PGG Wrightson

$34.2m Operating EBITDA	$14.6m Net profit after tax	1.75 Per Share, Fully Imputed Interim dividend

27 February 2018

PGG Wrightson delivers impressive first half performance

PGG Wrightson Ltd* (PGW) announced today that at the half-year it is on track to surpass last year's strong operating result.

For the half year ending 31 December 2017 operating earnings before interest, tax, depreciation and amortisation (Operating EBITDA)** of $34.2 million were up $8.2 million on the prior corresponding period ($26.0 million) and is PGW's best first half result in a decade. Net profit after tax was $14.6 million, $0.4 million lower than the same period last year due in part to movement in the New Zealand dollar.

PGW Chairman Alan Lai said, "We advised in October last year that against a backdrop of higher commodity prices, lower agricultural production and a delayed start to spring we expected our Operating EBITDA to be at a similar level to 2017. It is pleasing to be able to report that the business has achieved a first half performance at an Operating EBITDA level that is stronger than last year. Furthermore, we expect this strength to continue and anticipate Operating EBITDA to exceed 2017's result and be in a $65 million to $70 million range. Previously we also expected that net profit after tax (NPAT) for FY2018 would be approximately 30 percent lower than FY2017 due to a reduction in gains on property sales given that our divestment programme is now largely complete. With this stronger trading performance we now expect NPAT to be approximately 20 percent lower.

PGW's Board declared an interim dividend of 1.75 cents per share, which will be paid to shareholders registered at the record date of 16 March 2018. The dividend will be fully imputed and paid to shareholders on 5 April 2018.

PGW Chief Executive Ian Glasson noted, "This is a very pleasing result for the first half. We have a highly-engaged team who continue to deliver good results through the market cycles and weather variability that impact the agri-sector. The lift in Operating EBITDA on this time last year is heartening and puts us in a strong position as we move into the second half. This performance was achieved with most of our businesses trading well through the first half.

"The Agency group delivered an excellent result with a more than two-fold increase in Operating EBITDA. The Livestock business benefited from strong international demand for protein and reduced tallies which combined to push up livestock prices across New Zealand. In addition, our Livestock supply chain products continue to perform well. There was an improved performance by our Wool procurement and brokering business despite reduced demand for global crossbred wool. The Real Estate business had a challenging first six months but maintained market share and remains well positioned when market conditions improve.

"The Retail and Water group performed superbly with a 25 percent increase in Operating EBITDA over the same period last year and was largely built on the operating performance in our Retail business.

"The Retail business performed extremely well during a period when they look to deliver more than 85 percent of their full year Operating EBITDA. It was pleasing to see that they finished with Operating EBITDA higher than the same period last year despite some challenges with weather. Wet growing conditions in spring were followed by dry conditions in November and December. The impact on horticulture was the advance of harvest dates. This resulted in spray programme applications being brought forward and as a consequence some of the sales that were planned for January occurred during December. All three Retail business areas (Rural Supplies, Fruitfed Supplies and Agritrade) contributed to the pleasing result.

"The Water business continues to be challenged by the lack of on farm development. Despite this, the business is seeing a number of opportunities come to fruition, such as the successful tendering to supply irrigation to the Royal Auckland and Grange Golf Club, and Millbrook developments.

"Seed and Grain performed well increasing Operating EBITDA by $2.2 million over the same period last year.

"The New Zealand Seed and Grain business had a strong result due to favourable weather conditions in spring, compared to the same period last year. Recovery in the grain and forage seeds market along with a lift in performance in international shipments due to high yields resulted in an increased Operating EBITDA in New Zealand.

"However, a reduction in spring sales increased closing inventory levels in both the Australian and South American businesses. Initiatives are in place to alleviate working capital demands across the Seed and Grain group and we expect that to improve as the Australian business performance is traditionally focused in the second six months of the financial year.

"The Seed and Grain group's continued investment in research and development was highlighted in spring with the launch of our environmentally functional programme, NSentinel 4, which includes our new plantain product, Ecotain. We also had impressive demand for the first full commercial year of our Raphanobrassica product.

