Rocky Mountain Dealerships Inc. Reports First Quarter 2018 Results and Record First Quarter New Equipment Sales

Strong Pre-Sales Lead to 26% Year-Over-Year Increase in New Equipment Sales

CALGARY, Alberta--(BUSINESS WIRE)--May 9, 2018--Rocky Mountain Dealerships Inc. (TSX:RME, and hereinafter "**RME**"), Canada's largest agriculture equipment dealer, today reported its financial results for the quarter ended March 31, 2018. All financial figures are expressed in Canadian dollars.

"Record first quarter new equipment sales reflect not only strong pre-sale efforts by our team through 2017, but also the health of our market," said Garrett Ganden, President & Chief Executive Officer. "While our margins and used-equipment inventory were negatively impacted by the harsh winter, which set new records for length and severity on the Canadian prairies, this is not indicative of the health of our market. Indications through April and early May are that the trend of strengthening demand has resumed. Given what we are seeing in the market, we think we are on our way to another strong year as the annual agriculture cycle plays out."

SELECTED FINANCIAL INFORMATION

	Three months ended March 31,			
$ thousands	**2018**	2017	Change	% Change
Sales	**219,654**	209,940	9,714	4.6
Cost of sales	**192,691**	183,162	9,529	5.2
Gross profit	**26,963**	26,778	185	0.7
Gross profit as a % of sales	***12.3%***	*12.8%*	*(0.5%)*	
Selling, general and administrative	**23,469**	23,103	366	1.6
Loss (gain) on derivative financial instruments	**1,426**	(421)	1,847	(438.7)
Earnings before finance costs and income taxes	**2,068**	4,096	(2,028)	(49.5)
Finance costs	**2,742**	2,991	(249)	(8.3)
(Loss) earnings before income taxes	**(674)**	1,105	(1,779)	(161.0)
Income taxes	**(254)**	224	(478)	(213.4)
Net (loss) earnings	**(420)**	881	(1,301)	(147.7)
Net (loss) earnings as a % of sales	***(0.2%)***	*0.4%*	*(0.6%)*	
(Loss) earnings per share				
Basic	**(0.02)**	0.05	(0.07)	(140.0)
Diluted	**(0.02)**	0.05	(0.07)	(140.0)
Dividends per share	**0.115**	0.115	-	-
Book value / diluted share – March 31	**9.93**	9.06	0.87	9.6
Adjusted Diluted Earnings per Share[(1)]	**0.01**	0.04	(0.03)	(75.0)
Adjusted EBITDA[(1)]	**2,331**	3,349	(1,018)	(30.4)
Operating SG&A[(1)]	**22,308**	20,933	1,375	6.6
Operating SG&A[(1)] as a % of sales	***10.2%***	*10.0%*	*0.2%*	
Operating Cash Flow before Changes in Floor Plan[(1)]	**(48,856)**	(24,324)	(24,532)	100.9

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

SUMMARY OF THE QUARTER ENDED MARCH 31, 2018

Sales and Margins

- Total sales increased 4.6% or $9.7 million to $219.7 million compared with $209.9 million for the same period in 2017 due to a $26.4 million increase in new equipment sales year-over-year. This was achieved through strong presale efforts and a healthy market. The increase in new equipment sales was offset by decreases in used equipment, parts, and service revenues due to the extremely late spring season. Used equipment, parts and service sales activity, are driven by in-season demand which can be heavily influenced by weather.
- Gross profit increased by 0.7% or $0.2 million to $27.0 million compared with $26.8 million for the same period in 2017. This was predicated on year-over-year increases in sales and incentives from our original equipment manufacturers. These increases were partially offset by a shift in sales mix away from higher margin parts and service categories as a result of decreased in-season demand as well as weaker average margins on used equipment. In the weeks leading up to seeding and harvest activity, our general practice has been to liquidate aged, seasonal-use equipment, ensuring that we do not have to carry such units on our books for another calendar year. Given the comparatively later start to spring, these units were disproportionately represented in our Q1 2018 used sales profile relative to the same period last year, diluting average used equipment margins as a consequence.

Cost Structure and Earnings

As a percentage of sales, Operating SG&A[(1)] for the first quarter of 2018 was similar to last year, increasing by 0.2% to 10.2% compared with 10.0% for the same period in 2017. Operating SG&A[(1)] as a percentage of sales is seasonally higher in the first quarter.

Finance costs for the quarter ended March 31, 2018 decreased 8.3% or $0.2 million to $2.7 million compared with the same period in 2017, due to a reduction in the average level of interest-bearing debt. Of the $53.3 million increase in floor plan payable since Q4 2017, $42.9 million of this increase is non-interest-bearing.

Despite lower finance costs and relatively stable Operating SG&A[(1)] as a percentage of sales, the prolonged winter conditions reduced sales in higher margin categories which meant:

- Adjusted EBITDA[(1)] decreased by 30.4% or $1.0 million to $2.3 million for the first quarter of 2018 compared with $3.3 million for the same period in 2017; and,
- Adjusted Diluted Earnings per Share[(1)] decreased by 75% or $0.03 to $0.01 for the first quarter of 2018, compared with $0.04 for the same period of 2017.

