

Allied Farmers Ltd

201 Broadway, Stratford, 4332

PO Box 304, Stratford 4352

Phone: 06 765 6199**Web:** www.alliedfarmers.co.nz**Email:** headoffice@alliedfarmers.co.nz

26 February 2021

HALF YEAR 2021 REPORT**Half Year Result**

The Directors of Allied Farmers Limited (NZX: ALF) report an unaudited after-tax profit of \$0.531 million for the six months ended 31 December 2020. Pleasingly, this is higher than the previously indicated range of \$0.2 million to \$0.4 million.

While ahead of budget and forecast, Allied Farmers's pre-tax operating result in this period was lower than the previous corresponding period (\$1.18 million), with subsidiary New Zealand Farmers Livestock's (NZFL) result for the period significantly impacted by Covid-related pricing impacts on veal processing returns.

As in previous years, the returns from the veal processing operations continue to be a major contributor to first half year performance. However, investors are reminded that typically Allied Farmers's second half year profit is driven by factors distinct from the veal processing results that drive first half year profit. The second half is strongly influenced by livestock trading and herd sale activity, much of which will occur in the later part of the second half, and therefore it is not possible to forecast full year profits based on first half performance.

While 2020 was undoubtedly a challenging year, through the dedication and creativity of our staff, Allied Farmers starts 2021 in a strong position. For this, we thank the whole team.

Dividend

In November 2020 Allied Farmers declared a lower dividend of 1.2 cents per share fully imputed (2 cents per share fully imputed in January 2020). This reflected that the FY20 full year result was lower than the previous year.

Capital Raising and NZ Rural Land Management Investment

During the period Allied Farmers completed a successful oversubscribed rights issue raising \$2.976 million (less costs), the purchase of 50% of New Zealand Rural Land Management (NZRLM) - the manager of newly NZX listed New Zealand Rural Land Company Limited (NZRLC) - through the issue of new share capital, and an investment of 1.49% ownership in NZRLC. We were delighted with the support from shareholders for these transactions, and with the successful IPO of NZRLC, which was a necessary precursor to the NZRLM purchase.

Strategy

The Board is excited about the future for Allied Farmers and considers it is now very well placed to execute on its strategy. With new capital raised and new shareholders on the register, its investments in NZRLM and NZRLC, and shareholder approval to raise up to an additional \$5 million of new capital via placements, Allied Farmers can move forward on expanding its presence in the wider agricultural sector and on seeking agribusiness opportunities outside of its current traditional lines of business.

In particular, and as previously indicated, the intention is to invest into the growth of our finance subsidiary, Rural Funding SolutioNZ, to widen and improve our rural finance offering. In addition, we continue to evaluate opportunities in the AgriTech space.

Business Update

Livestock Agency and Veal Processing

Livestock, after a slower start, finished strongly in the second quarter. The NZFL result was dominated by well foreseen and budgeted Covid-related impacts on veal business revenues. However, NZFL finished the half year ahead of expectations despite the challenging conditions facing its business divisions.

The livestock agency business saw lingering drought concerns impacting trading behavior early in the period, softer stock pricing in line with red meat schedules and pleasing market share and tallies later in the half year. Dairy stock prices have held well to date and some movement in dairy farm sales and forecast milk payouts bode well for herd sale volumes in the second half.

Building of the team and of market presence has continued and will be a continuing priority.

NZFL is committed to a strategy of providing a superior service to its farmer clients to assist them to be successful in the operation of their own businesses. To this end, NZFL remains focused on growing its livestock agency business through the recruitment of new agents, selected development of new sale yards or access to existing yards, and a continued leadership in the NZ live auction space.

The veal processing and trading profit was well behind prior year and very much in line with budgeting for a severely Covid-affected year. This largely reflects foodservice impacts, skin pricing changes, and the strengthening New Zealand dollar. Delivering a profit despite these conditions is a pleasing result and underlines the resilience of this business.

Finance

While the livestock financing book was smaller in size than a year earlier, we are confident this area presents good potential and is seeing effort on a range of fronts to deliver material growth and some diversification. The provision of financing enhances NZFL's ability to assist farmer clients in the management of their cash flow, and credit risk is reduced by largely lending to farmer clients with whom NZFL's agents already have a strong relationship and understanding. The Allied Farmers's group financing effort was broadened during the period with the commencement of lending by subsidiary Rural Funding SolutioNZ. Allied Farmers's believes that with traditional lenders continuing to show less support for New Zealand pastoral food producers, there are significant opportunities to grow and nurture an alternative lending organization. This

will remain an area of focus for the group and will be well supported by new equity. We consider the increased financing options will be welcomed by our customers.

Technology

The MyLiveStock web platform and app is an important part of group strategy and is valued by clients. MyLiveStock now offers on-line bidding at each of its major yard auctions and creates clear benefits to farmers and to the functioning of this critical market. Further development of this platform is planned and ongoing.

NZ Rural Land Management and NZ Rural Land Company

NZRLC raised \$75 million through its initial public offering (**IPO**) in late 2020. NZRLM, 50 percent owned by Allied Farmers and NZRLC's manager, is now progressing due diligence on dairy farms in the South Island for NZRLC. While potential acquisitions were identified prior to the IPO, extensive due diligence (e.g. irrigation reports, soil testing, etc), necessarily has taken time due to the size of the dairy farms. NZRLC has advised its shareholders that it anticipates being in a position to announce the terms of an acquisition in several weeks.

Outlook

The early stages of the second half of the financial year has been dry in some parts of the country and continued disruption to the food export trade and global logistics caused by Covid-19. A return to more normal weather patterns across the country, plus the expected future containment of Covid-19, should support livestock trading activity. We are seeing some encouraging in-market pricing despite the ongoing challenges and the strengthening New Zealand dollar. Allied Farmers is certainly agile and well placed to contribute.

Allied Farmers takes much pride in working with New Zealand farmers who are vital in the global food chain and are known for producing high quality food with care and responsibility.

Richard Perry

Chairman