

## **CHAIR SPEECH FOR ANNUAL MEETING 24 NOVEMBER 2020**

Good morning Ladies and Gentlemen,

### **Welcome**

My name is Richard Perry and I'm the Chair of Allied Farmers. I welcome you all to our Annual General Meeting today on the behalf of the Board and the Management team. Joining me today are my fellow directors – Philip Luscombe, Marise James, and Ross Verry and our Management team including Steve Morrison our CE, Brian Lee our CFO, Bill Sweeney our GM Livestock and Ross O'Neill who leads our legal and company secretariat affairs. I would also like to welcome the Allied staff joining us today.

### **Financial Statements**

The financial statements and the reports of the directors and auditors for the year ending 30 June 2020 are set out in the company's 2020 Annual Report. The Annual Report was sent to shareholders via a link or hard copy on 31 August 2020 and is available on the company's website.

### **Chair Address**

It was my privilege to assume the Chair role from 1 July this year taking over from Mark Benseman who had been Chair for a number of years and who has now retired from the Allied Board. Before addressing you today, I would like to acknowledge the contribution of Mark as a director and Chair for over five years and having been a supportive shareholder longer than that.

Mark made an impressive contribution to Allied which among other things has seen its capital structure simplified and refreshed, a clear strategy developed and communicated, a refreshing of the Allied Board to bring in Directors with skills and experience in the areas of operations and strategic focus, and contributing significant amounts of time supporting the Management team and the Board where needed.

So as I address you today, I can say to you that our 130 year old company is in good health having weathered quite a battering over the last year or so and has some exciting and value-adding opportunities both in the core business and in the area of strategic diversification.

Later in my address I will be putting forward certain motions that the Board consider very important and fundamental to the ongoing growth and strategic development of Allied. Before I briefly explain I will give you an overview of how the proceedings will go today, a brief chat about the 2019/20 year, an overview of the 2020/21 landscape and an explanation of the motions. After that, our Chief Executive, Steve Morrison, will provide some more detailed explanation of the 2019/20 performance. There will then be the opportunity for you to ask questions and discuss the 2020 Annual Report. After that discussion, I will formally put the business resolutions to the meeting.

So, to the 2019/2020 year – a year marked by significant national drought, a global pandemic, and political uncertainty and volatility. It's fair to say it was a hard year on many farmers, probably in the main due to drought, but exacerbated by disruptions to meat processing, sale yards and global markets. Fortunately, the Allied team through New Zealand Farmers Livestock experienced a very strong financial first half year which positioned us well as we approached the second half. Despite the significant loss in second half revenue we were able to maintain delivery of services through our skilled team and through some real team innovation, worked very hard to achieve in essence a financial break

even second half of the year. This was a significant achievement by the team supporting farmers in the field in some very difficult operating conditions.

The financial results are shown in the slides and demonstrate the challenges of the last trading year. Overall, our profit of \$1.2 million is down \$800,000 from the previous year's \$2 million. Our Chief Executive Steve Morrison will provide more detail on that later in the presentation but the result basically reflects lower livestock trading revenue driven largely by the drought and Covid-19 issues and slightly higher costs reflecting the ongoing cost pressures we like all businesses face. Despite this, our revenue continues to be consistent with our growth over previous years and our balance sheet continues to strengthen.

The year was a reminder of the importance of diversification and while that does exist to a degree in the rural services area, part of our strategy has been to both grow our existing livestock business and also diversify by investing to deliver the solutions to food producers that will be needed as we move through the next five years as an industry.

Our year's highlights included (slide):

- Continuing to service our clients during the Covid-19 lockdown to deploy NZ's first ever hybrid auction system that allowed sale yards to re-open safely in a limited capacity and farmers to participate in live auctions online and remotely.
- Improving our approaches to health and safety, risk management and staff wellbeing through a number of initiatives including the extension of some staff benefits such as health insurance for staff.
- The further strengthening of our Board with the appointment of Ross Verry to chair our Finance business and lead the development of that opportunity.
- Appointment of KPMG as the new auditors including the refinement and improvement of our financial statements to "cut the clutter" and improve transparency and communication of our financial performance and position to stakeholders.
- The clarity obtained in challenging and resolving an issue with IRD in respect of using the accumulated tax losses of the company.
- Evaluating several strategic opportunities to deliver new solutions to our customers either via partnering or investment with the most visible being the NZRLM opportunity.