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

Reported diluted loss per share for the quarter was $0.02, down from earnings per share of $0.05 during the same period a year ago, attributable in large part to a negative variance associated with our derivative financial instruments.

Balance Sheet and Inventory

For the trailing twelve months ended March 31, 2018, inventory turns were 1.76 times, down from 1.81 times for the trailing twelve months ended December 31, 2017, and up compared with 1.72 times for the same period a year ago.

We continue to work towards improved inventory turns through targeted sales, disciplined procurement and presale orders. With winter weather conditions persisting into the second quarter of 2018, demand for used equipment was much lower this year than it was last year at the same time. Combined with the trade-ins associated with new equipment sales in the quarter, RME's equipment inventory as at March 31, 2018 increased as follows:

- Used equipment inventory was $356.6 million, representing increases of 20.4% or $60.4 million compared with the same period in 2017, and 13.2% or $41.6 million since the fourth quarter of 2017. As snow packs melt and agriculture activity commences, we anticipate seasonal demand for used equipment to materialize; and,
- New equipment inventory was $127.2 million, representing increases of 3.1% or $3.8 million compared with the same period in 2017, and 9.7% or $11.3 million since the fourth quarter of 2017.

Since the end of 2017, equipment inventory levels increased $52.9 million, with the majority of this increase concentrated in the used category. The increase in inventory during Q1 2018 was fully funded by draws on our various floor plan facilities. Much of the equipment taken on trade during the quarter was eligible for interest-free terms. Of the $53.3 million increase in floor plan payable since Q4 2017, $42.9 million of this increase is non-interest-bearing.

Crop Outlook

Agriculture and Agri-Food Canada ("AAFC") expects total production of principal field crops to be 93.1 million tons for the 2017-2018 crop year. While this represents a decline of 1.2% compared with the 2016-2017 crop year, this level of production would still be at the high end of historic norms.

AAFC's forecast for total production of principal field crops in the upcoming 2018-2019 crop year remains robust. Notwithstanding the late spring in many parts of Western and Central Canada, AAFC is forecasting a slight 0.1% increase in production over the prior crop year[1].

The combination of solid production and healthy commodity prices for key Western Canadian crops continues reinforce the already strong balance sheets of our customer base.

Financial Statements and Management's Discussion and Analysis ("MD&A")

The MD&A as well as the unaudited financial statements and notes to the financial statements for the three month periods ended March 31, 2018 and 2017, are available online at www.rockymtn.com and www.sedar.com.

Quarterly Cash Dividend

On May 8, 2018, RME's Board of Directors declared a quarterly dividend of $0.115 per common share on RME's outstanding common shares. The common share dividend is payable on June 29, 2018, to shareholders of record at the close of business on May 31, 2018.

This dividend is designated by RME 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 RME designating its dividends as "eligible dividends."

2018 Dividend Declaration Schedule

Commencing next quarter, dividend and earnings announcements will be done as separate, stand-alone press releases. To align RME with best practices, future dividend announcements will occur at the beginning of the month in which the dividend is to be paid. The record date will be scheduled for the middle of the month, and the payment date will be scheduled for the end of the month in accordance with RME's established payment schedule. This change in RME's dividend declaration schedule will not impact the amount RME pays as its quarterly dividend.

Conference Call

RME will host a conference call and webcast to discuss the quarter at 9:00 a.m. MT (11:00 a.m. ET) today. **Please note that the format of the webcast incorporates a visual presentation for investors and analysts**. To listen to the live webcast and watch the presentation please use the following link:

https://event.webcasts.com/starthere.jsp?ei=1189171&tp_key=0098c33aa1

Within 24 hours of the event, the webcast will be available for replay at the link above until May 8, 2019.

Those interested in participating in the conference call may do so by calling 1-866-521-4909 (toll free) or (647) 427-2311.

An archived recording of the conference call will be available until May 23, 2018 by dialing 1-800-585-8367 (toll free) or 1-416-621-4642, Conference ID: 7285008. This archived recording will also be available at www.rockymtn.com.

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 or implying future or sustained demand for RME's products or services; statements regarding the health of the markets in which RME does business; statements regarding RME's expectation for another strong year in 2018 as the annual agriculture cycle plays out; statements discussing or implying any future dividend payments or changes; statements implying RME's continued ability to pay its dividend at current levels; and statements regarding our scheduled quarterly conference call, 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 RME's control. While this forward-looking information is based on information and assumptions that RME'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 RME in its MD&A for the quarter ended March 31, 2018, and as discussed in RME's Annual Information Form dated March 13, 2018 under the heading "Risk Factors." Except as required by law, RME 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 Mountain Dealerships Inc. (TSX:RME)

RME is Canada's largest agriculture equipment dealer with branches located throughout Alberta, Saskatchewan, and Manitoba. Through its dealer network, RME sells, rents, and leases new and used agriculture equipment and offers product support and finance to its customers.

