AIRR Holdings Limited

Commentary Note

Track record speaks for itself

Rural Supplies

3 May 2018

AIRR Holdings Limited (AIRR) was incorporated on 25 February 2008 and acquired 100% of Australian Independent Rural Retailers Pty Ltd which had been operating for 2 years and had a turnover annualised at ~$125m. AIRR is a member- based buying and marketing group that supplies its rural and peri-urban customers with a range of rural merchandise and animal feeds. These customers comprise members, who account for approximately 70% of sales, and wholesale customers. AIRR is not a franchise group. It is a buying group that offers its members buying power and the ability to compete by passing on the benefits of volume purchasing and a way of increasing a members' product range without the need to invest in inventory. With a network of eight warehouses nationally and stocking approximately 6,000 Stock Keeping Units (SKUs), AIRR is a one stop distributor. AIRR also has its own brands; Apparent (crop protection), and Independents Own [iO] (animal health, general merchandise and feed).

KEY POINTS

A long track record of profitable growth — AIRR has delivered profitable growth for the last ten years and has only reported one year of negative growth (a decline in revenue of 6.8% in 2013 due to a dry summer following two years of wet summers reducing the demand for summer sprays). CAGR in revenue from 2008 has been 12.3% (17.8% from 2007). Revenue growth rates have slowed in the last two years as AIRR focused on higher margin products and reduced sales of lower margin products. The company reported sales growth in H118 of 3.6% and EBITDA growth of 14.3%, reflecting this shift towards higher margin products. 2010-2017 EPS CAGR was 21% while 2010-2017 DPS CAGR was 16%.

Diversification strategy – AIRR is diversifying its product offering by introducing its own branded products (Apparent and Independents Own [iO]) and since inception has introduced an additional member category and brand "Tuckers Pet and Produce" to service the pet and hobby farm market. Products are sourced directly from Chinese and local manufacturers, held in AIRR warehouses and supplied to members at competitive prices.

Acquisitions — AIRR has invested in three retail outlets by purchasing Feed Barn, Cranbourne, Stawell Farm Supplies and Ararat Farm Supplies from previous members. AIRR believes that it can bring its superior back office and management skills to improving store performance. AIRR sees some opportunities to make further acquisitions driven by generational change as ageing owners seek to realise their investments.

Taking market share from competitors —AIRR believes that its focus on local services and its offer of a one-stop-shop with a wide product range positions it to continue to attract members from its key competitors Ruralco and Landmark.

AIRR has superior ROCE —AIRR recorded a Return on Capital Employed (ROCE) in FY17 of 31% compared with the median 12% ROCE of its peer group, Ruralco, Nufarm and Elders. Ruralco, buoyed by a 297% lift in FY17 EPS, increased FY17 ROCE from 6.3% to 12%. Nufarm's FY17 ROCE was 9.9% and Elders, after an asset write down in 2013 of ~$500m, showed a FY17 ROCE of 44%. AIRR's ROCE since 2012 has outperformed its peers.

Valuation —AIRR's Board has historically commissioned an independent valuation each year to fix the price for share transfers undertaken in the next 12 months. The most recent valuation was undertaken by CoggerGurry, the Group's independent auditors, at 30 June 2017. The future maintainable earnings method was used and resulted in a valuation of $6.47/ share. In our view, the valuation parameters were conservative, discounting the peer group by 20% and applying a minority interest discount of 15%. In our view the comparative company multiples have been depressed by a period of indifferent earnings performance and sub-optimal returns on capital employed. If we applied the current market multiple and the same discount rates the valuation would increase from $6.47 to $8.29 a share. Under the PrimaryMarkets trading platform, the shares will now trade at prices determined by buyer and seller demand.

Company Summary	
Last traded Price (Mar 18)	$6.47
Compco valuation	$8.29
Shares on issue	14.5M
Implied Market Cap (@ $6.47 per share independent valuation)	$110.3M
Net Debt at 31 Dec 17	$33.3M
Enterprise Value	$143.6M
Trading Platform	PrimaryMarkets.com

Key Metrics FY17 (FY16)	
EPS (cents)	85.0 (66.0)
PE Ratio (x)	6.7 (5.7)
DPS (cents)	42.0 (33.0)
Dividend yield (%)	7.4 (8.7)
Grossed up yield (%)	10.6% (12.4%)
Pay-out ratio (%)	49.0 (50.0)
ROCE (%)	31.0 (29.0)

Significant Shareholders	
Top 10 shareholders	55.0%
Founder Peter Law	23.1%

Upside Case

- Well credentialed board and management with skin in the game
- Large number of SKUs makes AIRR a one stop shop for independent retailers
- Track record of more than 10 years' consistent growth in revenue, profits and fully franked dividends

Downside Case

- Currency risk from product sourced offshore, mainly from China
- Not chasing stellar growth, rather solid, consistent growth
- Investment required in working capital (~16% of sales)

Board of Directors	
Chairman	Craig Farrow
CEO, Founder	Peter Law
Non-Executive Director	Lachlan Cox
Non-Executive Director	Glen Pearsall
Non-Executive Director	Graeme Jolly

PrimaryMarkets' Contact Details	
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COMPANY OVERVIEW

What is AIRR

AIRR is a wholesaler of rural merchandise sold to members and other wholesale customers located throughout Australia. AIRR has eight distribution warehouses located nationally, in Shepparton (head office), Melbourne, Wagga, Tamworth, Sydney, Brisbane, Adelaide and Perth servicing all states and territories. Product extension, diversification and the development of a line of branded products have been the key planks in AIRR's business strategy. This has enabled AIRR to relatively "drought-proof" the business and to achieve consistent growth in revenue and earnings and achieve improvements in gross margin.

AIRR offers a one-stop shop and one account

AIRR offers its members the benefit of being able to have access to thousands of products from more than 650 suppliers at a national or group price and to receive one monthly statement from AIRR. Products are either supplied direct from the supplier to the customer (AIRR is the conduit to the transaction, being the account holder for both the debtor and creditor) or supplied via the network of AIRR's eight locally operated warehouses (~6,000 products). The benefits for members are lower prices, reduced inventory holding costs, access to a wide range of products and administrative simplicity.

Key business proposition is locally-based customer-oriented service

AIRR's motto is to *earn business from its members rather than dictate to them.* Members are permitted to purchase goods from other suppliers but a combination of competitive discount and rebate structures, a comprehensive product offering, locals serving locals and well-located warehouses enables AIRR to offer its members superior service and access to a significantly wider product range than its competitors. AIRR's service offering is supported by skilled local staff, and a sophisticated inventory management system. As at 30 June 2017 there were 137 AIRR members (which includes 49 dual Tuckers members (additional member fee charged to be a dual member) and 102 Tuckers members.

Members are paid members per group; AIRR or Tuckers. Many of the AIRR stores are paid members of both AIRR and Tuckers (referred to as "dual AIRR & Tuckers members"). Members may operate a number of stores – refer Exhibit 1 and 2 below for paid member numbers and actual store numbers. The dual members in Exhibit 1 are shown as AIRR members and Dual AIRR and Tuckers members, and in Exhibit 2, each store for a dual member is shown under AIRR & Tuckers. In a retail or consumer facing sense a better reflection of AIRR's national retail footprint is to measure the brand by the number of member stores each brand has nationwide.

Exhibit 1: AIRR membership statistics 30 June 2017

	AIRR	Tuckers	Dual AIRR and Tuckers
NSW	45	41	18
QLD	28	21	6
SA & NT	11	11	5
VIC and TAS	44	23	16
WA	9	6	4
Total	**137**	**102**	**49**

Source: Company data

Exhibit 2: AIRR store statistics 30 June 2017

	AIRR	Tuckers
NSW	100	55
QLD	42	31
SA & NT	19	17
VIC and TAS	62	44
WA	16	16
Total	**239**	**163**

Source: Company data

FY18 forecast assumes steady growth in revenue and improved margins

Management's FY18 forecast reflects AIRR's strategy of focusing on profitable growth. Revenue growth is expected to slow from 4.5% in FY17 to 2.9% in FY18. The expected growth in revenue converts to stronger growth in EBITDA (7.4%) due to an improvement in gross margin (from 11.7% to 11.8%) and an increase in EBITDA margin from 5.4% to 5.6%. AIRR expects that working capital management will result in no material increase in net working capital and operating cash flows close to cash NPAT.

The company is well on its way to achieving its forecasts, reporting H118 revenue growth of 3.6%, EBITDA growth of 14.3%, and NPAT growth of 18.2% year-on-year. Gross margin in the half increased to 8.5% from 7.8% in the prior period. We set out the interim result in the following exhibit.

Exhibit 3: H118 P&L

$m	31-Dec-16	31-Dec-17	% chg
Revenue	175.3	181.5	3.6%
COGS	159.3	163.7	2.8%
Gross Margin	15.9	17.8	11.9%
Less: Members' profit share	2.2	2.4	9.1%
Gross Margin	13.7	15.4	12.3%
Commissions/Other income	4.0	3.9	-2.8%
Total Income	17.7	19.3	8.9%
Other Expenses	8.1	8.3	2.4%
Total Expenses	8.1	8.3	2.4%
EBITDA (normalised)	9.6	11.0	14.3%
EBITDA (reported)	9.6	11.0	14.3%
Depreciation and amortisation	0.3	0.3	-1.4%
EBIT	9.3	10.7	14.8%
Interest received	0.1	0.0	-46.0%
Interest cost	(0.4)	(0.4)	4.0%
Net Profit before tax	9.0	10.3	14.9%
Income tax	2.7	2.9	7.0%
NPAT	6.3	7.4	18.2%

Source: Company Data

Strategy is to continue sustainable profitable growth and increase ROCE

AIRR's key growth objective is to achieve sustainable profitable growth and to increase return on capital employed. Sales growth is seen as secondary to improved margins and growth in profits. AIRR's growth strategy includes the following:

- Margin improvement through: 1) developing its own branded products; and 2) developing products for other adjacent markets.
- Increasing the number of members by continuing to win market share from competitors because of its product offering and superior locally-based services
- Acquiring retail businesses and injecting in AIRR's superior back office and management skills.

To improve margins AIRR has developed its own brand of chemical products (Apparent) most of which are sourced from China, and a small amount from India. Apparent is estimated to account for approximately 20% of sales and currently has >150 product registrations. Independents Own [iO] is a brand that has been developed for the animal health, general merchandise and feed product range and currently has approximately 350 products available.

AIRR has entered the pet supplies market by adding the brand "Tuckers Pet and Produce". There are currently 163 member stores and AIRR plans to continue to add new member stores where they see an opportunity to do so.

Own branded products

Apparent produces fully formulated generic agricultural chemicals sourced from a number of high-quality hand-picked production plants in China. Apparent has all products independently analysed by an internationally accredited laboratory in Shanghai. Apparent also imports Active Constituents (AC) from agricultural chemical plants in China for local formulation in Australia. Apparent currently uses four independent plants for formulation: two in Victoria, one in Western Australia and one in Queensland. Approximately one-third of Apparent's product by volume is now formulated in Australia. Apparent is constantly seeking new methods of formulation to reduce prices for Australian farmers and as products come off patent Apparent intends to introduce further generic products which will provide farmers with generic products at a fraction of the cost of current patent protected products.

The Independents Own [iO] brand includes a broad range of products from pet food, to animal health, to bird seed, to pest control all made by industry leading manufacturers with a large proportion being Australian made thus ensuring quality product.

