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AAAC (WA) Outlook 2023 Conference

Brent Dancer
General Manager, V&V Walsh



V&V WALSH

AUSTRALIA'S LEADING DIVERSIFIED FOOD AND AGRIBUSINESS

WHO WE ARE

Established in 1957 V&V Walsh grew from humble beginnings in a butcher's shop, to become a state-of-the-art meat processing facility based in Bunbury, Western Australia.

In 2022 Craig Mostyn Group, one of the largest agribusinesses in WA, bought the existing V&V Walsh business.

Employing more than 600 people, V&V Walsh produces more than 45 million kg of meat products annually and is one of Western Australia's largest meat processing plants.

V&V Walsh has built a strong relationship with Woolworths, Coles and other major supermarket chains in Western Australia. The export-accredited plant has access to China, USA, Middle East, Singapore, Hong Kong, Japan, Korea and other markets, priding itself as the only plant in Australia with a China chilled lamb license. With future developments to bring Europe and the UK onto this list.



Why lamb and sheep protein prices fell through 2023

A simplistic summary of a complex set of circumstances.

Supply



Sheep flock rebound to record levels, export levels follow



Demand



Key markets taking product, but only at a price



Price

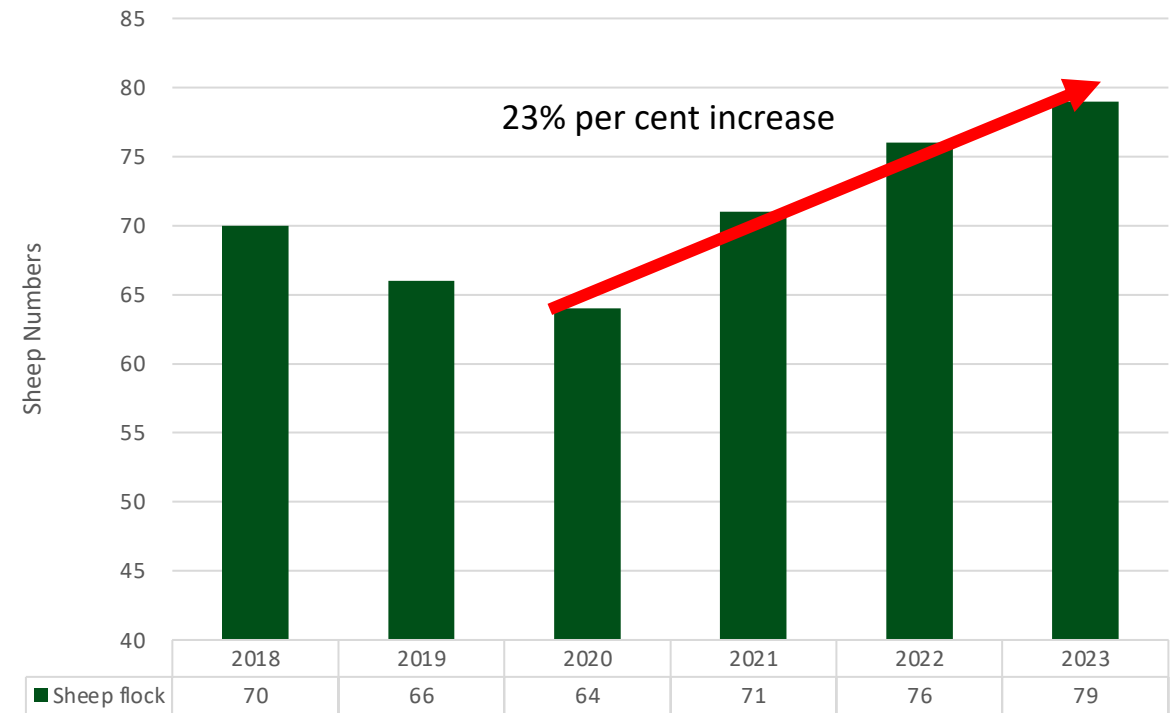




Supply #1 - National Flock Increase

- Sheep/lamb numbers responded to consistent strong prices and good seasons in major sheep producing areas
- In 2023 Australian sheep flock will grow to its highest level since 2007 (MLA). What does this mean for WA?
- Record lamb production and exports are forecast for 2023, eclipsing totals set in 2016 and 2022
- Requires export markets to soak up the increased supply
 - Australian demand largely finite
 - V&V Walsh is WA's largest supplier of lamb to domestic market yet still exports xx per cent of lamb produced
- Coupled with a hangover from COVID hampered production in Spring of 22 has amplified the oversupply

Australian flock size

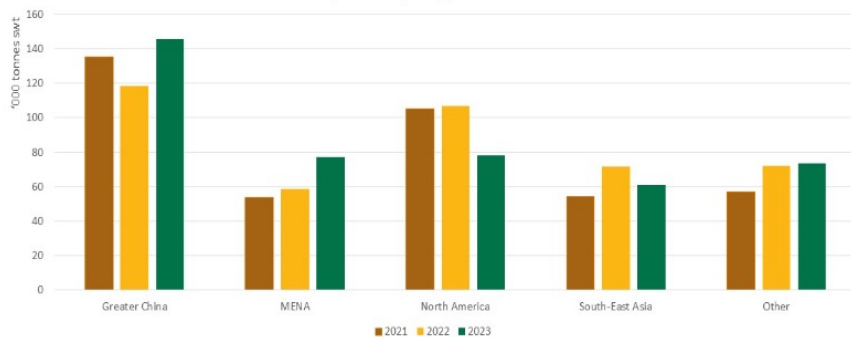




Supply #2 – Red meat export volumes at four year high – Australia exports 68% of sheep meat processed.

