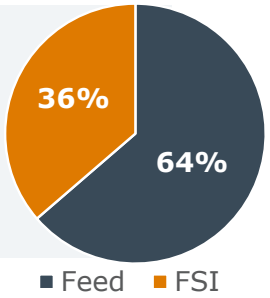
East Asia



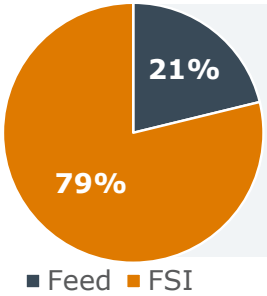
- Consumption is dominated by China
- Rising per capita income levels driving animal protein demand
- Intensifying competition for exports especially from South America
- Increasing integration through supply chain investments in Australia

Southeast Asia

- Home to some of fast growing economies
- Changing consumption patterns driven by rising income levels
- Increasing import dependency to cater to rising domestic demand



South Asia



- Regional consumption is dominated by India – characterised by low meat consumption (but dairy industry provide opportunity)
- Major destination of Australia's pulses export

AGTECH AND DATA PROVIDE UNIQUE OPPORTUNITIES

MLA IDENTIFIED FOUR AREAS FOR USE OF DIGITAL TECHNOLOGIES IN LIVESTOCK ENTERPRISES…

	Productivity Benefits
Soil fertility monitoring	**+13% – 26%**
Feed allocation systems	**+9% - 11%**
Animal production monitoring	**+4% - 9%**
Animal disease monitoring	**+4% - 13%**

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

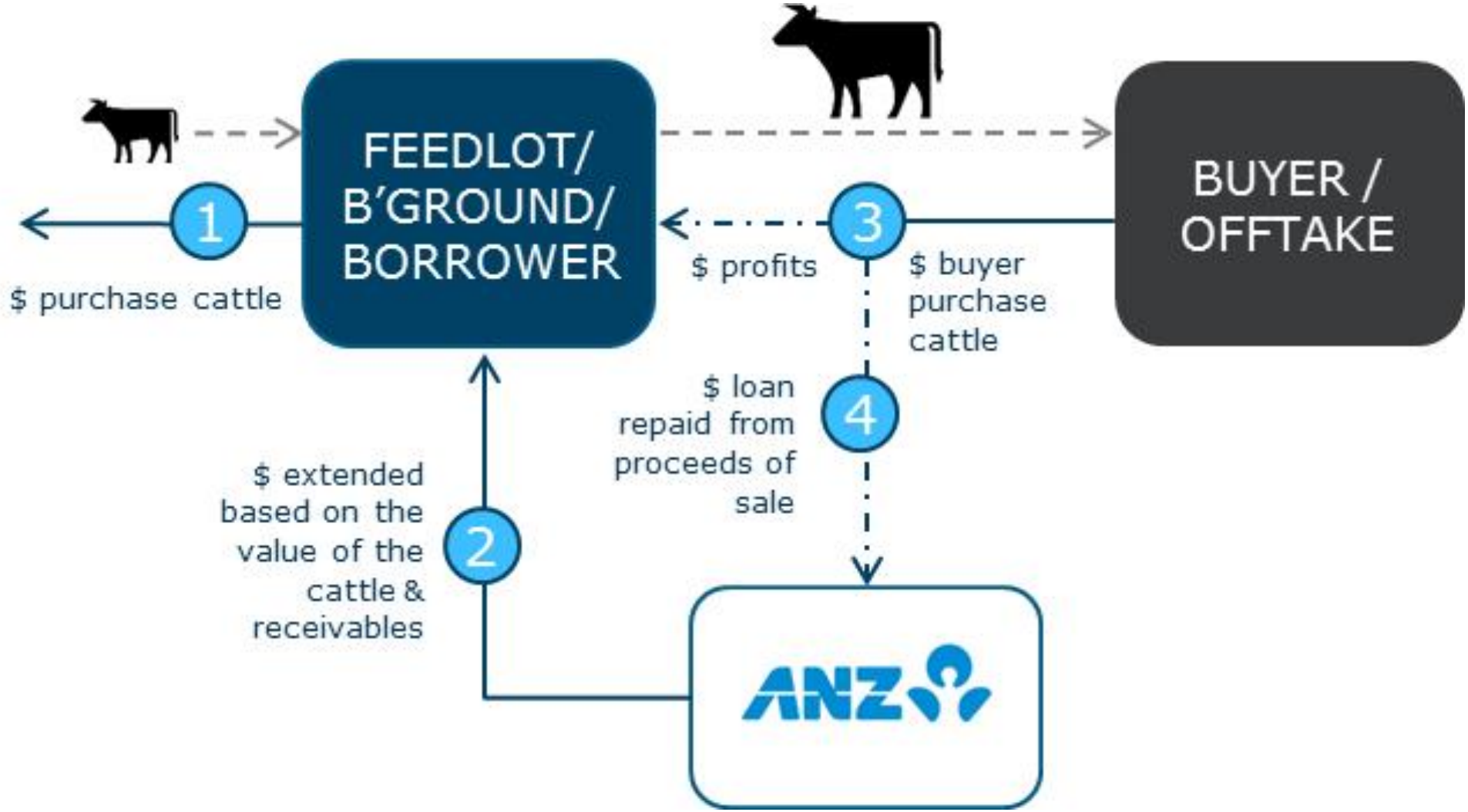
- Support infrastructure to aid decision-making and learning
- Update to latest available technology/techniques

