Seeka Limited

12 Months to 31 December 2017 [Audited]

Commentary

A seasonal reduction in New Zealand yields reduced kiwifruit harvested and processed by Seeka for the 2017 season by 21% compared to 2016. Within this total, the Hayward (green) component reduced by 33%. The scale of this reduction and its potential to significantly impact the company's operational earnings was identified early. Seeka updated shareholders and took steps to minimise costs and maximise earnings.

The steps taken by Seeka and outlined in this commentary led to a better profit from operations than forecast given the scale of the reduction in New Zealand kiwifruit volume.

Seeka's investment in new and upgraded plant, precooling and cool storage capacity in anticipation of higher crop volumes, particularly Zespri SunGold fruit, meant the company was able to optimise plant configuration and staff utilisation. Growers benefited through record low fruit loss while operational efficiencies reduced costs.

A significant change to the banana sourcing arrangements of a key retail customer led to Seeka's retail services business losing a supply contract. Annually the carrying values of all assets are reviewed for impairment, the loss of this supply contract resulted in an impairment of $2.031m in the carrying value of goodwill.

Seeka ended the year with an excellent operational result and enters 2018 with a strong financial and operational outlook.

Highlights

- Profit after tax of $5.833m (2016: $10.385m), a decrease of 44%
  (2016 comparative included the one-off after tax gain from insurance proceeds of $3.092m)
- Improved earnings from Seeka Australia with earnings before interest, tax and depreciation (EBITDA) of NZD$2.251m (2016: $1.029m), up 119%.
- Record low fruit loss to Seeka's New Zealand kiwifruit growers of 1.18% for Hayward (green) conventional, 0.42% for Hayward (green) organic growers and 0.73% for Zespri SunGold growers. Comparatively good results within the industry and specifically the best Seeka has ever delivered.
- Successful completion of the New Zealand 2016/17 avocado selling season with Seeka handling a record 487,095 export trays (2015/16: 225,656 export trays) delivering $24.85 per tray to growers (2016: $26.86). The forecast 2017/18 returns are in excess of $40.00 per export tray.
- Successful and safe harvest seasons for all crops across Australia and New Zealand including kiwifruit, avocados, nashi, plums, pears and cherries.
- Installation of a new $6.0m Compac Spectrim packing machine at Main Road Katikati that offers automated grading. Also the relocation of the existing machine to the Peninsula packhouse to handle increases in the Coromandel-grown crop.
- Completion of the coolstore and pre-cooling capacity upgrades at Main Road, Katikati and at KKP and Transcool, Te Puke, an investment in excess of $8.6m.
- Implementation of Seeka's Australian orchard plan resulting in the development of 60 hectares of new kiwifruit orchard over the next five years along with the introduction of exciting new pear varieties.
- Establishment and commissioning of the Delicious Nutritious Food Company delivering a first year earnings before interest, tax and depreciation of $0.294m.
- Net debt (bank loans less bank deposits) totalled $83.121m (2016: $72.757m); an increase of $10.364m. Total assets increased from $197.309m to $222.023m; an increase of $24.714m.

Dividend announcement

A dividend of $0.12 per share has been declared by the Board. The dividend is fully imputed and will be paid on 23 March 2018 to those shareholders on the register at 5pm, 16 March 2018. The dividend reinvestment plan will apply to the distribution. This dividend will bring the total dividends distributed in the last 12 months to $0.22 (prior twelve months $0.20).

Outlook

Seeka is anticipating a return to average Hayward (green) kiwifruit yields along with a steady increase in the Zespri SunGold volumes. The improvement programmes underway in Australia are expected to progressively improve earnings, and along with the anticipated increased New Zealand avocado earnings and continuing development of the Delicious Nutritious Food Company give Seeka a positive earnings outlook. Seeka is anticipating an improvement to earnings at an EBITDA level of between 5% and 10%.

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23 February 2018

Seeka
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Reporting period for year ended 31 December 2017.

Financial summary

Revenue from ordinary activities ($000)	$ 186,814	down	2%
Profit from ordinary activities before tax attributable to security holders ($000)	$ 9,908	down	27%
Net profit attributable to security holders ($000)	$ 5,833	down	44%
EBITDA before revaluations and impairments ($000)	$ 23,128	down	7%

Per share values	Year ended 31 December 2017	Year ended 31 December 2016
Basic earnings per share	$ 0.35	$ 0.65
Diluted earnings per share	$ 0.34	$ 0.62
Net asset backing per share	$ 5.63	$ 4.89
Net tangible assets per share	$ 5.18	$ 4.34

Notes and Tables

1. This announcement should be read in conjunction with the attached 2017 annual report (Audited). A copy of the 2017 annual report can also be found on Seeka's website www.seeka.co.nz.
2. EBITDA before revaluations and impairments is considered by the board to be a key measure of performance and a reflection of cash flow generation.
3. The Directors consider turnover a useful measure for the readers of the Group financial statements as it provides an indication of the Group's operating activity including the value of sales as an agent made on behalf of growers and suppliers but where the Group is considered as the vendor by the end customer.

Revenue ($000s)	**2017**
Turnover	217,902
Value of sales made as agent	(31,088)
Revenue	**$ 186,814**

EBITDA ($000s)	**2017**
Net profit before tax	**$ 9,908**
Impairment charges and revaluations	
Impairment of assets	102
Impairment of intangible assets	2,031
(Gain) on revaluation of land and buildings	(1,396)
Depreciation expense	8,218
Amortisation of intangibles	484
Interest	3,781
EBITDA before impairments and revaluations	**$ 23,128**