- Australia's October sheepmeat exports were the highest monthly total on record
- Driven mainly by significant increases in mutton volumes.
- MLA predicting total sheepmeat exports in 2023 are likely to exceed the record set in 2022
- Due to large turnoff and lower commodity prices
- China critically important to sheepmeat (lamb and mutton)
- Economy struggling so buying to a price
- North America principally a lamb market
- Not just to the USA. Canada accounts for 20% of North America
- Large drop-off in lamb demand
- Middle East now matching the US as sheepmeat destination

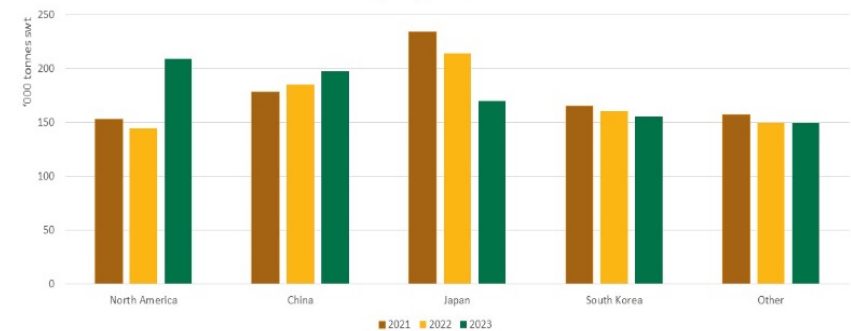
Sheepmeat exports, year-to October



Source: DAFF, MLA



Beef exports, year-to October



Source: DAFF, MLA





Demand #1 – China

- Chinese market 75% bigger than next largest market (North America)
- China economic growth back at record lows
- No support through 3 years of COVID lockdowns
- Freezers are reasonably full of lamb and mutton
- Still buying - but only at a price

Bloomberg

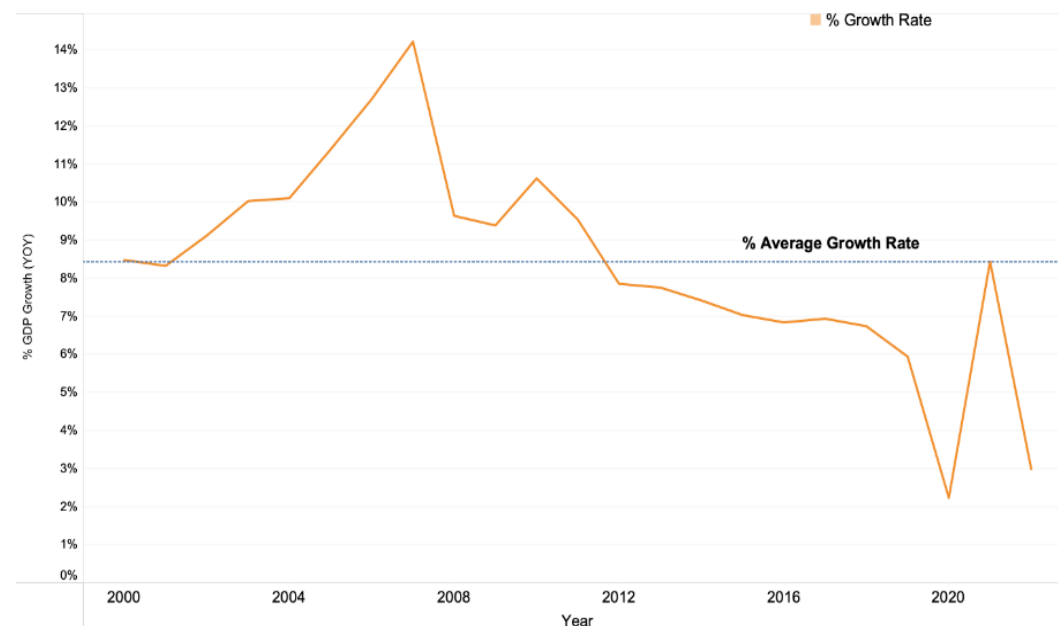
• Live Now Markets **Economics** Industries Tech AI Politics Wealth Pursuits Opinion E

EconomicsInflation & Prices

China's Consumer Deflation Returns as Recovery Remains Fragile

- Consumer prices fell 0.2% year-on-year in October, data shows
- Weak data supports case for more stimulus, including RRR cut

