

15 February 2017

ASX Announcement

Ruralco Holdings Limited (“Ruralco”) (ASX: RHL)

PORTFOLIO OF ACCRETIVE ACQUISITIONS AND EQUITY OFFERING

Ruralco today announced a portfolio of targeted acquisitions across Water Services and Rural Services – delivering on the Investment and Integration pillars of its Future Farming Strategy.

HIGHLIGHTS





- **Portfolio of acquisitions with attractive acquisition metrics:**
 - Total initial cash consideration of \$60.8 million;
 - Pro-forma annualisedⁱ EBITDA of ~\$13.6 million;
 - Average implied EBITDA multiple of ~4.5xⁱⁱ;
 - EPS accretionⁱⁱⁱ on a pro-forma NPATA basis in the low teens^{iv};
- **Equity Offering to raise up to \$65 million^v, comprising an accelerated non-renounceable entitlement offer and placement to fund the portfolio of acquisitions and provide enhanced balance sheet flexibility;**
- **Offer price of \$2.66 per new share represents a: 10% discount to TERP; 11.5% discount to the last traded price of \$3.00 on 14th February 2017; and 11.5% discount to the 5 day VWAP of \$3.00;**
- **FY17 first half expectations remain strong compared with the prior year after a record Q1 earnings result; and**
- **Management are pleased with the early progress made towards achieving targeted opex as a % of gross profit of 80%, with positive cost savings resulting from last year’s cost-out initiatives.**

BOARD AND MANAGEMENT COMMENTARY:

Mr Travis Dillon, CEO and Managing Director of Ruralco, said: “We are pleased to have secured a portfolio of high quality businesses aligned with our Future Farming Strategy on attractive acquisition metrics. Ruralco is well positioned to grow the business, with the focus remaining on balancing the execution of strategy with improvements in operating leverage to ensure increased shareholder returns.”

Ruralco Chairman, Rick Lee, said: “The Ruralco management team have ensured the strategic fit of the acquisitions to the core business. I am confident they will deliver value into the future.”

Ruralco Holdings Limited | ABN: 40 009 660 879

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ACQUISITION SUMMARY:

Acquisition ^{vi} (and % ownership if not 100%)	Reportable Segment	Purchase Price \$'000
Irrigation Tasmania	Water Services	19,926 ^{vii}
<i>Portfolio of other Water Services acquisitions</i>		
Mildura Irrigation Centre	Water Services	
Riverland Irrigation	Water Services	
River Rain	Water Services	
Hunter Irrigation	Water Services	
<i>Subtotal of other Water Services acquisitions</i>		13,259 ^{vii}
TP Jones & Co	Rural Services	16,000
<i>Portfolio of other Rural Services acquisitions</i>		
Great Northern Rural Services (60%)	Rural Services	
Sid Newham Rural Supplies	Rural Services	
<i>Subtotal of other Rural Services acquisitions</i>		4,066
Ausure Consolidated Brokers (50%)	Financial Services	7,183

ACQUISITIONS AND STRATEGIC RATIONALE

Water Services

- Announced today: *Irrigation Tasmania, Mildura Irrigation Centre, River Rain; and*
- Previously announced at release of FY16 Results: *Riverland Irrigation and Hunter Irrigation.*
- ✓ The agricultural sector consumes more than 62% of water in Australia, irrigation uses 90% of agricultural volume^{viii};
- ✓ The price of water is increasingly volatile; - over the two years to 2016, for example, the value of water entitlements held for consumptive use in the southern Murray Darling Basin doubled to \$11.5 billion^{ix};
- ✓ Water sector funding is underpinned by significant government and private investment^x;
- ✓ On-farm water infrastructure investment represents an opportunity for farmers to intensify operations and become more productive. This typically requires a greater value of inputs, the greater yields mean more outputs available for marketing (benefitting Ruralco's core Rural Services and Agency businesses).
- ✓ Investment in water businesses has the potential to reduce the cyclical impact of rainfall and drought events on earnings, allows Ruralco to capture a greater share of wallet in a higher margin category and represents a significant competitive advantage between Ruralco and its peers.

Rural Services

- Announced today: *Sid Newham Rural Supplies; and*
- Previously announced at release of FY16 Results: *TP Jones & Co, Great Northern Rural Services.*
- ✓ Ruralco has identified specific geographic gaps in its Rural Services footprint and has aligned its growth initiatives to fill these; and
- ✓ Acquiring existing independent CRT members grows Ruralco's earnings from each geography from purely wholesale earnings to a 'vertical margin' encompassing both wholesale and retail margin.

