

Tuesday, 14 November 2017

## ASX Announcement

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

# RURALCO DELIVERS RECORD FULL YEAR RESULT

### HIGHLIGHTS

- Underlying Gross Profit<sup>1</sup> up 11% to \$334.6m and underlying OPEX to GP % down 5.4 ppts to 80.8% leading to significant, positive operating leverage
- Underlying EBITDA<sup>1</sup> up 58% to \$65.4 million
- Underlying NPAT<sup>1</sup> up 95% to \$26.2 million
- Statutory NPAT attributable to shareholders up 422% to \$22.4 million
- Underlying ROCE<sup>1</sup> up 4ppts to 17.3% and Underlying ROE<sup>1</sup> up 4ppts to 10.0%
- Underlying EPS<sup>1</sup> up 62% to 27.4 cents
- Final fully franked dividend of 6 cents per share (FY16: 2 cents) for a total of 15 cents per share for the year

Ruralco Holdings Limited (ASX: RHL) today released its full year results for the 12 months to 30 September 2017, with the Group delivering record H2 and full year earnings.

This record result reflects significant organic growth in the core traditional rural supplies and agency services businesses. The underlying EBITDA of \$65.4million includes \$6.6million of earnings from the portfolio of acquisitions executed in the first half.

Travis Dillon, Ruralco’s CEO & Managing Director, said the integration of business acquisitions added necessary scale, as well as regional and operational diversity to the network, which had bolstered the full year result.

“The integration of the 24 new points of presence is well progressed, the new businesses are performing in line with expectations.

“I am pleased our core traditional businesses have again delivered strong organic growth and there has been a positive turnaround in live export and water retail sales”, Mr Dillon said.

Directors also declared a final fully franked dividend of 6 cents per share with a record date of 27 November 2017, payable to shareholders on 18 December 2017. This represents a dividend payout ratio of 52% of underlying second half earnings. The Dividend Reinvestment Plan will operate with respect to the dividend with a 2.5% discount.

### Rural Services

Strong seasonal conditions, particularly in Tasmania and the Eastern states, led to significant sales growth in the rural supplies business. Continued above average livestock and wool prices and an increase in real estate sales volumes have also bolstered the strong performance. The \$87.9million EBITDA of this division includes \$1.2million from acquisitions.

A full year’s contribution from acquisitions and an ongoing focus on driving cost base efficiency (including improved automation from Program Elevate) is expected to offset the impact of a decline in cattle prices and deliver continued, albeit moderate, growth in FY18.

<sup>1</sup> Underlying measures exclude the impact of \$5.2 million (pre-tax) of significant items (FY16: \$14.0 million). Definitions of non-IFRS measures are included at the end to this release.

## Water Services

Sales have grown in the restructured water retail business, particularly over the last quarter. This pleasing turnaround was offset by tight market conditions in specific geographies, primarily the West Australian residential development market, and a below average temporary water price for most of the year that combined to restrict growth in the underlying business. The Water Services EBITDA of \$13.1 million includes \$4.8million from acquisitions.

Management has focused on ensuring the cost base of the existing business is right-sized to account for adverse market conditions. A key focus for FY18 is on optimising overall operational and financial performance to deliver targeted strong growth in earnings with a healthy project pipeline already in evidence. The pursuit of cross selling initiatives by leveraging the IP brought into the business through acquisitions is also expected to deliver revenue synergies by broadening the service offering to a wider (cross divisional) customer base.

## Live Export

The Live Export division has returned to profit (\$2.2 million EBITDA) despite challenging market conditions in the year. This result reflects the benefits of the restructure undertaken in FY16 and the new backgrounding program that has provided the business with flexibility.

The division continues to focus on compliance and driving a culture of continuous improvement. This will involve disciplined management of operations in light of tight domestic supply and weak demand, at least for the remainder of the calendar year, to maintain gains in market share.

## Financial Services

Improvement in the earnings of this division has come from growth in the seasonal finance book, a stronger result from the share of profits from the grain marketing JV, Agfarm and the new insurance joint venture with Ausure.

Ongoing momentum is expected to come from further growth of the seasonal finance book, take-up of the new Flexi Finance low-doc livestock and equipment financing product and the annualised earnings contribution from the Ausure JV with further expansion opportunities identified for that business.

## Digital Transformation and Innovation

Program Elevate continues to progress well, on time and on budget, with \$10.2million spend in the year. Focus in 1H18 will be on the 'go-live' of a significantly enhanced RuralcoNet (our online sales ordering platform for CRT members), further process automation, and development of an improved point of sale solution and customer portal. These projects will enable Ruralco's growth aspirations and deliver digital transformation based on a reliable back office foundation integrated with a scalable e-commerce platform.

"Farmers today face increasing complexity of choice. Tomorrow's farmers will deal with more technologies and services than ever before, they need simplicity and want integrated solutions.

"We are identifying practical solutions that farmers want through our partnerships with key R&D and industry bodies such as the CSIRO and Meat and Livestock Australia. We are connecting our customers to the latest technology and innovation in agriculture through our technology partnerships with SproutX and PrecisionHawk", Mr Dillon said.

## Outlook

Good rainfall across the eastern states in September and early October should support positive rural supplies sales over the next few months.

The decline in cattle prices over the last quarter is indicative of a return to historically average prices. Short term price movements will be largely influenced by seasonal conditions.

"Over the next twelve months management's focus will be to deliver the targeted earnings contributions from the portfolio of acquisitions completed in this calendar year. Ruralco will continue investing to support its growth aspirations and is integrating the innovation mindset into the core of the business.

"Ruralco is focused on executing our Future Farming Strategy, which in turn will deliver growth in shareholder returns. We are well positioned for the future," Mr Dillon said.

ENDS

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**IFRS and Non-IFRS financial information:**

*Ruralco results are reported under International Financial Reporting Standards (IFRSs). This release and the accompanying Investor Presentation includes certain non-IFRS measures including underlying measures of profitability and associated performance measures such as Return on Capital Employed (ROCE) and Return on Equity (ROE) that are used internally to assess the performance of the business. "Underlying" measures of profitability provide more useful information with regard to the Group's recurring earnings base and exclude the impact of significant items, particularly those related to executing strategy such as acquisition related costs, material impairments and costs of restructuring operations as part of portfolio management activities.*

*The Non-IFRS measures used are defined as follows:*

- *Underlying Gross Profit = Gross profit excluding significant items that impact revenue and costs of goods sold*
- *Underlying OPEX to GP % = OPEX excluding significant items/Underlying Gross Profit*
- *Underlying EBITDA = earnings before interest, tax, depreciation & amortisation +share of profits from equity accounted investees excluding significant items*
- *Underlying NPAT = Statutory net profit attributable to equity holders of the Company excluding significant items*
- *Underlying ROCE = Underlying EBITDA/Average capital employed on a rolling 12 month basis*
- *Underlying ROE = Underlying NPAT/Average shareholders' equity on a rolling 12 month basis*
- *Underlying EPS = Underlying NPAT/Weighted average number of shares for the period*