

FAWO INDUSTRY FORUM - Friday 23/8/19

AWH Presentation (20 mins max) – “*Volatile Market Place & Drought in 2019*”

- Declining wool volumes have placed increased cost pressures on business' that have substantial fixed cost overheads.
 - Warehousing, Sale Rooms, Dumping/Packing & early stage Processing – to name a few
 - AWH are expecting a volume reduction in the order of some 20% over two-year period to June 20! (without any reduction in fixed costs – this results in a unit cost increase of 25%)
 - Capital Expenditure & Investment projects are constrained on reduced volumes
- AWH expect rationalisation in the wool industry both domestically & internationally, but we are unsure from which segment or segments it will come.
- It is worthy to note that whilst volumes are down in terms of weight / bales (down ~12-13%), lot size also reduces during times of drought and therefore volume of lots (down ~7%) produced is not down by as much as bales/weight.
- % of weight adjusted bales slightly increased in the F19 season from 1.7% in F18 to 1.8% with **WA being the main offender** at an average of 4% over the last 2-year period. Remains an Industry problem. (on a 1.8m bale clip = 32,400 bales) – Very costly at \$20 / bale or \$650k pa!! - inefficient & we feel, easily addressed.
- Whilst it is well understood what impacts the decline in production and quality has on the wool industry in drought conditions, the logistical movement (AWH's core business) and speed of movement of wool is largely determined by market drivers and the depth of volatility in these drivers. I.e:
 - Offering volumes
 - Re-offered volumes
 - Withdrawn volumes
 - Passed in volumes
- Declining volumes and increasing prices have also placed speed of payment and delivery at the very fore front of post-sale logistic activities. Demands on AWH's ability to clear funds, break out, c/mark, deliver to pack house, pack/dump & transport to wharf terminals, has never been greater. ACWEP approached AWH to investigate making finance fund transfer improvements

for the F20 season and in this respect, we have been able to assist the wool industry.

- For many years the number of days wool has been in store has been in constant decline and only in the past 12 months have we seen this value “bottom out” (refer graph)
- Peaked out in Jan '15 at 58 days / troughed in Sept '18 at 29 days / June '19 at 36 days
 - Exporter Days Storage is constant at approx. 13 days
 - What is interesting about this graph is that the data can be used as a tool in measuring storage in the event of an EAD (FMD) outbreak especially in relation to withholding periods at given temperatures (as recently experienced in RSA)
 - *We know the period for ambient temperature to reach the centre of a bale of wool – is approx. 7 days*
- Of the total wool held by AWH in our 14 stores nationally, there is a constant 70 to 80% unsold, with the months of Nov, Dec & January traditionally “peaking out” at just over 80%.
- At the close of wool sales on the 15th August AWH were holding 43% more “unsold wool” that at the same time last year (August '18) with 8% less “sold wool” All on reduced receipts of some 12-13%. Over the same period
- Declining wool volumes are not new to AWH, we have been managing the reduction in the Australian clip since our inception in 1998 to the point where our revenues from wool handling volumes are now circa 50% of our total business activities.

----- (something different – Cotton)

- Whilst separate to the Wool Industry, AWH handle some 30% of the post gin cotton crop for export and Australia's cotton crop volumes are much more production exposed to climatic conditions than wool. (The national crop ave 3.8m bales pa but has a max capacity of up to 6m bales pa)
- For example, in C2018 the Australian cotton crop produced approx. 4.5million of post gin bales (every one at ~227kg ea! +/- 1-2%) it is expected that in C2019 these volumes will decline by 55-60% to approx. 1.9million bales, however into C2020 it is currently estimated to reduce a further 50% to be less than 1million bales! - Should favourable pre planting conditions present themselves this could easily & rapidly increase to 2-3million bales! If the drought breaks this summer, (too late for 2020 crop) the 2021 crop could be

up towards 6m bales! – such is the production volatility of this natural fibre and the climatic conditions that significantly affects that crops production.

- Cotton Merchants (Exporters) generally store post ginned cotton with AWH for a period of between 40-60 days, prior to shipment.
- Interesting to note that every bale in the post gin cotton crop is **bar coded** – twice (front and back of each bale)
 - Cotton bales are advised electronically in advance of receipt
 - Cotton is received, stored, ordered out/delivered by grade/type, therefore it therefore a much simpler commodity to logistically handle and administer than wool.
- AWH is considerably exposed to the declining fibre volumes in Australian Agriculture and as such we have & continue to diversify ourselves into logistic providers outside of these two major natural fibre markets. Including but not limited to: Drink Manufactures - Coca Cola, Building Materials - Insulation, Crop Protectants, Chemicals & Fertilizers, Dangerous Goods capability & also Stock Feed
- In closing AWH want to be very much at the forefront of logistic, exchange & IT services to the Australian Wool & Cotton Industries and as such we are prepared to invest in continual improvement and reach out to those who may be interested to discuss our services – examples of which are WoolEx Program, Faster Payment models & the imminent Electronic Identification of greasy wool space.