

26 February 2020

\$34.5m

Operating EBITDA

\$12.8m

Net profit after tax

9 cents

Per Share, Fully Imputed
Interim dividend

PGG Wrightson announces positive earnings and dividend increase

Group Operating Performance

PGG Wrightson Limited (“PGW”)* announced today that the company has recorded a pleasing first half result and is positive about its trading performance.

Chairman Rodger Finlay reported that Operating EBITDA** for the six months to 31 December 2019 was \$34.5 million, showing strong improvement over the comparative period. This includes the impact of the new accounting lease standard which has led to an increase in Operating EBITDA of \$10.9 million. Excluding the new lease standard, Operating EBITDA at \$23.7 million was 33% higher than the comparative period.

PGW delivered a net profit after tax (NPAT) of \$12.8 million from continuing operations.

Mr Finlay said, “These results have been driven by strong performances in our Fruited Supplies and Livestock businesses, as well as a continued focus on reducing costs with the benefits of the restructure starting to materialise and flow through into our reporting. We have resized our overhead structures to fit the business and we will continue to look for efficiencies in our operations on an ongoing basis. As part of this ongoing commitment to recalibrate our cost base, the Board has resolved to capture savings through trimming the Board to five members and cutting some director fees. The combined effect of these changes will result in director fee levels reducing by approximately 18% when calculated on an annualised basis.”

“Taking into account the positive performance of the business the Board has resolved to pay a fully imputed interim dividend of 9 cents per share (a 20% increase from the interim dividend payment in 2019 on a post share consolidation basis) on 3 April 2020 to shareholders on PGW’s share register as at 5pm on 6 March 2020.”

Trading Performance

Agency

Trading in the first six months of the financial year was strong by comparison to the previous year. This was assisted by generally conducive farming conditions across large parts of the country and a mild spring that saw good feed in most regions. Commodity pricing for lamb and beef held and remained high compared to historical levels. This has been welcomed by sheep and beef farmers as commodity pricing has been driven by strong demand from China.

Confidence in the dairy sector remains subdued with access to bank funding having become more constrained together with increased environmental and regulatory pressures creating a degree of uncertainty for dairy farmers.

PGW Chief Executive Officer, Stephen Guerin commented that “There has been impressive growth in PGW Livestock’s innovative Go livestock programmes. The Go programmes were only launched as a pilot in 2015 and in December 2019 the millionth lamb was purchased. There has also been equally notable growth in our Go-Beef counterpart. The investment in the Go range at 31 December 2019 was \$38.6 million, compared to \$31.0 million last year. Go is an excellent example of how PGW can innovate and develop products that meet the needs of our customers.”

Our Wool business traded solidly for the period with Operating EBITDA (excluding NZ IFRS 16) up 21% compared to the same period last year. Grower bales sold are on par to last year while export volumes are up 16% and there has been a continuing focus on reducing our costs. The Real Estate business is experiencing reduced activity within the rural segment but has maintained its market position and share.

Retail & Water

Revenue for the Retail & Water group was up \$5.0 million on the same period last year. Conditions in the horticultural sector have remained positive and our market leading Fruited Supplies business has performed well in servicing the sector and its continued growth. The buoyant conditions in horticulture have been underpinned by solid export returns. This has in turn stimulated further investment and development with larger enterprises diversifying their portfolios into the sector. Fruited Supplies remains well placed to benefit from this growth as it builds on its reputation as the market leader in delivering technical expertise, products and service.

Our Agritrade wholesale business has continued to demonstrate growth year on year with revenue up on the same period last year by \$3.4 million (+9.2%). This was achieved through growth in our existing range in addition to product acquisition. We continue to source opportunities to provide distribution services for international brand owners contracting with Agritrade to bring their products to market locally.

The implementation of the renewal programme for our network of Retail premises across the country has continued with improvements and upgrades implemented at a number of rural towns as well as the relocation of our head office to premises on the Christchurch International Airport campus.

Mr Guerin said that “It has been especially pleasing to see that the distribution arrangements between PGW Rural Supplies and PGG Wrightson Seeds have continued to operate seamlessly since the divestment of the Seed and Grain business in May last year. The seeds offering is an important part of our business and I have been heartened by the way in which our respective teams have continued to work together to deliver seeds and related inputs to our customers as we have always done.”

“Trading conditions have remained challenging in some pockets of the business with Mycoplasma bovis having an impact on dairy and beef customers. Policy changes to the application of the Overseas Investment Act and other environmental regulation have also had an impact on land values and investment decisions, and capital investment into dairy operations in particular. Access to debt is constrained.”

“The PGW Water business continues to face challenges given the lack of on-farm development. Changes to government policy and the discontinuation of development of irrigation schemes together with increasing environmental regulation have resulted in sluggish demand. Accordingly, revenue for the Water business was back \$7.1 million or 34%.”

Other

In August 2019 PGW made a capital distribution to shareholders of \$234 million and declared a dividend payment of 7.5 cents per share (\$5.7 million). Following these payments PGW’s net interest-bearing debt was \$59.3 million as at 31 December 2019. A substantial portion of this debt (\$38.6 million) relates to PGW’s investment in our Go livestock products.

Capital expenditure for the six months to 31 December 2019 was \$4.6 million (\$2.9 million less than the comparative period for the prior year). This spend has seen continued investment in information technology including the bidr® online trading platform and in Retail technology.

The financial statements have been impacted by the introduction of the new lease accounting standard (NZ IFRS 16). The impact of this change has reduced NPAT by \$0.9 million. It is important to note that this change has no net cash impact and is for financial reporting purposes only and is also excluded from our bank covenant ratios and dividend calculations.

Outlook

Mr Finlay said “The Directors are pleased with the progress achieved in the first half and the financial results.”

“At this early stage, the Directors currently expect Operating EBITDA from continuing businesses for the full year to be around \$30 million excluding changes due to the lease accounting standard. The Directors note there are still many months of trading to complete and there could be some volatility to earnings due to the impacts of COVID-19 on agricultural trade flows.”

Stephen Guerin
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* All references to PGG Wrightson Limited refer to the company, its subsidiaries and interests in associates and jointly controlled entities.

** Operating EBITDA: Earnings before net interest and finance costs, income tax, depreciation, amortisation, the results from discontinued operations, fair value adjustments and non-operating items.

PGW has used non-GAAP profit measures when discussing financial performance in this document. 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).