Additional information on RME is available at www.rockymtn.com and on SEDAR at www.sedar.com.

NON-IFRS MEASURES

Throughout this release, 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:

- **"Adjusted Diluted Earnings per Share"** is calculated by eliminating from net earnings, the after-tax impact of the losses (gains) arising from RME's derivative financial instruments and DSUs, as well as the expense (recovery) associated with its SARs. These items arise primarily from changes in RME's share price as well as fluctuations in interest rates and are not reflective of RME's core operations.

RME also adjusts for any non-recurring charges (recoveries) recognized in net earnings. Management deems non-recurring charges (recoveries) to be unusual or infrequent items that RME incurs outside of its common day-to-day operations. Adjusting for these items allows management to isolate and analyze diluted earnings per share from core business operations. For the periods presented, no non-recurring charges (recoveries) have been identified.

- **"Adjusted EBITDA"** is derived by eliminating the following items from net earnings: finance costs associated with long-term debt; income taxes; depreciation and amortization; the impact of the losses (gains) arising from derivative financial instruments and DSUs; and the expense (recovery) associated with SARs. Adjusting net earnings for these items allows management to consistently compare periods by removing the impact of fluctuations in tax rates, long-term assets, financing costs related to RME's capital structure and RME's share price.

RME also adjusts for any non-recurring charges (recoveries) recognized in Adjusted EBITDA. Management deems non-recurring charges (recoveries) to be unusual or infrequent items that RME incurs outside of its common day-to-day operations. Adjusting for these items allows management to isolate and analyze EBITDA from core business operations. For the periods presented, no non-recurring charges (recoveries) have been identified.

- **"Operating SG&A"** is calculated by eliminating from SG&A, depreciation and amortization expense as well as the impact of the losses (gains) arising from RME's DSUs and the expense (recovery) associated with its SARs. These items arise primarily from changes in RME's share price and are not reflective of RME's core operations.

RME also adjusts for any non-recurring charges (recoveries) recognized in SG&A. Management deems non-recurring charges (recoveries) to be unusual or infrequent items that RME incurs outside of its common day-to-day operations. For the periods presented, no non-recurring charges (recoveries) have been identified. The assessment of Operating SG&A facilitates the evaluation of discretionary expenses from ongoing operations. We target a sub-10% Operating SG&A as a percentage of total sales on an annual basis.

- **"Operating Cash Flow before Changes in Floor Plan"** 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 flows during a period, prior to any sources or uses of cash associated with equipment financing decisions.

RECONCILIATION OF NON-IFRS MEASURES TO IFRS

Adjusted Diluted Earnings per Share

	Three months ended March 31,	
$ thousands	**2018**	2017
(Loss) earnings used in the calculation of diluted (loss) earnings per share	**(420)**	881
Loss (gain) on derivative financial instruments	**1,426**	(421)
(Gain) loss on DSUs	**(90)**	26
SAR (recovery) expense	**(530)**	277
Tax effect of adjustments (27%)	**(218)**	32
Earnings used in the calculation of Adjusted Diluted Earnings per Share	**168**	795
Weighted average diluted shares used in the calculation of diluted earnings per share (in thousands)	**19,896**	19,384
Adjusted Diluted Earnings per Share	**0.01**	0.04

Adjusted EBITDA

	Three months ended March 31,	
$ thousands	**2018**	2017
Net (loss) earnings	**(420)**	881
Finance costs associated with long-term debt	**418**	495
Depreciation and amortization expense	**1,781**	1,867
Income taxes	**(254)**	224
EBITDA	**1,525**	3,467
Loss (gain) on derivative financial instruments	**1,426**	(421)
(Gain) loss on DSUs	**(90)**	26
SAR (recovery) expense	**(530)**	277
Adjusted EBITDA	**2,331**	3,349

Operating SG&A

	Three months ended March 31,	
$ thousands	**2018**	2017
SG&A	**23,469**	23,103
Depreciation and amortization expense	**(1,781)**	(1,867)
Gain (loss) on DSUs	**90**	(26)
SAR recovery (expense)	**530**	(277)
Operating SG&A	**22,308**	20,933
Operating SG&A as a % of sales	***10.2%***	*10.0%*

Operating Cash Flow before Changes in Floor Plan

$ thousands	Three months ended March 31, **2018**	2017
Cash flow from operating activities	**4,427**	(5,709)
Net increase in floor plan payable[(1)]	**(53,283)**	(18,615)
Floor plan assumed pursuant to business combinations	**-**	-
Operating Cash Flow before Changes in Floor Plan	**(48,856)**	(24,324)

(1) – Includes change in floor plan payable classified as liabilities associated with assets held for sale.

[1] Canada: Outlook for Principal Field Crops – April 23, 2018

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