



Australia's Oyster Coast Ltd
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Chairman's Address to the Annual General Meeting, Narooma, 16 November 2016

Good afternoon ladies and gentlemen. May I welcome all shareholders – both growers and non-growers – to this second annual general meeting of Australia's Oyster Coast Ltd and say what a pleasure it is to see you. Several non-grower shareholders have travelled considerable distances to be here, and I appreciate your strong interest in your company's activities.

Annual Accounts and Chairman's Statement

All shareholders have recently received a copy of the 2015-16 annual accounts and an accompanying chairman's statement. I won't repeat here most of the comments contained in that statement. The receipt and consideration of the annual accounts is an agenda item for this meeting, and there is an opportunity for shareholders to ask questions.

Market Conditions

As shareholders are aware, we are currently focusing primarily on the domestic market, with a targeted export market growth strategy supporting our activities. Mark Allsopp, our CEO, will have more to say about operations and markets when he addresses the meeting shortly. Our monthly sales volumes have been steadily increasing and are now around 2000 dozen per week, predominantly but not exclusively Sydney Rock Oysters. We expect a further boost to sales in the run-up to Christmas and beyond.

Our objective in the domestic market is to establish Australia's Oyster Coast as a premium brand with a range of customers who value attributes of consistency and quality. This takes time to establish and consolidate. Regrettably, some parts of the market retain an opportunistic trading bias, where loyalty may be discarded for a short-term price advantage. Of course, this can cut both ways and if – as seems likely – supplies of Pacific Oysters from Tasmania and South Australia decline over the coming twelve months, our priority customers will be those who have already demonstrated loyalty to us with regular orders and a brand development approach that recognises all participants in the supply chain.

Mark will be followed by new director John Susman, who will provide some broad observations about seafood marketing, and how oysters fit into it. We are indeed grateful to have someone of John's experience and reputation on our board – his election is an agenda item later in the meeting.

Grower Investment Plan ...

The Grower Investment Plan gives growers the opportunity to acquit over time a commitment to purchase shares via the retention of portion of oyster revenue when they make sales to the company. It was an important element of our initial capital raising. It recognised the fact that some growers were not in a position to contribute up-front cash but were nevertheless keen to be involved as shareholders and suppliers to the company. In turn, that would maximise the overall level of grower capital – the desirability of which we stressed from the outset.

A total of 31 growers made GIP commitments totaling just over 200,000 shares. Meanwhile 14 growers contributed capital up-front, some of whom were also part of the GIP cohort.

So far, 13 growers have met at least some of their GIP commitment, in the process raising around \$43,000 of share capital. Three have fully met a 5,000 share commitment and one a 10,000 share commitment. A further two have contributed funds for more than 5,000 shares but their total commitment is higher. 18 growers are yet to make a start towards their commitment.

Taste the romance of the finest oysters from the purest Australian waters.

Once a 5,000 share commitment has been met, we issue the share certificate for this amount and also any eligible *pro bono* shares for those who were members of the former Association.

The prospectus stated that the GIP would expire in December this year, but in my recent statement accompanying the annual accounts I said that the board now proposed that it be extended.

From the company's viewpoint, the additional capital that the GIP represents is valuable – more capital helps us as we expand. We are also keen, for obvious reasons, to have as high a level of grower shareholding as practical.

... And Grower Support Generally

We have consistently stressed the importance of growers seeing the company as “their own”. We are not just another marketer in the industry, another generic outlet to whom growers can sell oysters on a fairly anonymous, undifferentiated basis. We want to see more growers supporting us, ideally by committing all their oyster production, but if not, at least a majority of their production.

If we succeed, growers benefit – in at least five ways:

- as we develop a brand for superior and consistent quality, we pay prices that are generally above the going rate offered by traditional wholesalers – and we pay farm gate prices, not prices on a delivered Sydney or Melbourne basis; this means more revenue per dozen for our suppliers;
- we pay regularly and promptly, twice per month;
- we are committed to marketing provenance with every sale, through the provision of estuary profiles and tasting notes, which in itself creates a reputation and demand for oysters from our region;
- our progressive development of the Oyster Trail benefits growers – and others on the south coast – via additional tourism visitors who purchase and consume oysters, and undertake lease tours; and
- as we move into profitability we intend to pay dividends to our shareholders.

It is pleasing that an increasing number of growers clearly understand all this – so much so that some have increased their GIP commitments. However, not all growers yet do and we want this to change.

To be fair, at the outset, we did indicate that farm gate prices resulting from our export activities would be much higher than alternative prices, thus enabling the “surplus” to be contributed fairly painlessly towards GIP commitments. We have since been quite open that these expectations were over optimistic – and the export task harder than we anticipated – so I understand that some growers may have become reticent as a result.

I also recognise that it is a common, and probably appropriate, characteristic of farmers everywhere to be cautious about a new concept. We started as a new company – with no track record, even if at the behest of growers. If the company is a raging success, growers are likely to be strong supporters – it was, after all, their idea! If it flops, they may convey a sense that they knew little about it, or knew it was impractical and would never succeed! This is a variation of the old adage that “success has a thousand fathers, while failure is an orphan”.

Well, I can assure all growers – and all shareholders – that the board and management of the company are determined that we are going to succeed. I trust you can see we are demonstrating this by our commitment, not only of our own share capital, but also with considerable time that for board members has been unpaid, apart from the initial issue of some *pro bono* shares. Having now completed about 18 month's operation, I think we are through the most difficult period, even if we are not yet operating profitably or with a monthly cash flow surplus.