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

CSIRO

Source: Smart Farming – May 2016, Inquiry into agricultural innovation

BANKS REMAIN INTEGRAL PART OF SUPPLY CHAIN

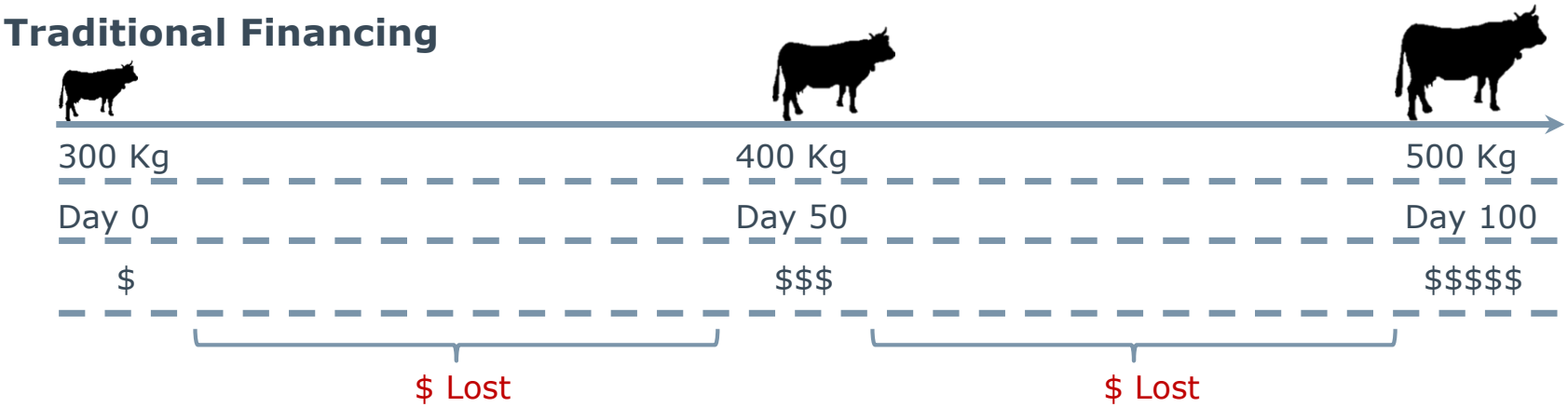


TRADITIONAL VS REAL TIME FINANCING

Funding Against Land

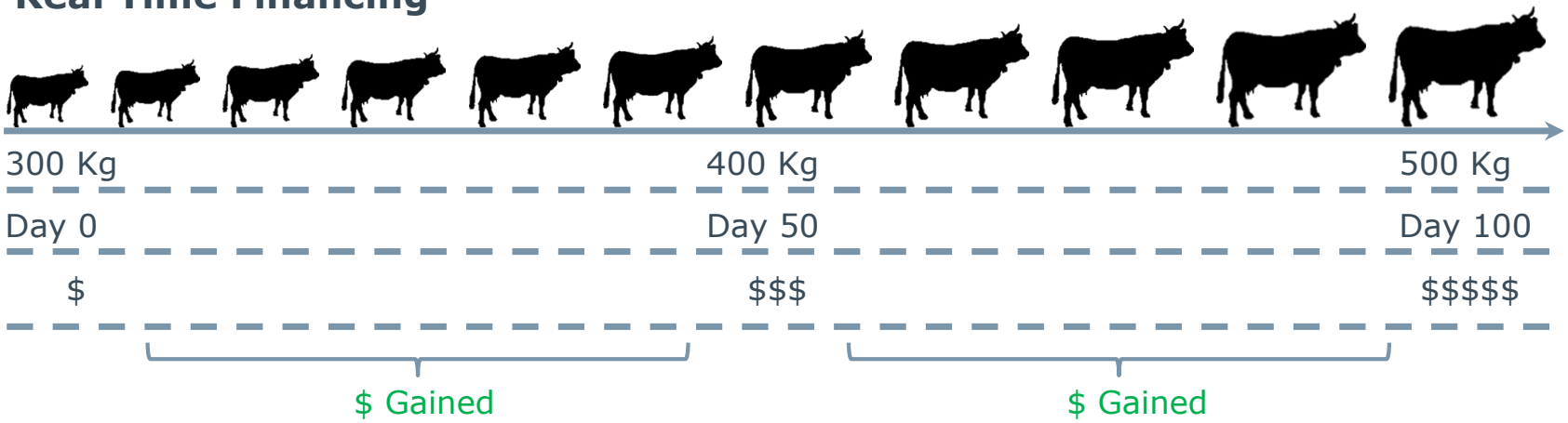
Failure to tap the working capital finance opportunity

