

NZX Announcement



15 AUGUST 2023

PGW Delivers Positive Trading Performance in Volatile Market



\$61.2m

Operating EBITDA



\$17.5m

Net Profit After Tax



10 cents

Per Share, Fully Imputed
Final Dividend

GROUP PERFORMANCE

PGG Wrightson Limited¹ (PGW) today announced its results for the financial year ended 30 June 2023. Financial highlights for the year to 30 June 2023 included:

- ❖ Operating EBITDA² of \$61.2 million (down \$6.0 million or 9% on prior financial year)
- ❖ Net profit after tax (NPAT) of \$17.5 million (down \$6.8 million or 28% on prior financial year)
- ❖ Revenue of \$975.7 million (up \$23.0 million or 2% on prior financial year)
- ❖ Fully imputed final dividend of 10 cents per share (22 cents per share for full year)
- ❖ Second-strongest trading performance for the business since the PGW Seeds divestment (bettered only by last year's record result)

PGW Acting Chair, Mr U Kean Seng said "Against a challenging backdrop, PGW delivered strong financial results for the financial year. Although Operating EBITDA of \$61.2 million was down \$6.0 million (9 per cent) and NPAT of \$17.5 million was down \$6.8 million (28 per cent), revenue grew to \$975.7 million and was up \$23.0 million (2 per cent) compared to the prior year. These results were realised with margins broadly in line with the comparative period. This is the second-strongest trading performance for the business in recent years and bettered only by last year's record result.

The resilient performance of PGW in volatile market conditions is perhaps the most pleasing aspect of the result. Strong operating performance was generated by most business units with Livestock, Wool, and Water all experiencing solid demand. Rural Supplies and Fruitfed Supplies again experienced a standout performance. The exception was our Real Estate business which continues to operate in difficult market conditions.

Macro trading conditions for the year have been volatile with increasing input costs, inflationary pressures, and falling commodity returns for our clients. A wet and cold spring delivered frosts which affected a number of crops. Two cyclones through late summer also resulted in significant crop and rural infrastructure damage in the North Island.

In the context of these market conditions, we are heartened by the performance of the business and what has been achieved this financial year. We are proud of the way our team responded to the demands experienced in their regions and the extraordinary efforts of many in the way they supported each other, our clients, and their communities in need.

The Board has declared a fully imputed final dividend of 10 cents per share. The dividend will be paid on 3 October 2023 to shareholders on PGW's share register as at 5pm on 15 September 2023. This will effectively bring the total fully imputed dividends for the year up to 22 cents per share."

Retail & Water Group

PGW CEO, Stephen Guerin said, "The Retail & Water business incorporates Rural Supplies, Fruited Supplies, Water, and Agritrade. Retail & Water's Operating EBITDA was an impressive \$54.1 million and up \$1.6 million on the prior year (or 3 per cent). Revenue of \$785.3 million, was up \$24.0 million or 3 per cent.

This financial year has been another record year for our Retail & Water businesses. Increased sales were recorded in the animal health, fencing, general merchandise, and horticultural categories.

We transacted increased business volumes with the same level of staff, which is something we are very proud of and testament to the commitment of our team members.

Our clients appreciate the superior technical ability of our people who are backed by our dedicated Research and Development team. We will continue to build on this point of difference to ensure we maintain and increase our market share.

Global supply chain disruptions following COVID-19 caused us to carry higher levels of inventory to ensure we could provide our clients with the right products at the right time. Elevated inventory levels caused some challenges with storage and working capital management. As international shipping delays are easing there is more certainty regarding deliveries. We have adjusted inventory levels given that we do not need to carry the same quantities of buffer stock as was considered necessary in the prior year.

Rural Supplies recorded its best performance ever exceeding last year's record result, with strong sales across a range of categories. We continued to grow market share and delivered an outstanding result in a shrinking market. To achieve growth on last year is an exceptional result given the climatic challenges and demonstrates the strength of our Rural Supplies business.

Our people are passionate and motivated to go the extra mile for our hardworking clients. We are winning new business and seeking opportunities with key accounts, in animal health, forestry, and the ever-changing landscape of our traditional business.

The wet spring contributed to additional Ag chem sales in our Fruited Supplies winery and horticultural merchandise business. Our market share also increased in the vegetable sector which is an important area we have targeted for growth.

The damage caused by spring frosts and floods across parts of the North Island and the impacts from Cyclone Gabrielle in the Tairāwhiti and Hawke's Bay regions will impact the Fruited Supplies business over the next few seasons. However, the long-term outlook for horticulture remains positive.

Our Fruited Supplies strategic plan focuses on adapting to changes in the industry, capitalising on category growth, and how we can proactively and strategically adapt to land use change.

The Water business' strategic focus is to add value to our clients' businesses by growing service delivery and the best technical advice. We are the market leader with the most technically skilled workforce as verified by Valley and the only current Valley Certified Field Technicians and Certified Valley Designers in the country.

Our Sales and Design crew are actively targeting irrigator upgrade options and enquiries for infill irrigation are increasing, specifically where clients see the benefit of fixed grid solutions.

Agritrade, our wholesale business division, celebrated its 10-year anniversary in September 2022 and showed good growth over this period. This past financial year has seen another lift in sales revenue with growth across horticultural inputs and animal health products. Our range continues to expand as suppliers look to us to supply product given our large logistics function and growing reach to merchants and vets across the country.