China GDP: Annual Percentage Growth Rate
2000 - 2022



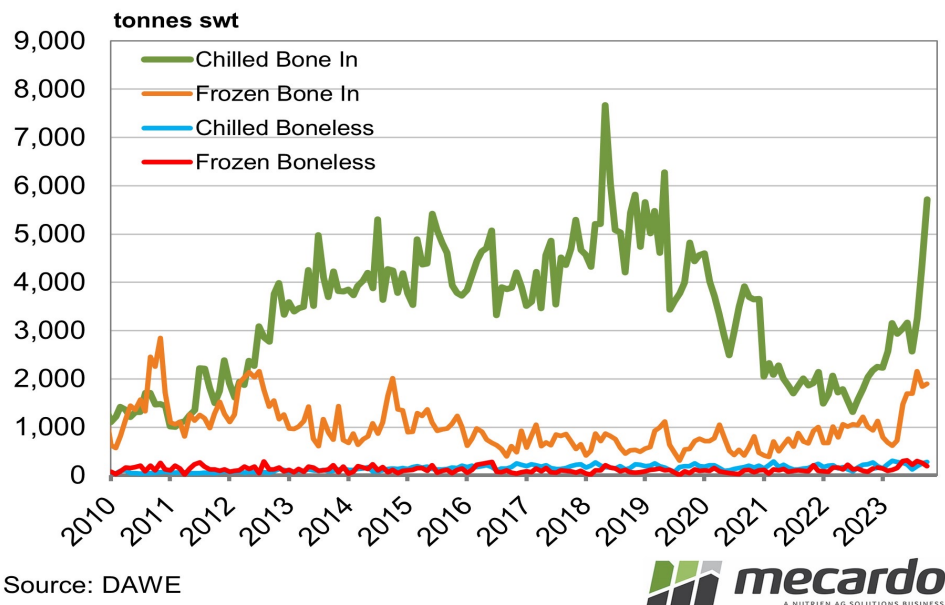
Note: Data is from St. Louis Federal Reserve Economic Data (FRED)

EconoFact: econofact.org



Demand #2 – US and MENA

Figure 2. Australian Lamb exports - Middle East



United States

- Retail sales grew by nearly 40% cumulatively or 8.5% annually (CAGR) from July 2019 to July 2023 with the majority of this growth up to 2021
- Past 2 years have been a struggle with oversupply and cold stores full

Middle East

- The return of 'bag lamb'
 - Hurt by COVID and lack of flights for past three years
- Price a driver of the rebound
- Has been the most consistent market

Inequity in airfreight costs across the country

WA should have competitive advantage to key markets based on distance

- Inequity of air freight costs for WA producers and processors compared to eastern states counterparts.
- Currently running up to \$0.95 per kilo more expensive than Melbourne (equates to approx. \$19 per head)
- Key markets that will take live shipping sheep/lambs are price sensitive
- Only the farm gate price can be manipulated to move stock at present.
- Unclear why not more additional flights from existing carriers, or why previous carriers have not returned to WA airspace.
- Previously, foreign governments subsidized flights, when airfreight was a critical avenue for wether lambs to Middle East and China markets
- WA Government dedicated airfreight service to Singapore during COVID worked well

BUSINESS

Texel Air launches freight service in New Zealand

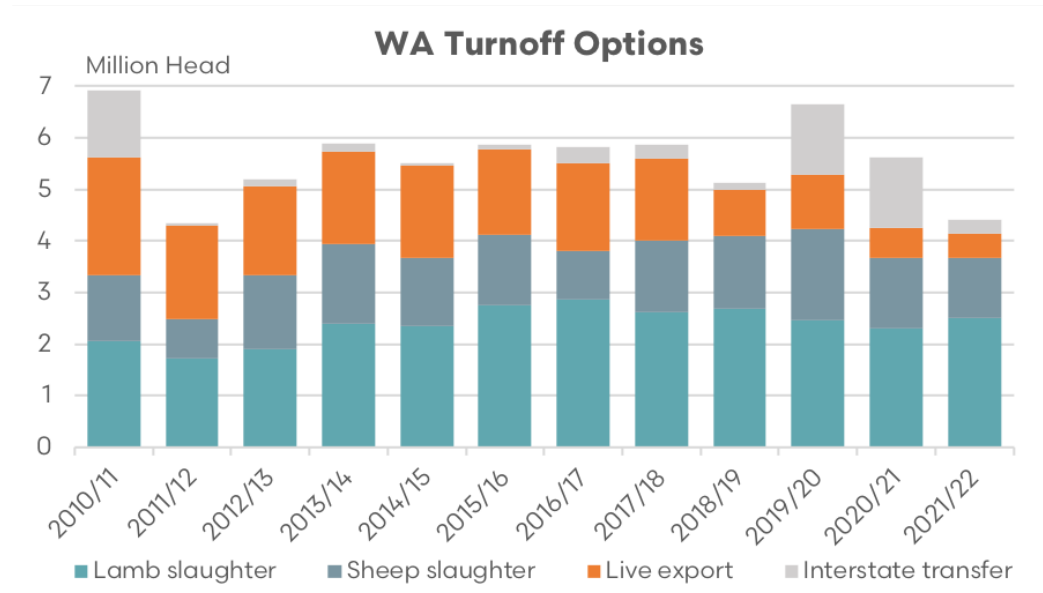
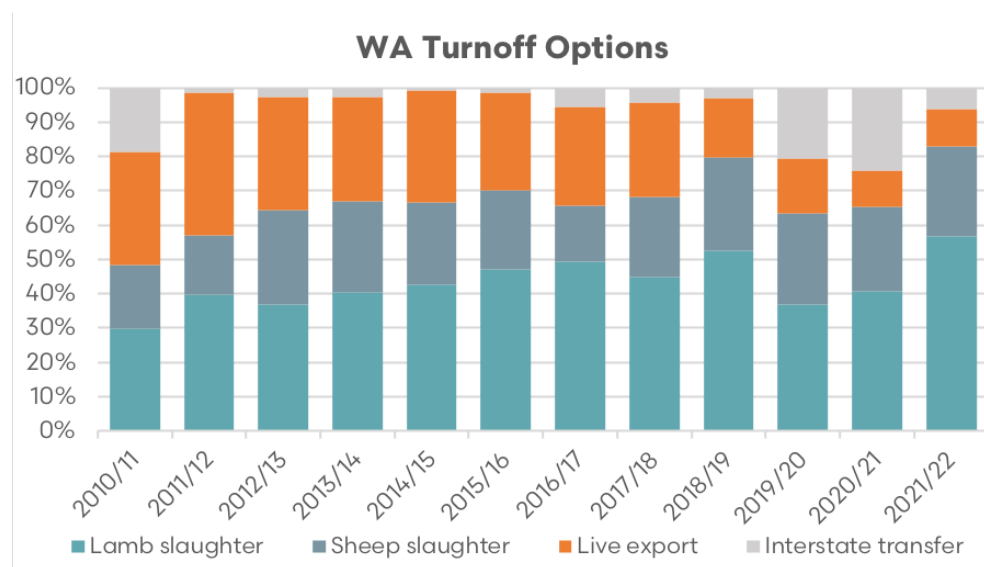
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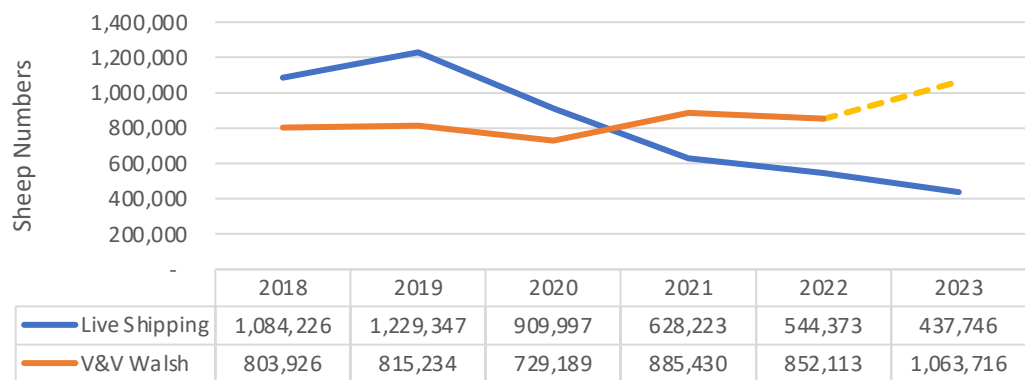
Setting the scene on volumes



