

# **PGG Wrightson Limited**

Briefing on half year results  
Six months to 31 December 2008



Craig Norgate  
**Chairman**

# Overview

- Very strong trading performance in the half-year
  - Operating profit up more than 30% despite Real Estate impact
- Strategies reviewed and reset for the changing times
  - Driving value from the existing business
  - Focused on efficiency and cost reduction
  - Lower leverage necessary in current environment
- Refinancing committed and cornerstone shareholders' commitment reaffirmed
- Working towards resolution with SFF
- Trading well in second half – on track for full year forecast
- Positive outlook remains for agriculture despite economic turmoil

Tim Miles  
**Managing Director**

# Half Year Highlights

- Bank Commitments received on refinancing all PGW's debt
  - Term sheet agreed by all parties
  - Currently completing documentation
- Further strong improvement in trading performance
  - Benefiting from diversity of portfolio
  - 10 of 13 business units are ahead of prior year
- Successful \$100m bond issue
- Continued strong support for finance company
- Strengthened people capability to deliver strategy
- Cautious re trading environment
  - Global economic environment – farmer sentiment
  - Softening of dairy
  - Some offsetting factors
    - “currency”
    - Uplift in meat prices
    - Lower interest rates

# Balance Sheet Refinancing

- Continued strong support from relationship banks ANZ, BNZ and Westpac
- \$400m core debt and \$75m seasonal debt refinanced
- New core debt facilities comprise:
  - \$275m term debt repayable 30 September 2011
  - \$125m amortising debt repayable 31 December 2010
- Amortising debt facility repayment expected through
  - Operating cashflow
    - Target nil cash dividends
    - Cost savings
  - Working capital initiatives
  - Surplus asset sales
- Interest expense at market – cost slightly above current levels
- Focus on existing business – no further acquisitions planned

# Strategic Overview

Driving better operational performance by doing more with what we have ...

- Increased focus on high value customers
- Improving efficiency
- Streamlining the portfolio of businesses
- Focusing on domestic businesses with significant growth potential
- Building IP and expertise-intensive businesses both locally and abroad

# Financial Overview

		Dec 2007 \$m	Dec 2008 \$m	% Increase
Revenue		559	738	32
NOPBT		16.8	22.1	32
		Revenue	EBIT	NOPBT
<b>Rural Services</b>	Rural Supplies	↑	↑	↑
	Fruitfed	↑	↑	↑
	Livestock	↑	↑	↑
	Livestock Export	↓	↓	↓
	Irrigation & Pumping	↑	↑	↑
<b>Financial Services</b>	Finance	↑	↑	↑
	Funds Management	↑	↑	↑
	Real Estate	↓	↓	↓
	Insurance	↑	↑	↑
<b>Technology Services</b>	Seeds	↑	↑	↑
	Animal Nutrition	↑	↑	↑
	Training	↓	↓	↓
	South America	↑	↑	↑
	Group	↑ 32%	↑ 41%	↑ 32%



# Rural Services Highlights

**EBITA of \$22.0m (2007 \$14.3m) up 54%**

- Further improvement from Rural Supplies and Fruitfed
- Solid Livestock contribution in mixed conditions
- Initiatives:
  - Development of online trading for livestock (*Agonline*)
  - Appointment of new specialist client advisers – eg. in Animal Nutrition
  - Closure of Livestock operations in Australia
  - Establishment of Wool Partners International

# Financial Services Highlights

**EBITA of \$8.1m (2007 \$10.2m) down 21%**

- \$100m bond issue completed successfully - \$180m undrawn bank lines
- Strong growth in lending, deposits and earnings in Finance
- Reinvestment rate at 80% through period
- Crown Deposit Guarantee
- Funds Management steady
- Insurance JV growth continues
- Real Estate contribution down \$4.3m
  - Market share increased
  - Cost reductions to align with market reality
  - Positioned to benefit from improvement in conditions

# Technology Services Highlights

**EBITA of \$15.8m (2007 \$8.9m) up 78 %**

- NZ Seeds business grows with strong demand for forage crops
- Positive early contribution from Australia
- Acquisition of Stephens Pasture Seeds to increase scale and reach in Australia
- Ongoing research on enhanced pasture species
  - Grasses suited to warmer climates, drought, pest resistance
- Strong grain trading performance
- Rapid Animal Nutrition growth with demand for molasses

