27 August 2009

Trading results – year ended 30 June 2009

PGG Wrightson [PGW] today reported its net operating earnings after tax was $30 million for the year ending 30 June 2009.

Despite the challenges in a very difficult operating environment, the result confirms the underlying strength in the business with solid performances from many of the Company's divisions in the face of a rapidly declining market late in the financial year.

The Company continues to concentrate on operational improvement and has driven through a range of initiatives.

Never-the-less the results reflect the difficult operating environment that exists in the countries where the company does business. The impact of the worst global recession in 70 years on the rural sector and the significant slowdown in dairy activity towards the end of the reporting year had a detrimental effect on PGW's performance. The operating performance was further impacted by a range of non-trading items – the impact of fair value adjustments on investments and the costs associated with the Silver Fern Farms settlement.

The Company performed very well during the first six months of trading, however customers responded to the tougher market conditions and outlook by seriously reducing their spend. This was particularly marked during the April – June quarter where there was fierce competition for the reduced business putting increased pressure on margins. While many of the businesses have performed well those exposed to dairy, particularly in New Zealand, Australia and Uruguay have suffered accordingly.

Earnings

The operating performance was affected by a range of non-trading items which meant the company reported an accounting loss. Net profit after tax (NPAT) was a loss of $66.4 million compared with last year's $73.2 million reported profit. This was made up of:

Financial performance

Reconciliation of Operating Profit to Reported NPAT

	2009 ($m)	2008 ($m)
EBITDA	**76.7**	**89.2**
Discontinued business	4.3	(5.3)
Depreciation/amortisation	(6.5)	(6.1)
EBIT	**74.5**	**77.8**
Interest	(31.4)	(22.6)
Taxation	(13.1)	(22.3)
NOPAT	**30.0**	**32.9**
NZS performance fee	-	17.8
NZS share revaluation	(39.2)	18.9
SFF	(49.6)	-
Capital gain on sale of wool business	17.6	-
Restructuring and discontinued	(10.3)	0.7
Other*	(14.9)	2.9
NPAT	**$(66.4)m**	**+$73.2m**

*Other reflects IFRS fair value adjustments, writedowns and equity earnings from associates

Of these, the most directly comparable result on which to assess performance is the net operating profit after tax (excluding the one-off and non-trading items) figure of $30 million, down $2.9 million or 8.8 percent from last year.

The group NPAT was significantly reduced by one-off items, largely non-cash totalling $96.4 million – the impact of fair value adjustments and a provision for expenses incurred in the settlement with Silver Fern Farms (SFF). The two major parts of this were $39.2 million related to the revaluation to market price at 30 June 2009 of the group's shareholding in NZ Farming Systems Uruguay (NZS) and $49.6 million related to the settlement of the SFF transaction.

The SFF settlement was an important resolution and PGW was pleased that both companies were able to put the disappointment of last year's events behind them. The settlement provided certainty for the Company over the financial exposure resulting from its inability to complete the transaction. The terms of the settlement were approved by PGW's banking syndicate.

The decline in operating earnings reflected a much tougher trading environment in the autumn period with earnings before interest and tax (EBIT) for the year reducing from $77.8 million to $74.5 million. The Group also experienced increased financing costs following the renewal of facilities during the financial year.

Revenue for the year at $1.3 billion remained relatively strong and in line with last year. Margins were under pressure during the last quarter as competition increased in a number of business areas.

Operating cashflow of $52 million compared with $26 million the previous year, a significant increase reflecting positively the initiatives on working capital in the Company.

Total assets of $1.5 billion were in line with last year.

Investments include additional equity in PGG Wrightson Finance, expansion of our rural services businesses in South America, acquisition of Stephen Pasture Seeds in Australia and investment in new IT systems.

Capital Management Plan

In June 2009 the Company notified its banking syndicate of a potential breach of its financial covenants as at 30 June due to adverse trading conditions expected from the last four months of the financial year. A waiver of financial covenants was received from both the banking syndicate and South Canterbury Finance, before the finalisation of the Company's results for the 2009 financial year.