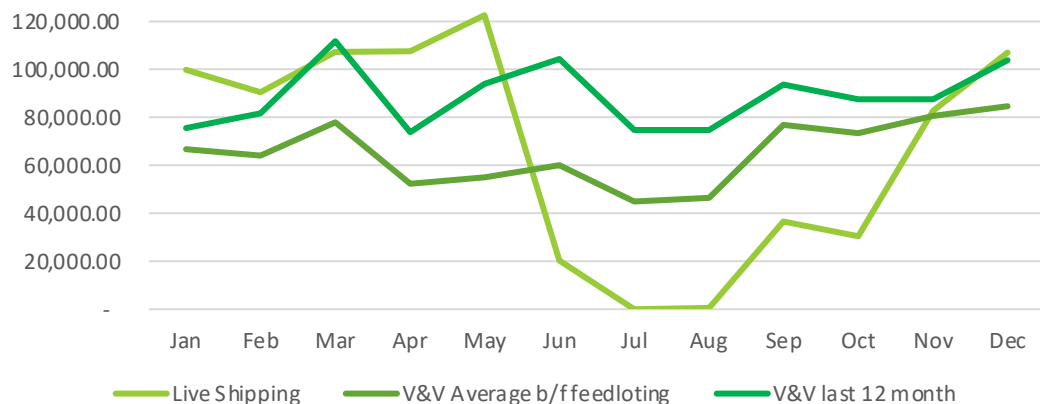
- Live shipping volumes decreasing year on year to be approx 500k.
- East Coast sourcing has offset demand in the last two years
- Sheep slaughter is growing
- Overall processing has fluctuated around 4 million head per annum



Processed Sheep by Calendar Year



Monthly Average Sheep Processed



Setting the scene on volumes

- Live shipping volumes decreasing from 1.2M to 0.4M.
- V&V Walsh have increased by over 30% during the same period.
- Live shipping seasonality sees challenges from December through to May but has little impact on spring flush.
- Historically the strong push of live shipping in Autumn before ban period has put pressures on winter processing volumes.
- Feedlotting network development has provided additional options for wether lambs and created consistency to our processing.
- We challenge live shippers for store lambs.
- This winter has demonstrated that if volume is available we have markets.

Setting the scene on volumes

Type	Weight range	Feedlot/ Airfreight ready	Processor ready	Markets	Notes
A Wether Mutton	Liveweight: 70 Carcase weight: 30	Y	Y	All	Ready for all markets
B Wether Mutton	Liveweight: 50 Carcase weight: 22	Y (Airfreight)	Y	Middle East & China	Currently being sent to market
Crossbred lamb	Liveweight: 42 Carcase weight: 18	Y	N	All	Goes to all markets domestic and export
Merino lamb	Liveweight: 42 Carcase weight: 18	Y	N	All	Goes to all markets domestic and export
Rams	Liveweight: 70 Carcase weight: 28	Y	Y	Asia & Middle East	V&V does not usually buy/process mature rams. But there are markets to develop if their availability is consistent.
2 tooth Hogget	Liveweight: 55 Carcase weight: 24	Y	Y	Middle East	To date, inconsistency of supply has made it hard to create markets. Potential uplift for cull ewe hogget if/when solved.

