27 FEBRUARY 2024

PGG Wrightson announces FY24 half year result and provides guidance update

GROUP PERFORMANCE

PGG Wrightson Limited[1] (PGW) today announced its results for the first half of FY24. Key items and metrics for the first six months to 31 December 2023 included:

- ❖ Operating EBITDA[2] of $36.6 million (down $11.2 million or 24%).
- ❖ Revenue of $560.9 million (down $24.9 million or 4%).
- ❖ Net profit after tax of $12.7 million (down $8.4 million or 40%).
- ❖ Updated Operating EBITDA guidance of around $50 million for financial year to 30 June 2024.
- ❖ The PGW Board has by a majority determined PGW will reinvest capital back into growing the business by suspending the interim dividend to avoid adding debt in the face of rising interest costs. The Board considers PGW has performed well in difficult market conditions impacting the primary sector and wider economy. It is recognised that uncertainties remain and it is prudent to wait until the full financial year is complete before reviewing the dividend payout ratio (if any).
- ❖ Recent levels of dividend have been at the upper end of the payout ratio for the sector and are not sustainable.

PGW Chair, Garry Moore said “the Company has traded solidly during the first half of the financial year in materially more challenging market conditions than experienced in recent years. Factors such as elevated levels of inflation and interest rates on rising debt levels, together with subdued demand and softer returns in most of New Zealand’s key primary export commodities, have all contributed to create a more demanding environment for many of PGW’s farmer and grower clients and there is a strong correlation between the fortunes of our clients and PGW.”

In terms of the key metrics, PGW delivered operating earnings before interest, tax, depreciation, and amortisation (“Operating EBITDA”) of $36.6 million (down $11.2 million or 24 per cent compared to the prior corresponding period). Revenue was $560.9 million (down $24.9 million or 4% per cent) and net profit after tax (NPAT) was $12.7 million (down $8.4 million or 40 per cent).

Moore went on to say “This half year result can be described as steady in the context of the headwinds the sector and the wider economy face. Our Retail & Water segment nevertheless traded well compared to the record high for the comparative period. Our Agency segment results were again impacted by the weak real estate market and softer commodity pricing particularly in sheep and lamb markets where prices were back 28 per cent year-on-year.

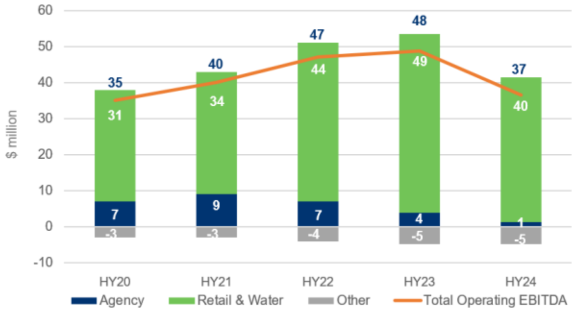
In response to these trading conditions PGW has been actively managing and reducing spend in a range of cost areas. At the same time, we have seen increases in costs through supplier price rises as evidenced by ongoing CPI increases.

Favourable climatic conditions in Australia in recent years have seen farmers build up their sheep flocks, with numbers estimated to be at their highest in 15 years. However, recent dry conditions in Australia have resulted in record slaughter numbers and were up 16 per cent from the previous year. This excess supply has negatively impacted farmgate sheep meat returns on both sides of the Tasman."

It is useful to look at this result in the context of PGW's performance through the economic cycles over recent years and we refer to our half-year results at an Operating EBITDA, revenue and NPAT level for the previous five years below.