Traditional Financing



Works well with operators with long operation history

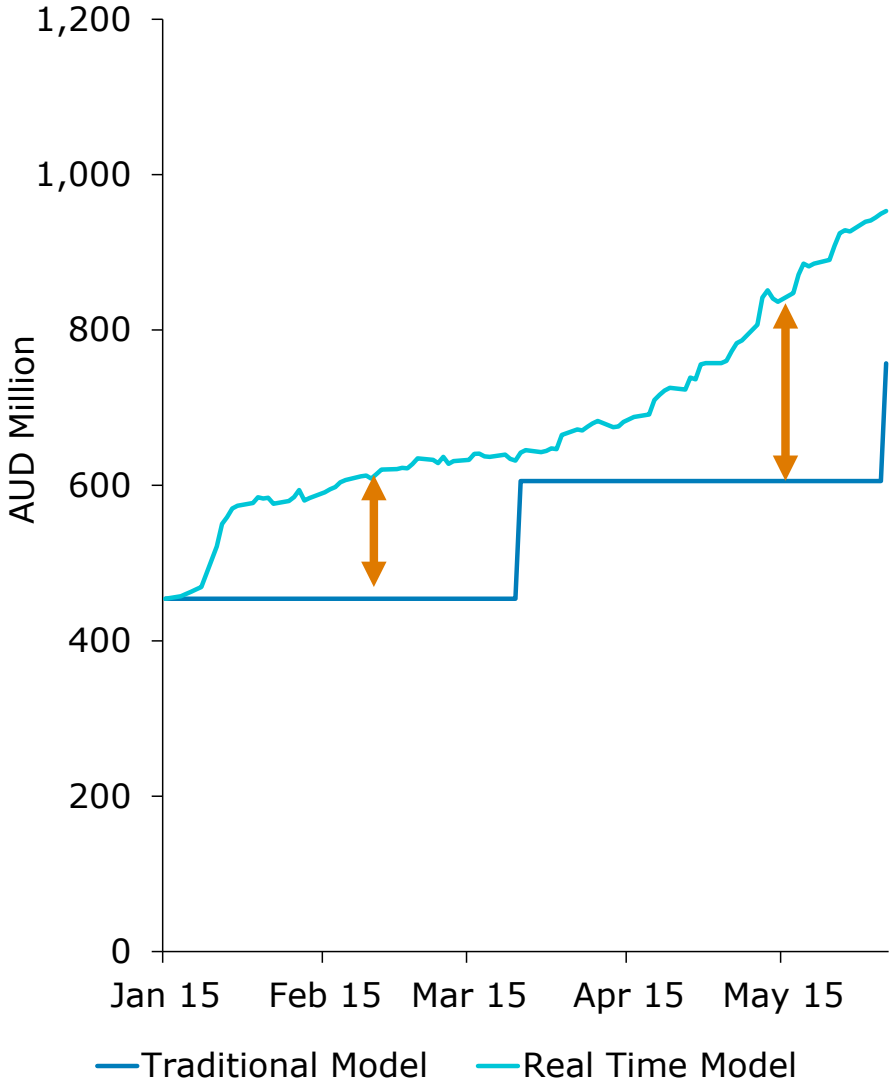
Real Time Financing



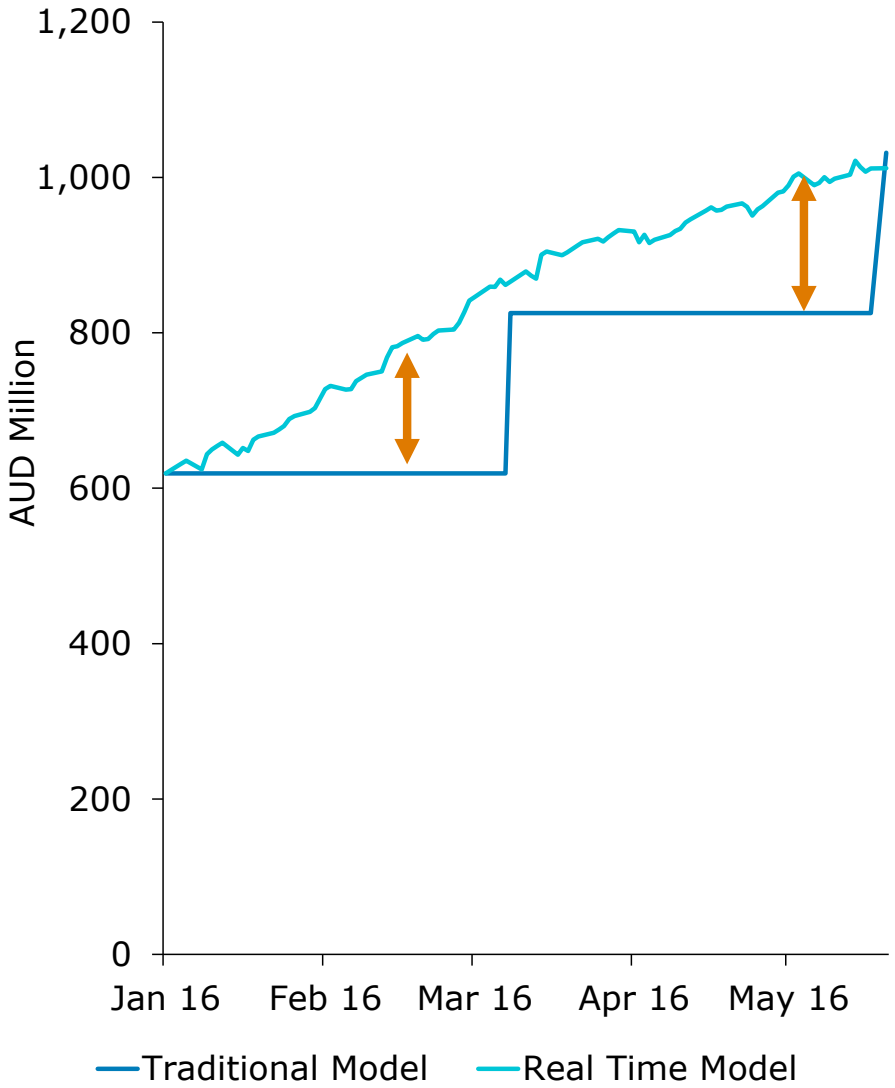
Technology provide opportunity to unlock working capital

ABILITY TO ATTRACT NEW CAPITAL IN THE INDUSTRY BY UNLOCKING WORKING CAPITAL