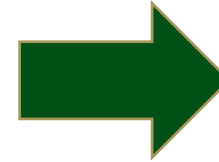


A change in strategy

From trading in and out of markets

From highs and lows in prices

To inconsistent presence in buying ...



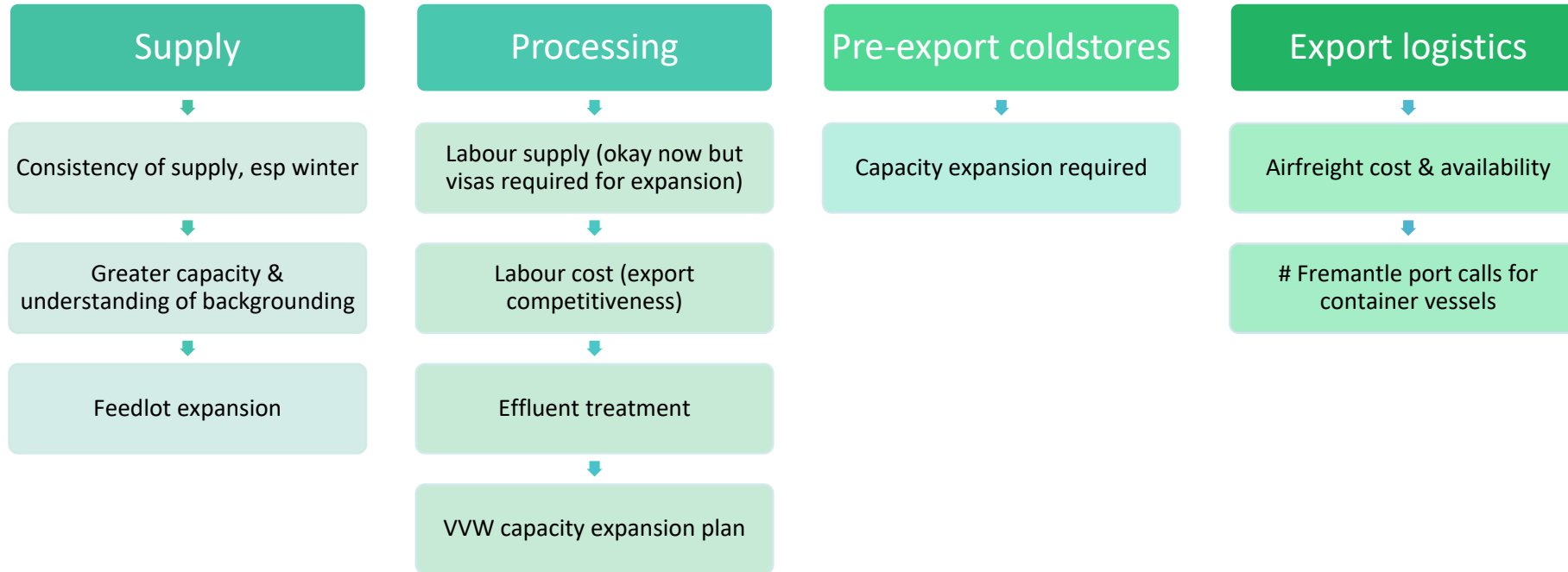
Continued supply through all market conditions

Buffering supply gaps with backgrounding and feed lotting

Requiring additional balance sheet resource, capital investment and need to manage greater risk



