PGG Wrightson

13 August 2019

FY2019 a transformational year for PGG Wrightson

Financial Performance and Business Transformation
PGG Wrightson Ltd* (PGW) announced for the year ended 30 June 2019 a full year operating earnings before interest, tax, depreciation and amortisation (Operating EBITDA)** of $24.4 million (FY2018 $34.5 million) and a record net profit after tax (NPAT) of $131.8 million (FY2018 $18.9 million).

PGW Chairman Rodger Finlay said, "FY2019 has been a transformational year for PGW, both for the business and shareholders. The change brought about by the sale of the Seed & Grain business completed on 1 May 2019 was significant for PGW with the proceeds from the transaction paving the way for a capital distribution to shareholders of approximately $234.0 million."

"Our strategic relationship with the new owners of Seed & Grain, DLF Seeds A/S, is a positive one. While this deal has been transformational for PGW, it remains very much business as usual for our frontline staff and our customers. We will continue to work closely with the PGG Wrightson Seeds team to bring their products to our customers, and the seed category will continue to be profitable for our retail business."

"Reflecting on FY2019 I think we can say it was one of the most operationally challenging of recent years. Farmer confidence in parts of the agriculture sector remains subdued, constraining farm spending and therefore our revenue growth over the year. This has also been evident in recent months with a discernible tightening in the credit environment. This has seen a small increase in our overdue debtors and increased provisions taken at year-end for doubtful debts. Nevertheless, we've chosen to continue to invest in and build our business as we plan for farm spending to recover. Notably we've increased the pace of our IT spend as a number of key projects are being implemented. As a result, PGW finished the year slightly under the lower end of our Operating EBITDA guidance range of $25.0 million. On the other hand, net profit after tax benefited from the capital gain on sale of the Seed & Grain business and at $131.8 million is a record result for PGW," said Mr Finlay.

PGW Chief Executive Stephen Guerin added, "In our announcement on 9 May 2019 we indicated that we expected to end the financial year near the bottom of our Operating EBITDA guidance range given that we were cautious about trading conditions through the last quarter. As is often the case, on farm conditions have had an influence on performance in the sector and in turn PGW, and FY2019 was no exception."

"The impact of Mycoplasma bovis (M bovis) was felt across the Livestock and the Rural Supplies businesses. Most particularly with reduced dairy herd settlements, a reduction in tallies, a softening of demand for dairy beef, and a more cautious approach to spending in the dairy sector across a range of farm inputs. Market conditions continued to challenge both our Real Estate and Wool businesses with results down on last year.

"It is important to note that this Operating EBITDA result no longer includes any contribution from the Seed & Grain business which has been reported as a discontinued operation in our results for FY2019 and the comparative year."

Retail & Water
"Operating EBITDA was back $4.2 million on the record result of FY2018. The strong performer within this group continues to be Fruitfed, who along with Agritrade increased its Operating EBITDA result on last year. Market conditions for the horticultural sector remained positive despite some adverse conditions at key pollination, growing and harvesting periods. The development of orchards and vineyards around the country continue to drive revenue growth for Fruitfed."

"A factor in the reduction in Operating EBITDA for the group was a claim event noted in our half-year results in February 2019. A settlement was reached with our supplier that partially compensated PGW for the consequences arising from the supply of the defective product with a financial impact of approximately $1.8 million that was not recovered. In addition, higher petrol prices over the year also impacted earnings in Retail & Water along with other parts of our business."

"The rollout of our new retail point of sale system in the first quarter of FY2019 is an important milestone in our larger e-commerce programme that reflects the group's focus on technology applications in the business."

Agency
"Our Agency business incorporates the Livestock, Wool and Real Estate businesses, as well as our referral commissions for insurance and finance services. Trading for this group is weighted towards the second half of the financial year. Agency's Operating EBITDA was back $4.7 million on last year with all businesses continuing to be impacted by the market conditions throughout FY2019."

"Livestock was down on earnings at the half year mark and did not recover to the extent expected over the second half despite strong sheep and beef commodity pricing and demand. The finishing of sheep and cattle was delayed, with many farmers holding onto stock through until the late-autumn and into the winter months. In addition, the effects of M bovis were felt across the sector and impacted dairy herd settlements and farmers trading dairy beef."