The Tuckers brand services the needs of pet lovers and hobby farmers. There is an online store with click and collect function that allows customers to buy from their local store with the additional convenience of being able to shop from the home or office whilst still supporting the local retailer.

The Board and Management

The management team is led by Peter Law who founded the business in 2006. He has in excess of 36 years' rural retail experience. Before founding AIRR, Peter Law established a rural merchandise business in Shepparton, which he grew into a leading supplier of rural merchandise in Victoria and southern NSW before selling it to Gippsland & Northern, which eventually became part of a large national organisation. The five-person board is chaired by Craig Farrow, Chairman of Brentnalls SA, Chartered Accountants and comprises three independent directors and founder and CEO, Peter Law.

Exhibit 4: Board and Management profiles

Director		Public Co directorships	Background
Craig Farrow	Non Exec Chair	Bulletproof (BPF)	Chartered Accountant and Company Director
Peter Law	Executive, MD & CEO	None	36 years+ rural merchandising
Lachlan Cox	Non Exec	None	CEO Cox Rural Group (AIRR member)
Glen Pearsall	Non Exec	None	Director Channel Marketing Decisions
Graeme Jolly	Non-Exec	None	Chartered Accountant, 40 years in finance roles
Management			
Peter Law	Executive, MD & CEO		
Dave Schelling	GM Supplier Relations		
Peter Lourey	GM Group Sales		
Kane Law	GM Group Marketing		
Kristen Pickering	CFO/Company Secretary		

Source: Company data

STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS

Exhibit 5: SWOT Analysis

STRENGTHS	WEAKNESSES
8 strategically located warehouses	Difficult to replicate outside Australia
Own branded products	Low margin environment
Product choice for members from one-stop shop	Branded products mean increased investment in working capital
Hands on experienced management	
Track record of consistent 50% payout ratio and growing fully franked dividends	
Track record of sustained profitable growth	
Diversification by product, by geography, by customer	
Increased demand for agricultural products (feed the world)	
Strong cost control resulting in margin increases	
Demonstrated ability to walk away from low margin sales revenue	
Top 10 customers generate less than 20% of total revenue	
Diversified supplier base, 30-40 key suppliers and up to 800 in total	
Local presence attracts community support	
OPPORTUNITIES	**THREATS**
Increased generic products as chemicals come off patent	Currency
Increase in product range	Weather
Market share wins from competitors	New entrant such as a large retailer adding agricultural products to existing product range
Increased use of online sales facility (now in Tuckers Pet and Produce)	
Inventory management	
Add more retail stores as members exit the industry	

Source: RaaS Advisory

In our view, the strengths and opportunities outweigh the weaknesses and threats. AIRR has already taken steps to drought-proof its business by having a wide product range. In FY18, Australia remains in the grip of an extended hot, dry summer, but AIRR sales have remained consistent at ~$30m per month. Currency movements are a potential threat as they may not be able to be passed on to customers. The sector could attract a new entrant from offshore or from existing companies with a national presence in other markets. However management's view is that this would be an unlikely development because of the investment required in infrastructure. Whilst other competitors offer warehouse facilities nationally, AIRR offers the most comprehensive range of SKU's in the rural merchandising market with their dedicated national distribution base. In management's view the prospect of another player entering the market to compete with AIRR is likely to be low, as management believes that there is only room for one player in this area, and with the investment, warehouses and staff AIRR have, any competition may find it difficult to take market share away from AIRR to any significant level.

Growth will be limited by geography because it is unlikely that the model could be adopted outside Australia. New Zealand is a similar market but it is already well serviced by national providers and co-operatives.

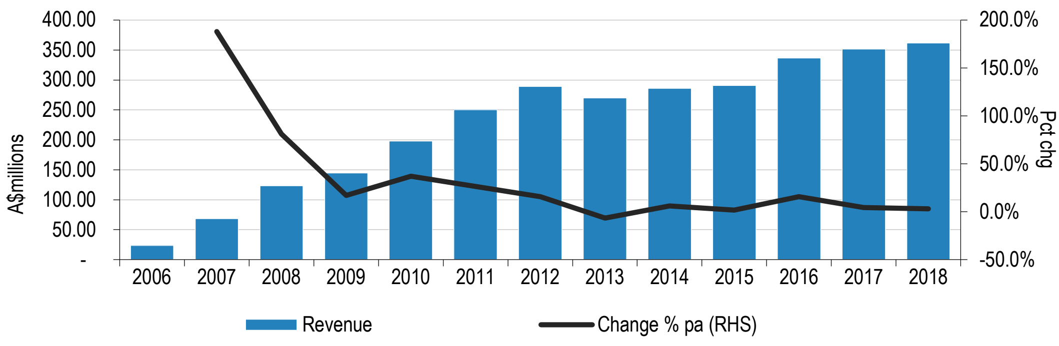
An increase in own branded products will mean an increase in the amount of working capital required as AIRR needs to maintain sufficient stock in its warehouses to service members. A comprehensive inventory management system is essential to optimise inventory holdings and reduce the need for working capital.

RESULTS DISCUSSION

Consistent revenue growth and increasing EBITDA

In the last 11 years all years except one (2013) has seen an increase in revenue. The one year of decline was a drought year which followed two years of exceptionally good rural conditions when revenues increased at CAGR of 20%. CAGR in revenue over the last 10 years has been 17.8% (assumes that 2006 was a part year).