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Financial Services

- Previously announced at release of FY16 Results: *50% of Ausure Consolidated Brokers (ACB)*;
- ✓ Ruralco has a national network of more than 500 locations servicing over 100,000 farmers, all of whom require insurance. Historically, Ruralco has not had the buying power or a sufficient number of brokers with the right expertise to adequately service this market; and
- ✓ ACB has expertise, systems and scale in insurance backed by the scale of Steadfast. They bring an Authorised Representative network of brokers, which represent further bolt-on opportunities to the joint venture.

EQUITY OFFERING

Ruralco today announced the launch of an Equity Offering to raise up to \$65 million^v, comprising:

- An Institutional Placement to raise approximately \$30 million; and
- A 1 for 6 Accelerated Non-Renounceable Entitlement Offer to raise approximately \$35 million.

Approximately 24.5 million new Ruralco shares will be issued if the offer is fully taken up, representing approximately 31% of current issued capital.

The Offer Price of \$2.66 (“Offer Price”) per New Share, represents a:

- 10% discount to TERP
- 11.5% discount to the last traded price of \$3.00 on 14th February 2017
- 11.5% discount to the 5 day VWAP of \$3.00

New shares will rank equally in all respects with existing ordinary shares from allotment.

The major shareholders have all confirmed their support of Ruralco’s strategy and three of the four major shareholders have committed to take up their entitlements in full.^{xi}

The Joint Lead Managers of the Equity Offering are Insight Capital Advisors and Wilsons Corporate Finance Limited. Insight Capital Advisors has also acted as the sole Capital Markets Advisor to Ruralco.

Institutional Placement and Institutional Entitlement Offer

The Institutional Placement and Institutional Entitlement Offer opens on the 15th and closes on the 16th February 2017.

Entitlements not taken up under the Institutional Entitlement Offer will be offered to new and existing eligible institutional investors concurrently with the Institutional Entitlement Offer and Institutional Placement.

Retail Entitlement Offer

The Retail Entitlement Offer opens on the 22nd February 2017 and closes on the 8th March 2017. Eligible retail shareholders will be able to apply for additional shares in excess of their entitlement up to a maximum of 100% of their entitlement under the Retail Entitlement Offer.

FY17 OUTLOOK

In announcing the details of the portfolio of acquisitions and the Equity Offering, Ruralco provides the following trading update:

- The update given to the market on 23rd January 2017, reported a record Q1 earnings result for Ruralco, due mainly to favourable rainfall and a strong summer cropping season. The business also reported that volumes in Live Export have increased on the same period last year, with a solid sales pipeline in place;
- January 2017 results are aligned to management expectations and the first half is anticipated to remain strong compared with the prior year. The next critical event impacting the full year outlook will be the timing and extent of the season break in winter cropping regions;
- The impact of completed acquisitions to earnings in the first half will be modest with the more significant acquisitions being completed in February/March;
- Management is pleased with early progress made towards achieving its opex target of 80% of gross profit with embedded cost savings resulting from last year's cost-out initiatives.

ENDS

Further information:

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ⁱ EBITDA contribution based on maintainable annual earnings on a standalone basis adjusting for non-recurring items and modest cost synergies and excluding transaction costs or integration costs.

ⁱⁱ The multiple has been calculated based on the initial purchase price divided by the pro forma annualised earnings of the acquisitions. This calculation excludes the estimated contingent consideration and any EBITDA increases that may be associated with these future payments.

ⁱⁱⁱ EPS accretion is based on comparing the average of the historical FY15 and FY16 underlying EPS of Ruralco (average of 23.90 cents per share and 16.96 cents per share), adjusted to reflect the bonus element in the Entitlement Offer.

^{iv} On a full year earnings basis, refer to Accretion Calculation assumptions on page 35 of the accompanying Investor Presentation. NPATA excludes amortisation that will result from the acquisitions on any potential acquired identifiable intangible assets. The impact of purchase price accounting has not been completed but will impact future depreciation and amortisation expense.

^v The Equity Offering is outlined in further detail on page 33 of the accompanying Investor Presentation and the amount raised is subject to the risks outlined under "Equity Funding Risk" on page 46 of the accompanying Investor Presentation.

^{vi} Table excludes the acquisition of 70% of Water Trading Australia Pty Limited for cash consideration of \$0.3million on 1 December 2016 as this is not considered a material acquisition for the purposes of the Equity Offering.

^{vii} Represents initial cash consideration to be paid for these acquisitions, i.e. excludes estimated contingent consideration to be paid at the end of contractual multi-year earn out periods. The value of such contingent consideration is estimated at approximately \$11.3 million based on earn-out targets.

^{viii} Source: ABS based on 14/15 year data.

^{ix} Water Markets Report 2015-16 Review and 2016-17 outlook, Aither.

^x See accompanying Investor Presentation for more detail.

