PGG Wrightson

NZX Announcement

21 FEBRUARY 2023

PGG Wrightson announces FY23 half year result and provides guidance update

$47.8m	$21.2m	12 cents
Operating EBITA	Net Profit After Tax	Per Share, Fully Imputed Interim Dividend

GROUP PERFORMANCE

PGG Wrightson Limited[1] (PGW) today announced its results for the first half of FY23.

Key highlights of the first six months to 31 December 2022 included:

- Operating EBITDA[2] of $47.8 million (up $0.4 million or 0.9%)
- Revenue of $585.8 million (up $33.4 million or 6.0%)
- Net profit after tax of $21.2 million (down $1.3 million or 6.0%)
- Interim dividend of 12 cents per share
- Total Shareholder Return[3] (TSR) of +3.4%
- Updated Operating EBITDA guidance of around $57 million for financial year to 30 June 2023

PGW Chair, Joo Hai Lee said "Our thoughts and wishes go out to all our people, clients and communities who have suffered loss during the devastating cyclonic conditions that have battered much of the North Island.

The safety and wellbeing of all who have been affected by these extraordinary conditions have been the priority in recent days. Beyond that, we will be looking at ways in which PGW can support our people, clients and rural communities as they assess the impacts and move into the recovery phase.

Despite the initial shock at the scale of the devastation, we know that the fabric of our rural communities is strong and resilient and we will stand with you as these challenges are faced as they have been in the past."

PGW delivered operating earnings before interest, tax, depreciation, and amortisation ("Operating EBITDA") of $47.8 million (up $0.4 million or 0.9 per cent). Revenue was $585.8 million (up $33.4

million or 6.0% per cent) and net profit after tax (NPAT) from continuing operations was $21.2 million (down $1.3 million or 6.0 per cent) on the record result in the corresponding period.

"This half-year result included new revenue and earnings highs for our Retail and Water Group which generates the majority of its earnings in the first half of the financial year. This was partially offset by challenges in our Agency business, in particular our Real Estate business. The overall trading performance reflects the healthy state of the Group and demonstrates the value that our customers see in the technical expertise of our people and PGW's full service offering. It is pleasing to see results that reinforce we are strategically on the right track as a business and are perceived as the 'Leaders in the field' in the sector." Mr Lee said.

TSR for the six months to 31 December 2022 was +3.4 per cent. Our full year strategic TSR target is +10 per cent per annum.

In response to the positive earnings performance delivered during the first six months of the financial year, the Board declared a fully imputed interim dividend of 12 cents per share which will be paid on 4 April 2023 to shareholders on PGW's share register as at 5pm on 27 March 2023."

Retail & Water

PGW's Chief Executive Officer, Stephen Guerin commented that "Our Retail & Water business has seen continued growth building upon the momentum that has been gathering for some time. Operating EBITDA for Retail & Water was $48.9 million (up $5.2 million), and revenue was $500.0 million (up $31.0 million).

We continue to see an increase in market share with new clients moving their business to us. We regularly hear that this is attributable to the superior technical ability of our people and the high level of customer service we offer. We maintain a stable sales force which is well supported by our specialist technical and R&D teams.

The logistical issues of getting product in the right time for the season persists and we continue to work with our suppliers to bring in product earlier where we can to avoid delivery delays.

After a record year last year Rural Supplies has continued to trade well. Revenue is up on the prior comparative period. While some of this is related to price increases in fertiliser and agricultural chemicals, we have continued to grow our market share. It has been a frustrating season for many with wet conditions and little respite over the three-month critical spring window. Given the tough season through to December for most of the country with continued rain, cooler temperatures and localised flooding, the team has done exceptionally well, despite COVID-19 absentees, staffing shortages, and supply chain issues.

Fruitfed Supplies has also had a strong first six months of the financial year and continues to grow and set new benchmarks. This has not been without its challenges as the season was influenced by climatic conditions. It was extremely wet in the North Island which hampered spring cropping and the ability of clients to work their properties. An unseasonably heavy frost in October caused significant damage in the wider Bay of Plenty and Waikato regions and impacted kiwifruit and blueberry crops. Wet weather in December also impacted vegetable crops making harvesting difficult.

Growth in the horticulture sector continues and we are seeing new investments over the last few years now coming into production. Our large corporate client base continues to grow, and these clients often seek a full year's programme of crop protection and nutritional requirements with the establishment of long-term supplier agreements. Returns in some sectors have been challenging in the second half of the 2022 calendar year. Both the apple and kiwifruit industries have experienced reduced returns through price drops and fruit quality issues.

Our Water and irrigation business continues to consolidate market share through new clients and repeat custom. The team has focused on enhancing the customer experience through all front end parts of our business. This has helped in capturing infield sales opportunities through identifying system upgrades and offering these advanced benefits to our clients, such as pivot panel upgrades enabling client mobility and overview of remote farm irrigation systems.

Agritrade, our wholesale business division, celebrated its 10-year anniversary in September 2022. The business increased its revenue compared to the prior period as sales for some lines of product occurred later in the season due to the delayed and cooler start to the growing season.

Agency

Our Agency group includes Livestock, Wool, and Real Estate. Agency delivered an Operating EBITDA of $3.6 million for the first six months of the 2023 financial year, a reduction of $3.8 million compared with the same period last year. Revenue was $84.7 million, up $2.4 million compared to the prior period influenced by the mix of sales versus commission revenue.