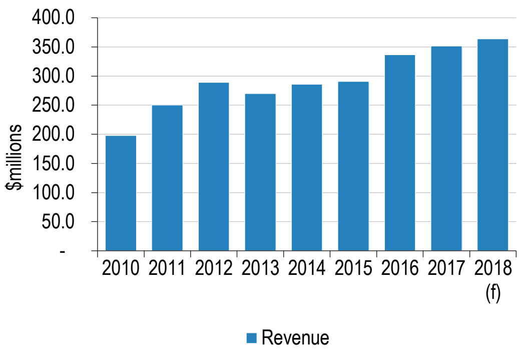
Exhibit 6: Revenue ($m) and annual % increase



Source: Company data

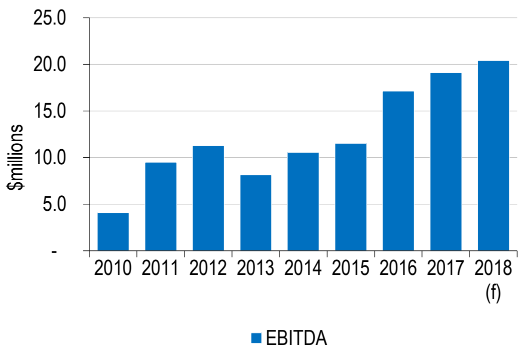
In the last five years revenue and earnings have grown year-on-year driven by: 1) increase in the number of members; 2) increases in gross margin achieved by introducing higher margin own branded products under the Apparent and iO brands; 3) diversification into non-rural markets using the Tuckers Pet and Produce brand; and 4) tight cost control.

Exhibit 7: Revenue 2010 to 2018F



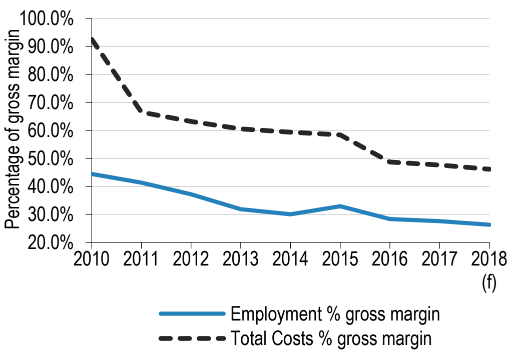
Source: Company Data

Exhibit 8: EBITDA 2010 to 2018F



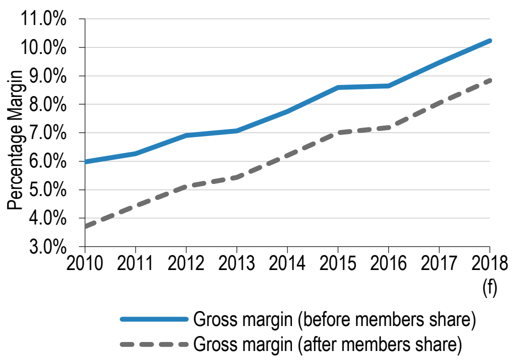
Source: Company Data

Exhibit 9: Total costs and employment costs % of gross margin



Source: Company Data

Exhibit 10: Gross Margin before and after members' share



Source: Company Data

Financial statements 2010 to 2017a and including 2018f

We have set out the detailed financial statements for 2010 to 2017a and included management's forecasts for 2018f on pages 11 and 12. A snapshot of the key metrics in these results is highlighted in the following exhibit. Apart from 2013 which we have already highlighted as a difficult trading year, AIRR has consistently increased revenues, EBITDA, NPAT and EPS over the past 8 years. Gross margin has grown consistently throughout this time. Net debt has been reduced to $15.3m in 2017 while net working capital as a percentage of revenue is expected to remain steady at ~16% in FY18.

Exhibit 11: Snapshot of operating performance from 2010 to 2017 and including 2018f (in $m)

Year ended June	2010	2011	2012	2013	2014	2015	2016	2017	2018(f)
Revenue	197.9	250.1	289.4	269.8	285.7	290.6	336.4	351.4	363.9
Gross Margin	11.8	15.7	20.0	19.1	22.2	24.9	29.1	33.3	37.2
EBITDA (normalised)	4.1	9.5	11.3	8.1	10.5	11.5	17.1	19.1	20.4
NPAT	2.7	6.1	6.7	4.7	6.3	6.3	9.6	12.3	13.0
EPS (cents per share)	19.0	42.0	46.0	32.0	43.0	50.0	66.0	85.0	89.6
Net working capital	12.9	27.6	36.5	41.7	38.5	39.7	54.9	57.1	
Net WC as a % of revenue	6.5%	11.0%	12.6%	15.5%	13.5%	13.7%	16.3%	16.3%	
Net debt	-1.9	8.1	14.9	21.9	16.9	15.0	20.4	15.3	
Operating cashflow	2.6	-7.7	-3.0	-0.3	10.7	5.3	-2.8	12.9	

Source: Company accounts, 2018f is from the CoggerGurry independent expert's report

AIRR's focus on improvement in gross margin has included 1) reducing the sales of low margin products. In 2017 it declined a $15m pa sales opportunity in high value, low margin commodities like Trifluralin and Glyphosate where the gross margin was low single digits and replaced these sales with higher margin product; 2) negotiating better pricing and rebate structures with key suppliers; 3) buying some products in bulk due to availability of warehousing facilities; 4) growth of Apparent products (~6% of sales) and to a lesser extent iO product sales; and 5) diversification into non rural markets where the Tuckers pet product range generates a higher margin. The FY17 results were revenue growth of 4.5% (compared with pcp growth rate of 15.8%), EBITDA growth of 12.1% and an improvement in gross margin from 10.8% to 11.7%

During FY17 net debt decreased by $5.1m to $15.3m while EBIT/interest cover improved from 19x to 27x. Net working capital increased by $2.2m but as a % of revenue net working capital remained unchanged at 16.3%. Cash flow from operations in FY17 of $12.9m was in excess of reported NPAT of $12.3m. The turnaround from negative operating cash flows in FY16 ($2.8m) to positive was due in the main to a reduction in inventory in particular of high volume (value), low margin commodity products like Trifluralin and Glyphosate. AIRR's dividend policy is to distribute 50% of NPAT. The first dividend of 5cps was paid in 2008. Since then the CAGR in dividends has been 26.7%.