Processing pinch-points





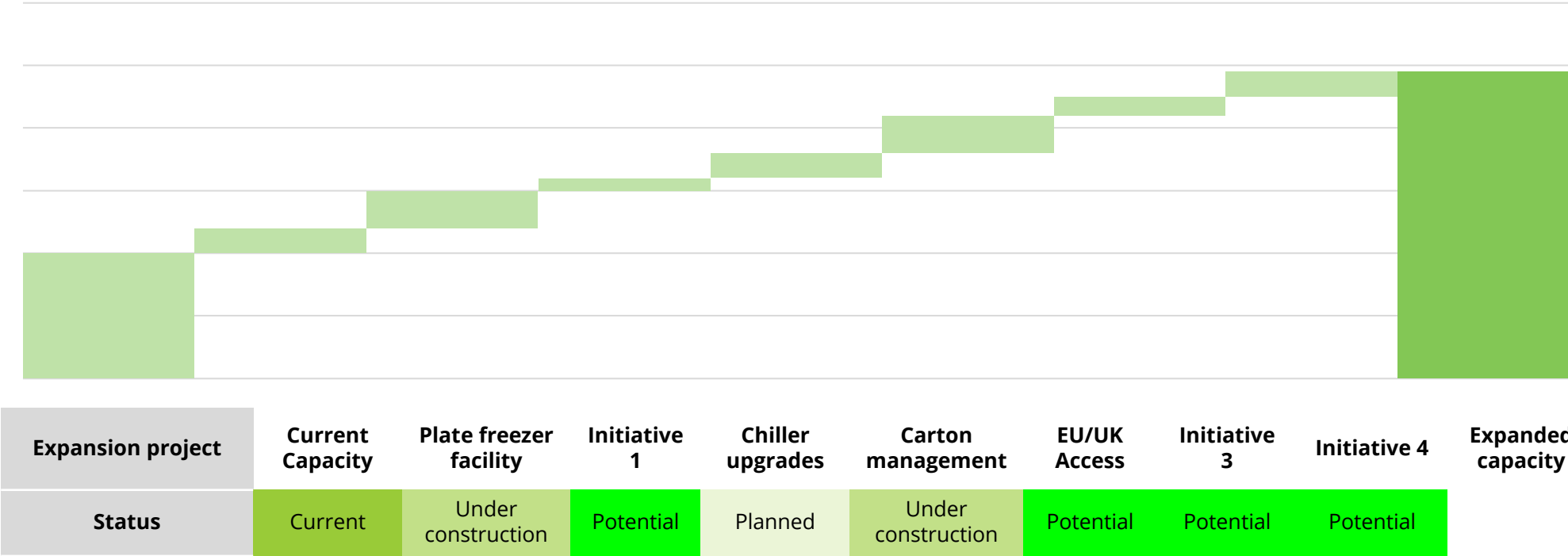
V&V Walsh about to increase capacity

\$50 million investment in frozen beef and lamb storage facility, set to commence operations in early 2024

- 65,000 frozen carton storage facility.
- Highly automated
- Allow for quicker access to export markets at lower cost.
- Increased processing capacity
- Provides the ability to pack chilled product for export markets.
- Designed with redundancy and to be expanded as volumes grow
- Access for third parties to utilise facility

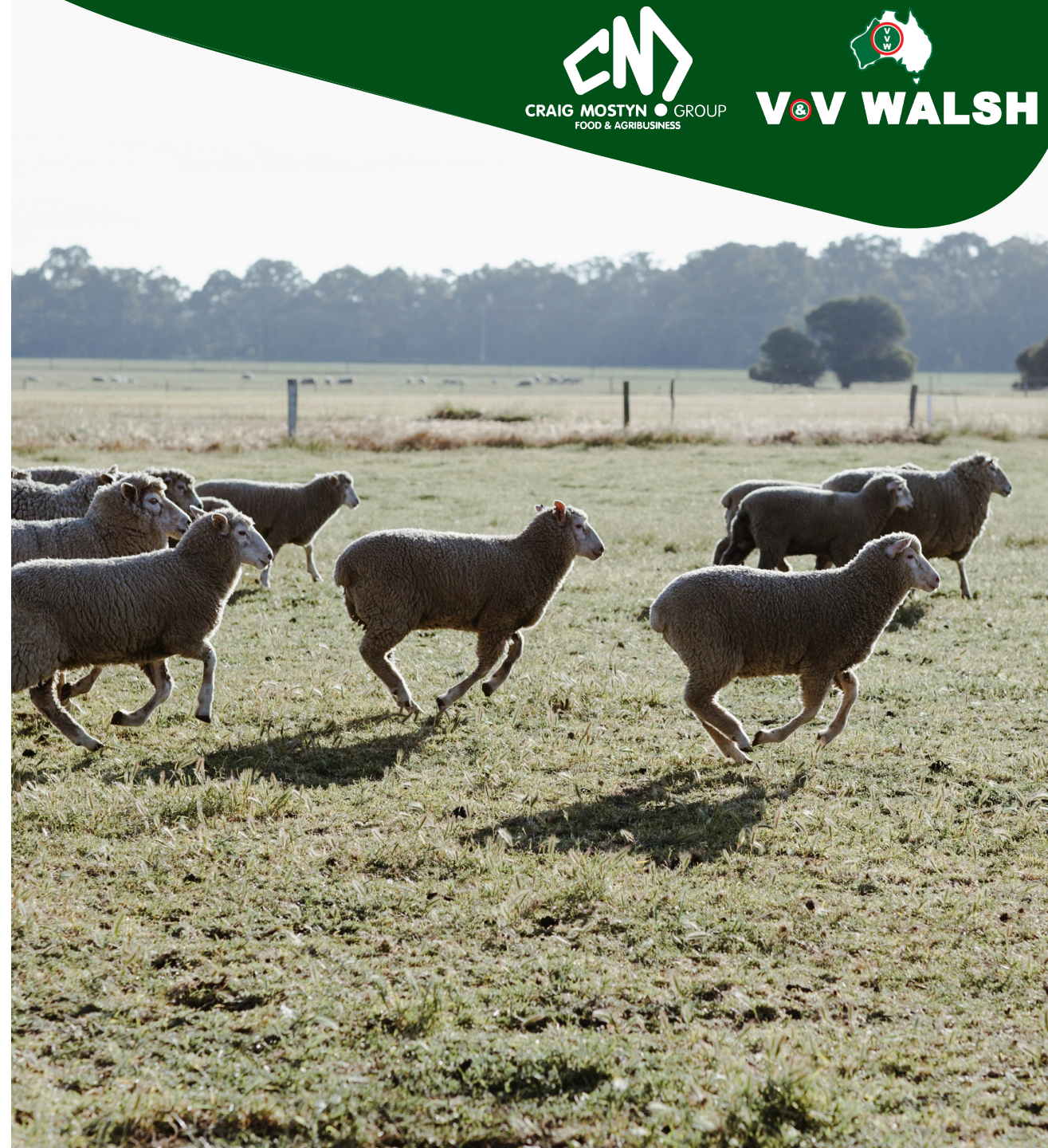
Increasing V&V Walsh sheep/lamb in excess of 1MH pa

V&V Walsh have been on a growth pathway for the past 5 years and has been developing plans for future growth in domestic and export markets. These projects will also allow V&V Walsh to absorb large percentages of the volumes previously exported by sea.