We are continuing to work very hard on our core business as we move forward in what remain somewhat challenging farming conditions. I don't think I need to tell any of you of the upcoming and ongoing challenges for our agricultural sector in terms of water and environment taxes and legislation, market trading conditions in the face of the pandemic and extended closure of the food service sector. This has been compounded by the extended credit crunch on the agricultural sector and financial implications of a print money, zero interest rate environment and its impact on "real assets" such as farms and food producing land. These are all uncertainties and realities of today's and tomorrow's business environment, but also provide us with opportunities.

As an island with strong bio security, and a re-thought out approach to border management, we can continue to produce high quality and environmentally friendly food for our customers who value the provenance, taste and quality of our products. It is critical that our food producers continue to receive high value and cost effective support and access to solutions that will assist in delivering this vision. This includes support across several areas in which the Allied Group has expertise – finance, agricultural technologies, and livestock solutions. So I remain positive.

To support and extend these initiatives, Allied has for some months indicated its intention to grow its capital to support the investment in strategic growth initiatives. Today we seek support with three strategic initiatives.

The first strategic initiative presented to the shareholders is the 50% investment in NZ Rural Land Management Company through the issue of 5 million Allied shares at 50 cents per share.

This initiative has been negotiated and evaluated for several months and is only transacted when the NZ Rural Land Company has successfully raised \$75million in its IPO. The deal has been approached and evaluated based on NZRLC growing in size over time and this is seen as highly realistic in an environment where food producers are becoming increasingly constrained for capital. Our Board and management team has for some time been observing an ongoing reduction in core bank lending to the agricultural and rural sectors and we are witnessing an increasing demand for alternative sources of rural capital.

NZRLC provides one solution, and if NZRLC grows as we expect, the size and value of the Management Company will scale and increase without requiring substantial additional capital in NZRLM. The deal is expected to well exceed our internal return thresholds and be value accretive to the Allied shareholders with the potential to grow and become an ongoing profit and dividend contributor to the Allied Group. We also see this as a contributor to shaking the impasse for many around dairy farm sales, perhaps adding to some owner options.

In addition, we are shortly proposing to offer our shareholders the opportunity to participate in our 1:3 rights issue capital raise also at 50 cents per share. This will give our shareholders the opportunity to increase their shareholdings at the same price as the placement to the current Management Company owners, and without having to pay broking fees. Importantly, any rights to these shares not taken up will be listed for sale on the NZX, meaning that it may be possible for shareholders to receive some value for the rights they do not wish to exercise, and for shareholders who want more shares than their entitlement, to buy these rights.

Lastly, we seek shareholder approval to issue up to \$5 million in shares at 50 cents per share by way of placement. This level of capital, coupled with new capital from the rights issue, will give us the funds we require to accelerate our diversification strategy.

By way of example, the intention is to invest a proportion of the new funds into the growth of our finance subsidiary, Rural Funding SolutionNZ. Through NZ Farmers Livestock we have successfully operated a small and efficient seasonal livestock financing business that has performed well over the last five years. However, we need capital to grow Rural Funding SolutionNZ to a meaningful scale. This will enable us to improve our finance offering to our NZ Farmers Livestock client base, as well as likely widen our product offering, term structure and services to the wider rural sector. As we scale this area we will consider additional growth strategies including exploring strategic partnering and alternative funding options, and hiring additional resources.

We will also continue to evaluate ways of supporting new solutions in the wider agricultural and Agritech space. This will include the ongoing investment in Mylivestock and continuing to evaluate whether we can support the growth and value of companies developing new technologies with either our expertise or capital. In the last year, we have closely evaluated a number of opportunities in this area and we will continue this as part of our ongoing diversification strategy.

It is proposed that we will place the shares in stages over the next twelve months. Initially we will seek placements of up to \$2 million worth of shares predominately to fund the finance initiative I have previously outlined, followed by placements in excess of that amount for the purpose of funding additional identified opportunities that meet strict investment criteria approved by the Board. In this way, we will not have significant amounts of new capital on our balance sheet that is not readily able to be deployed on these opportunities. Be assured that the Board criteria for approving any new investment, and by extension raising additional capital, include the investment meeting our strategic objectives and achieving an acceptable rate of return.

Finally, I'm delighted to announce a dividend to holders of our existing shares of 1.2 cents per share (fully imputed). This dividend will not be available to any participants in the placements (including the vendors of the Management Company) or participants in our rights issue. To achieve this in the current financial year is a pleasing accomplishment, but you will note that it is lower this year to reflect the lower profit. As has been the case for the last few years, the dividend will be paid in January 2021.

So I close by commending to you your diligent and hard working Board, Management and Staff who really go to great lengths to ethically and responsibly deliver the best outcomes possible to our shareholders. We will and continue to faithfully and energetically represent, protect and grow your interests and look forward to your ongoing support as we deliver value from an exciting array of future opportunities.

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