19 May 2009

Market Update: Earnings Expectations, Trading Update and Re-finance

- Second half and full year earnings expectations revised downwards due to impact of sharply reduced prices and buyer uncertainty on farm supply markets and of late breaking season in Western Australia
- Revised earnings expectations comprise underlying profit after tax of $7 million to $17 million for second half and full year loss of $15 million to $5 million
- FY10 rebound expectations affirmed, with ongoing growth anticipated
- Reported profit to include profit from non-recurring items totaling $7 million for second half.
- Net debt at 30 June forecast to be approximately $800 million, including a strong cash position of up to approximately $150 million unrestricted cash and total cash of $350 million.
- Formal application for covenant replacement and extension of 364 day facilities to 30 September to complete refinancing of existing multi-option facility with syndicated facility in line with new financial year.

Trading results and outlook

Expectations

Trading results for period to 30 April and projections for the period to June have led to a revision of the Company's earnings expectations for the 12 months to 30 June and affirmation of strong recovery in subsequent years.

Forecasts for the period to 30 June are conditional, given the variability that can occur in Rural Services' earnings until a seasonal break is fully established and as the large majority of MIS sales occur in the two weeks to 30 June. The forecasts have been subject to an independent external review conducted as part of the refinancing process.

Subject to these qualifications, Elders' earnings expectations for the twelve months to 30 June are now for:

- an underlying EBIT in the range of $20 million to $40 million;
- an underlying loss after tax ranging from approximately $15 million to a loss of $5 million.

These expectation ranges represent a return to profitability in the second half of the year:

- underlying EBIT for the second half is now expected to range between $25 million to $45 million (H109 underlying EBIT loss of $5.1 million);
- underlying profit after tax for the second half is forecast to be $7 million to $17 million. (H109 underlying loss after tax of $22.1 million).

Elders Limited ABN 34 004 336 636 Registered office: Level 3, 27 Currie Street, Adelaide, South Australia 5000.
Postal Address: GPO Box 1176, Adelaide, South Australia 5001.
Telephone: (08) 8425 4000 Facsimile: (08) 8410 1597

The revision in earnings expectations is principally due to the impact on margin generated by the combination of lower prices and lower volumes in Rural Service markets since December and the patchy seasonal break to date.

Expectations of a rebound in earnings in 2010, with growth in the subsequent financial years, has been affirmed by the independent analysis. Elders is comfortable with the current range of FY10 market expectations for underlying NPAT of $43 million to $73 million and EBIT of $97 million to $135 million.

Reported Profit

Reported profit after tax for the six months to 30 June is expected to be positive, and will include the following non-recurring items:

- a net gain of $40 million on the sale of the Company's shareholding in Australian Agricultural Company;
- costs associated with the refinancing of corporate debt facilities estimated to be approximately $7 million;
- redundancy and restructuring costs of approximately $9 million incurred by Futuris Automotive to bring its operations into line with reduced industry build schedules, including shift reductions by vehicle manufacturers;
- $8 million in respect of BWK to make additional provision for closure costs and recognise results of this discontinued operation;
- a charge of $9 million to write-off costs of discontinued projects within Elders Rural Services.

Commentary

Elders Chief Executive Malcolm Jackman said that the revision to earnings expectations was principally attributable to the "very challenging business climate brought by the drop in fertilizer and chemicals prices and the general uncertainty in rural service markets since December".

"Across the rural services sector we have seen the effect of a 'double whammy' of reduced demand and falling prices in the period.

"The scale of these movements and the financial impact has been substantial. Elders is not totally immune to market events and we have been hit during our peak earnings period. While the damage has been done for 2009, markets are showing signs of stabilising and we are expecting a rebound from 2010 on."

Malcolm Jackman said that the outlook for 2010 onwards is "very positive".

"We have just completed an intensive 'top to bottom' review of our medium term outlook with conservative, independently tested assumptions.

"The analysis has affirmed our expectation of a good rebound in 2010 and that ongoing growth can be anticipated as the Agenda for Change and Elders Transformation Project are advanced."

Malcolm Jackman said that Elders cash position was strong. "As of yesterday we had cash exceeding $300 million, which includes unrestricted cash exceeding $100 million.

"We expect this position to strengthen in the period to year end, with cash receipts expected to include $33 million from settlement of the recent sale of a 10% shareholding in Elders Rural Bank.

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Operations update

Rural services

Underlying EBIT generated by Rural Services operations is now forecast to be lower than previously expected with an anticipated range between $5 million and $15 million, subject to trading results for the months of May and June.

This expectation represents an EBIT profit of $7 million to $17 million in the six months to June, an improvement on the EBIT loss of $2.0 million for the six months to December.

The revision to forecast reflects the impact of the difficult trading conditions brought by the combination of reduced sales volumes across most product lines and substantial deterioration in prices for major farm supply products since December.

Seasonal and market conditions

Seasonal conditions in eastern and southern Australia have seen adequate rainfall for planting winter grain crops, which has been reflected in fertilizer and agricultural chemical sales figures for those regions.

Western Australia is still to record season-breaking rains, with the result that sale of cropping inputs have lagged expectations

Rural supplies markets in the period since December have generally been characterised by buyer reluctance, significant reduction to demand volumes and falling commodity prices in comparison with the prior corresponding period and 2009 first half.

Elders Rural Services' sales for the 10 months to 30 April were slightly above the previous corresponding period, although the 2009 figure includes consolidated sales from Elders New Zealand for the first time.

Australian network sales for the financial year to date are 8% lower than in 2008, with all product lines barring livestock and insurance recording lower sales.

Volume contraction has been experienced across the business. The impact of this has been exacerbated by lower prices, particularly in the second half. Fertilizer (MAP/DAP) and glyphosate prices in the second half to date have declined by 33% and 37% respectively from first half levels.