^{xi} As at 8:00am on 15 February 2017 Ruralco has received written confirmation from all major shareholders except Neale Edwards Pty Ltd that they intend to take up their entitlements in full

Appendix

TIMETABLE AND KEY DATES

Event	Date
Announcement and trading halt	15 February 2017
Institutional Placement and Institutional Entitlement Offer opens	15 February 2017
Institutional Placement and Institutional Entitlement Offer closes	16 February 2017
Ruralco shares re-commence trading on ex-entitlement basis	17 February 2017
Ruralco AGM to be held	17 February 2017
Record date for the Entitlement Offer (7.00pm AEDT)	17 February 2017
Retail Entitlement Offer opens	22 February 2017
Settlement of Institutional Placement and Institutional Entitlement Offer	23 February 2017
Allotment and normal trading of new shares issued under the Institutional Placement and Institutional Entitlement Offer	24 February 2017
Retail Entitlement Offer closes (5pm AEDT)	8 March 2017
Allotment of new shares issued under the Retail Entitlement Offer	15 March 2017
Normal trading of new shares issues under the Retail Entitlement Offer	16 March 2017

Note: All dates and time refer to Australian Eastern Daylight Time. Ruralco reserves the right to amend any or all of these dates and times, to accept late applications either general or, in particular cases, to withdraw the Entitlement Offer without prior notice subject to the Corporations Act, the ASX Listing Rules and other applicable laws. The commencement of quotation and trading of New Shares is subject to ASX confirmation.

ADDITIONAL INFORMATION

Further information on the Entitlement Offer and Institutional Placement is detailed in the Investor Presentation also provided to the ASX on Wednesday, 15 February 2017 and in the Retail Information Booklet. Please read the Investor Presentation before deciding whether to participate in the Entitlement Offer as it contains important information including the “Key Risks” with respect to the Acquisitions and the Equity Offering.

If you have any further questions about the Entitlement Offer, you should seek advice from your stockbroker, accountant or other independent professional adviser, or you can call the Ruralco Offer Information Line 1300 850 505 or +61 3 9415 4000 at any time between 8:30am and 5:30pm (AEDT) on Monday to Friday during the Retail Entitlement Offer period.

NOT FOR RELEASE OR DISTRIBUTION IN THE UNITED STATES

This ASX announcement does not constitute an offer to sell, or the solicitation of an offer to buy, any securities in the United States. This announcement may not be distributed or released in the United States. Neither the Entitlements nor the New Shares offered in the Entitlement Offer have been, or will be, registered under the U.S. Securities Act of 1933, as amended (U.S. Securities Act) or the securities laws of any state or other jurisdiction of the United States. Accordingly, the Entitlements may not be taken up by, and the New Shares may not be offered or sold to, persons in the United States or persons who are acting for the account or benefit of a person in the United States unless they have been registered under the U.S. Securities Act or in a transaction exempt from, or not subject to, the registration requirements of the U.S. Securities Act and any other applicable U.S. state securities laws. The New Shares to be offered and sold

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may only be offered and sold outside the United States in “offshore transactions” (as defined in Rule 902(h) under the U.S. Securities Act) in compliance with Regulation S under the U.S. Securities Act.

FUTURE PERFORMANCE

This announcement contains certain forward looking statements and comments about future events, including Ruralco’s expectations about the performance of its businesses and the effect of the funds raised under the Offer on that business. Forward looking statements can generally be identified by the use of forward looking words such as, “expect”, “anticipate”, “likely”, “intend”, “should”, “could”, “may”, “predict”, “plan”, “propose”, “will”, “believe”, “forecast”, “estimate”, “target” and other similar expressions. Indications of, and guidance or outlook on, future earnings or financial position or performance are also forward looking statements and include statements in this presentation regarding the conduct and outcome of the Offer, the use of proceeds and Ruralco’s outstanding debt. You are cautioned not to place undue reliance on any forward looking statement. While due care and attention has been used in the preparation of forward looking statements, forward looking statements, opinions and estimates provided in this announcement are based on assumptions and contingencies which are subject to change without notice, as are statements about market and industry trends which are based on interpretations of current market conditions. Forward looking statements including projections, guidance on future earnings and estimates are provided as a general guide only and should not be relied upon as an indication or guarantee of future performance and may involve known and unknown risks, uncertainties and other factors, many of which are outside the control of Ruralco. A number of important factors could cause Ruralco’s actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward looking statements, including the risk factors described in the “Key Risks” section of this presentation. Actual results, performance or achievements may vary materially from any forward-looking statements and the assumptions on which statements are based. Ruralco disclaims any intent or obligation to update publicly any forward-looking statements, whether as a result of new information, future events or results or otherwise.

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