MARKET

Australia's farming sector is predominantly small to medium enterprises. According to the National Farmers' Federation, the nation had approximately 85,861 farm businesses in 2017 with 99% of these Australian owned[1]. The NFF estimates that around 60% of farmers earn up to $200,000 a year while just under 35% earn from $200,000 to $2m and the majority of these farmers (71%) are sole traders.

Gross revenue generated by the sector in FY17 was almost $60bn. This comes off the back of 3 years of solid growth, record wheat and barley harvests, and a recovering dairy market. According to the Australian Department of Agriculture and Water Resources (ABARES), the value of the industry is expected to remain at these levels until 2020-21.

The rural merchandising sector is made up by a mix of corporate-owned and independent retailers with one to two operators in main regional centres. The sector is dominated by three significant players – two of which are Australian listed, Ruralco (RHL) and Elders (ELD), and one, Landmark, a part of US listed Nutrien (NTR). Between them, they generate almost $10bn in sales, which, based on industry reports, accounts for around 50% of rural merchandising sales in Australia. Other significant operators in the market include

1 Food, Fibre & Forestry Facts, A summary of Australia's agriculture sector, 2017, National Farmers' Federation

privately held, independent distribution group Aglink which reportedly[2] generates around $1.2bn in annual sales, Nufarm (NUF) which supplies crop protection and specialist seeds products to Australian farmers and which generated $3.1bn in sales in FY17.

PEER COMPARISON

We have examined the listed peers to AIRR and include in this analysis Ruralco, Nutrien, Nufarm, Elders, and PGG Wrightson, the NZ-based agricultural supply group. The median trailing EV/EBITDA multiple that this group is trading on is 9.58 times. The current trailing Price to earnings ratio for the group is 15.55 times while the forward PE based on FY18 consensus forecasts is 15.14 times as the following exhibit sets out.

Exhibit 12: Peer Comparison

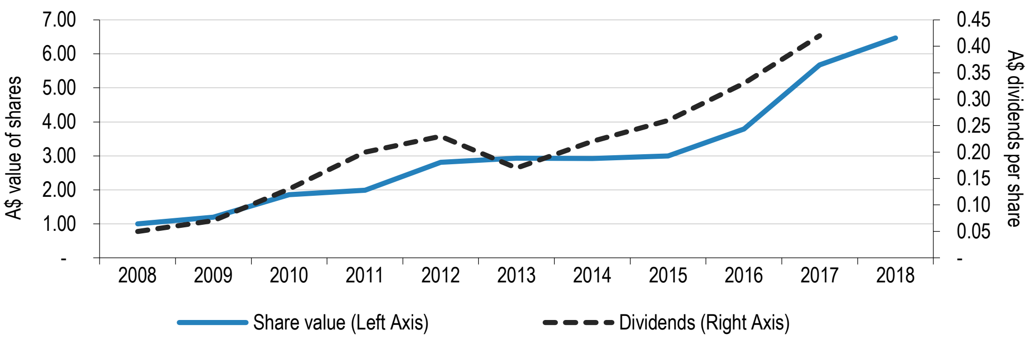
Company	Code	Currency	Price	Market Cap ($M)	Enterprise Value ($M)	FY17 EBITDA	FY17a EPS (c)	FY18f EPS (c)	FY17 EV/ EBITDA (x)	FY17 P/E (x)	FY18 P/E (x)
Elders	ELD	AU	7.71	878	973	69	51.6	53.6	14.06	14.94	14.38
Nufarm	NUF	AU	8.47	2,775	3,455	358	52.4	44.8	9.66	16.16	18.91
Nutrien	NTR	US	44.95	28,142	44,090	1,280	39.0	234.0	34.45	115.26	19.21
PGG Wrightson	PGW	NZ	0.62	468	666	70	6.1	4.7	9.51	10.18	13.19
Ridley Corp	RIC	AU	1.32	406	458	49	8.1	8.3	9.34	16.32	15.90
Ruralco	RHL	AU	3.04	318	409	58	29.3	28.2	7.05	10.38	10.78
Median									**9.58**	**15.55**	**15.14**

Source: Thomson Reuters, Bloomberg, RaaS Advisory analysis (prices as at 6th April 2018)

INDEPENDENT VALUATION DISCUSSION

The Board has commissioned an independent valuation each year to set the share price for any share transfers that take place during the ensuing 12 months. A valuation as at 30 June 2017 prepared by the company's independent auditors, CoggerGurry, valued the business at $110.3m or $6.47 per share. The chart below shows annual valuation and dividends paid. The value of shares has increased from $1.00 in 2008 to the current valuation of $6.47 per share.

Exhibit 13: Share value and dividends



Source: Company data

Valuation methodology

The independent valuation undertaken by CoggerGurry used the capitalisation of future maintainable earnings approach. It considered but discarded other valuation methodologies as not appropriate for the following reasons: 1) the asset approach ignores any value of goodwill; 2) the discounted cash flow method requires long term forecasts which are not available; and 3) there were no industry specific measures available.

2 "Independent Aglink plans Canadian farm supply alliance", The Land, 1 August 2017

Maintainable earnings were estimated to be $19.5m being the average of normalised EBITDA for FY17 and the budgeted EBITDA for FY18.

The appropriate EBITDA multiple was selected using the average of a group of listed companies – Nufarm, Ridley, Elders and Ruralco – and adjusting the average multiple down by 20% to take into account 1) size; 2) greater product diversity; and 3) ownership structure (noting that private companies generally trade at a discount to listed companies). The valuer's conclusion was that it was not unreasonable to use a multiple in the range of 6.2 to 6.6x. After deducting net debt, the valuer applied a 15% discount to reflect the value applicable to the trading of a minority shareholding. The result, set out below, was a value per share of between $6.24 and $6.70 and a mid-point of $6.47, the adopted valuation for FY18 share transfers.