As the waiver was not received prior to 30 June 2009, notwithstanding the banking syndicate waived its financial covenant requirements prior to the relevant test date, under IFRS the Company is required to record all term debt as current as at 30 June 2009. Following completion of the renegotiated banking package, debt maturing more than 12 months from 30 June 2009 (now approximately $197.9 million) would be reclassified as term debt.

Upon receiving the bank waiver, the Company also commenced negotiations with its banking syndicate of various amendments to its existing banking facilities. The Company has subsequently renegotiated a revised banking package with its banking syndicate with the following terms:

- A term debt facility of $197.9 million that matures on 31 August 2012 (previously $275 million expiring on 30 September 2011)
- An amortising debt facility of $200 million due to be fully repaid by 31 March 2010 (previously $125 million expiring on 31 December 2010)
- A working capital facility of $75 million that matures on 31 August 2011, with the limit and term reviewed annually (previously $75 million expiring 30 April 2010)
- Overdraft and guarantee facilities of approximately $40 million.

In addition, South Canterbury Finance has agreed to extend its debt until 28 February 2013.

In conjunction with the renegotiation of the terms of the Company's bank facilities, the Company has been reviewing its capital structure and evaluating its options for meeting the new bank debt amortisation schedule. The terms of the new facility set milestones for progress on the capital management plan, to enable the banking syndicate to monitor its implementation.

As part of this review, the Company is continuing to progress its previously announced debt reduction programme and is also considering the sale of selected assets and a potential equity raising. Any equity raising is likely to involve both existing shareholders and new investors, and may also include the introduction of a new cornerstone shareholder. The Company has engaged First NZ Capital and UBS to assist with this review and expects to provide a further update on its plans for meeting the new bank debt amortisation schedule when the review is completed.

Distribution

The Board decided that there would be no further dividend declared in relation to the 2008/09 year.

Operating Performance

Managing Director Tim Miles said the company performed very well in the first six months of trading and despite the serious downturn in the market in the April to June quarter it is clear that there is underlying strength in the business.

"Livestock, Rural Supplies, Seeds, Animal nutrition, Fruitfed Supplies and the Finance businesses are all performing well. Clearly, dairy prices are a significant concern while sheep meat prices are at their best levels in recent years," said Mr Miles.

"While the challenges of the operating environment remain, we believe the company is well-placed to take advantage of the upturn in trading conditions when it occurs."

"We are maintaining a diligent control on costs and working hard on a number of fronts to grow benefits for our customers."

"We continue to work with clients to bring about positive structural change to the wider agribusiness industry. Through two joint venture operations New Zealand Merino and Wool Partners International, we assist growers and supply chain partners in all aspects of wool production, sales and marketing. Both NZM and WPI aim to generate greater returns for New Zealand growers and are making solid progress," said Mr Miles.

The Company has played a key role in bringing about a recently announced consolidation in deer velvet marketing with partners Velexco Cooperative Group, NZ Velvet Cooperative and Tasman Velvet Processors the purpose of which is to produce consistently better returns for the industry, he added.

"We continue to address cost structures and purchasing terms to improve our operating performance. During the year we introduced a number of initiatives including a full replacement of the accounting and billing systems for the parent company, a review of the procurement and outsourcing activities group-wide and active management of the PGW vehicle fleet that will reduce both costs and environmental impacts," he said.

Outlook

While the medium-term international agricultural sector outlook remains robust, the ongoing global recession is dampening farmer confidence leading to restricted spending.

While sheep and beef farm incomes have improved to their best levels in recent years this has not yet been reflected in expenditure which has been kept to a minimum given the past poor returns.

The Company remains confident that the rural sector will play a significant part in leading New Zealand out of the recession and that the business is performing well in very difficult conditions.

The Company is focused on further improving its performance and is well-placed to take advantage of improvements in the economic situation when it occurs. Whilst there is still significant economic uncertainty, the general consensus is that the New Zealand economy will begin growing again towards the end of 2009.

With any improvement in operating conditions, given the changes that the company has undertaken at a strategic and management level, we should see a positive impact on earnings.

For further information

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