# South America Highlights

**EBITA of \$2.2m (2007 \$1.3m) up 69%**

- Seeds business growing – leveraging Uruguayan infrastructure and distribution capabilities
- Farm management expertise showcases PGW business strengths
- Opportunity to provide on-farm products to Uruguayan farmers who recognise productivity investment potential
- New acquisitions performing well
- Focus on improving earnings from investments made

# The Position Today

- First six months ahead of original budget and market guidance of \$46m to \$51m NOPAT despite significant drop in Real Estate
- January NOPAT results on forecast
- Cautious outlook for remainder of second half
  - New Zealand farmers sentiment
  - Good rain in parts of Australia
  - Assessing impact of Victorian bushfires
  - Implementing working capital and cost initiatives to increase operational cashflow
- Expectations to achieve within range of current guidance

# Silver Fern Farms Status

- Proposing a supply chain and procurement capability - creates substantial potential value for SFF
- \$10m provision reflects SFF's direct costs and an ex gratia payment
- Principled basis for PGW's position
- Mediation suggested to move the process forward

Mike Sang

**Chief Financial Officer**



# Financial Overview

	Dec 2007 (\$m)	Dec 2008 (\$m)
Net operating profit before tax	16.8	22.1
Associate earnings	0.6	0.8
NZS performance fee	11.9	-
NZS share revaluation	9.0	-35.1
IFRS mark to market adjustments	-	-13.1
SFF	-	-17.0
Other*	6.2	9.7
Taxation	-9.9	-0.2
<b>Reported NPAT</b>	<b>+\$34.6m</b>	<b>-\$32.8m</b>

\* Capital gains on asset disposals, restructuring and costs associated with Australian closure and other non-cash one offs



# Impact of IFRS changes

- Major non-cash items with no impact on recurring profitability include:
  - Writedown on NZ Farming Systems Uruguay (NZS) shares – \$35.1m
  - Marking to market of contracts and defined benefit scheme – \$13.1m
- Potential to partly reverse year-by-year
- Non cash and does not impact underlying operating earnings

# Financial Overview

## Balance Sheet

	Dec 2007 (\$m)	Dec 2008 (\$m)
Net Finance Receivables*	174	53
Other Net Assets	<u>731</u>	<u>771</u>
	<u>905</u>	<u>824</u>
Equity	445	414
Debt – Finance Company	124	(12)**
Debt – Rest of Group	<u>336</u>	<u>422</u>
	905	824

\* \$100m in bonds raised in PGWF in December 2008 (used to pay down debt facilities at present)

\*\* Cash on hand in PGWF

Craig Norgate  
**Chairman**



# Major Shareholders

- Pyne Gould Corporation
  - 21.4% shareholding
  - No requirement for holding to be sold in the short term
  - No intention of selling given current market conditions
- Rural Portfolio Investments
  - 29.7% shareholding
  - RPI advised that arrangements for redemption of the RPSs are well advanced and do not involve sale of shares

# Distribution

- Distribution policy amended to support debt amortisation
- Company will no longer offer a cash buyback option
- Intend to offer shareholders cash through a dividend underwrite mechanism
- Interim distribution maintained at 5 cps – recognising strength of underlying trading performance
  - By way of fully imputed bonus issue of shares
- Approach supports cash retention and enables transition to new policy:
  - too little time to arrange an underwrite
  - enables shareholders to recognise the income
  - enables RPI to transition to new arrangements

# Closing

- Well positioned for the current environment
  - Strong operating platform and performance
  - Commitment from relationship banks and cornerstone shareholders
  - Operating with a focus on earnings and cash
- Global outlook unpredictable, but agriculture will be strong
  - Improvement in commodity markets is inevitable and will favour quality producers
  - Ongoing brand value in quality NZ agricultural products
  - Exchange rate and interest rates falls significant

# Outlook

- Market conditions for the rest of 2009 expected to be similar to today
- Flow-on from significant reductions in New Zealand Dollar and interest rates
- January trading consistent with expectations
- Guidance maintained at \$39 to \$45 million for full year