

16 May 2017

ASX Announcement

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

Execution of Future Farming Strategy delivers record half year profit

HIGHLIGHTS

- Revenue of \$841.4 million, up 4% (1H16: \$805.4 million)
- Underlying EBITDA of \$33.3 million, up 23% (1H16: \$27.1 million)
- Underlying NPAT of \$13.8 million, up 20% (1H16: \$11.5 million)
- Reported NPAT of \$12.4 million, up 15% (1H16: \$10.8 million)
- Reported EPS of 14.4 cents, up 5% (1H16: 13.7 cents)
- Fully franked interim dividend of 9 cents per share declared, up 12.5% (1H16: 8 cents)
- Improved OPEX as % GP to 81% and operating leverage of 5.1x (1H16: 83%, 0.3x)
- Successful \$65 million equity raise to fund strategic portfolio of accretive acquisitions

Today, Ruralco released its half year results for the six months to 31 March 2017, delivering a record half year profit. Directors declared an interim fully franked dividend of 9 cents per share, up 12.5% from the prior corresponding period.

Ruralco Managing Director and Chief Executive Officer, Travis Dillon, said he was pleased with the strong performance of the core business.

“Our core traditional businesses have delivered top line growth driven by favourable seasonal conditions and focused cost management.

“The investment in high quality, accretive acquisitions, has brought increased scale and diversity to our businesses, both operationally and geographically.

“The Future Farming Strategy is delivering balance to our network, priming the business to perform in the face of seasonal fluctuations,” said Mr. Dillon.

Rick Lee, Chairman of Ruralco, said the Board is satisfied with progress during the half:

“Disciplined working capital management has allowed the Group to maintain a strong balance sheet, providing capacity for future growth.





“This is a strong result and the Board is confident in the clear path forward,” said Mr. Lee.

PERFORMANCE

► **Rural Services:** Strong seasonal conditions have led to organic sales growth in rural merchandise, fertiliser and crop protection chemicals. High average livestock prices, an increase in real estate sales volumes at higher average prices, and demand recovery in the wool market have all bolstered the strong performance of this division.

► **Water Services:** Seasonal conditions produced higher than average rainfall in many parts of the country. Despite being a positive driver of the strong performance in Rural Services, the counter cyclical nature of the existing water business and the impact of its geographical concentration in the west and south was evident in the division’s weak first half financial result. The completed acquisitions of 14 new business

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locations in key catchment areas and agricultural centres are expected to diversify the earnings base geographically.

- ▶ **Live Export:** The successful restructure of the division during 2016, and reduced supply chain costs have driven strong earnings growth in the half despite a 12% decline in volume exported following closure of the southern business. The long-term market outlook continues to support Ruralco's commitment to the live export sector.
- ▶ **Financial Services:** Uptake by customers of the Group's off balance sheet seasonal finance product has doubled in the half. The merger of the Ruralco Insurance business and staff into the Ausure Consolidated Brokers (ACB) joint venture has been completed and the operating cost profile of the division has been right-sized for improved financial performance.

FUTURE FARMING STRATEGY UPDATE

- ▶ **Investment:** The portfolio of recent acquisitions have performed in-line with expectations. The key focus in the second half will be to optimise their operational and financial performance and from there, to leverage the enlarged network and sector expertise to realise revenue synergies.
- ▶ **Integration:** Establishment of the ACB joint venture in the half combines the scale of Australia's largest insurance broking network with Ausure's insurance expertise and Ruralco's distribution network. This step change in Ruralco's Financial Services division transforms a sub-scale insurance offering into a leading insurance offering for Ruralco's customers and a positive forward earnings profile is anticipated for the division.
- ▶ **Innovation:** Continued pursuit of strategic investments and partnerships, including the commercialisation of an Unmanned Aviation Vehicle (UAV) partnership model with PrecisionHawk (leading global technology platform) and The Ripper Group (who bring market leading UAV flight services expertise).

Ruralco's AgTech partner, SproutX, has successfully raised \$10 million for the industry's premier accelerator fund. Ruralco has first-mover advantage as the distributor for selected new technologies and plays an active role in mentoring the founders to enhance their success.

DIGITAL TRANSFORMATION – PROGRAM ELEVATE

Program Elevate is on track and within budget. The program consists of multiple projects, which are all expected to be completed over the next two years with the aim of enabling Ruralco's growth aspirations through digital transformation based on a reliable back office foundation integrated with a scalable e-commerce platform.

OUTLOOK

Good rainfall in South Australia, Victoria, Tasmania and southern New South Wales in April has led to a solid start to the cropping season in these areas. Further rainfall is needed in southern Queensland, Western Australia and northern New South Wales in order to ensure a good winter cropping season in those regions.

Elevated prices anticipated to continue for livestock and wool in the second half.

Full year cost-out benefits and the impact of acquisitions combined with improved trading conditions compared to 2H16 are anticipated to lead a more normalised H1/H2 split in earnings.

ENDS






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