

Diversification Delivers Growth

HIGHLIGHTS

- **Revenue up 7% to \$919.9 million**
- **Underlying EBITDA¹ up 11% to \$37.1 million**
- **Underlying NPAT¹ up 21% to \$16.7 million**
- **Statutory NPAT attributable to shareholders up 30% to \$16.1 million**
- **Reported EPS up 7% to 15.3 cents**
- **Interim fully franked dividend declared of 9 cents per share**

Ruralco Holdings Limited (ASX: RHL) today announced a statutory net profit after tax of \$16.1 million for the six months ended 31 March 2018, a 30% increase on the same period last year driven by positive operating leverage, on-target earnings from acquisitions and further improvement in cost to serve (Opex/GP %).

Travis Dillon, Ruralco’s CEO & Managing Director, said: “The Future Farming Strategy has delivered diversified earnings across our activities and geographies. We have achieved double digit growth by focusing on what we can control and getting the foundation right rather than relying on commodity price movements.

“In particular this half it is pleasing to see the benefits of the diversification strategy at play with the Group able to cycle the tough trading conditions in Live Export and declining earnings from livestock agency activity as cattle prices continue to soften.”

This strong result reflects continued organic growth in the Rural Services division and a larger contribution from Water Services. Group underlying EBITDA of \$37.1million includes \$6.1million of earnings from acquisitions in line with management expectations and on target to deliver the \$13.6 million full year accretion announced at last year’s capital raising.

“We are very pleased that Water Services has increased its percentage contribution to Group gross profit to 21%, showing it is well on its way to reach our target of 25%. Our strategy in building a market-leading position in this division is based on the premise that water is a fundamental farming input.

“The continued growth in the private label product category demonstrates the even greater potential for this strategy”, Mr Dillon said.

Directors declared an interim fully franked dividend of 9 cents per share with a record date of 1 June 2018, payable to shareholders on 19 June 2018. This represents a dividend payout ratio of 56% of underlying first half earnings. The Dividend Reinvestment Plan will again be in operation with a nil discount.

Rural Services

The division delivered a strong half through organic growth in rural supplies and an improved cost to serve, which exceeded the anticipated decline in agency results.

Rural supplies growth reflected the positive market conditions in early summer. This led to strong sales in fertiliser (up 11%); growth in animal health and stock feed sales (up 12%); and increased fencing sales (up 21%).

¹ See page 3 for definitions of these non-IFRS financial measures

A further highlight in rural supplies performance was 56% growth in sales of the private label product category, Relyon, which grew as a proportion of total rural supplies sales by 4 percentage points. In its third year of sales, this crop protection category now has over 100 product registrations.

Buoyant sheep and wool markets and growth in livestock volumes continued to support agency earnings and softened the impact of the average 15% decline in cattle prices compared to the prior corresponding period (pcp).

Further action has been undertaken to fill gaps in the rural supplies retail network with the acquisition of a four branch rural supplies business, Southern Ag Solutions, in southern New South Wales during the half.

Water Services

The increasing geographical diversity of the division's earnings base has balanced out tougher trading conditions in Western Australia and above average rainfall in Queensland during the peak summer selling period.

Water Services' gross profit increased 29% driven by strong activity within the expanded network and resurgent operating performance in northern Victoria post its restructuring last year.

In the division's water broking business, dry conditions in the south pushed up temporary water prices and volumes traded with a 53% increase in the volume of trades through the WaterExchange website. Gross profit from water broking increased 51% to \$1.7million.

Further expansion in the network was achieved with two water business acquisitions, Team Irrigation and Hall Irrigation. These add specific expertise for water infrastructure projects in Central NSW and South Australia and broaden the geographic footprint of the water services network. Ruralco is now the largest distributor of Valley® and Zimmatic® brand irrigation products in Australia.

Live Export

Tough trading conditions in short haul live cattle export continue the trends observed in the last quarter of last year, with significantly lower consignment trading margins driving a \$0.8million loss (\$3.5million decrease half on half).

The market diversification strategy and the benefit of a strong customer partnership model is delivering increased market share with the business growing cattle volumes exported. The business is well positioned for a recovery in earnings as soon as consignment trading margins improve. Trade to Vietnam now accounts for 48% of export volumes and two shipments to China were undertaken in the period.

Frontier operates under industry and government approved export protocols to safeguard the welfare of cattle. This includes Frontier deploying additional stockmen and an independent veterinarian on its shipments. Frontier is also leading an initiative to instigate enhanced independent oversight of live export traceability and compliance and remains focused on the short-haul export of cattle from northern Australia to South East Asia.

Financial Services

The Group has now built a sound base for continued growth in its Financial Services division with increased profitability being delivered as scale in finance and insurance broking activities is expanded. The small profit returned in the first half (\$0.9million loss in the pcp) will be enhanced with earnings uplift in the second half following the conversion of Ruralco's shareholding in Ausure Consolidated Brokers into a 25% interest in joint venture partner, Ausure Pty Ltd, alongside Steadfast and Ausure management.

This increased investment position provides direct access to 97 independent broker representatives located across 47 locations that complement the Ruralco footprint and will help drive the development of unique farming insurance products.

Outlook

Ruralco continues to target positive operating leverage across the entire business, underpinned by pro-active cost base management, to deliver a declining OPEX/GP% through the cycle.

The delay in the autumn season break is likely to put pressure on crop protection sales and there is potential for seasonal and market volatility in the second half. Despite this, opportunities to deliver against strategy across all areas of the business continue to present themselves.

“Our focus remains on business efficiency and expanding our client offer. The diversity of our activities and the geographic mix of operations will continue to mitigate the impact of seasonal volatility”, Mr. Dillon said.

ENDS

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Ruralco (ASX:RHL)

- Ruralco, a major Australian agribusiness, provides the best opportunity to benefit from Australia's agricultural prosperity, managing the seasonal risk of primary production with its focus on developing across geographies - offering exposure to a diverse portfolio of agricultural commodities
- We deliver a sustainable and attractive return on investment, realised over time through dividends and share price appreciation
- Our role in the success of Australian agriculture historically and in the future is from championing the preservation of local knowledge and identity through our different channels to market (owned or through our CRT wholesale business)
- We pursue innovative growth opportunities that enable us to support our customers in developing efficient and sustainable farming operations
- A key differentiator is our investment in water, the most fundamental farming input, where we have first mover advantage and an opportunity for further growth

We're here for Australian Farmers.

For further information visit us at www.ruralco.com.au

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