PGG Wrightson

NZX Announcement

13 AUGUST 2024

PGW Reports on Challenging Year

GROUP PERFORMANCE

PGG Wrightson Limited[1] (PGW) today announced its results for the financial year ended 30 June 2024.

Key results for the year to 30 June 2024 include:

- Operating EBITDA[2] of $44.2 million (down $17.0 million on prior financial year)
- Net profit after tax (NPAT) of $3.1 million (down $14.5 million on prior financial year)
- Revenue of $915.9 million (down $59.7 million on prior financial year)
- No FY24 final dividend declared

PGW Chair, Mr Garry Moore said "The agricultural sector continues to navigate persistently challenging market conditions and this volatility is reflected in PGW's financial results. PGW's Operating EBITDA of $44.2 million is back on the strong trading results of recent years and this is largely a product of the economic environment being felt across the sector. We often say that PGW prospers when our farmer and grower customers do well. Our customers have faced difficult conditions over the past year and consequently this has impacted our results.

PGW has done well to continue to hold and grow share in the markets in which we operate but we have seen farmers and growers cutting back where they can and deferring discretionary spend. We have continued to support our customers with all their essential production requirements, but the sector is in the grips of a period of austerity where non-essential and discretionary spend has been paused.

Despite the environment our receivables have held up well and our collections are healthy. Gross margins have also remained steady across the business.

While most of the agri-sector has been impacted, some have been harder hit with sheep farmers experiencing soft export demand and weaker commodity pricing and the rural real estate market going through a particularly quiet period. The 6% decline in revenues from the prior comparative period represents the first drop in PGW's revenues since FY18. The Retail & Water businesses accounted for the majority of the revenue decline. There remains a carry-over effect from the devastation caused by Cyclone Gabrielle last year with areas not yet replanted.

Symptomatic of the market sentiment, the Federated Farmers Farm Confidence Survey released in July recorded the second lowest confidence levels ever with 33% of farmers making a loss, only 27% reporting a profit and 39% breaking even this year. The four greatest concerns for farmers were noted as financing costs; volatile commodity prices; regulatory compliance and input costs.

The agricultural sector is cyclical, and we have seen these ups and downs before and remain positive about the longer-term prospects of the sector. Based upon current indications, the rural servicing market in New Zealand looks like it will remain subdued through the current calendar year. There are however some positive signals with inflationary pressures easing and input costs stabilising. We are also optimistic about longer term demand for sustainably produced, safe and trusted sources of food and fibre and see New Zealand growers well placed to support this growth.

PGW recorded a Net Profit After tax of $3.1 million noting this was negatively impacted by a one-off non-cash $0.9 million deferred tax expense due to the in change in legislation for tax depreciation on long-life commercial buildings.

Given the continued difficult trading conditions impacting the sector and wider economy the Board has declared a final dividend for the year.

In view of the current operating environment there has been increased focus within PGW on cost control measures and monitoring of expenses such as travel, vehicles and recruitment etc.

Staff Acknowledgements

PGW CEO, Stephen Guerin said "Before commenting on business performance, I would like to acknowledge the immeasurable loss PGW experienced in April this year with the passing of Grant Edwards, General Manager Wool. Grant dedicated 40 years to the business and his leadership will leave a lasting influence. As a stalwart of wool, his passion for the industry was unwavering.

I would also like to acknowledge the very sad passing of Victor Schikker, a valued member of our Livestock team, who passed away following a tragic accident in recent days having given nearly 50 years of quality service to the business and our clients. Our thoughts are with Victor's family at this time.

Retail & Water Group

The Retail & Water business incorporates Rural Supplies, Fruitfed Supplies, Water, and Agritrade. Retail & Water's Operating EBITDA was $41.0 million; down $13.1 million (-7%) on the prior year. Revenue of $733.6 million, was down $51.7 million (-7%).

Retail & Water experienced a drop in demand with farmers and growers alike reducing their spend levels.

Despite the market conditions our retail business continued to consolidate market share in most categories. Even in these difficult times customer feedback and market research indicators support the view that PGW is on the right track in terms of our professionalism, technical knowledge, and service. When budgets are tight, we understand the heightened need for our customers to optimise value from their spend. In that context, our focus on providing the best technical advice and expertise along with leading innovation becomes even more important and differentiates our customer proposition.

Even in the trading conditions we have experienced in over recent times, our Fruitfed Supplies network has continued to set the standard in the market. The business achieved its best performance in Crop Monitoring Services and our Ag-Chem category recorded its second highest sales year.

