31 October 2017

PGG Wrightson first quarter guidance and update

PGG Wrightson Limited* (PGW) announced today that it is forecasting its full year Operating EBITDA to 30 June 2018 including earnings of associates** is expected to be at a similar level to 2017 earnings.

The 2018 financial year has begun with confidence high among dairy, beef and horticultural clients due to good commodity prices. Currently the forecast dairy pay-out stands at a very healthy $6.75 per kgMS, and gold kiwifruit orchards continue to sell for over $1 million per canopy hectare. However, price is only half the story. Recent estimates from Beef + Lamb New Zealand warn of a significant contraction in forecast production throughout New Zealand.

By way of illustration, Beef + Lamb New Zealand estimate the total number of lambs tailed in the spring of 2017 at 23 million head, down 1.3 percent or 0.3 million head on the previous spring, reflecting fewer breeding ewes. This drop contrasts with previous indications that the lamb flock might be up around 1.1 percent. In addition, beef production is expected to be static year-on-year.

For dairy, early season milk production has been hampered by weather conditions being generally too wet over recent months. August New Zealand milk production was down 1.5 percent on last year (which was down 3.0 percent on the year before that). Milk production is ramping up for spring, but the BNZ, for example, suspect it will not be as strong as it usually is given recent weather conditions. This is tempering their forecast for the season as a whole. They still expect milk production this season to be higher than last season but not quite as much as they had previously thought - maybe up in the 1 to 2 percent range rather than a 3 to 4 percent range.

Generally wet conditions through winter and early spring is delaying the key spring sales season. While the delay is not yet significant enough to suggest lost sales, the risk of a poorer spring for PGW is somewhat heightened compared to a few months ago. Currently PGW is around $2 million behind the same time last year but there is confidence of making up this ground as the spring season accelerates.

PGW's South American operations have seen a positive recovery this year, however the long-term effects of the April 2016 flooding on farmer confidence, and their demand for inputs, is likely to remain a constraint in the near term. In Australia, confidence among our dairy clients is low as the uncertainty regarding prominent processor, Murray Gouldburn, continues with a deal announced in recent days for the sale of the cooperative to Canadian owned, Saputo.

It is against this backdrop of higher prices, lower production and a delayed start to spring that we have forecast our 2018 earnings. We expect that 2018 earnings at the Operating EBITDA level will be at a similar level to 2017 earnings.

At the net profit after tax level we are expecting more normalised earnings. Our 2017 net profit after tax included non-operating items of $9.5 million, of which $8.74 million related to capital gains on the sale of properties. As this programme is now largely complete we will not get a boost from this line in the current financial year. Consequently, PGW is expecting net profit after tax to be approximately 30 percent lower than 2017.

It is important to note that it remains early in the financial year to be forecasting with the vast majority of the year's trading still ahead. It is also noted that PGW's optimism for the future is not diminished – earnings are expected to return to growth in 2019.

PGW Deputy Chairman Trevor Burt said, "PGW is continuing to see the benefit of having a highly engaged team which is demonstrated in the strong results that the company has produced over the last few years and is forecasting ahead for FY2018.

"The Board continues to see opportunities for improvement and growth right across PGW Group. It is important to recognise that PGW's current strategy has served the business well over the past five years. It now operates in three distinct operating groups – Retail and Water, Agency and Seed and Grain – each with very different business models and market dynamics, with a much more coordinated approach to offering technical advice, products and services to our customers.

"Notwithstanding that the business is performing well, the Board believes it is timely to review the overall PGW business, its growth opportunities, capital and balance sheet requirements, and potentially shareholding structure. PGW has a very strong foundation and is well positioned to explore how it should go about pursuing the opportunities available.

"Last week we announced the appointment of Ian Glasson as CEO, who commences tomorrow. With Ian's appointment, the Board considers that the time is right to commence a strategic review and has made a joint appointment of Credit Suisse (Australia) Ltd and First NZ Capital Ltd as financial advisers. At our Annual Shareholders Meeting today we will be providing further details about the review.

"It is important to emphasise that the Board considers that the business is in good health and is well positioned for the future with a strong management team and culture. The Board has confidence that we have the right management team and as such this is not an operationally focussed review of the business. This review is scoped at a strategic level looking at the capital structure of the company and assessing what is the optimal structure for the business to position PGW to execute on the growth opportunities it has before it," said Mr Burt.

For further information please contact
Trevor Burt
Deputy Chairman
Mobile: +64 27 502 0050

*All references to PGG Wrightson Limited or the Group refer to the Company, its subsidiaries and interests in associates and jointly controlled entities.

Disclosure Statement: Non-GAAP profit reporting measures:

PGW's standard profit measure prepared under New Zealand GAAP is "Net profit after tax". PGW has used non-GAAP profit measures when discussing financial performance in this document. The directors and management believe that these measures provide useful information as they are used internally to evaluate performance of business units, to establish operational goals and to allocate resources. They also represent some of the performance measures required by PGW's debt providers. For a more comprehensive discussion on the use of non-GAAP profit measures, please refer to the policy "Non-GAAP Accounting Information" available on our website (www.pggwrightson.co.nz).

Non-GAAP profit measures are not prepared in accordance with NZ IFRS and are not uniformly defined, therefore the non-GAAP profit measures reported in this document may not be comparable with those that other companies report and should not be viewed in isolation or considered as a substitute for measures reported by PGW in accordance with NZ IFRS.

PGW's definition of non-GAAP profit measures used in this document:

Operating EBITDA: *Earnings before net interest and finance costs, income tax, depreciation, amortisation, the results from discontinued operations, fair value adjustments and non-operating items*.

GAAP to non-GAAP reconciliation:

($m)	*Jun-17*
Net Profit after Tax (GAAP)	***46.3***
Add (Profit) / loss from discontinued operations (net of income tax)	*0.0*
Add Income tax expense	*10.4*
Add Net interest and finance costs	*6.2*
Add Depreciation and amortisation expense	*10.7*
Add Fair value adjustments expense / (income)	*0.4*
Add Non-operating items expense / (income)	*-9.5*
Operating EBITDA	***64.5***