Rocky Mountain Dealerships Inc. (TSX:RME, OTCQX:RCKXF) announces second quarter 2014 results and future management succession

Release Date:
Tuesday, August 5, 2014 4:00 pm MDT

Terms:
Dividends [1] Quarterly Results [2]

Dateline City:
CALGARY, Alberta

Rocky Mountain Dealerships Inc. (hereinafter “Rocky”) today reported its financial results for the quarter ended June 30, 2014.

SUMMARY OF FINANCIAL RESULTS FOR THE QUARTER ENDED JUNE 30, 2014

- Total revenues increased by 1.8% to $242.4 million.
- Product support revenues increased by 10.9% to $37.7 million.
- Gross profit increased by 5.2% to $37.8 million (15.6% of sales).
- Inventory decreased by $13.3 million to $522.2 million compared to Q2 2013.
- Diluted earnings per share increased by 34.8% to $0.31.
- EBITDA[1] increased by 23.8% to $10.6 million.
- Increased dividend by 15% to $0.115 for the quarter ($0.46 on an annual basis).

(1) See further discussion in “Non-IFRS Measures” and “Reconciliation of Non-IFRS Measures to IFRS” sections below.

In the second quarter of 2014, sales of whole goods were relatively flat, but product support growth enabled the business to realize a modest overall revenue increase. Gross margin and net profitability were also positively influenced by a variety of management actions.

Commenting on the quarter, Rocky’s CEO Matt Campbell stated, “As agriculture industry demand cycles to lower levels of whole good unit sales, a strong product support business helps to maintain stable cash flows. Sales in these departments increased for the second consecutive quarter compared to the same period last year. This drove an improvement in both our gross profit and EBITDA. Inventory also decreased slightly over the same period in 2013, as we work to ensure our customers have an appropriate range of products available at competitive prices.”

Rocky’s construction segment continued to make progress in the second quarter, as sales of new whole goods improved by 38.9% to $12.8 million. Gross margin and gross profit were up for the entire segment, which continued to improve over 2013.

Mr. Campbell further noted, “Management has undertaken significant efforts to restore our construction business. We are beginning to see the fruits of those labours, as are our customers. The initiatives we began earlier in the year have resulted in improvements in sales and net profitability. Although the construction segment still has significant work to do, we are encouraged by the results to date and the dedication of our people to the task.

Our overall business results rebounded from the first quarter of the year and improved over the same period last year. Crop forecasts for most regions are generally positive, with the noted exception of the areas in Saskatchewan and Manitoba hit by flooding in July. The agriculture industry remains a market that provides stability over the long-term. Similarly, the construction market in Alberta continues to lead the nation in growth. Overall, we are pleased in the progress of our operational efforts and their positive reflection in our financial results.”

CEO and President to Retire December 31, 2014

Rocky also announced today that Mr. Matt Campbell has declared his intention to retire as CEO of Rocky effective December 31, 2014. Mr. Derek Stimson also announced his intention to retire as President of Rocky as at that date. Both individuals will remain as directors of Rocky, with Mr. Campbell remaining as Rocky’s Chairman of the Board of Directors.

Commenting on these announcements, Paul Walters, Rocky’s Lead Independent Director, stated, “Rocky’s founders, Matt Campbell and Derek Stimson, have enjoyed long and distinguished careers in business. In 2007, they joined forces to create one of the largest equipment distribution networks in North America. Their tireless efforts and contributions have helped create Rocky into what it is today. Combined, they share nearly 80 years of business experience. As such, we are grateful that they will continue to serve Rocky’s management, its Board and shareholders, with their considerable knowledge and expertise. On behalf of the Board of Directors, we would like to thank both Mr. Campbell and Mr. Stimson for their continuing dedication to Rocky, and for their assistance with this important management transition.”

Commenting on his announcement, Mr. Campbell noted, “It has been a privilege to help create and lead Rocky. I feel confident that
we have been able to create a strong, vibrant organization through prudent, conservative business management. I believe that Rocky's strong business fundamentals will enable the new leader to create value for shareholders." Mr. Stimson, commenting on his announcement, stated, "For several years we have worked to ensure we have a strong management team in place to enable this transition to take place. As challenging as it is for me to step down after nearly 45 years in business, I have full confidence in Rocky’s future and its management."

Rocky’s Compensation, Governance and Nominating Committee (the “Committee”) will be, in conjunction with an international executive search firm, conducting a search to find and assess prospective CEO candidates. The Committee and the executive search firm will be considering both internal and external candidates.

Quarterly Cash Dividend

On August 5, 2014, the Board of Directors of Rocky approved a quarterly dividend of $0.115 per common share on its outstanding common shares. The common share dividend is payable on September 30, 2014, to shareholders of record at the close of business on August 29, 2014.

This dividend is designated by Rocky to be an "eligible dividend" for the purposes of the Income Tax Act (Canada) and any similar provincial or territorial legislation. An enhanced dividend tax credit applies to "eligible dividends" paid to Canadian residents. Please consult with your own tax advisor for advice with respect to the income tax consequences to you from Rocky designating its dividends as "eligible dividends."

