10 September 2013

Market update

Elders Limited (ASX:ELD) (Elders) announces that it has agreed terms with its existing Financiers to renew and extend its syndicated finance facilities to 31 December 2014, as part of a comprehensive plan to secure the repositioning and sustainability of the Company as a pure agribusiness. The execution of the syndicated finance facilities is subject to final credit approvals and documentation, with the process nearing completion.

The syndicated finance facilities are appropriately structured to service the forecast requirements of the business through to December 2014 and upon financial close, will include a mixture of term debt facilities of up to $144m, working capital and contingent facilities of up to $87m and a debtor securitisation facility of up to $183m. Elders has agreed to a staged debt amortisation in line with its F14 business plan.

The extension and renewal of Elders' syndicated finance facilities underpins a comprehensive plan to reposition Elders as a pure agribusiness, focused on its branch network and trading operations operating within and from Australia and New Zealand. The plan includes the now completed sale of Futuris Automotive; the final exit from its forestry business; and a partial sale of its equity holding in Elders Insurance.

Futuris Automotive

As advised to the market on 30 August 2013, the sale of Futuris Automotive to Clearlake Capital Group is now complete. Proceeds from the sale have been used to reduce Elders' term debt levels, and to exit its Asset Secure debtor securitisation program. As at August 31 and after application of the Futuris Automotive sale proceeds, Elders gross debt was reduced to approximately $330m and net debt $272m, of which, $166m was debtor securitisation.

Forestry

The final wind-down of Elders forestry assets is nearing completion, with grower votes last week approving the wind-up of all remaining retail MIS Forestry projects. Elders is now in a position to work with remaining landlords and freehold land on an unencumbered basis. Divestment of the final assets is due within weeks, eliminating the associated cash expense drag. The complete wind-down of forestry, including the divestment of the Company's equity in Agricultural Land Trust (ASX: AGJ) and its responsible entity, Agricultural Land Management Limited, is expected to be complete before the end of calendar 2013.

Insurance

Elders has agreed in principle with QBE to reduce from 25 per cent to 10 per cent its equity holding in Elders Insurance (Underwriting Agency) Pty Ltd (EIUA), the joint venture for insurance distribution with QBE. As part of the transaction, which will be subject to customary conditions precedent, the term of the marketing agreement with EIUA for the use of the Elders brand will be extended and will now expire in 2033. Elders will maintain its board position on the joint venture. Proceeds from the sale will be used to further reduce term debt and facilitate additional working capital for the core rural services and trading businesses.

Business reorganisation

The senior management teams across the agribusiness operations have developed a reorganisation plan and new business model focused on the core rural services and trading businesses. The reorganisation will be implemented before the end of this calendar year and the new business model is expected to reduce annualised operating costs by more than $25m, from April 2014.

Given the substantial operating cost out initiatives undertaken by Elders over previous years, the reorganisation and new business model will involve reduction of about 10 per cent of employee numbers. A small number of rural and regional branch offices will be closed or consolidated into larger nearby branches to ensure sustainability of the network operations in the long-term.

Future Plans

Whilst the immediate focus has been to extend and renew the syndicated finance facilities and the reorganisation of the business, there has been proactive interest from various parties regarding a recapitalisation of Elders and the Company continues to talk with those parties. Right now however, the appropriate focus is on completing the reorganisation of Elders as a pure agribusiness, with a sustainable capital structure and operations. The plan announced today delivers that outcome.

Trading outlook

Seasonal conditions throughout the sheep/wheat belts of southern Australia (including WA, SA, TAS, VIC and NSW) have improved throughout the winter and early spring. This is being reflected in increased prices for grown sheep and lambs and improved sales of fertiliser and agricultural chemicals after a very poor first half to the year. Real estate turnover continues to accelerate off a low base whilst insurance and rural banking activity is improving. Recent increases in wool prices are underpinning solid performance in wool brokering and also supporting increased sheep trading activity amongst producers.

The outlook for global cattle trading has also improved in recent months following a slower first half year with firm demand for FY14 shipments now coming forward in both long haul breeder cattle markets and short haul feeder cattle markets. Beef sales volumes in Asia, particularly China, are remaining strong and are also contributing to a renewed positive outlook in the Australian feedlot sector.

Elders' underlying earnings for FY13 are currently expected to be an underlying NPAT loss in the range of $(32m) and $(39m) before mark to market adjustments. This expectation is subject to actual results for August and September, and finalisation of the full year accounts. The majority of the variance with FY12H2 is forecast to arise from fewer live export shipments than forecast, reflecting weaker than anticipated demand, and increased interest and financing costs.

Commentary

Elders Limited Managing Director, Malcolm Jackman, said the various pillars of the overall business restructuring plan have provided Elders a sound and sustainable footing with a clear focus for the future.

“In the coming weeks, we will have wound-down the vast majority of the forestry business, made final payments to managed investment scheme (MIS) investors and ‘killed’ the forestry cash burn,” Mr Jackman said.

“Since we announced the wind down of Elders Forestry in October 2011 we have worked diligently to optimise the return to all stakeholders. Completion of the wind down is a remarkable achievement considering the total collapse of the MIS forestry sector in Australia over the last few years.”

“With syndicated finance facilities appropriately structured to meet our forecast requirements out to the end of 2014, and the sale of Futuris Automotive to Clearlake Capital Group now complete, Elders is in a good position to complete the re-organisation of its rural services business and to consolidate into a sustainable and profitable agribusiness.”

“The sale of Futuris Automotive reflects the strength of its diversified, global manufacturing model, and I believe Clearlake Capital Group is the right company to take that business forward.”

”This is the outcome that the entire Elders team has been striving for against numerous obstacles for some time. I want to extend the Board’s deep appreciation to our people for their dedication and hard work and to Elders’ financiers and security-holders for their patience and support during what has been at times a difficult journey.”

“The Elders’ team is now very well placed to focus on the day-to-day needs of rural, regional and international clients and to regain momentum as a business.”

The Company will keep the market informed of progress on these plans as appropriate.

Further comment:
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