"Net cash outflows from operating activities was $49.8 million up from $16.2 million on the same period last year. Receivables increased largely as a result of the continued success of our Go range of livestock products and the weather-driven seasonal delay in planting, which pushed our seasonal peak in working capital closer to December than usual. However, due to our continued focus on cash management, we have seen good collections in January and February. We continue to invest into the business to improve facilities and operating systems, and we continue to foresee growth in our Go products. Currently we expect year end debt levels in June to be approximately $30 million higher than June 2017 due to increased working capital across Seed and Grain, Retail and Water, and Go livestock receivables. Much of the growth in debt over the last two years can be attributed to our working capital investment in Go product receivables that are proving to be popular for both our clients and profitable for the company. If you exclude the effect of Go products from our net interest-bearing debt you will see that our debt as at December 2017 is within a few million dollars of our debt levels as at December 2015," said Ian Glasson.

In October it was announced that the Board had made a joint appointment of Credit Suisse (Australia) Ltd and First NZ Capital Ltd as financial advisers to assist with a strategic review of PGW's business, its growth opportunities, capital and balance sheet requirements, and potentially shareholding structure. PGW Chairman Alan Lai noted that "the review remains ongoing and it is hoped that the Company will be in a position to comment further on outcomes from this work later in the year".

Ian Glasson noted, "As PGW enters the second half of the financial year, we do so with confidence. We remain optimistic that the positive trading environment will continue through the second half of the year in New Zealand, but as always, across all markets, we wait to see what autumn conditions will bring and how these will impact our business as we move into the key planting and harvesting periods. In particular, our Australian and South American business are dependent on favourable autumn weather conditions.

"Dairy price expectations for the season have softened but are still ahead of this time last year. Milk production companies are expecting production to fall for the remainder of their season. We have seen some increase in confidence in the dairy market but activity is still constrained as dairy farmers remain cautious in their decision making.

"We expect continued strong lamb and beef commodity demand and pricing. This is buoyed in part by good feed supply across the country, except for Southland and parts of Otago where drought was officially declared in late January. Our staff continue to work alongside local rural support and industry groups to assist customers in all drought-affected areas who remain impacted despite recent rain events.

"Crossbred wool prices have stabilised at low levels and growers are starting to meet the market and with inventory beginning to move through auctions again. The demand for fine wool is heartening and we are making gains in that market with international supply chain contracts increasing.

"The second six trading months for the Retail and Water group are always lower revenue months which reflect the role the business has in farm activity at that time of the year. The excellent result delivered by the Fruitfed horticulture business in the first half of the financial year is set to continue with large-scale grape, kiwifruit, apple and avocado producers experiencing favourable returns and forging ahead with extensive development. The added benefit of this customer investment to our business is the increase in sales in fencing, machinery, horticulture merchandise, water and irrigation categories.

“The outlook for the Seed and Grain group remains positive for the second half of the financial year. Subject to favourable autumn planting and climatic conditions in our key market, we expect these businesses to deliver good second half results. The South America business continues to recover from the impact of the devastating floods of 2016.

“Of course, as a business we cannot continue to perform well without a highly-engaged team. When I joined PGW last year, I was immediately impressed with the commitment and passion for agriculture that our staff display. I have visited customers and our staff in the field and I see many examples of the enduring relationships our people have with our customers. We share our expertise and are invested in our customers’ performance.

“With this in mind, along with confidence in continued positive market conditions, I believe we are on track to deliver a full-year operating result to surpass last year at an Operating EBITDA level. Much of the earnings of our South American, Australian and Livestock businesses won’t be certain until later in the financial year, but currently we expect FY2018 Operating EBITDA to be in the $65 million to $70 million range and NPAT to be approximately 20 percent lower than last year,” concluded Ian Glasson.

Ian Glasson
Chief Executive Officer
PGG Wrightson Limited

*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)	*Dec 2017*	*Jun 2017*	*Dec 2016*
Net Profit after Tax (GAAP)	***14.6***	***46.3***	***15.0***
Add (Profit)/loss from discontinued operations (net of income tax)	*0.0*	*(0.0)*	*(0.0)*
Add Income tax expense	*6.6*	*10.4*	*4.6*
Add Net interest and finance costs	*8.0*	*6.2*	*1.5*
Add Depreciation and amortisation expense	*6.1*	*10.7*	*5.2*
Add Fair value adjustments expense / (income)	*0.1*	*0.4*	*0.3*
Add Non-operating items expense / (income)	*(1.3)*	*(9.5)*	*(0.5)*
Operating EBITDA	***34.2***	***64.5***	***26.0***