

## **Australia's Oyster Coast Ltd**

### **Chairman's Address to the Annual General meeting, Narooma, 19 February 2016**

Good morning ladies and gentlemen. May I welcome all shareholders – both growers and non-growers – to this first annual general meeting of Australia's Oyster Coast Ltd and say what a pleasure it is to see you here.

#### **Canberra Airport Freight Seminar**

Last Friday, fellow directors David Maidment, Tony Curtis, and I attended an air freight seminar at Canberra Airport. It was a productive day as the opportunities that will arise from the Airport's agreement with Singapore Airlines to commence direct flights later this year were outlined and discussed. Importantly, the Canberra to Singapore flight will give us five additional hours for the delivery cut-off time at the Airport relative to Sydney, meaning that our oysters can arrive even fresher to market than at present.

I am quite convinced that before long other airlines – such as Cathay Pacific and China Southern – will also fly into and out of Canberra, thus further improving our options to service markets in Hong Kong, and Guangzhou – and perhaps elsewhere.

But it was the comments of the Trade Minister, Andrew Robb, that were particularly relevant to us.

He stressed the importance of connectivity, noting that where air flights led, trade followed. Following the tie-ups between Qantas and Emirates, and Virgin and Etihad two years ago, flights to the UAE had increased from 40 to 160 per week, and two way trade between the UAE and Australia increased by 18% in the first year. And in an interesting statistic, he noted that there were 40,000 aircraft in the air around the world at any one time.

He described work now underway to convert the Australia-Singapore relationship to something akin to the Australia New Zealand CER relationship, which had led to compound annual trade growth of 7% over 32 years, an impressive achievement. He saw no reason why the Singapore experience should be any different.

He highlighted the "spectacular" reputation enjoyed by Australian agricultural products in Asia, noting the scarce supply and very polluted water in China in particular.

And he quoted OECD forecasts that the present 600 million middle class population residing between India and China is expected to grow to 3 billion over the next 35 years, a staggering increase with unprecedented food demand implications. At a lesser level, the number of Indonesian middle class citizens has increased from 4 million to 50 million since just 2000.

These facts and figures graphically underscore the relevance of the Australia's Oyster Coast business model. They should give us confidence that we are on the right track.

Also at the seminar David Maidment presented your company's credentials, describing both oyster exports and the potential of the Tourism Trail to capture inbound travellers. A copy of his presentation is on our website – and I would encourage you to peruse it.

Overall, we received disproportionate coverage at the seminar, including by Andrew Robb, demonstrating the positive view that others have towards what we are doing, especially the fact that it straddles both product exporting and tourism.

## **Export Market Establishment**

It is just 10 months since the formation of your company. In that time a great deal has been achieved – most of it positive. Many lessons have been learnt – most of them positive. And, now that Chinese New Year celebrations have come and gone, we are at last seeing tangible evidence of traction in export markets.

I readily acknowledge that our export sales volumes have been slower to build up than we had hoped, meaning that revenue received has been below expectations. We have also experienced some frustrations and teething problems. In retrospect, neither should be a surprise.

With the benefit of hindsight, we were overly optimistic in thinking that export customers would perhaps be at their doors waiting to welcome us with open arms. The truth is that the markets we are targeting, while enormous by Australian standards, are mature, sophisticated and competitive.

We may think – and I do – that our products are superior in quality to those of other countries, but we cannot just assert this. We must earn respect by consistent performance and patient brand building over an extended period. We cannot price our oysters as high as we would like initially. We have made price adjustments and are now seeing greater interest.

Similarly, not every potential customer or supply chain partner we identified has turned out as we expected. Not all our decisions were correct – as all new business enterprises experience. It is part of the process of risk-taking. For example, the feasibility of servicing an individual restaurant or hotel from Australia with relatively small weekly requirements, say 20-30 dozen, rather than via a local distributor, is too difficult. And without multiple such outlets, the economics of small quantity shipment do not stack up.

However, the point to emphasise is that now we do have some good distributors and customers – restaurants, hotels and oyster bars – even if we have barely scratched the surface. We do understand the markets and where our oysters fit best – for example, Sydney Rocks more in Singapore, and Pacifics more in China, and always targeting the top end of the market.

Customers and final consumers do understand the beauty of our pristine environment. They do relate to the authenticity of our growers – and the five grower shareholders who have so far shucked oysters for us at product launches overseas have been a huge hit. I thank them for their involvement and their enthusiasm – Jim, Jade, Brett, Greg and Pippa – they are great ambassadors and the essence of our business. I think they also learnt a lot along the way.

At the end of January, we provided oysters and two shuckers for an Australia Day event hosted by the Australian High Commission in Singapore. Ben Ralston and one of his employees did the honours, using his mobile shucking equipment, milling with around 500 guests. You can see some photos on the News section of our website.