"Innovation remains a focus for the Livestock team with a major project coming to fruition during the year. PGW's new online livestock trading channel, bidr®, was delivered to market during the last quarter of FY2019. In addition, digital tools for our highly mobile Livestock team were delivered to keep agents up to date with the latest market intelligence."

Cash Flow and Debt
"Total group cash flows were $199.6 million which predominantly relates to the cash received for the sale of Seed & Grain, leaving us with a cash balance of $210.5 million by 30 June 2019.

"Net cash flow (including the Seed & Grain business) from operating activities was a $49.0 million outflow. This results from investments in working capital including investment in *Go* livestock products of $8.3 million. In addition, lump sum funding payments of approximately $10.3 million were made to the group's Defined Benefit Pension Scheme (Plan) to bring the Plan into actuarial equilibrium in June 2019."

"PGW negotiated and entered into new bank facilities in July 2019 providing for core facilities of up to $50.0 million and a working capital facility of up to $70.0 million. It is pleasing to note that very competitive terms have been struck for these banking arrangements and this further underscores the confidence in the fundamentals of the business and PGW's future."

Corporate Structure Review
"Following the divestment of the Seed & Grain business in May, the PGW Board commenced a review of the corporate service model for the business. Outcomes from the review are now being implemented in a staged manner as we recalibrate our corporate structure to capture efficiencies while also configuring our back office to best serve our customers and our re-sized operation. We expect to see the benefit of cost savings flow through progressively with savings in excess of $2.5 million expected in FY2020," said Mr Guerin.

Outlook and Dividend Declaration
Mr Finlay continued, "as noted earlier, with the transformational change that PGW has undergone over the last 12 months, we believe that we are positioned well for the current financial year and beyond. But with only six weeks of trading to date it is too soon yet to get a sense for trading performance in the first half of FY2020."

"The impact of M bovis on dairy and beef and uncertainty regarding regulatory change affecting agriculture is impacting confidence levels in the rural sector. We are seeing a more cautious approach to investment and expenditure from our customers."

"With continued strong global demand for protein, and as livestock farmers and the wider industry gain a better understanding and increased confidence in the management of M bovis, we believe we will see the positive effect of those factors flow through into improved trading. We are also buoyed by the ongoing confidence in the horticulture sector and we anticipate that the Fruitfed business will continue to go from strength to strength as this sector grows."

"Whilst it is too soon to provide firm guidance about expectations for FY2020, the Board considers that post implementation of the corporate restructuring, and assuming a more normal trading year and continuing confidence in commodity prices, we expect to see PGW achieving Operating EBITDA in excess of $30.0 million (before adjusting for the impact from the new accounting standard for leases: IFRS16)."

"Based on this confidence, the Board has declared a fully imputed dividend of 7.5 cents per share, which will be paid on 2 October 2019. This will effectively bring the total fully imputed dividends paid for the year to 15.0 cents per share on a post share consolidation basis."

“We will be in a better position to provide FY2020 guidance at the time of our Annual Shareholders Meeting in October when we have seen the start of the busy spring trading period.”

“With the Seed & Grain transaction and the capital return behind us, we are sharpening our focus on the core PGW offerings that have made the business a key part of the New Zealand agricultural landscape for more than 160 years. The Board and management team will be reassessing our strategy and exploring opportunities to innovate and grow our business as we continue to demonstrate to our customers why PGW is their preferred partner for their agri-business needs.”

Governance Changes

“Ronald Seah has informed the Board of his intention to retire effective on 31 August 2019. Ronald joined the Board in December 2012 and has diligently served the company as an independent director for a little under seven years.”

“Ronald is pleased to have held office through to the successful conclusion of the Seed & Grain transaction and capital distribution. The Board offers its sincere thanks to Ronald for his leadership and dedication since his appointment as a director and wishes him all the very best for the future. We consider that the Board has an appropriate mix of skills going forward with five directors inclusive of three independent directors. Accordingly, the Board does not intend to make any further appointments following Ronald’s retirement at the end of the month.” Mr Finlay said.

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

**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.

PGW has used non-GAAP profit measures when discussing financial performance in this document. For a comprehensive discussion on the use of non-GAAP profit measures, please refer to the policy “Non-GAAP Accounting Information” available at www.pggwrightson.co.nz