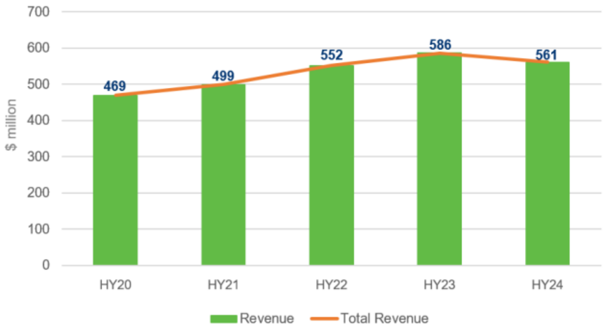
OPERATING EBITDA

First Half Financial Year Five Year Summary



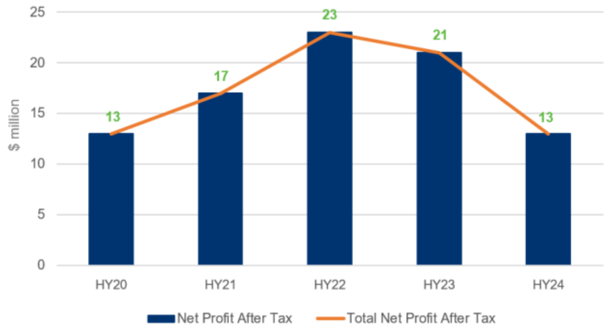
REVENUE

First Half Financial Year Five Year Summary



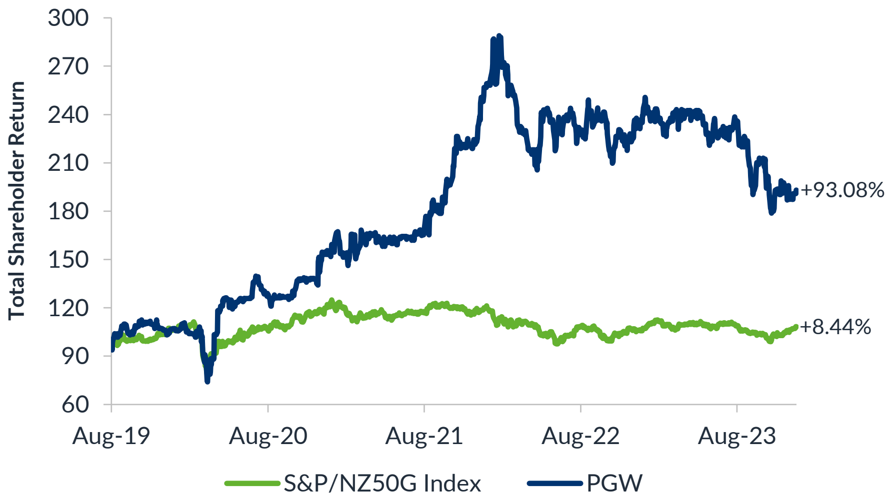
NET PROFIT AFTER TAX

First Half Financial Year Five Year Summary



It is also informative to highlight PGW's total shareholder return baselined against the S&P/NZ50G over this period. PGW has seen a total shareholder return movement of +93.08 per cent since the share consolidation in August 2019 following the sale of the PGW seeds business. This compares favourably to the S&P/NZ50G index movement of +8.44 per cent over the same period.

PGW's Total Shareholder Return (gross) versus S&P/NZ50 Index (gross)



From 13 August 2019 (post share consolidation) to 31 December 2023, rebased to 100, includes dividends.
Source: IRESS

"Despite the challenging environment PGW's dedicated and knowledgeable team continue to deliver first class service and products to our clients, who appreciate the tailored advice they receive from our trusted store teams and reps in their fields and orchards.

Distributions | Ngā Utu Whaipānga

Given the current challenges faced in the sector and broader economy and the impacts these have had on our business, the PGW Board has determined not to pay an interim dividend. The Board considers that this is an appropriate and prudent measure to take at the present time. At a broader level the PGW Board is also assessing its ongoing dividend payout ratio given the need to strike the right balance between sustainable distributions for shareholders whilst retaining sufficient earnings in the best interests of the company to allow it to effectively execute upon its strategy."

Retail & Water Group

PGW CEO, Stephen Guerin said, "The Retail & Water business incorporates Rural Supplies, Fruitfed Supplies, Water, and Agritrade. Operating EBITDA for Retail & Water was $40.0 million (down $9.0 million), and revenue was $478.3 million (down $21.7 million) on the prior corresponding period.

Farm and orchard spending indicators across the board continue to point downward. Although farmer and grower confidence has improved over the period, investment intentions have fallen to their weakest since the 1980s (excluding the first COVID-19 lockdown). This is a result of high interest rates, inflation, and a decline in both meat and milk commodity prices due to softer demand in export markets and the ongoing impact of Cyclone Gabrielle for our North Island clients in both the rural and horticulture sectors.

