

## ASX Announcement

Ruralco Holdings Limited (“Ruralco”) (ASX: RHL)

Tuesday, 14<sup>th</sup> May 2019

## Diversification strategy again delivers earnings resilience

### HIGHLIGHTS

- Revenue up 3% to \$686.1million
- Underlying EBITDA<sup>1</sup> up 2% to \$37.7million
- Underlying NPAT<sup>1</sup> stable at \$16.6million, in line with guidance provided at AGM
- Underlying EPS<sup>1</sup> down 1% to 15.8 cents
- Reported NPAT down 4% to \$15.5million (Reported EPS down 4% to 14.7 cents)
- Operating cash outflow improved 7% to \$16.9million
- Declared interim fully franked dividend of 10 cents per share

Ruralco announces top line growth of 3% and a stable underlying net profit after tax of \$16.6million for the half year ended 31 March 2019 in what has been another challenging season.

Travis Dillon, Ruralco’s CEO & Managing Director, said: “Our strategy, including a focus on diversifying our channels to market, geographical footprint and activities, has delivered another resilient earnings result.

For the business to deliver such strong results in the face of mixed seasonal conditions and commodity headwinds is a testament to the success of our strategy and supports the value attributed to the business by the Nutrien offer received in February.

The Nutrien transaction process still has some way to go and we are acutely aware that such processes can distract businesses, but I am confident the stability exhibited by our people and our businesses will continue to underpin the Group’s performance.”

Directors declared an interim fully franked dividend of 10 cents per share with a record date of 31<sup>st</sup> May 2019, payable to shareholders on 18<sup>th</sup> June 2019. This represents a dividend payout ratio of 63% of underlying first half earnings. The Dividend Reinvestment Plan will not operate with respect to this dividend.

### Rural Services

A resilient Ag Supplies result, growth in Real Estate and disciplined cost control helped offset declines in cattle prices and wool volumes to hold uEBITDA for this division steady at \$47million for the half.

Supported by its geographically diverse retail network, Ag Supplies gross profit increased 2%. Key highlights include increased fertiliser sales in Queensland and Tasmania and strong demand for stock feed and animal nutrition products on the back of increased volume of livestock on feed and dry conditions in Queensland and the southern states. Conversely, inconsistent rainfall in key cropping zones, lower water allocations and reduced cotton and rice plantings lead to a decline in crop protection sales.

Volume growth of 7% in cattle sold through the network and an increase in higher value rural property sales continued to support Agency earnings through the half, limiting the decline in Agency gross profit to only 1% from the anticipated softening of domestic cattle prices and reduction in wool clip.

### Water Services

The benefits of an expanded, more geographically diverse footprint have balanced out the impact of prolonged dry conditions on farmer confidence and water projects activity with Water Services uEBITDA relatively flat at \$9.6million.

<sup>1</sup> See page 3 for definitions of these non-IFRS financial measures

Buoyant temporary and permanent water entitlement markets have driven strong growth in water broking results in the half but the same drivers of these market dynamics (sustained reduced access to water and inconsistent rainfall) have impacted farmer confidence in investing in on-farm water infrastructure projects, leading to a slowdown in water projects activity in key geographies along the Murray Darling basin and northern NSW until seasonal conditions improve.

The division's results have also benefited from the impact of acquisitions undertaken in 2018 and from recovery in water retail activity, particularly in Western Australia although the non-agriculture focused landscaping and civil projects business in that market continues to experience restrictive market conditions, stifling earnings growth.

## Financial Services

The Financial Services division continued its profitable growth trajectory with uEBITDA of \$0.5million for the half (compared to break even in the pcp). The business continues to build scale in its finance and insurance broking activities, with 11% growth in the Seasonal Finance loan book and 19% growth in the Flexi Finance loan book and Ausure insurance GWP growing 4%.

## Live Export

The Live Export division (Frontier) pleasingly returned to profitability (uEBITDA of \$0.1million) with strong growth in volumes to Indonesia and a return to trading margin profitability, despite continued elevated feed costs and competition in the South East Asian cattle market.

## Nutrien transaction update

On 27<sup>th</sup> February 2019, Ruralco entered into a Scheme Implementation Deed with Nutrien Ltd (Nutrien) under which it is proposed Nutrien or one of its wholly owned subsidiaries will acquire 100% of the issued share capital of Ruralco for Total Cash Consideration of \$4.40 per share.

The transaction is recommended by the Ruralco Board with the Total Cash Consideration of \$4.40 representing a 44% premium to the closing price of Ruralco shares on the 25<sup>th</sup> February 2019 and a 44% and 45% premium to the 1-month and 3-month VWAP, respectively.

Ruralco expects to lodge the draft Scheme Booklet, which includes half year 2019 financial information, with ASIC shortly for its review. The Scheme Booklet is expected to be distributed to Shareholders in early June 2019.

The exact timetable for completion of the Scheme is uncertain and will depend on the receipt of regulatory approvals from the ACCC and FIRB. The provisional date for announcement of the ACCC's findings is 13th June 2019<sup>2</sup>.

Shareholders will have the opportunity to vote on the Scheme at a shareholder meeting, which will be held following receipt of regulatory approvals. At this stage, Ruralco anticipates completion of the Scheme will occur in the second half of Ruralco's financial year.

Ruralco will continue to update its shareholders as the Scheme process continues on the Ruralco corporate website, see [www.ruralco.com.au/investors](http://www.ruralco.com.au/investors).

## Outlook

The Company remains cautious about short-term seasonal conditions. Whilst a drier than average autumn is forecast for parts of Eastern and Western Australia, dry sowing winter cropping programs have begun and recent rainfall in certain geographies has been helpful.

"For the second half, management remains focussed on executing our successful strategy, as evidenced by the resilient first half earnings performance, and doing everything necessary to progress the Nutrien transaction", Mr Dillon said.

<sup>2</sup> As per ACCC website, <https://www.accc.gov.au/public-registers/mergers-registers/public-informal-merger-reviews/landmark-proposed-acquisition-of-ruralco>

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## IFRS and Non-IFRS financial information:

Ruralco results are reported under International Financial Reporting Standards (IFRSs). This release and the accompanying Investor Presentation includes certain non-IFRS measures including underlying measures of profitability and associated performance measures such as Return on Capital Employed (ROCE) and Return on Equity (ROE) that are used internally to assess the performance of the business. "Underlying" measures of profitability provide more useful information with regard to the Group's recurring earnings base and exclude the impact of significant items, particularly those related to executing strategy such as acquisition related costs, material impairments and costs of restructuring operations as part of portfolio management activities.

The Non-IFRS measures used are defined as follows:

- Underlying EBITDA = earnings before interest, tax, depreciation & amortisation + share of profits from equity accounted investees and excluding significant items
- Underlying NPAT = Statutory net profit attributable to equity holders of the Company excluding impact of significant items
- Underlying EPS = Underlying NPAT/Weighted average number of shares for the period