



Wellard

ASX Announcement

28 August 2023

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Wellard records first loss in three years but outlook improving.

FOR YEARS ENDED 30 JUNE		2023	2022	Movement
Revenue	US\$'000	38,655	45,048	(14.2%) ↓
Cost of Sales	US\$'000	(38,930)	(30,760)	26.5% ↑
Gross (Loss)/Profit	US\$'000	(275)	14,288	(101.9%) ↓
Gross Profit Margin	%	(0.7%)	31.8%	(102.2%) ↓
Other Income ¹	US\$'000	-	12,023	(100.0%) ↓
General and Administrative expenses	US\$'000	(3,850)	(4,643)	(17.1%) ↓
EBITDA ²	US\$'000	(4,431)	21,642	(120.5%) ↓
Operating Profit Margin	%	(11.5%)	48.0%	(124.0%) ↓
Net (Loss)/Profit After Tax	US\$'000	(15,487)	9,933	(255.9%) ↓

AS AT 30 JUNE		2023	2022	Movement
Loans and borrowings	US\$'000	2,588	7,738	(66.6%) ↓
Negative net debt ³	US\$'000	(4,832)	(7,541)	(35.9%) ↓
Ship loan to asset book value ratio	%	0%	13.6%	(100.0%) ↓

*Note: All figures contained in this announcement are in United States Dollars (US\$) unless specified.

¹ Other income refers to the arbitration award obtained in London against the Croatian Bank for Reconstruction and Development (Hrvatska banka za obnovu i razvitak, or "HBOR").

² EBITDA equals (loss)/profit from continuing operations before income tax, less depreciation and amortisation expenses, less net finance costs, less other gains/(losses) arising from other activities and less impairment expenses.

³ Net debt equals loans and borrowings less cash and cash equivalents. A negative net debt indicates that cash and equivalents exceed the entire debt balance.

Wellard Ltd (ASX:WLD) (**Wellard** or **Company**) advises that it has recorded its first loss after three consecutive profitable financial years. However, trading conditions are improving, providing a more positive outlook for the new financial year (FY2024) than has been the case in previous years.

In filing its FY2023 audited accounts, the Company posted EBITDA of negative US\$4.4 million (FY2022: positive US\$21.6 million) and a Net Loss After Tax (NLAT) of US\$15.5 million (FY2022: US\$9.9 million net profit).

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The disappointing financial performance was a product of numerous factors, with the most significant being a poor macro-trading environment and a US\$3.4 million mismatch in timing between repair costs and insurance claims with respect to the M/V Ocean Swagman engine repairs.

The Company's balance sheet remains in a strong position with US\$7.4 million in cash and cash equivalents contributing to negative net debt of US\$4.8 million as of 30 June 2023. This balance sheet strength combined with a lean cost structure should allow the Company to weather the impact of poor trading conditions globally and to capitalise on an improving trading environment.

"Wellard commences FY2024 with a more promising charter book and growth outlook than in either FY2022 or FY2023, principally due to the pick-up in activity in the South America to Turkiye cattle trade and falling fuel prices," Wellard Executive Chairman Mr. John Klepec said.

"However, we are waiting for further demand to crystallise into Q2 to add greater certainty to our forward order book of charters."

Profit and Loss

Wellard's financial results in FY2023 were influenced by a range of factors including:

1. Continued depressed live cattle exports from Australia which resulted in low charter rates and low vessel utilisation;
2. Following a breakdown of the M/V Ocean Swagman's starboard engine which resulted in 87.5 days off-hire, there is a timing mismatch between US\$3.4 million in repair costs incurred in FY2023, and the receipt of insurance claim proceeds for those repair costs plus loss of earnings, expected to be received in FY2024;
3. A non-cash depreciation and amortisation expense of US\$10.6 million;
4. Global inflation driving up fuel prices and operating expenses which increased by US\$1.8 million on a year-on-year basis;
5. Relocation costs for the M/V Ocean Drover and M/V Ocean Swagman to South America to access the reopened market to Turkiye.

A major challenge in FY2023 was the depressed live cattle exports from Australia, which impacted both charter rates and the number of charters which Wellard was contracted to undertake. Consequently, we scheduled longer times at anchor and completed some 'break-even' and sub-profitable voyages in H2 FY2023.

Disappointing performance out of Australia was exacerbated by the continuing trend of smaller consignments demanded by Indonesia importers. Illustrative of this trend was that 10 voyages departed the Port of Darwin in June 2023, with an average consignment size of just 1,488 head.

"That average sized consignment would take up less than one deck on Wellard's M/V Ocean Drover with another eight decks to spare. Or, alternatively, all the cattle on those 10 voyages would have fitted on a single M/V Ocean Drover voyage, with room to spare," Mr Klepec said.