The professionalism and superior advice, service, and technical ability of our people continues to reinforce loyalty and attract new clients and underpins pleasing market share growth. We continue to build on PGW's reputation of providing the best technical advice in our market and our customer research demonstrates strongly that this focus and market differentiating factor resonates well with our clients and remains a key component in our strategy as we hold and develop our market competitiveness.

In several sales categories, we have seen growth on last year's record result. The standout range being General Merchandise which is continuing to grow year-on-year. This is a strong indicator of increasing foot traffic through our stores which is a testament to our team's culture and client centric focus. Our goal of having the best trained people in the industry is widely understood and well recognised by our clients.

Customer focused innovation is one of our strategic pillars and we continue to invest in this area. During the period we introduced our self-funded research and development (R&D) model. We currently have a strong footprint in horticultural R&D and will expand this to the rural sector of our business, focusing on systems, programmes, and product focused R&D.

We continue to invest in our store network which further demonstrates our commitment to rural New Zealand and supporting farmers and growers across the length of the country.

Our Rural Supplies clients were not affected by the predicted impacts of the early onset of the El Niño dry season across the country as it did not materialise through the spring. There was a lot of rain for most areas during the critical spring months and with a prevalence of cooler temperatures. This led to increased grass cover and good feed reserves. The flow on effect of this has been reduced sales of stockfood and summer brassicas.

Our goal of having the best trained people in the sector is evident in the growth of our animal health offering where we are taking a proactive approach relating to the onset of drench resistance. Drench resistance is accelerating and the financial impact on sheep and beef farmers will be significant. PGW has proactively moved to get ahead of this challenge and provide market leading support and advice to our clients on this topic.

Fruitfed Supplies' result for the first half was impacted by Cyclone Gabrielle, which occurred in February 2023. A number of our clients in Gisborne and Hastings lost large areas of crop and therefore required less product in the new season. Many clients lost their entire seasons crop last year causing cash flow impacts. Due to falling returns and the impact of the cyclone we have seen a slowing of horticultural development over the last 12 months as growers look to consolidate their existing businesses and remediate properties.

Returns in some sectors have been softer. The apple, avocado and kiwifruit industries have experienced weaker demand and declining returns, with prices for some crops at levels not seen for several years. These falling returns have resulted in the amount clients spend on some product lines reducing.

Agritrade, our wholesale business division, commenced a review of its business strategy with a focus on areas that generate value growth. The primary emphasis to date has been about optimising the supply chain dynamics with a goal of reducing customer order frequency and adding minimum order volumes. This reduction enhances operational efficiency by reducing operational overheads, greenhouse gas emissions and enhances customer service. Additionally, the focus has extended to identifying and addressing non-profitable products to ensure that our inventory better aligns with market demands and continues to contribute meaningfully to our revenue. These refinements of our model aims to position our wholesale business for sustained growth.

Tensions in the key Red Sea trade route are contributing to longer shipping times and higher freight costs for some products.

Agency Group

Our Agency group includes Livestock, Wool, and Real Estate. Agency delivered an Operating EBITDA of $1.4 million for the first six months of the 2024 financial year, a reduction of $2.2 million compared with the same period last year. Revenue was $81.6 million, down $3.1 million compared to the prior period.

Our Livestock business was impacted by the reduced volumes of livestock being traded, particularly North Island cattle and dairy, as high on-farm inflation, softer commodity prices, and elevated interest rates have led to more cautious purchasing. Poor lamb prices have squeezed commission revenue, with weaker Chinese demand and increased Australian supply causing prices to fall.

Our strong relationships with our clients contributed to maintaining our market share throughout these tough times. During the period we grew our supply chain partnerships and increased volumes.

GO-STOCK returns were up significantly compared to the prior period, reflecting the attractiveness of the product to clients. It remains a popular product for our clients, assisting them with their cash management and allowing capital to be used elsewhere.

bidr®'s growth in the first half of the year was assisted by the installation of weekly saleyard auctions at Stratford and Taranaki, as well as an increase in the number of on-farm hybrid auctions for commercial sheep and beef in the North Island.