Exhibit 14: Capitalisation of future maintainable earnings – valuation steps

Step 1 - determine maintainable earnings	
FY17 adjusted EBITDA ($m)	18.9
FY18 adjusted EBITDA ($m)	20.3
Average ($m)	19.5
Step 2 determine multiples from peer group	
Average EBITDA multiple 2016 (x)	7.8
Less 20% discount (x)	1.6
Multiple range (from) (x)	6.2
Average EBITDA multiple 2018 (x)	8.2
Less 20% discount (x)	1.6
Multiple range (to) (x)	6.6
Step 3	
Deduct net debt ($m)	14.5
Step 4 - apply discount	
Minority interest discount (%)	15.0%

Source: CoggerGurry Valuation Report as at 30 June 2017

Exhibit 15: Valuation range

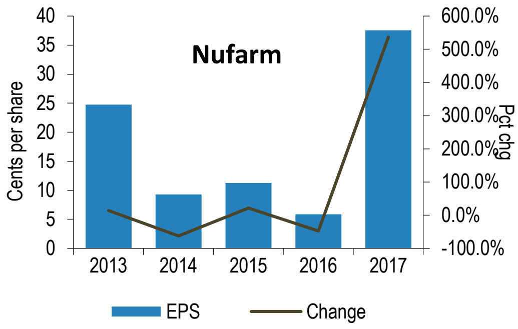
	From	To
Maintainable earnings ($m)	19.5	19.5
Multiple (x)	6.2	6.6
Enterprise value ($m)	120.9	128.7
Net debt ($m)	14.5	14.5
Equity value ($m)	106.4	114.2
Number of shares (m)	14.5	14.5
Equity per share	$ 7.34	$ 7.88
Less Minority discount	$ 1.10	$ 1.18
Value per share	$ 6.24	$ 6.70
Midpoint	$ 6.47	

Source: CoggerGurry Valuation Report as at 30 June 2017

In our view, the valuation is conservative for the following reasons:

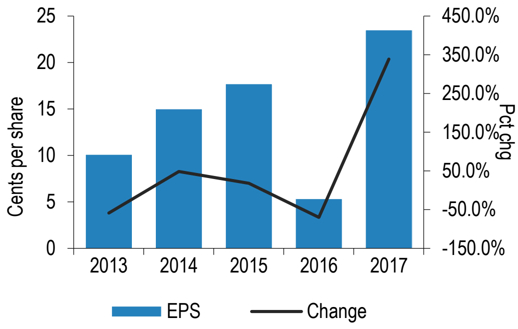
- Applying a 20% discount to comparative company multiples is somewhat arbitrary and does not necessarily take into account the track record of the peer group that has a history of inconsistent earnings and in some cases significant losses and asset write downs, compared with AIRR which has a consistent record of revenue and earnings growth. In our view the discount of 20% seems to be excessive. We have set out the peers by EPS and EPS growth versus AIRR in the following exhibits.

Exhibit 16: Nufarm EPS by year and percentage change on prior 2013-2017



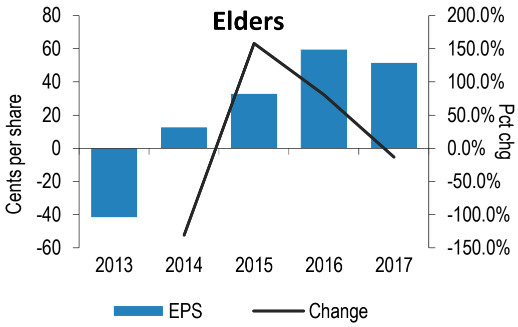
Source: Company Data

Exhibit 17: Ruralco EPS by year and percentage change on prior 2013-2017



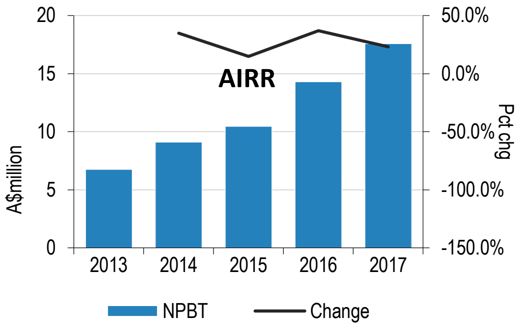
Source: Company Data

Exhibit 18: Elders EPS by year and percentage change on prior 2013-2017



Source: Company data

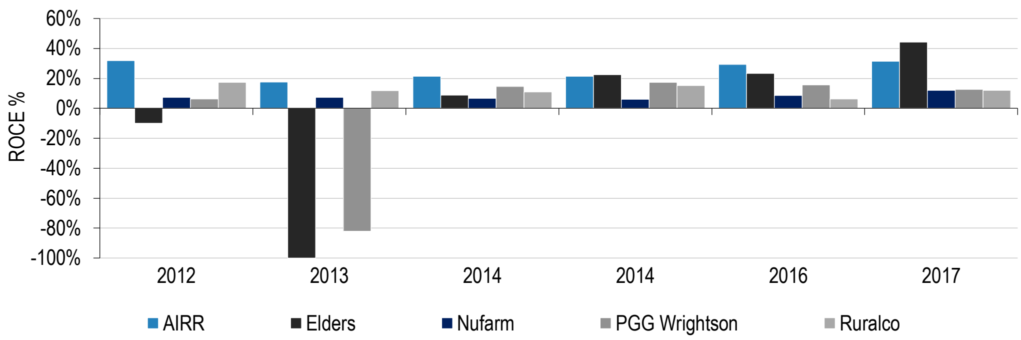
Exhibit 19:AIRR EPS by year and percentage change on prior 2013-2017



Source: Company data

- Valuation does not take into account comparative ROCE which is one of the factors that colours the market's view. AIRR has not had any material write-downs of assets and has a ROCE of 31% in FY17 compared with the peer group specified in the independent valuation report. As the following exhibit demonstrates, AIRR has outperformed its peers in terms of ROCE over the past six years.

