



Wellard

ASX Announcement

10 November 2016

Statement to Shareholders

Wellard Limited (Wellard, ASX:WLD) notes recent statements released to the media by Wellard's 14.4% shareholder, Butt Nominees Pty Ltd (Butt), relating to Wellard's upcoming Annual General Meeting and the resolutions to be considered at the meeting (Release).

Wellard wishes to make the following clarifying announcement and respond to certain statements and implications within the Release. The Butt Release dated 10 November 2016 is attached.

Trading Conditions

- Trading conditions caused by record high cattle prices and restricted cattle supply in Australia as well as two vessel breakdowns combined to materially impact Wellard's FY2016 financial results with flow-on impacts into the first half of FY2017.
- To mitigate, Wellard rapidly adapted its operations to increase trade from South America. This increased diversification will have significant long term benefits for Wellard.
- This diversification has enabled Wellard to weather the challenging, unforeseen operational issues. This reflects the company's ability to adapt and act decisively to changing circumstances. It is incorrect to characterise the recent market in Australia as experiencing normal volatility. The Eastern Young Cattle Indicator has been trading at more than 700c/kg, its highest point since the indicator started in 1996.
- Notwithstanding its disappointing result Wellard has recorded superior financial and operational results to most of its competitors.
- Wellard is working to reshape its working capital and credit arrangements, in particular to develop a working capital facility that better suits the rapid changes required to support the company's increasing business in South America.
- The Board and all of Wellard's dedicated and professional staff continue to work hard in the challenging circumstances that have confronted it and its peers in the industry in recent times.

Wellard's Board

- The Board has established sound governance protocols, including those in place to carefully manage conflicts, primarily through the establishment of a Conflicts of Interest Committee which comprises only independent non-executive directors. Shareholders should note that past conflicts principally arose by virtue of the separation agreement between Wellard and WHG Holdings Pty Ltd (WGH) at IPO. As announced on 21 September 2016, WGH has now paid Wellard all amounts under the separation agreement. This greatly reduces the capacity for future conflicts between the two companies.

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- The Board believes that Wellard should have a clear majority of independent directors and is actively working to ensure this is the case, with a new independent director expected to join the board in the short term.
 - Non-executive director Greg Wheeler, who has nominated for re-election, has played a key role in managing the restructure of the Wellard business and IPO. He has extensive experience in livestock trading and a deep understanding of Wellard's operations, clients and financial position. The Board believes he brings significant value to the current Wellard Board.

Butt Nominees' director nomination – Tyron Dennison

- Mr Tariq Butt (the controlling shareholder of Butt) has interests in livestock trading operations that directly compete with Wellard and uses suppliers that also compete with Wellard.
- Butt seeks to appoint its nominee Mr Tyron Dennison to the Board of Wellard, which will allow Mr Dennison access to information that is commercially sensitive to Wellard.
- In the Board's opinion, it may present difficulties to have a director of a direct competitor on the Wellard Board.
- The qualifications of Mr Dennison are set out in Wellard's Notice of Annual General Meeting. Mr Dennison has no prior experience working for or as a Director of an ASX-listed company. Shareholders will note Mr Dennison's biography indicates his experience is in construction of abattoirs, not in Wellard's principal areas of business activity – livestock trading and shipping.
- The Board stands by its decision to make no recommendation on the resolution to appoint Mr Dennison and to vote undirected proxies against Mr Dennison's appointment.
- Butt first purchased shares on 12 July 2016, at which point Wellard's post-IPO financial position and share price was known to the market, and continued to buy Wellard shares until 30 September 2016.

Executive Remuneration and Option Plan

- The Board believes that the proposed executive option plan is important to attract and retain talented people. It is a standard tool to enable listed companies to encourage those who perform well, achieve relevant KPI's and drive company performance. Cost management and right sizing are being actively managed by Wellard and long-term performance incentives encourage rather than detract from this objective.
- The proposed Executive Share Options for Wellard CEO Mr. Mauro Balzarini are currently valued at \$2,000 and will only vest if the Company's share price reaches the IPO list price of \$1.39 within 4 years. Full details are set out in the company's Notice of Annual General Meeting provided to shareholders.
- Remuneration was determined ahead of Wellard's Initial Public Offering and has not been increased since.

Shareholders have been provided with a Notice of Annual General Meeting, including a thorough Explanatory Memorandum, which the Board commends to shareholders' attention.

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Background – Wellard

Wellard is Australia's largest cattle exporter and a vertically integrated agribusiness.

Wellard has supplied quality dairy and beef cattle and sheep and goats to the world for more than 30 years. Based in Fremantle, Western Australia, the company's operations spans the world and cover every aspect of the livestock export chain, including livestock selection and aggregation, pre export quarantine facilities, feed milling, and a modern fleet of specialized "floating farms livestock carriers".

