



**AUSTRALIAN
RURAL CAPITAL**

AGM Presentation – 18 October 2018

- Net Profit after Tax of \$1.28m
- Driven by uplift in value of Namoi Cotton investment
- Operating costs and business developments remain under control
- No debt and current cash balance of \$600k
- Agrivest fund raising project not achieved, efforts ongoing and will be transaction specific with an unlisted product. Value deals difficult to source
- Frustrating outcome, despite strong interest and positive feedback
- ARC will now hold the Namoi Cotton stake as a long term asset as we see considerable potential value uplift in this investment
- ARC needs to capture more cashflow positive investments to drive earnings

The major themes of investment and where we are seeking opportunities



- **Plant Based Foods and Proteins:** this includes chickpeas, lentils, mungbeans and Almonds
- **Natural Fibres:** we have an investment in the cotton industry and are doing more work on large scale wool production
- **Grass-fed and Organic Red Meat:** grass-fed beef demand continues to outstrip supply and we continue to believe Australia is well placed to supply this product, we are bullish on beef and cattle prices
- **Mackay Sugar:** this is a value recap story, no further progress as capital partners are reluctant to commit with continuing industry uncertainty, \$150m needed
- The provision of **working capital finance** in agricultural supply chains

New ARC Investment Opportunity: Cattle Finance



- We believe a significant business opportunity exists to provide livestock financing to the beef and dairy sectors to enable producers to fully stock farms and also increase productivity
- We are seeking to invest and acquire specific skills and experience to capture this opportunity for ARC shareholders
- ARC is well placed as an independent listed public entity to invest and support this type of venture as ARC has ready access to both equity and debt capital, both of which are required to fund a financing venture of this type
- ARC as a listed public entity also has the ability to issue ASX listed debt securities or bonds which may be the source of funds for the funding of a finance cattle finance book and also enable bond investors to access income streams from real asset risk on a fully secured basis

Why does this opportunity exist?



- Traditional lending institutions apply lending ratio's to rural enterprises of generally no more than 50% being the upper limit for debt as a proportion of total assets, or a 50% LVR (Loan to Value Ratio) lending covenant
- This is also applied to livestock, if livestock are purchased within the existing banking facility only 50% of the value will be debt financed
- A producer or farmer may have surplus feed or production capacity could be unable to access bank finance to capture this opportunity due to existing bank debt and LVR covenants and lack of surplus cash
- Small specialist lenders and existing livestock agents currently operate to provide this working capital finance on a formal and informal basis, generally charging interest rates between 12% and 15% for this type of finance
- The agreements vary from 100% total debt finance and security over individual animals to 5 year herd leasing models with security over entire herds
- ARC has identified considerable scope to invest and enter this market as an independent provider of finance directly to producers and also with the co-operation of private livestock agents as distributors
- Private livestock agents currently handle approximately 40% of all cattle transactions via saleyards

How does the security work for a Lender?

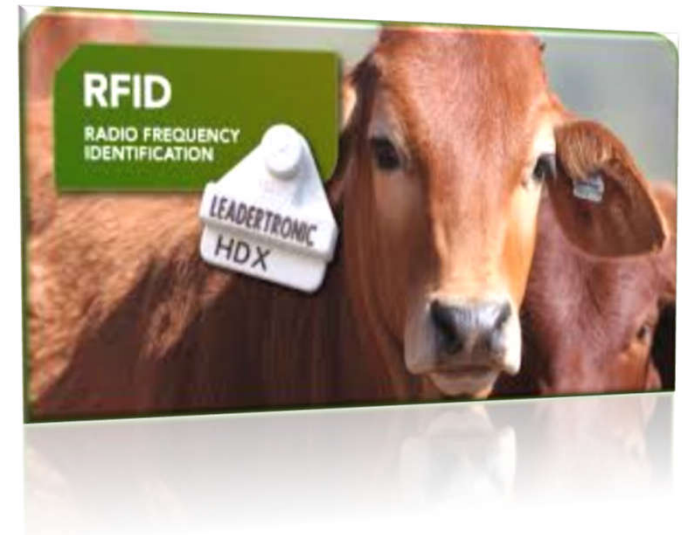


The **NLIS (National Livestock Identification Scheme)** ear tag scheme that operates in Australia has created the unique opportunity for specific security (collateral) to be created over each individual animal using the NLIS tags. Individual heads of cattle can have a **purchase money security interest (PMSI)** registered over the animal with the **Radio Frequency Identification Device (RFID)** electronic number used to identify the animal. This electronic number is scannable