Agency Group

Our Agency group incorporates the Livestock, Wool, and Real Estate businesses. Operating EBITDA was \$16.1 million and was down \$5.8 million on the prior year's strong result (26 per cent). Revenue was \$188.8 million, which was broadly in line with the prior year's result, down just \$0.6 million.

Our Livestock business achieved a solid performance in a difficult market. Whilst there were challenges through softer sheep pricing, significant wet weather events in the North Island and declining tallies in some stock lines, there were also positive outcomes for the year. The wet conditions contributed to greater pasture growth than normal which created unseasonal trading during the summer and autumn seasons.

Revenues received for cattle were robust, with higher prices received compared to the prior year. This was driven by healthy pricing achieved throughout the year which was assisted by abundant feed and increases in export volumes. Sheep pricing was below expectations throughout much of the year as demand was slow to recover in our key export markets.

GO-STOCK, our grazing programme which frees up capital in order that farmers can invest in other areas of their businesses, achieved another record year with the highest balances recorded in terms of values and tallies. GO-BEEF, including the new GO-BEEF PRIME offering, and GO-STOCK DAIRY performed well. During FY23, two significant milestones were reached with over 350,000 cattle and 2.3 million lambs purchased through GO-STOCK since its launch during the 2016 financial year.

The PGW Velvet business delivered a strong performance, achieving its best result ever. This was achieved through increases in volumes traded with South Korean health food customers. China's extended shutdown caused slower sales which reduced prices on the prior year. With all velvet stock sold and exported, it remains a profitable income stream for deer clients and continues to grow in both production and quality.

The Genetics business achieved some outstanding results with its bull sales. The team is investigating the value add of a "beef over dairy" strategy which will benefit dairy farmers seeking genetics that shorten gestation, maximise ease of birth, and increase profitability of cattle.

Overall, the Wool business had a solid year with total bales procured into stores in line with last year. Wool growers continue to be negatively impacted by cross-bred wool prices. PGW Wool had another steady fine wool season, growing market share supported by high value long-term merino contracts with growers.

The real estate market has experienced one of the toughest years in some time with high interest rates, stricter regulatory requirements, softening commodity prices, and uncertainty regarding the outcome of the general election in October 2023 all contributing to negative sentiment.

This was reflected in operating results for PGW's Real Estate with the decline in market activity leading to significantly fewer sales being made than in the prior financial year. On the positive side, we maintained our market share and increased share in some regions."

Cashflow and Debt

Mr U reported that "PGW recorded operating cash flows during the year of \$25.5 million, which was \$1.8 million higher than the prior year, impacted by higher income tax payments on last year's exceptional result together with higher funding costs.

PGW invested in working capital during the year, including implementation of our strategy to grow our GO-STOCK receivables book to \$74.0 million at 30 June 2023, an increase of \$7.9 million or 12.0 per cent from 30 June 2022.

Capital expenditure of \$17.1 million was \$8.4 million higher than 30 June 2022. This increase was driven by the significant investment in our IT Systems Business Improvement Programme (which includes both operating expenditure and capital expenditure components) and is due to go-live in the 2024 financial year.

Our net interest-bearing debt was \$65.3 million as at 30 June 2023, an increase of \$32.5 million from the prior comparative period.”

Outlook

Mr U noted, “There is a significant degree of volatility in the global economy and international markets currently. New Zealand, like many of our key trading partner nations are committed to taming inflation with Central banks lifting interest rates. The effect of this monetary policy is being felt with inflation levels beginning to trend lower but with elevated interest rates raising borrowing costs.

Growth in emerging economies is forecast to increase faster than developed countries. The longer-term outlook is positive with the government projecting steady growth for New Zealand primary exports and revenue projected to reach \$62 billion by 2027. As a market leader in the sector, PGW is in a strong position to assist our clients grow their businesses as they respond to export demand.

Our country’s farmers and growers are renowned for their resourcefulness and their pioneering spirit continues with creating new solutions to adapt to climate change and become more efficient. Regardless of the regulatory framework that is ultimately adopted, the primary sector will adapt and continue to enhance its social licence to operate. PGW is on a journey to reduce its emissions and has committed to a 30% reduction target by FY30 from our FY21 baseline. This emissions target is part of the broader Sustainability Strategy to embed sustainability within our operations and ensure PGW remains future focused.

It is too soon to forecast trading performance for the year, but we hope to be better placed to provide guidance for FY24 following the start of the important spring trading period at our Annual Shareholders’ Meeting in October 2023. In the meantime, we do note the following positive signals:

- ❖ PGW continues to pick up market share and we see this in key categories and in new client enquiry and business.
- ❖ Maize orders for the coming spring are strong and tracking ahead of the same time last year.
- ❖ The viticulture sector had a good harvest and New Zealand wines are in demand internationally with new plantings planned and Fruited Supplies well placed to support the growers.

While we are well positioned operationally as we move into the current financial year, we see continuing volatility and softening commodity prices for our clients and even more challenging macro market conditions out over the short to medium term than experienced in recent years.”

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¹ All references to PGG Wrightson Limited refer to the company, its subsidiaries and interests in associates and jointly controlled entities.

² Operating EBITDA: Earnings before net interest and finance costs, income tax, depreciation, amortisation, the results from discontinued operations, impairment and 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.poggwrightson.co.nz)