Exhibit 20: ROCE performance by peer group since 2012



Source: Thomson Reuters, Bloomberg, Company Data, RaaS Analysis

- As we highlighted in the previous section on the peer group, the median trailing FY17 EV/EBITDA multiple of this group is now 9.6x, substantially higher than the 7.8x to 8.2x range applied in the

2017 valuation report. A 20% discount on this would deliver a EV/EBITDA multiple of 8.0x rather than the 6.2-6.6x applied by the independent valuation.

- A minority interest discount of 15% is again somewhat arbitrary although we note that a range of 10-40% was stated as an observed range of minority discounts. The KPMG Valuation Practices Survey 2017 stated that for a 1-24% stake the median discount applied for a minority interest was 25%, for a stake of 25-49% the median discount applied was 15% and for a 50/50 JV the median discount applied was 5%.

In our view, if AIRR was a listed company we believe there is a strong case to support it trading at a market multiple for the following reasons:

- CAGR rates in Net Profit Before Tax achieved since 2013 of 27.1% are in excess of the market which has grown at a CAGR of 6.1%[3] during the same period
- There is a clear growth strategy which is designed to achieve steady consistent growth with a focus on increased margins and profitable growth
- Product diversification and the range of products offered allows AIRR to avoid weather related cycles which usually plague the rural sector
- AIRR offers superior ROCE of ~31%
- Over the last five years AIRR has improved ROCE from 18% in 2013 to 31% in 2017
- The company is an attractive yield play, paying out approximately 50% of earnings to dividends each year and, based on year end valuations, delivering an attractive yield of approximately 7.5%. Dividends per share have grown at a CAGR of 16% from 2010 to 2017.

If we applied a market multiple to AIRR and we yet still applied a 20% discount for size and a 15% minority interest discount the valuation would increase from $6.47 to $8.29 a share.

3 MarketIndex, Market-cap weighted earnings yield for the Australian stock market

Exhibit 21: Income Statement from 2010 to 2018(f) (in A$m unless otherwise stated)

Year Ended June 30	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018(f)**
Revenue	197.9	250.1	289.4	269.8	285.7	290.6	336.4	351.4	363.9
COGS	186.1	234.4	269.4	250.7	263.6	265.6	307.3	318.1	326.7
Gross Margin	11.8	15.7	20.0	19.1	22.2	24.9	29.1	33.3	37.2
Less Members Profit share	4.5	4.6	5.2	4.4	4.4	4.6	4.9	5.0	5.1
Adjusted Gross Margin	7.3	11.1	14.8	14.7	17.7	20.3	24.2	28.3	32.1
Commissions (real estate)/Other income	3.0	5.8	6.0	6.0	6.5	6.5	8.2	8.0	5.8
Total Income	10.4	16.9	20.8	20.7	24.3	26.9	32.4	36.2	38.0
Employment	3.3	4.6	5.5	6.6	7.5	8.7	8.9	9.9	10.1
Rent	0.6	0.8	1.6	1.7	2.0	2.3	2.3	2.8	3.2
Other Expenses	1.9	1.9	2.5	2.9	3.3	3.9	3.8	4.2	4.1
Provision for doubtful debts	0.5	0.1	-	1.4	0.9	0.5	0.3	0.2	0.2
Total Expenses	6.2	7.4	9.6	12.5	13.7	15.4	15.2	17.2	17.6
EBITDA (normalised)	4.1	9.5	11.3	8.1	10.5	11.5	17.1	19.1	20.4
Less - one off costs									
Goodwill impairment	0.0	0.0	0.0				(0.5)		
Profit/(loss) on sale of assets	0.0	0.0	0.0			(1.0)	(0.0)	0.1	
Loss on disposal of business							(0.7)	(0.1)	
EBITDA (reported)	4.1	9.5	11.3	8.1	10.5	10.5	15.9	19.1	20.4
Depreciation and amortisation	0.2	0.3	0.5	0.5	0.5	0.6	0.5	0.6	0.7
EBIT	3.9	9.2	10.8	7.6	10.0	9.9	15.4	18.5	19.7
Interest received	0.1	0.0	0.0	0.4	0.3	0.6	0.1	0.1	0.0
Interest cost	(0.0)	(0.5)	(1.2)	(1.3)	(1.3)	(1.0)	(1.2)	(1.1)	(1.1)
Net Profit before tax	3.9	8.7	9.6	6.7	9.1	9.4	14.3	17.6	18.6
Income tax	1.2	2.6	2.9	2.1	2.8	3.2	4.7	5.3	5.6
NPAT	2.7	6.1	6.7	4.7	6.3	6.3	9.6	12.3	13.0
Year Ended June 30	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018(f)**
EPS ($)	0.19	0.42	0.46	0.32	0.43	0.50	0.66	0.85	0.90
DPS ($)	0.13	0.20	0.23	0.17	0.22	0.25	0.33	0.42	
Gross margin (before members share)	6.0%	6.3%	6.9%	7.1%	7.8%	8.6%	8.6%	9.5%	10.2%
Gross margin (after members share)	3.7%	4.4%	5.1%	5.4%	6.2%	7.0%	7.2%	8.0%	8.8%
EBITDA normalised	2.1%	3.8%	3.9%	3.0%	3.7%	4.0%	5.1%	5.4%	5.6%
EBITDA reported	2.1%	3.8%	3.9%	3.0%	3.7%	3.6%	4.7%	5.4%	5.6%
EBIT (reported)	2.0%	3.7%	3.7%	2.8%	3.5%	3.4%	4.6%	5.3%	5.4%
Employment (% of revenue)	1.6%	1.8%	1.9%	2.4%	2.6%	3.0%	2.6%	2.8%	2.8%
Employment (% gross margin)	44.5%	41.6%	37.1%	44.9%	42.3%	42.7%	36.7%	35.1%	31.3%
Total costs (% gross margin)	85.1%	66.9%	64.6%	85.4%	77.4%	75.5%	63.1%	60.7%	54.7%
Increase in EPS per year		127.0%	9.5%	-30.4%	34.4%	16.3%	32.0%	28.8%	5.7%
Increase in DPS per year		53.8%	15.0%	-26.1%	29.4%	13.6%	32.0%	27.3%	
Dividend yield (%)	10.8%	10.1%	8.2%	5.8%	7.5%	8.3%	8.7%	7.4%	
Grossed up dividend yield (%)	15.5%	14.4%	11.7%	8.3%	10.7%	11.9%	12.4%	10.6%	
Implied PE Ratio (x)	6.48	4.74	6.11	9.16	6.81	6.00	5.74	6.68	
Increase in revenue pa		26.4%	15.7%	-6.8%	5.9%	1.7%	15.8%	4.5%	3.6%
Increase in EBITDA normalised pa		131.3%	18.5%	-27.7%	29.2%	9.2%	49.1%	11.4%	6.8%

Source: Company Accounts 2018(f) is management forecasts, RaaS analysis on ratios

Exhibit 22: Balance Sheet from 2010 to 2017

Year Ending June	2010	2011	2012	2013	2014	2015	2016	2017
Current assets								
Cash	2.0	0.0	0.0	0.0	0.3	0.3	0.1	0.0
Trade and other receivables	32.5	37.9	38.3	35.7	39.5	36.6	46.1	48.0
inventories	11.8	17.0	21.3	27.7	24.8	36.1	52.3	44.5
Derivative financial instruments				0.3	(0.1)	0.1	0.2	0.2
Other	0.2	0.1	0.2	0.3	0.3	1.7	0.5	0.2
Total Current Assets	**46.6**	**55.0**	**59.8**	**64.0**	**64.8**	**74.8**	**99.3**	**92.8**
Non-Current Assets								
Receivables				2.9	1.0	1.4	1.5	0.9
PPE	0.8	0.9	1.6	1.6	2.7	2.0	2.1	2.5
Intangible	1.4	1.3	1.3	1.3	4.4	4.0	2.2	2.4
Deferred tax	0.3	0.3	0.3	0.7	0.6	0.4	0.6	0.7
Total Non-Current Assets	**2.4**	**2.6**	**3.2**	**6.5**	**8.7**	**7.8**	**6.3**	**6.5**
Total Assets	**49.0**	**57.6**	**63.0**	**70.6**	**73.5**	**82.6**	**105.6**	**99.3**
Current liabilities								
Trade and other payables	31.4	27.3	23.1	21.7	25.8	33.1	43.6	35.4
Borrowings	0.0	7.9	14.4	21.3	16.1	13.6	20.0	14.5
Income tax	0.9	1.4	0.5	0.6	0.9	1.0	1.9	1.8
Employee benefits			0.2	0.4	0.6	0.7	0.9	1.0
Other		0.3	0.0				0.7	0.8
Total Current Liabilities	**32.4**	**36.9**	**38.3**	**44.0**	**43.4**	**48.3**	**67.0**	**53.5**
Non-Current Liabilities								
Borrowings	0.1	0.2	0.5	0.6	1.1	1.7	0.5	0.8
Deferred tax	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Employee benefits				0.1	0.2	0.2	0.4	0.2
Total Non-Current liabilities	**0.1**	**0.2**	**0.6**	**0.8**	**1.4**	**2.0**	**1.0**	**1.0**
Total Liabilities	**32.5**	**37.1**	**39.0**	**44.8**	**44.8**	**50.3**	**68.0**	**54.5**
Net Assets	**16.5**	**20.5**	**24.1**	**25.8**	**28.7**	**32.3**	**37.6**	**44.8**
Equity								
issued Capital	13.1	13.1	13.1	13.1	13.1	13.1	13.1	13.1
Hedge reserve		(0.1)	(0.0)	(0.0)	(0.1)	(0.1)	(0.0)	0.4
Retained profits	3.4	7.6	11.0	12.7	15.7	19.3	24.6	31.4
Total Equity	**16.5**	**20.5**	**24.1**	**25.8**	**28.7**	**32.3**	**37.6**	**44.8**
Net working capital	12.9	27.6	36.2	41.7	38.5	39.7	54.9	57.1
Net working capital % of revenue	6.5%	11.0%	12.5%	15.5%	13.5%	13.7%	16.3%	16.3%
Net debt	(1.9)	8.1	14.9	21.9	16.9	15.0	20.4	15.3
EBIT interest cover	(41.1)	20.9	9.3	8.4	16.7	23.7	19.0	27.1

Source: Company Accounts

Exhibit 23: Cashflows from 2010 to 2017

Year ending June	2010	2011	2012	2013	2014	2015	2016	2017
Operations	2.6	(7.7)	(3.0)	(0.3)	10.7	5.3	(2.8)	12.9
investing	(0.5)	(0.3)	(1.1)	(0.8)	(4.3)	0.6	1.5	(1.1)
Financing	(1.5)	(1.8)	8.2	(4.5)	0.2	(5.1)	(5.4)	(6.4)
Net change in cash	0.6	(9.8)	4.1	(5.7)	6.5	0.8	(6.6)	5.4
Cash/equivalents beginning of year	1.5	2.0	(7.8)	(3.6)	(9.3)	(2.8)	(1.9)	(8.6)
Cash/equivalents end of year	2.0	(7.8)	(3.6)	(9.3)	(2.8)	(1.9)	(8.6)	(3.2)

Source: Company Accounts

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