We were paid for our involvement, had banners and promotional literature on hand and received many requests for follow up contact. Each occasion like this helps to enhance our brand presence – and adds to our overall market intelligence. As part of the visit, Ben met around a dozen existing and potential customers with staff from our Singapore distributor.

We can vouch for the many stories about the preference of Chinese consumers for imported food, especially imported seafood and especially from Australia. In that respect, as the Trade Minister has observed, we are well placed to grow our market presence.

But regardless of this, price is still paramount in these markets. French oysters sit at the top of the tree in terms of price – they have the reputation after years of effort. They are well packaged and branded and widely available.

I do think we can emulate them, but it will take time for our brand to become well known, and for our product consistency to be appreciated.

I am more convinced than ever that we can do it, provided we all show persistence, diligence and determination – shareholder suppliers, board members and company staff alike.

A very positive opportunity arises when we can host overseas customers who visit our region. For example, Mr Weibing Lu, an important Guangzhou customer of our company, recently spent a weekend visiting estuaries and leases for a first-hand look at where the oysters he is purchasing are produced. He had previously seen photos and heard our descriptions, but I think it fair to say that he was blown away by the pristine waters in which the oysters are grown, the surrounding forests that feed them, and the beauty of our beaches – a contrast indeed with the Guangzhou region! Again there are a couple of photos on the News section of the website.

One of the interesting insights we have gained is the importance overseas customers place on the brand's visibility and recognition in its home market. They say that if you brand is "famous" in its domestic market, they have greater confidence in the product.

There are two implications which flow from this. First, we need to be selling our oysters and promoting our brand in the domestic market. And second, the relevance and importance of the domestic tourism Trail cannot be over emphasised.

### **Domestic Market Initiatives**

On the first point, we have consistently stressed that we have no desire to tread on the toes of individual shareholders at specific domestic outlets. But that still leaves many outlets where our oysters are not represented – either they don't sell oysters at all or they sell oysters from elsewhere. These are fair game for us.

In addition, there are many events or one-off opportunities where we can position Australia's Oyster Coast oysters to good effect, where we have the necessary scale, and where we can raise the profile of the brand. For example, today I will be taking 75 dozen back to Canberra for an event tomorrow night at Old Parliament House – a 10 year celebratory dinner by a rural company with which I have a close association.

We have been supplying the Ulladulla Oyster Bar for the past several months with encouraging volumes over the summer period, several hundred dozen per week. It has become a good relationship – with the Oyster Bar displaying Trail information which assists us more broadly. We are also supplying other outlets, including in Melbourne.

Recently, the board approved a domestic market strategy which will be progressively implemented to capture more of these opportunities. As part of it, we are assessing a staff position to take charge of the strategy, with the objective of being cash positive virtually from commencement.

I am convinced there are many opportunities for strategically located oyster bars to create new demand for our product and to be profitable business ventures in their own right. Some would be within the Australia's Oyster Coast region, others in Canberra, Sydney or Melbourne. Given adequate capital it would be tempting to establish them ourselves, providing potential benefits from vertical integration.

Maybe there are other models, such as joint ventures or franchising, and we obviously don't claim to have the in-house skills and experience to establish or run them. But they do represent valuable opportunities to sell our oysters at remunerative prices, the capacity to expand the numbers of people regularly consuming oysters, the chance to enhance our brand profile, and scope to collaborate with like-minded producers – and Trail partners – such as wineries and cheese manufacturers. We are open to suggestions for co-operation.

### **Direct and Indirect Risks of Disease Outbreaks**

The devastating outbreak of Pacific Oyster Mortality Syndrome in Tasmania highlights one of the risks in our industry. All our growers extend their commiserations and support to Tasmanian colleagues and of course we hope the outbreak does not extend further afield.

Our growers who source spat from Tasmanian hatcheries are directly affected. As a result, the idea of an Australia's Oyster Coast-owned hatchery has come onto the radar and is being actively considered, in conjunction with Eurobodalla Shire Council.

Every cloud has a silver lining and the short term upside for us from this regrettable incident might be more domestic market opportunities to fill the looming void, especially in Melbourne. We will see.

The POMS outbreak also highlights other disease risks that can affect oyster estuaries – whether from pleasure boats discharging into estuaries or illegal camping in areas where there are no toilet facilities. In the language of economists, these activities, whether recognised by the perpetrators or not, can produce substantial negative externalities for oyster growers.

It is therefore up to regulators, in State or local authorities, to closely monitor illegal activity and to educate visitors on the possible consequences of their actions. To think there is a push for so-called “white infrastructure” to be removed from oyster leases on aesthetics grounds suggests a serious misalignment of priorities which should be addressed.

We recently had the chance to alert the NSW Minister for Agriculture, Niall Blair, to the external pollution risk and to protest the ludicrous white infrastructure dictate during a visit he made to the Clyde, in conjunction with local member and Transport Minister, Andrew Constance.