Malcolm Jackman said that the net result of the lower prices and volumes had offset the gains made by the Rural Services transformation project.

"We have reduced inventory levels and Australian network costs. Sales results shows that Elders is doing better than holding its own in a tough market and our Key Account Management initiatives are getting traction in respect of large scale producers.

"But the bottom line is that the benefits of this progress have been more than offset for this period by the loss in gross margin brought by buyer uncertainty and the work-out of inventory in lower-priced markets."

"With markets stabilising, and our inventory and cost levels reduced, we are expecting a much stronger performance from Rural Services in 2010 and beyond."

Financial Services

Contribution from Financial Services for the twelve months to 30 June is expected to be in line with our expectations.

"Elders Rural Bank has continued to perform well while our insurance operations are reflecting current industry conditions." said Malcolm Jackman.

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Forestry

ITC's trading results for the year to 30 April are in line with expectation.

Results for the year to date reflect prior year MIS sales and lower earnings from timber operations due to reduced demand in domestic and international markets.

Underlying results for the 12 months to June will be materially influenced by the level of MIS sales achieved and equity accounted income arising from the Company's shareholding in Forest Enterprises Australia.

As MIS sales are overwhelmingly concentrated in the month of June, it is too early to predict the ITC result with confidence. MIS sales to date are running ahead of that recorded at this time in 2008.

Earnings expectations for 30 June have been framed around a management MIS sales target of approximately $50 million. For the purpose of assessing earnings sensitivity, it can be assumed that each variation of $20 million in MIS sales has a $3 million impact on net profit after tax.

"The merits of ITC's business model and credit policies have become increasingly evident" said Malcolm Jackman.

"ITC's conservative approach may have cost it market share in 2008 but ITC is going into the 2009 MIS sales season whilst others have had to withdraw - and it will do so with a product that has the alignment with grower interests that investors are now seeking."

Automotive

Contribution from Futuris Automotive for the year to 30 April is also in line with expectations.

Non-recurring items comprise redundancy and restructuring costs of $21.6 million announced in the 2009 half-year accounts plus further restructuring and redundancy costs of $9 million in the six months to June.

"The management team at Futuris Automotive have done an outstanding job in dealing with very difficult market conditions" said Malcolm Jackman. "Their proactive management has the business trading operating cash flow positive and well set to weather the vehicle industry downturn."

Refinance of Multi-option facility

The Company is intending to refinance Multi Option Facilities which total $905 million in committed bilateral cash/bill funding ($330 million maturing 30 June 2009 and $575 million maturing 31 December 2010) and approximately $195 million in committed bilateral ancillary lines (maturing 30 June 2009). These facilities are not currently fully drawn.

The "top to bottom" independent review undertaken has been a key prerequisite to the refinancing. This review is now substantially complete. Elders has made a formal application to each of its banks for a 90 day extension of the 30 June 2009 maturity of its 364 days facilities to 30 September 2009, to align that maturity with the Company's new financial year end. Elders has also requested from each of its banks and US Private Placement Noteholders the replacement of the 30 June 2009 covenants with 30 September 2009 covenants.

Elders is working positively with its banks, US Private Placement Noteholders and their advisers and expects to update the market on receipt of the response of the requested approvals prior to 30 June, 2009.

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It is anticipated that the refinancing will involve the conversion of the bilateral Multi-Option Facilities into a new syndicated facility on acceptable terms. The Company expects that security will be provided to all lenders as part of the refinancing.
Elders anticipates that the refinancing will be successfully concluded prior to 30 September 2009.

Current balance sheet

The Company's net debt outlook is subject to seasonal conditions and cropping expenditure and MIS sales in the period to 30 June.

Results to 30 April suggest that, subject to these qualifications, that net debt at 30 June will be approximately $800 million compared with $959 million as at 31 December.

The net debt estimates includes anticipated total cash of approximately $350 million, including restricted cash of approximately $200 million.

The cash forecast includes a total of $120 million from the release of capital through the divestment of the Company's final 19.9% stake in AAco and the reduction in its shareholding in Elders Rural Bank to 40%.

Outlook

The stabilisation of farm input markets together with ongoing reductions in inventory levels, forecast rainfall in Western Australia and ongoing cost initiatives is expected to support progressive improvement in cash and earnings generation by Elders.

Elders has completed intensive financial modelling by external advisors in order to provide a rigorous independent assessment of its near and medium term outlook.

The analysis has confirmed:

- Elders is expected to rebound strongly in FY10 with expectations of underlying profit after tax falling within the current range of market expectations of $43 million to $73 million.
- Ongoing and progressive improvement in annual profit to shareholders in the subsequent two years driven by earnings growth from Rural Service and Financial Services operations.

Appointment of Chief Financial Officer

Mark Hosking has formally taken on the role of Chief Financial Officer, effective from today, to personally take responsibility for the completion of the refinance and financial management of the Company.

Mark Hosking has been acting as CFO Designate, alongside the previous CEO Peter Zachert since joining the Company on 14 April 2009.

Peter Zachert will work out the period to his previously announced departure date of 30 June in an advisory role.

Future reporting

As previously advised, Elders is moving to a 30 September balance date during the current year. Results for the 12 months to 30 June are expected to be announced in August at a date to be advised. Further reporting on results to 30 September will be announced to the market in November 2009.

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Conference Call:

A conference call on the Elders earnings update will be held at 10:30 AEST, 19 May 2009.

Access to the conference call is via

Toll Free Australia 1800 500 686

Further Comment:

Malcolm Jackman 0439 642 876
Chief Executive Officer

Further Information:

Don Murchland 0439 300 932
Investor Relations Manager

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