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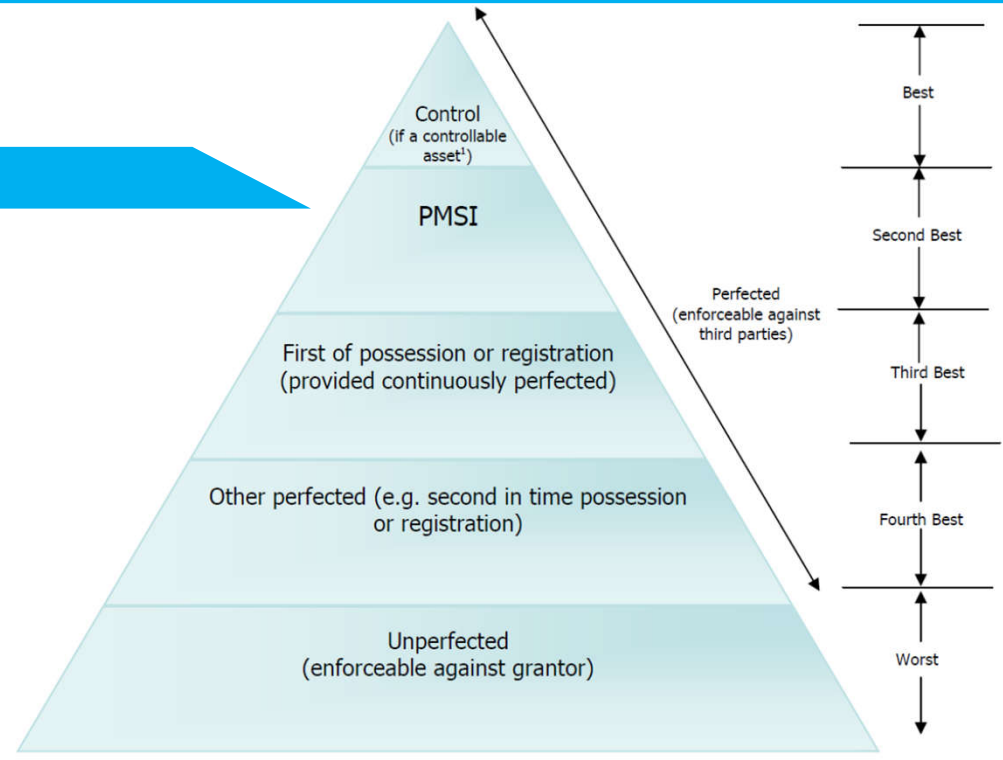
- The NLIS tag is monitored and scanned as the animal moves between locations recording the location with a **PIC (Property Identification Code)** and the movements are recorded on the national NLIS database in real time. Hence the actual location of each animal can be traced to a property or to the final destination
- The placement, registration, and movement scanning of NLIS tags is legally binding on cattle owners, agents and processors and integral to the operation of both beef and dairy industries and supply chains in Australia. Unlawful removal of an NLIS device is an offence
- So in summary, these cattle assets are well regulated, liquid forms of collateral with traceable security that is registered and location is known, values can be monitored using market prices and weight gains as the inputs to estimation



What is a PMSI as a means of Security?

A **purchase money security interest (PMSI)** is a security interest or claim on property that enables a lender who provides financing for the acquisition of goods or equipment to obtain priority ranking ahead of other secured creditors

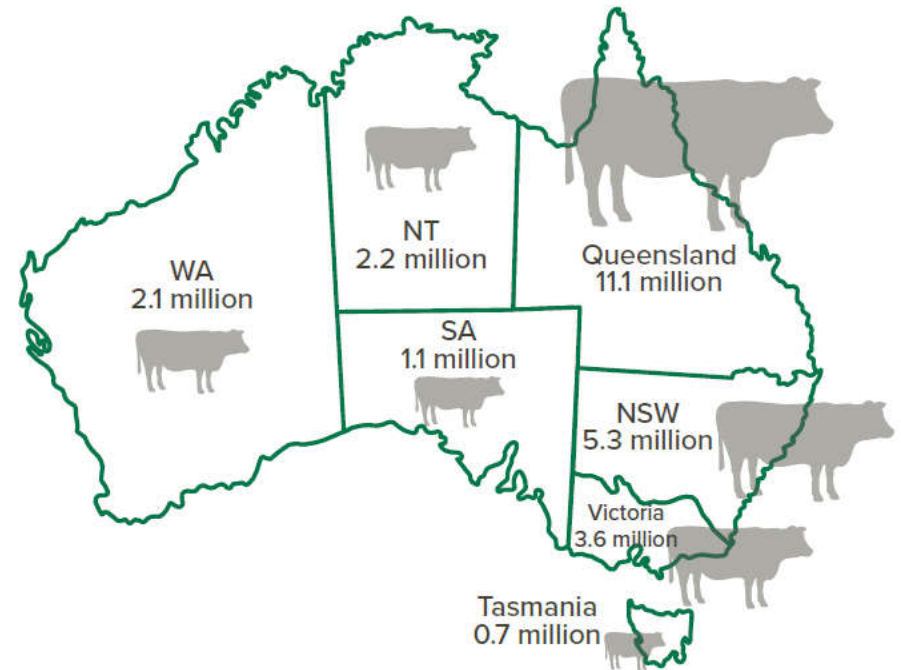
Where does it rank as Security?