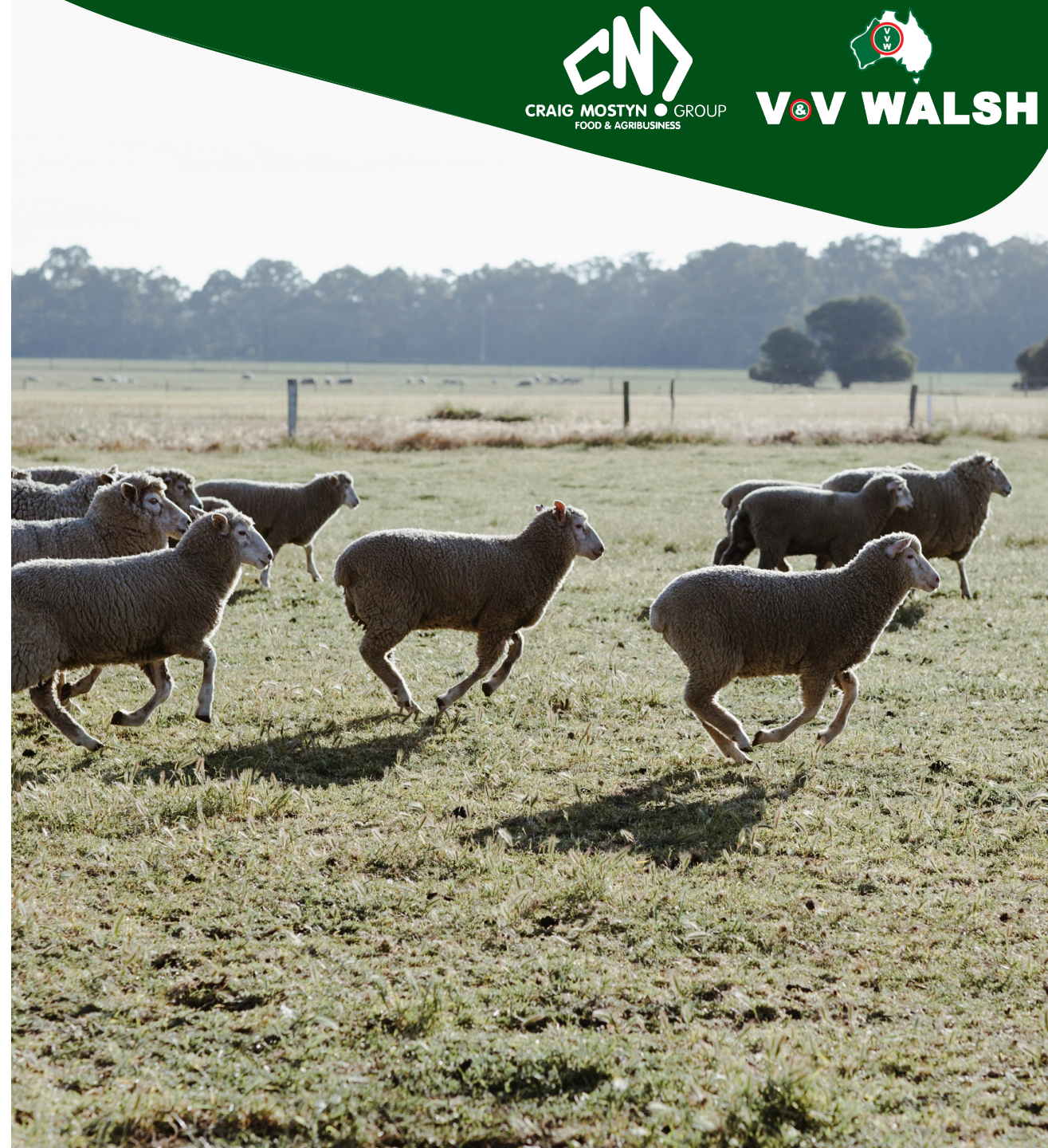


Potential capacity expansion projects

Will increase capacity significantly



Other problems to solve



Labour

Our facility is now back to pre-COVID staffing levels

- Like every industry, labour shortages were experienced through the height of COVID
- Management have worked very hard to recover through the use of PALM scheme and TSMIT
- Without the return of backpacker labour there will always be challenges in agriculture for seasonal labour.
- Federal Government understanding on the impact of TSMIT and foreign labour to the meat processing sector needs to be strengthened as recent shock decisions were clearly decided without full understanding.
 - Significant impact on cost competitiveness in international market
- PALM Scheme provides unskilled labour. Skilled labour is the critical shortage within the industry across the country.
- The recent noise around processing capacity and backlog was a direct impact of COVID in what was an unforeseen event around the world.