### **The Oyster Trail**

The development of the Oyster Trail along the 300 km of Australia's Oyster Coast is something of which our company can be very proud. Of course, it will generate benefits for all residents and businesses in the region, as well as our growers and shareholders.

But there are opportunities for us to capture value and receive a revenue stream. To do this, we need tangible product that can be sold to inbound tourism operators. Participating growers need to put themselves in the position of the consumers and provide them with activities they are interested in and will pay for.

We are part way there but the Trail needs more participants, including more growers, to add substance to the product offering.

The Trail can leverage the gourmet getaway campaigns being run by Tourism Australia, Destination NSW and local tourism bodies. It provides a ready-made PR and marketing platform for oyster growers who choose to diversify their businesses.

We have developed, at some cost from shareholder funds, brand and marketing collateral such as banners, signage, point of sale brochures and product cards, and several items of merchandise, such as oyster knives, aprons, and soon, shirts, cool bags and tea towels.

All this links back to our website and to the several social media platforms we operate.

Already several oyster grower businesses are benefitting from the Trail – such as Captain Sponge’s Oyster Tour on Pambula Lake, the Wray Street Oyster Shed, and the Bermagui Oyster Room.

There are also around 30 non-grower Oyster Trail partners, such as the Whale Motel in Narooma, Lincoln Downs and Mariners Hotel, Batemans Bay, the Bower at Broulee, Coolangatta Estate Wines, Eden Smokehouse, South Coast Seaplanes, Bannisters and of course Ulladulla Oyster Bar.

Anecdotal evidence suggests that many of these businesses have significantly boosted sales over summer, year on year. It is probably too early to make a definite call that the Trail is the reason, or one of the reasons, but we definitely have the sense that it is making a difference.

Another contributor has been the extensive media we have generated, both locally and wider afield. For example, Gourmet Traveller magazine ran a major feature on south coast visitation options in its January edition, and featured several of our growers and Trail partners.

Cath Peachey has been instrumental in your company progressing Trail developments, and everyone owes her a debt of gratitude. Given that her efforts have been *gratis* makes them even more merit worthy. She has extensive contacts, experience and skills of tact and diplomacy which are all essential.

I would also acknowledge the co-operation we have received from the three local councils – who of course can see the wider benefits for their ratepayers as the Trail becomes established. We are currently looking at specific infrastructure improvements that will add to the attractiveness of the Trail – such as minor roadworks, toilet facilities, signage, the provision of crown land at selective locations, and so on.

At present, we are assessing the possibility of adding a specialist employee who can extend Cath’s work and accelerate the revenue stream from Trail activities. It might be possible for this work to be integrated with other regional initiatives.

### **Future Prospects**

Looking ahead, I would expect that our export sales volumes will ramp up significantly in the near term. Exactly when, and exactly by how much, remains difficult to say. But we have said to our distributors in Singapore and Shenzhen that we expect minimum and consistent weekly sales of 500 doz in each location relatively soon.

In addition, sales in Guangzhou are likely to increase strongly, and I will look forward to advising shareholders of what has happened as opposed to what might happen. Plus we are actively working to secure distributors in Hong Kong and Shanghai.

The task is to consolidate volumes at better than break-even levels in each centre, before embarking on new destinations. I apologise for not quoting specific numbers or specific customers, but you will appreciate the market sensitivity of this information.

Domestic sales are additional and, as I noted earlier, we intend to focus more closely on this market segment with a dedicated staff member which I am convinced can be quickly profitable for the company.

A pleasing aspect is that we have purchased oysters from around 20 of our grower shareholders to date.

While we are cautious and taking things one step at a time, there is no doubt there are many growth opportunities that present themselves to us. I have mentioned the possibility of a hatchery and oyster bars – both are under active consideration. Establishing an online ordering platform is another initiative which has received board attention and some development work.

As exports from Canberra Airport become established in future, a company owned, export approved packing shed, located within the region rather than near Wollongong, is logical. In time that might extend to be able to handle other export products, especially other seafood products.

We have invested heavily in brand development and packaging initiatives, as it is self-evident that the way we present our product is integral to the success of the brand.

I will continue to send letters to shareholders updating them on developments from time to time.

### **Financial Results 2014-15 – and subsequently**

Turning to matters closer to the business of today's AGM agenda, shareholders have received, via our prospectus, high level details of the company's financial results for the 2014-15 year. You should have also have received when you arrived today, a copy of the audited accounts and directors' report.

These results cover only just over two months of operation and in that time no revenue was generated. The P&L account showed a loss of \$76,000, marginally better than the unaudited figures in the prospectus and close to what was estimated prior to the company's establishment.

The main expenditure components were marketing (including brand development, all expensed), wages and travel/accommodation.