The first six months of trading have been impacted adversely by weather, coupled with overseas market uncertainty resulting in reduced meat schedules. The meat schedule softened with a drop in sheep and lamb felt the most keenly. There was a reduction in processing capacity causing processing delays. Overall, there was a drop in the volumes of stock traded.

Both islands enjoyed a good spring growing season with animals held on farm longer, creating strong demand and prices for cattle. Beef prices held up well and volumes were on plan. Exceptional grass growth throughout most regions in the country saw large amounts of supplementary feed being made.

Our livestock supply chain strategy progressed over the first six months of the financial year with some new initiatives added to our existing strong and valued partnerships.

During the period GO-STOCK celebrated two significant milestones with two million lambs purchased on GO-LAMB contracts, and three hundred thousand cattle procured through GO-BEEF since launch.

bidr® launched its saleyard product in July 2021 and now live streams auctions from eight saleyards throughout the North Island. We have seen further uptake in our hybrid, genetics, saleyard, and on-farm machinery sales. Continued growth in the dairy market saw bidr® utilised for a number of 'In Milk' sales in September and October, with strong sales bookings in the second half of FY23.

PGW deer velvet sales made earlier in the season had strong pricing on the back of contracted demand with overseas buyers, particularly contracts for Super A velvet destined for South Korea's growing health food sector. Growers benefitting from these contracts countered the weakness of the Chinese deer velvet market, beset by pandemic disruption. Demand for these elevated prices has driven up supply volumes to PGW Velvet.

Fallout from the COVID-19 pandemic continues to challenge the strong wool industry, especially values and associated worldwide demand. Growers encountered increasing costs on the back of falling crossbred wool prices.

The merino wool season has been supported by good value contracts with brand partners and robust fine wool auction prices. Growth in our wool contract business supports our grower client base with contracts delivering premiums over market prices. PGW has achieved share growth in the New Zealand merino wool market.

PGW's wool export business, Bloch & Behrens, has done a good job in negotiating with overseas customers and local growers to ensure contracted obligations have been fulfilled. The volume of bales procured and sold are on par with the same period last year.

Farm property sales continued within the sheep and beef sector with a larger number of high value sales in excess of $20 million. Dairy sales improved during the first six months of the financial year, however there were not as many higher value sales traditionally supported through corporate activity. Residential and lifestyle sales experienced a significant slowdown throughout all markets.

The real estate market was impacted by a general negative sentiment owing to rising interest rates, the decline in property demand and sales, mismatch of vendor-purchaser expectations, shrinking buyer pool, and the raft of regulatory challenges coming to the rural sector. As a result, earnings from our Real Estate business were significantly back from the buoyant market seen over recent years and this explains the majority of the reduction in earnings for the Agency Operating Segment."

Cashflow and Debt

"Cashflow from operating activities saw a $35.0 million outflow. This compared to a $17.0 million operating cash outflow for the prior comparative period.

Working capital balances built during spring were consistent with the seasonal build in prior years. However, compared to the prior comparative period, these were higher as a result of supply chain challenges and price increases. We grew our GO-STOCK grazing receivables by $7.2 million versus the prior comparative period.

We increased our banking facility limits by $30 million to provide prudent headroom and to also fund potential growth opportunities.

Capital expenditure was $6.2 million, an increase of $4.6 million versus 31 December 2021 which included investment in our Business Improvement Programme. In addition, the Group made higher income tax payments as a result of the strong FY22 financial performance. As a result, net interest-bearing debt was up $48.6 million compared to 31 December 2021 at $95.5 million."

Outlook and Guidance Update

Mr Lee noted, "As we think about the outlook for the financial year to 30 June 2023 we do so with the benefit of a strong trading performance over the first half with PGW well positioned to capitalise upon the opportunities ahead.

While noting the extraordinarily good 2022 financial year, we hold a degree of caution looking forward for the remainder of the financial year given the volatility in the macro operating environment.

New Zealand's farmers and growers are currently facing a range of uncertainties and headwinds. Two recent rural confidence surveys conducted prior to Cyclone Garbrielle have reported farmer confidence levels at some of their lowest sentiment levels since surveys began.

Our clients are experiencing an environment with rising interest rates, tightening credit, increased input costs, labour shortages, supply chain disruption, an uncertain geopolitical and domestic regulatory landscape, and adverse weather events including the extraordinary impacts of Cyclone Gabrielle that have hit the agricultural and horticultural sectors hard over large parts of the country. The full effects of these dynamics are yet to be assessed.

Despite these uncertainties and reasons for caution we also see positive fundamentals in the medium to longer-term outlook for agriculture and horticulture. PGW is also well placed to support the sector through its challenges and the opportunities that will come.

COVID-19 restrictions have been lifted and borders have opened, supply chain disruption should ease, and it is anticipated that inflation will come off its peaks during the course of this year. Demand for New Zealand's primary exports will remain through all these challenges.

The primary sector has performed well and the PGW Board is pleased with how PGW has traded. There is strength in the diversity of the PGW's portfolio of businesses and the way the business is executing on its strategy.

On balance, the PGW Board's outlook remains cautious. We see some softening based upon the macro factors outlined and accordingly have recalibrated our forecast Operating EBITDA guidance for the financial year to 30 June 2023 at around $57 million."

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[1] All references to PGG Wrightson Limited refer to the company, its subsidiaries and interests in associates and jointly controlled entities.

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

[3] Total Shareholder Return (TSR) is calculated based on the movement in share price during the six months to 31 December 2022, plus the dividend (cents per share) paid, divided by the opening share price.

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 on our website (www.pggwrightson.co.nz)