The total number of wool bales sold was ahead of the same period last year. Although prices for strong wool remain supressed, it was encouraging to note increases in prices compared to last season. Top quality, well-prepared crossbred fleeces command premiums. Our market share especially in the fine wool market has grown on the back of profitable contracts offered to growers.

We grew our wool contract business which links wool growers with manufacturers domestically and internationally and provides growers with surety of price. We saw increased enquiries from domestic and international retail brands with a number of overseas clients visiting.

The New Zealand Real Estate market has endured a difficult time. North Island sales in particular have been low with the volume of transactions significantly back on the business transacted in FY21 and FY22.

Cashflow and Debt

Cashflow from operating activities saw a $6.8 million outflow; a $28.1 million improvement compared to the prior comparative period.

Although Operating EBITDA was $11.2 million lower than the comparative period the build in working capital for the Group of $36.1 million was $33.4 million lower than the prior six-month period. The Group received good collections from customers with overdue rates lower than 31 December 2022. In addition, income tax payments were also $7.7 million lower than the prior period, which included income tax payments on the record FY22 financial performance. Financing costs were $1.4 million higher as a consequence of higher interest rates.

Capital expenditure was $6.9 million, an increase of $0.7 million versus 31 December 2022 and included investment in our Business Improvement Programme.

The Group paid the FY23 Final dividend of 10 cents per share, or $7.8 million in October 2023.

Net interest-bearing debt was up $1.4 million compared to 31 December 2022 at $96.9 million.

The Group renewed and extended its bank facilities in December 2023 through to 2026.”

Outlook

Mr Moore noted, “PGW’s outlook remains cautious with the agricultural sector and international marketplace facing various challenges including the impact of El Niño conditions, lower meat pricing (in particular sheep and lamb), higher input costs, softer commodity pricing for primary exports, and subdued demand from our largest export market, China. The carry over impacts of Cyclone Gabrielle together with supply chain issues associated with offshore conflicts and higher interest costs are all contributing to temper the short-term outlook and prospects.

Sheep meat prices are at their lowest range in a decade with high volumes of Australian meat and weaker international demand. Whilst pressure on sheep pricing is anticipated to continue in the near term, there is an expectation we will see improved trading across the major stock types as the countryside dries and the current abundance of grass diminishes. Beef prices are expected to remain stable. Although beef farmers are more optimistic, there is concern about the year ahead which may translate into reduced investment.

Rising dairy prices have improved dairy farmer confidence in recent weeks with Global Dairy Trade auctions recording higher prices and increasing payout expectations. The removal of the remaining dairy tariffs on dairy exports to China allows New Zealand products to enter China duty free and providing an advantage over some international export competitors.

The outlook for horticulture is positive with good kiwifruit, apple and pear crops expected to be harvested. Kiwifruit is predicted to deliver improved quality fruit with higher volumes compared to last year. Wine exports are expected to reduce this season, then increase next season. Overall, horticulture is anticipated to produce stronger export volumes from this year's harvest without the impact of events such as Cyclone Gabrielle, with further growth into next year.

We see some positive signs in the real estate market as we move into 2024. Sentiment is improving, and current indications suggest that sales levels will grow in the months ahead, with more orchards poised to come on the market in autumn.

The NZ - EU Free Trade Agreement will progressively come into effect during 2024 providing improved access to the European markets.

Whilst the factors impacting market sentiment are mixed and slightly pessimistic in the near term, we are confident that PGW remains in a strong position to capitalise on opportunities as they arise and maintain the positive performance trend that PGW has demonstrated over the past five years. The longer-term prospects for the New Zealand primary sector remain strong with the Ministry for Primary Industries projecting steady growth.

While noting the green shoots of a recovery in our clients' confidence in the sector, we remain cautious as to on-farm and on-orchard spend. We see a period of debt reduction by clients given the recent commodity pricing cycle and the ongoing recovery costs related to Cyclone Gabrielle for North Island clients.

On balance, we remain cautious and expect to see subdued activity over the remainder of the financial year. Given the mixed signals in the macroeconomic environment we have revised our forecast Operating EBITDA guidance for the year to 30 June 2024 to around $50 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. 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).