18 AUGUST 2020

NZX Announcement

PGW delivers positive result in challenging year

Group Performance

PGG Wrightson Limited* (PGW) announced for the year ended 30 June 2020 a full year operating earnings before interest, tax, depreciation and amortisation (Operating EBITDA)** of $45.2 million. This includes the impact of the new accounting lease standard which has led to an increase of Operating EBITDA of $21.7 million. Excluding the impact of the lease adjustment, Operating EBITDA was $23.4 million. Net profit after tax (NPAT) was $7.8 million.

PGW Chairman Rodger Finlay said, "While the result for FY2020 was not what we had targeted at the start of the year it nevertheless reflects well on the resilience of the business, our people and the support from our customers in what has been an extraordinary year. To deliver a trading performance similar to last year after the level of disruption that we have experienced is heartening and demonstrates that the business is in good health."

"I am particularly proud of the manner in which our people stepped up and continued to serve customers and the sector as a provider of essential services through the lockdown and various alert levels. Our team adapted quickly and a number of our business units traded right through this demanding period and as a Group, PGW has recorded a very credible operating result. Trading in line with the prior year is positive when you consider that our Real Estate, Water and Wool businesses and our Livestock saleyards were effectively unable to operate for the duration of the lockdown."

Reflecting on some of the other events and milestones during the year:

- During the first half to 31 December 2019, the business traded well to record an Operating EBITDA (excluding the impact of the new accounting standard for leases) of $23.7 million, (up 33% on the prior comparative period) and an NPAT of $12.8 million from continuing operations.
- Operating EBITDA for the full year (excluding the impact of the new lease standard) was within our guidance range at $23.4 million.
- Second half trading results were impacted by the global pandemic and consequential operational disruption.
- A shareholder approved capital distribution of $234 million was made on 14 August 2019.
- Targeted cost savings in excess of $2.5 million were realised through the implementation of initiatives to recalibrate our corporate support functions following the divestment of the Seed & Grain business.
- There has been positive uptake in the use of the bidr® online platform for livestock trading during the pandemic lockdown and various alert levels, with more customers and agents seeing the benefits of this channel for their businesses.
- The successful initial launch of PGW's eCommerce offering went live in June and we are seeing increasing customer interest and appetite for this online channel.
- In recognition of the priority PGW places on its people and its responsibilities as a good employer, all employees as at 1 July 2020 are now paid at least the equivalent of a living wage.
- With the reduced trading and disruption to our Real Estate, Water, Livestock and Wool businesses over the period of the COVID-19 lockdown, PGW applied for and received $4.1 million through the government wage subsidy scheme.

Mr Finlay said "While the Board is pleased with the manner in which the business has come through the year, the trading results are back on pre-COVID-19 expectations and the effects of the global pandemic are continuing to be felt. Export demand and prices for New Zealand agricultural commodities has remained strong despite the fact that food service remains compromised in many markets internationally."

"While we remain optimistic about the prospects for the sector it is prudent to be wary given the degree of uncertainty being experienced throughout much of the world. In view of that background, the Board has determined to take a cautious distribution approach in the interim, while greater certainty is obtained about how these events will flow through and impact demand for agri-inputs in the year ahead."

"Reflecting the extraordinary nature of this year and ongoing global challenges and the fact that the company has made a net loss of $4.9 million in the second half, the Board has determined not to pay a final dividend. However, the Board intends to resume the payment of regular dividends when the market stabilises."

Retail & Water Group

PGW CEO, Stephen Guerin said, "Retail & Water's Operating EBITDA was a pleasing $34.7 million ($22.0 million excluding NZ IFRS 16, up $2.7 million on the FY2019 result)."

"We continue to see anecdotal evidence of market share gains attributable to our strong technical offering. Our customers value the support they receive through our field representatives whom are supported by our Technical and R&D teams."

"Our Rural Supplies business and market leading Fruitfed Supplies business again performed well. The horticultural sector has experienced good returns and yields and maintains a positive outlook. This was highlighted recently by the record levels paid in the recent kiwifruit licence tenders. Our business is diversified across a variety of crops and continues to adapt to market needs with Fruitfed Supplies maintaining a strong share in grapes, pipfruit, stone fruit and kiwifruit, and we are increasing our presence in avocados and cherries which continue to see investment."

"Our independent Agritrade wholesale business continued its growth year-on-year with revenue up on the same period last year. This was achieved through growth in our existing range as well as product acquisition and providing distribution services for existing suppliers looking to Agritrade to get their products to market."

Agency Group

"Our Agency group incorporates the Livestock, Wool and Real Estate businesses. Trading for this group is weighted towards the second half of the financial year. Operating EBITDA was $15.7 million ($8.4 million excluding NZ IFRS 16), compared to $15.9 million for the comparative year's period."

"Our Livestock business experienced a strong first six months underpinned by buoyant livestock trading volumes and values. In the second half of the year widespread drought conditions resulted in high demand and a shortage of processing capacity. The pandemic impacted the supply chain in international markets and further restrictions on processing capacity were implemented when the country went into Level 4 lockdown. These events, together with the significant impact caused through the temporary closure of saleyards under level 4 and 3 lockdowns, had a significant impact."

"The benefits of bidr®, our real time online trading platform, came into stark focus during the lockdown where necessity showcased the advantages of this channel and innovation. The bidr® team responded well and accelerated modifications to the platform to permit access for new users in response to demand, as well as the launch of the new hybrid auction option."

"Requests for our *Go* grazing contracts continued to grow strongly with the balance peaking at just under $50 million. Customer demand for the convenience and versatility of the *Go* programme continues, and we expect to see further growth in the current year."

"PGW Wool has come through a difficult year with depressed crossbred wool prices and associated worldwide wool demand challenges through the global pandemic. COVID-19 is arguably the most significant issue the wool industry has experienced in a generation and it has impacted the international wool supply chain. This has resulted in a decline in wool demand, orders, and prices across all wool types."

"As a consequence of the pandemic, our wool brokering business has facilitated the sale of less wool bales and at lower margins. Farmer growers have elected to hold wool rather than sell into the current market. Additionally, wool auctions were placed on hold for two months."

"The rural real estate market continued to be challenged with lower volumes in all sectors throughout the financial year, while the lifestyle and residential markets in the provinces remained positive. Notwithstanding the challenging macro conditions, PGW Real Estate improved market share in its key lifestyle segment and rural regions."

Outlook

Mr Finlay said, “While there is scope for optimism with good demand and commodity pricing for New Zealand export produce, there remains a degree of caution with continuing volatility in global markets. Consumers in some key export markets have been shielded from the impacts of COVID-19 through unprecedented fiscal support which has underpinned retail spending on food. However, with infection rates continuing to increase globally and secondary lockdowns occurring, a degree of uncertainty remains as to how this will impact trade flows over the coming year.”

“In this context, while it is too early to provide guidance about expectations for FY2021, there is a healthy measure of optimism with solid production returns continuing in dairy, red meat and horticulture. We are seeing growers and farmers gear up for the busy spring period and would expect to be in a position to provide a trading update by the time of our Annual Shareholders Meeting in October.”

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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. Please refer to our full accounts for details of how Operating EBITDA relates to GAAP. For a 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*