2015[1]



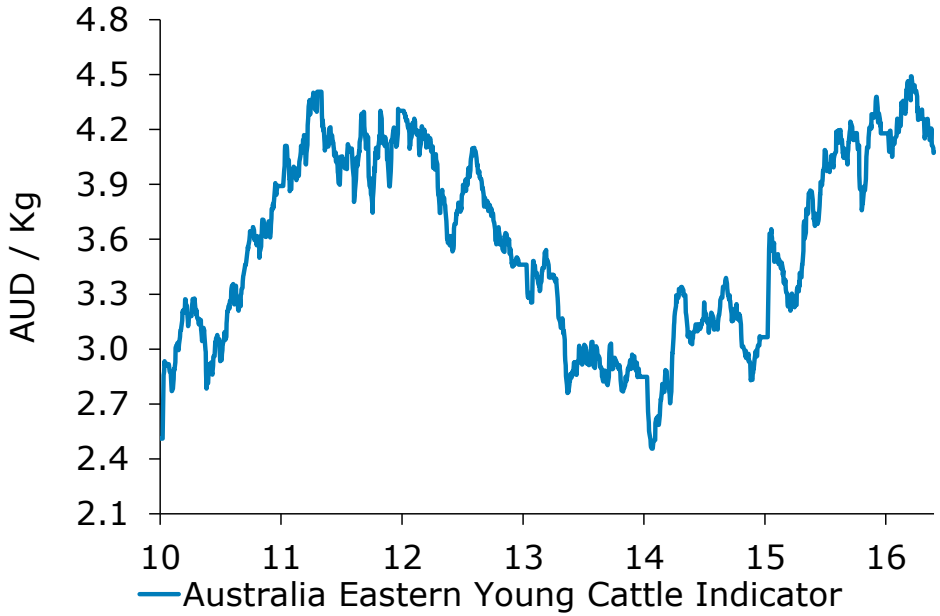
2016[1]



Note1: 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

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

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

THANK YOU

Presented by MICHAEL WHITEHEAD

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