The impacts of Cyclone Gabrielle continue to be felt. A number of our clients in the Gisborne and Hastings areas lost large portions of their crops in 2023 and therefore less inputs were required in the new season. Some clients lost their entire season's crop last year impacting their cash flows and income.

Returns for some crops have been softer. The apple, avocado and kiwifruit industries have experienced reduced returns, with prices obtained for some varieties at levels not experienced for several years. The drop in returns resulted in reduced spending in some product lines. Despite a good harvest, yields for wine growers were lower with this year's harvest back 21% on last year's tonnage.

Agency Group

Our Agency group incorporates the Livestock, Wool, and Real Estate businesses. Operating EBITDA was $12.3 million which was down $3.8 million (-23%) on the prior year's strong result. Revenue was $180.7 million, which was broadly in line with the prior year's result, down just $8.1 million (-4%).

Our Livestock business was impacted by the tougher macro-economic conditions. Elevated inflationary pressures and input costs led to subdued purchasing from farmers and a noticeable reduction in bull sales. Sheep prices were back significantly due to subdued export demand from China coupled with an increase in supply from Australia. These factors combined to reduce commission revenue.

Lower stock volumes were traded in the North Island, as a feed surplus throughout much of the year led to farmers holding livestock for longer. Whereas cattle trading was robust in the South Island, with tallies up slightly compared to the prior year as drier conditions led to increased stock turnover.

Our GO-STOCK grazing programme continued to see positive demand. GO-STOCK frees up capital for farmers allowing them to invest in other areas of their businesses. Robust returns were generated from GO-STOCK and continues to prove popular with sheep, beef, dairy and deer farmers.

Our bidr® database of buyers continued to show development. This growth is driven by continued demand for online bidding and livestreaming of cattle sales at saleyards and on-farm auctions, with especially strong demand in livestock genetics markets. We have regular livestreaming from 13 saleyards around the country and a growing number of on-farm auctions with over 950 auctions streamed during the year.

The season delivered a degree of stability for wool growers with some wool types approaching three-year highs, although significant scope for value growth remains. Merino wool met steady competition from fine wool buyers with solid prices.

It has been a particularly challenging year for the rural real estate market. Momentum in this market remains subdued, with farm sales significantly down on the prior year. The economic climate has impacted farm and agricultural land prices and produced a mismatch between vendor and purchaser expectations.

Sheep and beef property sales were slower due to low farm gate returns. The dairy sector saw some momentum with increased interest in the dairy properties listed following the uplift in the forecast farmgate milk price. Uncertainty is also evident in horticulture with fewer listings than expected."

Cashflow and Debt

Mr Moore reported that "PGW recorded operating cash flows during the year of $57.7 million, which was $32.2 million higher than the prior year. The key drivers of the higher operating cashflows were a reduced GO-STOCK balance from that recorded in June 2023 together with lower income tax payments.

Capital expenditure of $22.8 million was $5.7 million higher than the prior comparative period. This spend included the continued investment in our IT Systems Business Improvement Programme and the acquisition of our co-owners' half-share in Frankton saleyards in the Waikato.

Our net interest-bearing debt was $59.2 million as at 30 June 2024, a reduction of $6.1 million from the prior comparative period.

PGW renewed and extended its syndicated bank facilities during the year through to 2026. These facilities provide extended term and working capital limits and allow for growth in our GO-STOCK book."

Outlook

Mr Moore noted, "Looking ahead, the rural servicing market in New Zealand remains relatively challenged in the near term but is expected to see moderate growth over the longer term. Commodity prices remain relatively volatile and underpins a cautious approach from growers and farmers. Geopolitical tensions are contributing to volatility. A slower than expected recovery of the key Chinese export market continues to dampen commodity price expectations.

Economic pressures through elevated funding costs remain as interest rates continue to exert pressure on the agricultural sector. Interest rate and inflationary relief is expected to come as global economic conditions stabilise. This should lead to more manageable debt servicing costs and predictable inflation.

With this backdrop, PGW expects to see continuing subdued demand for agricultural inputs and services over the short term while producers face these challenges. Over the coming 18 months we would anticipate these pressures to ease and increasing demand for rural inputs and services as farmers and growers invest in their productive operations.

It is too soon to forecast trading performance for the year, and we would expect to be better placed to provide guidance for FY25 following the start of the important spring trading period at our Annual Shareholders' Meeting in October 2024."

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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.pggwrightson.co.nz)