Overall, Wellard loaded a total of 142,086 cattle in FY2023, with a 99.95% delivery success rate, similar to FY2022 figures.

Although fuel prices drifted lower throughout FY2023 – Very Low Sulphur Fuel Oil (VLSFO) ex-Singapore was priced at around US\$1100/tonne in July 2023 and fell to just below US\$600/tonne 12

months later – Wellard’s total fuel costs were still higher in FY2023 than in FY2022, a cost the Company was largely forced to absorb.

The breakdown of the M/V Ocean Swagman’s starboard engine had an adverse impact on operations during H2 FY2023. Repair costs were US\$3.4 million and the vessel was off-hire for 87.5 days.

Wellard has since submitted both Hull & Machinery and Loss of Hire claims to its insurer, however the costs were incurred in FY2023 and any payment of claims will be received in FY2024.

FY2023 also was another year of excellent employee safety. The Company recorded zero lost time injuries and zero medically treated injuries for all of FY2023, the second successive year it has achieved this result.

Full legal ownership of the M/V Ocean Ute returned to Wellard on 8 July 2022, and the vessel is not subject to debt or financing arrangements. Wellard has extended the Memorandum of Agreement for the repurchase of the M/V Ocean Drover to 1 September 2023, to allow its financiers, Ruchira Ships, to continue negotiations with their bank to release the vessel back to Wellard. Any developments in this regard will be announced. Meanwhile, operational use of the vessel by Wellard continued unimpeded. Wellard operates the M/V Ocean Swagman on a time charter from Heytesbury Singapore.

Balance Sheet and Cash Flow

Wellard’s cash and cash equivalents exceeded the Company’s entire debt balance and we again recorded negative net debt of US\$4.8 million at 30 June 2023. This was a reduction on the US\$7.5 million negative net debt a year earlier, but still a strong position.

The reduction was due in part to the poor trading conditions impacting cash flow. Total loans and borrowings also fell, from US\$7.7 million to US\$2.6 million, due largely to the final repayments Wellard made on the M/V Ocean Drover and M/V Ocean Ute in the FY2023 reporting period.

Apart from a small short-term facility for bunker purchasing, Wellard currently has zero debt (inclusive of right-of-use leases) on any of its vessels.

Cash flow was impacted by the aforementioned balloon payments for the M/V Ocean Drover and M/V Ocean Ute, as well as the drydocking costs and repair costs for the M/V Ocean Swagman.

Outlook

Wellard’s two largest vessels, the large M/V Ocean Drover and the mid-size M/V Ocean Swagman have both been relocated to service the Brazil/Uruguay to Turkiye markets.

Our vessels are expected to be fully booked for Q1 FY2024 and the level of inquiry currently being received for future charters provides the Company with a certain level of confidence that they will continue to be chartered for Q2 as well. Charter rates, while improving, remain under pressure.

Recent falling Australian cattle prices have sparked some trading activity from Australia to Vietnam, but they have so far failed to stimulate additional demand from Indonesian importers, who continue to compete with frozen Indian Buffalo Meat and Brazilian beef products in that market.

“This will likely require Australian producers to release more cattle at current or lower prices to stimulate trading activity with Indonesian cattle importers,” Mr Klepec said.

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In Indonesia, detection of Lumpy Skin Disease in cattle delivered from Australia, and the resultant interim restrictions imposed by Indonesia are adding to that uncertainty.

“The trade of breeder cattle to North Asia effectively ground to a halt towards the end of FY2023, but some credible inquiry, usually a precursor to charter demand, has started to resume. We do not expect volumes to return until 2024.”

Animal welfare and government regulation

Wellard continues to ensure that every animal in our care is managed to the highest animal welfare standards.

Wellard’s fleet in FY2023 matched its previous performance figures, with a success rate of 99.95%

Wellard remains of the view that the protection and enhancement of animal welfare in live export is a broad responsibility that extends beyond its own vessels. The Company is therefore actively engaged in seeking to improve global livestock shipping standards.

The Company has lodged a submission to the Australian Federal Government’s independent panel consulting on the phase out of live sheep. The submission argued that the phase out of the live sheep export trade is misconceived, and that when it is properly administered by responsible licensed exporters, this important industry can be managed extremely safely and with high animal welfare outcomes.

If the Australian trade is going to be phased out, Wellard is of the view that the industry must be given sufficient time to plan and implement an orderly transition, and 10-15 year phase out.

In its submission, Wellard also noted that the Government must take full legal responsibility for the direct and indirect consequences of the ban, which Wellard believes has been made out of political expediency, and is not based on sound economic analysis, or a thorough examination of the science around obtainable animal welfare outcomes.

This ASX release was approved by the Wellard Board of Directors.

Investors should refer to the Company’s FY2023 Annual Report for further details.

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