¹Controllable assets include bank accounts, investment instruments, shares, some letters of credit

How big is the market? Firstly, Beef Cattle

- The Australian cattle herd was 26.2 million head at 30 June 2017 (ABS Agricultural Commodities 2016–17)
- There were 12.2 million beef cows and heifers aged one year and over as at June 2017 (ABS Agricultural Commodities 2016–17)
- There were 47,776 agricultural businesses with cattle as at June 2017 (ABS Agricultural Commodities 2016–17)
- 50% in Qld and NT



What does it mean for a Beef Loan book?

- We estimate the entire Australian Beef herd of 26.2m head if valued at \$800 per head would equate to approximately \$21 billion worth of cattle, which includes 12.2m cows or breeders
- If you look at the number of cattle processed in Australia per annum, this is 7m head. If these were valued at \$1200 per head this equals approximately \$8.4 billion worth of end value per annum
- The entry price to these cattle would be approximately \$600 per head and if these cattle are financed, this is a potential market size of \$4.2m on an annual basis
- The largest known non bank operator currently in the marketplace has a loan book of approximately \$250m and an estimated identified market size of \$5.6 billion. (Source FIIG research on Stockco Holding Pty Ltd)
- **We estimate the initial beef finance potential market to be approximately \$5 billion**
- This is excluding the funding breeding cows, which have a market value of approximately \$9.7 billion (12.2m head @\$800 per head)
- This we see as a longer term potential market, which brings us onto the Dairy Industry

The Australian Dairy Industry...



National dairy herd
1.51m cows

Average herd size
261 cows

Average annual milk production per cow
5,819 litres



Milk production
9,015m litres

What does it mean for a Dairy Loan book?



- National herd of 1.51m cows in production
- Dairy cows are more valuable than beef cattle and produce higher gross returns and greater cashflow generation, 5819 litres of annual milk production at 45 cents per litre = \$2618 per cow per annum
- We estimate Dairy Cows in production to be valued at \$1500 per head which gives rise to a market value of the total herd of \$2.26 billion.
- We would estimate the addressable market loan book potential in the dairy industry to be approximately \$2 billion.

What is the overall total potential market to be financed?



- If we add both the immediate addressable markets of the beef industry of \$5 billion and the Dairy Industry of \$2 billion, this is a total potential market of \$7 billion
- If you assume 50% is already financed by owners equity and banks, this still leaves **\$3.5 billion worth of cattle to be potentially financed**
- A loan book size of \$200m would represent 5.7% of this opportunity

So what are the returns of the sector and what are the next steps?



- Current gross lending spreads are between 400 and 600 basis points
- Net operating margins are about 300 basis points pre-tax, for example a \$100m loan book could generate \$3m in pre-tax earnings per annum
- ARC has access to proprietary stock monitoring and value tracking technology and systems
- We are currently evaluating sources of debt funding, including the potential issuance of bonds
- ARC has considerable experience and network in the large beef cattle production regions of Queensland and NT, and is currently testing market demand and potential pricing
- ARC will also need to invest and/or acquire expertise and skills in this space
- In essence this is an opportunity to participate in the ongoing securitisation of working capital in the beef and dairy sectors

- Progress is being made on the Namoi Cotton investment, more value to be created, James Jackson now on the Board at Namoi Cotton
- ARC financial position remains solid
- Near term objective is to develop ARC business with cashflow positive investments, whilst still seeking transactional mandates
- Thank you to the members of the Investment Advisory Committee, Steve Chapman, Bill Gurry and Richard Haire for your ongoing counsel
- Thank you to my fellow Directors, Darren and Wayne for your valuable contributions and also Mertons and Adam for your service as Company Secretary
- Thank you to all our shareholders for your patience and understanding.



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