Similarly, our staff are putting their reputations on the line – including, in the case of Mark, by moving from South Australia. Let me reiterate: we are making a major commitment to produce a sustainably successful oyster business and we want growers to support that commitment, in their own interests, by getting behind us as fully as they can.

Over coming weeks, we intend to contact all growers who have not yet acquitted a GIP commitment to discuss with them how we can best combine to do so, to mutual benefit.

Meanwhile, I am pleased to advise that we have had new grower suppliers approach the company in recent months and agree to become shareholders as part of a supply commitment. I would be delighted if more growers did so.

Vertical Integration

I would like to advise shareholders that the board has decided to enter a joint venture with private investors to establish a farm asset holding company. The JV will be managed by Australia's Oyster Coast and we will have the ability to earn equity, principally through debt finance, as it is established.

The farming company will be run as a wholesale supplier in which Australia's Oyster Coast will be but one customer. Our supply policy will ensure that our grower shareholders continue to supply the majority of the company's requirements if they so desire. We expect that participation in the JV will enhance the profitability of Australia's Oyster Coast by underwriting supply as we increase sales into the multiple hundreds of thousands of dozen per annum, as well as by being a profitable investment in its own right.

As the board and management studied this option, we noted two consistent themes elsewhere in the seafood sector, both in Australia and further afield: vertical integration and industry consolidation. As companies expand, they need to exert greater control over their supply chains if they are fully to meet the attributes of reliability and quality that their customers expect. This is evident in segments as diverse as South Australian mussels, which is now owned by two companies that acquired smaller companies and consolidated their operations, as well as New Zealand oysters and mussels, salmon, abalone aquaculture and West Australian lobsters.

At present, the oyster industry, especially in New South Wales, is quite fragmented, which contributes to generic marketing, growers generally being price takers, and a lack of value adding opportunities. We think there is a wonderful opportunity to generate benefits for investors by embarking upon a vertical integration strategy.

The fact that there may be some growers contemplating retirement but with no clear family succession in view, potential national supply disruption following the POMS outbreak in Tasmania, and limited capital preventing or slowing the upgrade of production systems towards single seed and floating bag technology, reinforces the vertical integration/consolidation message.

We have now identified several oyster growing businesses which we are assessing in conjunction with potential investors. It is early days yet and no final decisions or purchase agreements have been reached. Needless to say, we are well aware of the risks, which are somewhat different to the risks of oyster marketing. We will have more to say to shareholders as details firm up.

The Oyster Trail

The Oyster Trail continues to gain momentum, particularly with Asian visitors. Feedback from our Oyster Trail business partners is very encouraging. The opening in September of a new international airport gateway to the region from Singapore and Wellington to Canberra is an exciting development and provides enormous opportunity.

We are delighted that experienced tourism operators are approaching us to develop new oyster-related product. South Coast Seaplanes will be hosting a Singaporean tourism delegation later this month and have chosen to focus on oyster tourism to whet their client's appetite for the region. Imagine the experience of flying over this scenic region, landing at an oyster lease, talking to a grower about oyster cultivation, shucking oysters directly from the water, before lunching at a waterfront restaurant and then flying home!

Here in Narooma, we have two new Oyster Trail partners – Narooma Oyster Tours and Island Charters Narooma. Narooma Oyster Tours will launch its "meet the grower" and Wagonga Inlet lease tour this month. Island Charters Narooma will collect visitors from Canberra or Sydney airport (or their accommodation in region) and provide bespoke oyster and South Coast produce bus or boat tours.

Oyster Trail partner restaurants are also increasingly working with the company to hold oyster events. For example, Club Narooma ran a very successful month long 'Oystober' promotion last month. JJ's on the Marina at Batemans Bay hosted a sell-out dinner and fund raising auction in September for the production of an oyster farmer documentary. Narooma's Whale Restaurant recently held a successful "meet the producer" night. And, we have partnered with Coolangatta Estate and are labelling some of its award-winning Semillon.

Even more pleasing is that a number of growers have talked with us about their business plans to develop oyster tourism-related activities; we are very happy to support and assist them where we can.

We now have more than forty businesses involved with the Oyster Trail. If you haven't already done so, I would encourage you to visit the Oyster Trail page on our website.

As the Oyster Trail continues to develop, the company's focus in 2017 is to work with other export-ready tourism businesses in our region to package and sell a small number of itineraries and tours to better support international visitors, particularly those arriving through Canberra Airport.

Board elections

At this year's AGM, recently appointed director John Susman will be up for election in line with normal company requirements. Also, the board is recommending the election of two growers to the board to replace recently retired directors Ben Ralston and Steve Feletti, namely Pippa Boyton and Warwick Anderson. Brief biographical details were contained in the notice of meeting.

Appreciation

Once again, the past twelve months have been extremely busy for all concerned with Australia's Oyster Coast. I start by acknowledging the contribution made by our directors, past and present. Their commitment to the company and willing contribution of time and expertise is enormous. Similarly, our senior management team, led by Mark Allsopp and Craig Smith, are dedicated and highly competent. They are the engine room of the company, without whom we would not have a business. I express my admiration and gratitude to them.

And finally to our shareholders: thank you for your continuing support for the company and its activities. I hope that we will be able to repay your support with profitable operations soon, and in time the payment of dividends as a return on your investment.

David Trebeck
16 November 2016