I am happy to take questions on the accounts later.

For the six months to December, the company has continued to trade at a loss for the reasons previously given. Again, this was expected in the indicative projections provided to oyster growers prior to the company's commencement. During this period, the company also took over the accumulated losses of the former Association, amounting to \$34,000, by way of purchasing the intellectual property it had developed.

While a case could be made for capitalising some of these costs, such as the brand investments we have made, prudence suggests they should be expensed, which is what we have done.

However, to put the trading results into context, a significant portion of the costs to date are either one-off or in the nature of establishment costs (such as attendance at Trade Fairs and the like) which are unlikely to be repeated in future.

Our priority now is to increase revenue and so progressively cover costs, both cost of sales and overhead costs, before moving into profitable trading. At the time the company was formed, we indicated we hoped to be cash break even by the end of this financial year. That remains the objective.

## **Prospectus progress**

The company's prospectus, foreshadowed at the time of establishment, was cleared by ASIC in December, and has been in the marketplace since then. It was a cumbersome and quite costly process, with the structure and detail similar to the requirements of a large public offering for a listed company.

We are seeking to raise between \$500,000 and \$750,000 in addition to the capital already committed, but including the confirmation of Grower Investment Plan commitments.

Prior to the prospectus, we had received about \$110,000 in cash from growers, \$150,000 from non-growers, and \$250,000 under the Grower Investment Plan.

As of today, we have received cash or applications for around \$200,000 from investors, and portion of the previous GIP commitments. There is at least another \$100,000 likely to be received over the next week or so, plus more GIP forms returned. So, we can say that the minimum target of \$500,000 is within reach.

The Board has decided to extend the offer period for a further two months in the hope that we will reach the upper target level, perhaps encouraged by actual sales volumes.

Ideally, the majority of these funds would come from oyster growers. However, it is clear that many growers lack the available liquidity to make up-front commitments. The next investor priority are people living in the region who will benefit from our success, and supply chain or Trail partners. Then comes the wider investment community, especially those with a love for oysters.

## **Board elections**

All board members will retire at this meeting and be eligible for re-election. For understandable reasons due to a new baby being imminent, Stacey Loftus will not be seeking re-election, although I am pleased she is keen to remain involved, for example as a member of David Maidment's environment committee.

The remaining directors are submitting themselves for re-election and we would seek shareholder support when the formal resolutions are put shortly.

In addition and as advised in the notice of meeting, the Board is recommending the election of Steve Feletti. As most growers would be aware, Steve has unrivalled international marketing and brand experience from his earlier career, and is one of the most innovative oyster marketers in Australia's Oyster Coast. He would make an outstanding contribution to the Board's deliberations and Board members request shareholders to support his election.

## **Thanks to many people**

The past twelve months have been extremely busy – at times stimulating, frustrating and just plain hard work. I would like to express my sincere thanks to many people.

First, my board colleagues, plus our strategic adviser Greg Doyle, have devoted countless hours to the launch and development of the company. These inputs have been made willingly and are necessary for a new venture like ours.

But it does come at a cost: we all have our own businesses to run, in the case of the grower directors, or other activities that have been somewhat neglected. It will be worthwhile if and when

the company is trading profitably with growing sales and success in our three strands of export marketing, domestic marketing and Trail development.

Second, I would like to thank the contribution made by our QA and brand integrity manager, Daniel Collison, who is the main day-to-day contact with growers, our office manager, Leslie Crompton, and the staff at Anthony Curtis and Co who provide accounting and supplementary administrative services on a shoestring budget.

Third, to our grower shareholders for their continued support, and often encouragement, especially those who have assisted us on overseas marketing visits.

Fourth, to representatives of the local councils in which we operate – both elected officials and staff – for active encouragement, not just to the company but to its Association predecessor.

Fifth, to the State and Commonwealth Governments and their relevant agencies and representatives – Austrade, NSW Food Authority, NSW Trade and Investment, NSW Fisheries – all have been both encouraging and constructive whenever we have needed help and advice.

Sixth, to the various local MPs – Andrew Constance, Peter Hendy and Ann Sudmalis – who have supported our efforts in public and privately.

And finally to our supply chain and Trail partners, both here and overseas, their assistance has been invaluable in helping our product reach market and developing the tourism side of the business.

### **Conclusion**

This has been a lengthy but I hope informative address. It is important that we provide as much detail to our shareholders as possible, subject to protecting sensitive commercial details.

In short, we have achieved a great deal in a short period of time with limited resources of people and money. I and my Board colleagues remain optimistic that the concept you have supported to date can become sustainably profitable in the short to medium term. Our intention remains to be able to pay dividends to shareholders as soon as it is prudent to do so.

With the continued support of our grower and other shareholders, I'm sure we can be successful.

Thank you for your attention and we can now move to the formal items of business.

David Trebeck

19 February 2016