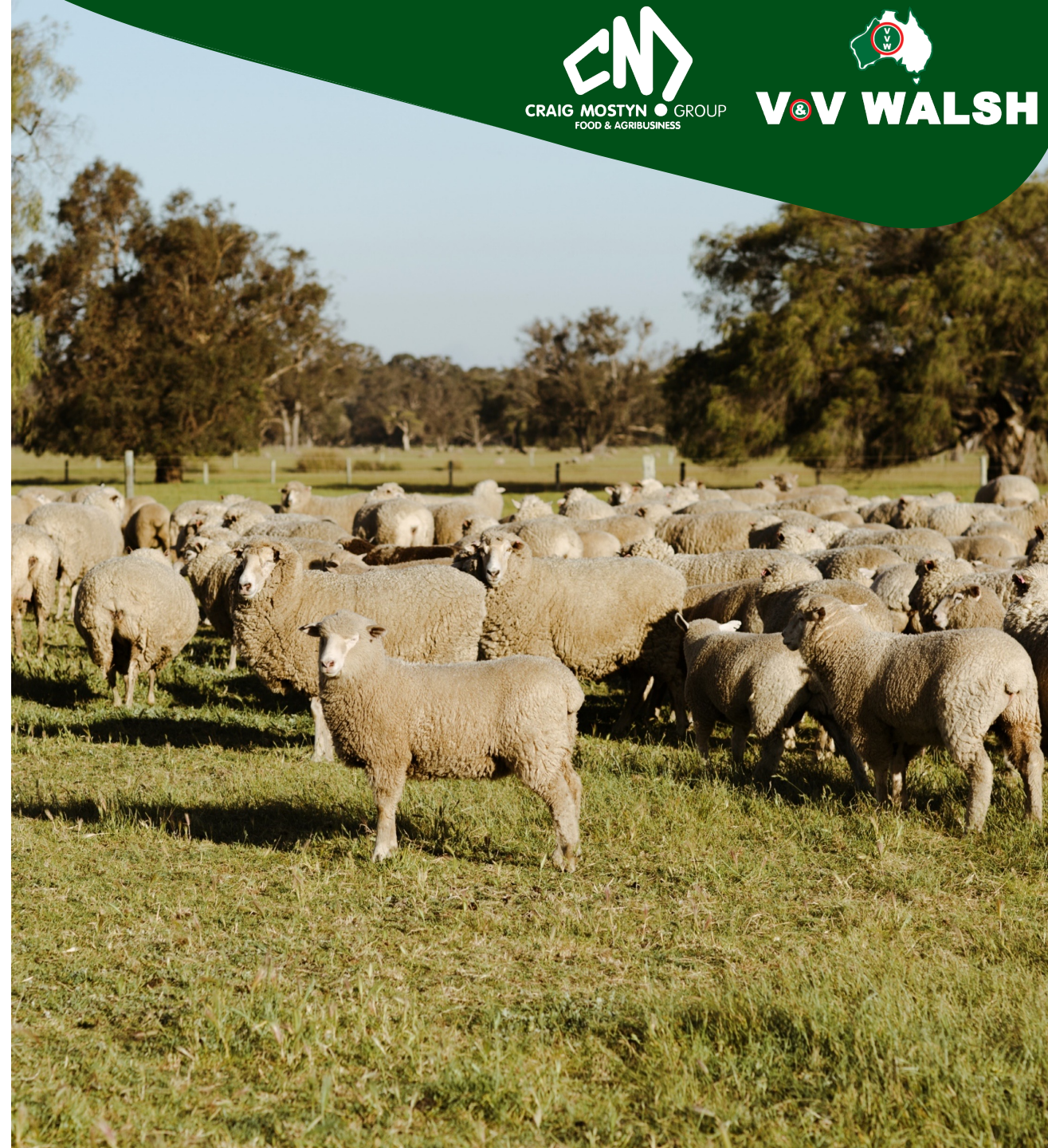




Shed Feedlot Network

- One of the key shifts that has occurred in WA lamb market over the past five years has been the expansion of feedlot networks.
- These facilities range from large shed facilities run by live shippers (utilize these facilities during summer ban) to the farm-run facilities that don't have sheds.
- Due to live sheep shutdown, V&V Walsh risks losing the Peel live export shed facility it has utilised during winter months, requiring further expansion or change in farming systems
- V&V Walsh bought and developed its own shed feedlot facility in York.
- V&V Walsh also working with third party feedlots to develop their own on farm feedlots to include sheds or cover.
- Further work around how best to expand shed feedlot network in WA would be beneficial to this ongoing discussion.

Myth Busting



Myth Busting

"Oversupply of lambs because of constraints to processing"

Incorrect – lamb is too expensive for export markets that are struggling post COVID. Commodity products like mutton are being prioritized because at current prices lamb will be processed at a loss. Supply & demand metrics.

"Existing processors not choosing to use capacity"

Incorrect – manufacturing 101 we clearly want and need to process as much as possible. This year has seen some of this volume go to mutton, not lamb, because of market supply and demand. Our numbers are the largest in history this year

"Plants shut down for 4 weeks creating backlog"

Incorrect – we do not shut down. WAMMCO and Fletchers have in the past. The number of weeks have varied depending on the supply available. With live shipping no longer, this could change the supply, and therefore shift their thinking.

"Can't support light merino wether lambs."

Incorrect – we are already buying wether lambs to either go direct to market or into feedlot network.



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How can we better work
with your clients to aid
the transition?



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