Conference Call

Rocky will host a conference call to discuss its results on Wednesday, August 6, 2014, at 9:00 a.m. Mountain Time. Investors interested in participating in the live call can dial 1-888-231-8191 (toll free) or 1-647-427-7450. An archived recording of the call will be available approximately two hours after its completion on Rocky's website at www.rockymtn.com[3], or by calling 1-855-859-2056 (toll free) or 1-416-849-0833, passcode: 71117384. The archive will remain available until Wednesday, August 20, 2014.

Caution regarding forward-looking statements

Certain information set forth in this news release, including, without limitation, statements that imply any future earnings, profitability, economic benefit or other financial results, statements discussing agriculture industry demand cycles, crop forecasts for 2014, the continued stability of the agriculture market and statements regarding the growth of Alberta’s construction market, statements that state or imply that growth will continue in our construction and agriculture segments, statements about new or existing management and Rocky's business fundamentals creating future value for shareholders, and Mr. Stimson's statement about the future of Rocky and its management, are forward-looking information within the meaning of applicable Canadian securities laws. By its nature, forward-looking information is subject to numerous risks and uncertainties, some of which are beyond Rocky's control. While this forward-looking information is based on information and assumptions that Rocky's management believes to be reasonable, there is significant risk that the forward-looking statements will prove not to be accurate. Readers are cautioned not to place undue reliance on forward-looking statements as a number of factors could cause actual future performance and events to differ materially from that expressed in the forward-looking statements. Accordingly, this news release is subject to the disclaimer and qualified by risks and other factors discussed by Rocky in its management's discussion and analysis ("MD&A") for the year ended December 31, 2013, and as discussed in Rocky’s Annual Information Form dated March 11, 2014 under the heading "Risk Factors." Except as required by law, Rocky disclaims any intention or obligation to update or revise forward-looking statements, and further reserves the right to change, at any time, at its sole discretion, its current practice of updating its guidance and outlooks.

About Rocky

Rocky is one of Canada’s largest agriculture and construction equipment dealership networks with branches located throughout Alberta, Saskatchewan, and Manitoba. Through its network of Rocky Mountain Equipment locations, Rocky sells, rents, and leases new and used agriculture and equipment and offers product support and finance to its customers.

Additional information on Rocky is available at www.rockymtn.com[4] and on SEDAR at www.sedar.com[5].

CONSOLIDATED BALANCE SHEET SUMMARY

<table>
<thead>
<tr>
<th>$ thousands</th>
<th>June 30, 2014</th>
<th>December 31, 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventory</td>
<td>522,243</td>
<td>482,824</td>
</tr>
<tr>
<td>Other current assets</td>
<td>49,157</td>
<td>74,520</td>
</tr>
<tr>
<td>Property and equipment</td>
<td>31,381</td>
<td>30,860</td>
</tr>
<tr>
<td>Deferred tax asset</td>
<td>1,108</td>
<td>-</td>
</tr>
<tr>
<td>Goodwill</td>
<td>14,692</td>
<td>14,692</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>618,581</td>
<td>602,896</td>
</tr>
<tr>
<td><strong>Liabilities and equity</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Floor plan payable</td>
<td>374,264</td>
<td>342,364</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>44,354</td>
<td>56,607</td>
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<tr>
<td>Long-term debt</td>
<td>37,317</td>
<td>41,681</td>
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<tr>
<td>Obligations under finance leases</td>
<td>218</td>
<td>541</td>
</tr>
</tbody>
</table>
Deferred tax liability  -  2,576
Derivative financial instruments  2,838  1,706
                                       458,991  445,475
Shareholders' equity  159,590  157,421
Total liabilities and equity  618,581  602,896

SELECTED QUARTERLY FINANCIAL INFORMATION

$ thousands, except per share amounts For the three months ended June 30, For the six months ended June 30,

2014       2013       2014       2013

Sales
New equipment  133,086  54.9%  131,534  55.2%  257,355  58.4%  246,609  55.5%
Used equipment  70,621  29.1%  71,805  30.2%  121,372  27.6%  143,110  32.2%
Parts  29,216  12.1%  26,667  11.2%  44,734  10.2%  39,966  9.0%
Service  8,478  3.5%  7,310  3.1%  15,454  3.5%  13,521  3.0%
Other  953  0.4%  790  0.3%  1,605  0.3%  1,406  0.3%

Total sales  242,354  100.0%  238,106  100.0%  440,520  100.0%  444,612  100.0%

Cost of sales  204,548  84.4%  202,166  84.9%  373,482  84.8%  376,181  84.6%
Gross profit  37,806  15.6%  35,940  15.1%  67,038  15.2%  68,431  15.4%

Selling, general and administrative  25,985  10.7%  25,873  10.9%  51,043  11.6%  51,374  11.6%
Interest on short-term debt  2,947  1.2%  3,037  1.3%  5,624  1.3%  5,643  1.3%
Interest on long-term debt  568  0.3%  597  0.3%  1,100  0.2%  1,211  0.2%