Wellard's is also involved in meat trade and owns and operate a modern abattoir in Western Australia, Beaufort River Meats, which processes up to 2500 sheep and lambs a day, enabling Wellard to meet customer demand for both livestock and chilled meat.

Visit www.wellard.com.au

10 November 2016

Dear Fellow Shareholder,

At the forthcoming Annual General Meeting of Wellard Limited, you will be asked to vote, among other things, on resolutions to re-appoint Mr Greg Wheeler as a director of the company, and to appoint Mr Tyron Dennison as an incoming director. In this statement, we explain why Butt Nominees Pty Ltd, which has a relevant interest in 14.4% of the issued shares of Wellard, intends to vote **against** Resolution 3 relating to the reappointment of Mr Wheeler, and **for** Resolution 9 relating to the appointment of Mr Dennison.

Butt Nominees also intends to vote **against** Resolution 1, the adoption of the company's Remuneration Report.

The initial public offering (**IPO**) of Wellard was one of the worst performing IPOs of 2015. Shareholders who subscribed for shares in the IPO have seen those shares decline in value by around 80%. We believe that this decline has resulted from a failure to ensure that the company is appropriately structured and capitalized to weather the volatility that inevitably comes with international livestock trading.

The company will point to high cattle prices in Australia and delayed shipments due to operational and delivery issues affecting the vessel fleet, as the primary reasons for its poor performance. Granted, absent both those factors, the company would have fared better. But the reality is that *both* commodity price volatility and operational issues are part of the normal risks facing the livestock export industry and any company operating in that industry needs to ensure that it is appropriately structured, managed and capitalized in order to compete effectively.

It appears to us that this is not the case with Wellard.

Appointment of Mr Wheeler as Director

Wellard has been affected by several changes in senior personnel both leading into and after the IPO, including critical roles such as the CFO, of whom there will have been three between the IPO and first AGM of the company. Mr Wheeler, the CFO at the time of the IPO and publication of the IPO forecasts, now seeks re-election as a Non-executive Director.

Mr Wheeler was CFO of the company prior to and immediately post the IPO. The company's financial issues and share price decline corresponded with his period of office.

The IPO structure itself was, in our view, poorly conceived, leaving the company with insufficient working capital to ride out the current spike in cattle prices or provide the flexibility to explore new market opportunities globally. As a result, Wellard is suffering from a lack of liquidity and is in breach of its banking covenants, notwithstanding the fact that it would appear to have sufficient collateral available to support appropriate facilities. In our view, this points to a lack of foresight on Wellard's part prior to and immediately post the IPO, in structuring the financing arrangements for the company.

Mr Wheeler resigned as CFO and was appointed CEO of Wellard Group Holdings Limited (**WGH**), on 11 July 2016. WGH holds approximately 20% of Wellard, and WGH is controlled by Wellard CEO, Mr Mauro Balzarini. Mr Wheeler is *not* independent within the meaning of the law and Listing Rules. Additionally, his dual role as CEO of WGH creates the potential for conflict of interest, and provides WGH with a

degree of control over the company which is **out of proportion to its shareholding**. In effect, WGH directly or via its officers, controls two votes out of four on the Board (50%), despite holding only approximately 20% of Wellard shares.

At the time of the IPO, Wellard claimed that its Board of five comprised a majority of independent directors, and stated its intention to consider the appointment of a further independent director. Of the three directors claimed to be independent, one - Ms Sharon Warburton - has resigned. No explanation has ever been given for the departure of Ms Warburton, and no additional independent director has been appointed.

We believe that the Wellard board should comprise a clear majority of directors who are independent of WGH and have no present or previous relationship with WGH or the CEO. In our view, it will be difficult or impossible for Wellard to achieve this, and to attract independent directors of high calibre to the Board, if Mr Wheeler is appointed as a director and WGH continues to have a disproportionate influence over the company.

Executive Remuneration

We will also be voting against Resolutions 1 (Remuneration Report) and 6 (Executive Option Plan). We believe that Wellard needs to focus on controlling overheads, particularly by reducing headcount among the senior and middle management ranks within the company. Until such time as the company can demonstrate that it is taking positive steps in this regard, we do not believe it is appropriate to implement an Executive Share Option Plan, particularly when little or no information has been provided to shareholders on the performance thresholds, if any, that will be applied to the vesting of any options granted under the plan.

Appointment of Mr Dennison

As a substantial shareholder, Butt Nominees has nominated Mr Tyron Dennison for appointment as a director of the company.

Mr Dennison, while a director of Butt Nominees and therefore not "independent" within the meaning of the law and Listing Rules, will bring a differing perspective to the Board's deliberation over the critical issues noted above, and we believe this will ensure that management is appropriately challenged and alternative views on operational and strategic issues are given a proper voice. This can only be to the long term benefit of the company and its shareholders.

We seek your support at the AGM on 29 November.

Yours sincerely



Tariq Butt
Director, Butt Nominees Pty Ltd



Tyron Dennison
Director, Butt Nominees Pty Ltd