Earnings before income taxes  8,306  3.4%  6,433  2.7%  9,271  2.1%  10,203  2.3%
Provision for income taxes  2,410  1.0%  1,939  0.8%  2,771  0.6%  2,871  0.7%
Net earnings  5,896  2.4%  4,494  1.9%  6,500  1.5%  7,332  1.6%
Earnings per share
Basic  0.31  0.23  0.34  0.38
Diluted  0.31  0.23  0.34  0.38
Dividends per share  0.1150  0.1000  0.2150  0.1675

Non-IFRS Measures (1)

EBITDA  10,615  4.4%  8,572  3.6%  13,836  3.1%  14,573  3.3%
Operating SG&A  24,244  10.0%  24,331  10.2%  47,578  10.8%  48,215  10.8%
Floor Plan Neutral Operating Cash Flow  207  0.1%  27,343  11.5%  (41,460)  (9.4%)  (21,714)  (4.9%)

(1) – See further discussion in “Non-IFRS Measures” and “Reconciliation of Non-IFRS Measures to IFRS” sections below

NON-IFRS MEASURES

We use terms which do not have standardized meanings under IFRS. As these non-IFRS financial measures do not have standardized meanings prescribed by IFRS, they are unlikely to be comparable to similar measures presented by other issuers. Our definition for each term is as follows:

- **“EBITDA”** is a commonly used metric in the dealership industry. EBITDA is calculated by adding interest on long-term debt, income taxes and depreciation to net earnings. Adding back non-operating expenses allows management to consistently compare periods by removing changes in tax rates, long-term assets and financing costs related to the Company's capital structure.

- **“Operating SG&A”** is calculated by adding back depreciation of property and equipment and any non-recurring charges recognized in SG&A during the period to SG&A. Management deems non-recurring charges to be unusual and/or infrequent charges that the Company incurs outside of its common day-to-day operations. Adding back these items allows
management to assess discretionary expenses from ongoing operations. Management has changed the calculation of Operating SG&A from previous disclosures by no longer considering the ineffective portion of derivative financial instruments or acquisition transaction costs to be non-recurring charges. For the periods presented, these costs are insignificant in amount and recurring in nature. For the periods presented, no non-recurring charges have been identified. We target a sub-10% Operating SG&A as a percentage of total sales on an annual basis.

- "Floor Plan Neutral Operating Cash Flow" is calculated by eliminating the impact of the change in floor plan payable (excluding floor plan assumed pursuant to business combinations) from cash flows from operating activities. Adjusting cash flows from operating activities for changes in the balance of floor plan payable allows management to isolate and analyze operating cash generated during a period, prior to any sources or uses of cash associated with equipment financing decisions.

### RECONCILIATION OF NON-IFRS MEASURES TO IFRS

#### EBITDA

<table>
<thead>
<tr>
<th>$ thousands</th>
<th>For the three months ended June 30,</th>
<th>For the six months ended June 30,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2014</td>
<td>2013</td>
</tr>
<tr>
<td>Net earnings</td>
<td>5,896</td>
<td>4,494</td>
</tr>
<tr>
<td>Interest on long-term debt</td>
<td>568</td>
<td>597</td>
</tr>
<tr>
<td>Depreciation expense</td>
<td>1,741</td>
<td>1,542</td>
</tr>
<tr>
<td>Income taxes</td>
<td>2,410</td>
<td>1,939</td>
</tr>
<tr>
<td>EBITDA</td>
<td>10,615</td>
<td>8,572</td>
</tr>
</tbody>
</table>

#### Operating SG&A

<table>
<thead>
<tr>
<th>$ thousands</th>
<th>For the three months ended June 30,</th>
<th>For the six months ended June 30,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2014</td>
<td>2013</td>
</tr>
<tr>
<td>SG&amp;A</td>
<td>25,985</td>
<td>25,873</td>
</tr>
<tr>
<td>Depreciation expense</td>
<td>(1,741)</td>
<td>(1,542)</td>
</tr>
<tr>
<td>Operating SG&amp;A</td>
<td>24,244</td>
<td>24,331</td>
</tr>
</tbody>
</table>

#### Floor Plan Neutral Operating Cash Flow

<table>
<thead>
<tr>
<th>$ thousands</th>
<th>For the three months ended June 30,</th>
<th>For the six months ended June 30,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2014</td>
<td>2013</td>
</tr>
<tr>
<td>Cash flows from operating activities</td>
<td>9,145</td>
<td>7,691</td>
</tr>
<tr>
<td>Net (increase) decrease in floor plan payable</td>
<td>(8,938)</td>
<td>19,652</td>
</tr>
<tr>
<td>Floor plan assumed pursuant to business combinations</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Floor Plan Neutral Operating Cash Flow</td>
<td>207</td>
<td>27,343</td>
</tr>
</tbody>
</table>

**Language:**
English

**Contact:**
For further information:
Rocky Mountain Dealerships Inc.,
or,
Matt Campbell,
Chief Executive Officer;
or,
Garrett Ganden,
Chief Operating Officer;
or,
David Ascott,
Chief Financial Officer,
#301, 3345 - 8th Street S.E.,
Calgary, Alberta T2G 3A4,
Telephone: (403) 265-7364, Fax: (403) 214-5644

Ticker Slug:
Ticker: RME
Exchange: TSX


Links: