



## 2018 LETTER TO SHAREHOLDERS

Dear Shareholder,

Thank you for choosing to own Rocky Mountain Dealerships Inc. (TSX:RME). We are Canada's largest agriculture equipment dealer, focused on selling agricultural equipment and providing the most dependable products and services to farmers across the Canadian Prairies. Our strong financial performance in 2017 validates the tireless efforts of our team over the past three years. I want to start by thanking every member of the RME team for their dedication to our customers, our investors, and to each other. **Dependable is what we do™** - at the individual level, at the team level, and as an entire company.

### **Promises Made**

When I became President and CEO three years ago we were going through the low end of the demand cycle for agriculture and construction equipment in Western Canada. At that time, we told the market we were going to:

1. Improve our profitability through a leaner cost structure and geographic footprint;
2. Fix our balance sheet by reducing inventory and paying off debt; and
3. Enhance our customers' experience and share of market by investing in first-class storefronts.

And that is exactly what we have accomplished.

## **Promise Kept: Improved Profitability Through a Leaner Cost Structure**

First, we retrenched. With a refined operational model, we reduced our fixed costs and overhead and optimized our bricks and mortar footprint. In doing so, we completed the integration of the nearly 20 acquisitions that have helped us to grow to be Canada's largest agricultural equipment dealer.

To align our geographic footprint with the markets we serve we reduced the number of bricks and mortar facilities by approximately 20% from 42 locations in April 2015 to 34 locations in December 2016. We did this by eliminating branches with overlapping territories and by merging our industrial equipment operations with our agriculture locations. At the same time, we were able to maintain or improve our market share across the Canadian Prairies.

While we incurred \$3.6 million in onetime costs in 2016 amalgamating and rationalizing our bricks and mortar footprint, the \$3 million in projected annual savings helped us drive RME's Operating Selling, General and Administrative expenses ("Operating SG&A") down to 9.3% in 2017 compared with 9.6% in 2016 and 10.3% in 2015.

Despite relatively flat sales over the past three years, our leaner cost structure allowed us to increase Adjusted Diluted Earnings Per Share by 63% to \$1.16/share in 2017 compared with \$0.71 in 2015.

We have done the work to streamline our costs and investors should expect our Operating SG&A to fluctuate with sales at around 9.5% of sales going forward.

## **Promise Kept: A Strong Balance Sheet Positioned for Growth**

The downturn in the agriculture equipment market between 2013 and 2016 caused our equipment inventory profile to deteriorate. We were carrying too much, and the capital locked up in our inventory had become a drag on RME's return on capital and our balance sheet.

On our conference call for the first quarter of 2016 I committed to reducing our equipment inventory by \$50 million that year. In the end, we exceeded our goal by a significant margin, reducing our inventory by \$57 million that year. We continued to reduce our inventory by another \$37 million by the end of the third quarter of 2017. We are happy with the current composition of our equipment inventory and expect it to expand and contract seasonally as we prepare for the next sales cycle. Our focus on sales and inventory management continues to increase inventory turnover and, by extension, our return on assets.

Through targeted sales efforts, realigning our investment in inventory to market demand, and disciplined procurement, including seasonal pre-sale orders, we have increased inventory turns by 16% and reduced our inventory finance ratio from 78.5% at the end of 2014 to 70.9% at the end of 2017. The reduction in inventory leverage positions our balance sheet to support our growth plans or other capital allocation opportunities moving forward.

## **Promise Kept: Investing in our Customers**

Today we are the largest dealer of Case IH agricultural equipment in the world. Part of the reason for this is that our customers enjoy a first-class experience anytime they enter one of our locations. That's why, while we have reduced the number of physical locations, we continue to actively invest in our branches.

To provide a great customer experience and meet the needs of our growing installed base, since 2015 we have invested \$13.1 million in opening and upgrading our locations. This includes the construction of two state of the art facilities in the key agricultural communities of Yorkton, Saskatchewan and Neepawa, Manitoba.

For any company to be successful, customers must be at the center of organizational planning and investment. We continue

to strike the right balance between serving the needs of our customers, maintaining the right market presence, and delivering a best-in-class service experience.

### **Rising Demand for Agricultural Equipment**

The headwinds that began for the agricultural equipment industry following the peak of the cycle in 2013 appear to be slowly abating. After four consecutive years of declining demand, 2017 saw the first year-over-year increase in demand for Agricultural Equipment in Canada since 2013.

We believe we will see sustained and increased customer demand in the areas in which we operate in the years to come.

### **Positioned for Growth**

Our success in lowering our costs and strengthening our balance sheet has enabled us to consider a variety of capital allocation options such as accretive acquisitions and returning capital to our shareholders.

### **Acquisition Strategy**

Our improved operational model has also enhanced our ability to integrate new assets, which makes growth through acquisition an attractive option. One immediate source of accretion in an acquisition is our ability to sell the same equipment inventory through a broader network of dealerships, which means it is possible to increase sales with the same balance sheet and thereby increase our return on assets.

We generally look to acquire agriculture equipment dealerships that operate in areas that have a similar customer base to what we have experience in. This means that Case IH and New Holland agriculture equipment dealership networks in the Canadian prairies continue to be of interest to us.

In addition to the Canadian Prairies, another area of interest to us is the area south of our current operations in the United States ("US"). US regions with crops similar to the crop mix of the Canadian Prairies currently benefit from good economics, and the balance sheets of farming operations in these regions are supportive of ongoing equipment purchases. An acquisition in these regions of the US would give us further growth opportunities in the US market.

We are now continuously evaluating potential transactions in both Canada and the United States to determine whether they are the right fit for RME. That said, we are in no rush and will forgo any acquisition that will not generate shareholder value over the long-term.

### **Driving Same-Store Sales Growth**

Our "bread and butter" has been selling and servicing agriculture equipment. The foundation of success for any equipment dealership is comprised of three key pillars:

- Equipment sales;
- Parts sales; and
- Services.

Success across all three areas is what drove our strong financial results in 2017. To drive same-store-sales growth, we continue to invest in being a first-class provider of these core services. What differentiates us from our competitors, however, is our investment in where we see the business going.

The advent of new technologies that enable farmers to drive lower costs and higher yields represent a major area of opportunity for our customers. We are currently working with every generation of farmer, assisting them in taking advantage

of these new technologies to decrease their input costs and increase their yield.

The advantage of working with Case IH is that they have taken an open approach to the vast amount of data collected by their equipment. The data is not proprietary, and our customers are free to use that data to optimize their operations without being locked into a single provider. This open approach to big data is a competitive advantage based on our partnership with Case IH, which will allow our customers to chart their own course and decide how to utilize the new technologies that are available to them. We can work with our customers across all of these new technological spheres.

## Capital Allocation

Returning capital to shareholders remains a priority for Rocky. We regularly review our capital allocation strategy and, in the absence of an accretive use of capital, may elect to return capital to our shareholders as a dividend or share buy-back.

Over the past decade RME has consistently paid a quarterly dividend to its shareholders. To date, no dividend payments have been missed, nor has the dividend ever decreased. Between January 1, 2015 and December 31, 2017 we returned \$26.8 million in capital to shareholders through our dividend, driving a total shareholder return of 71.7%.

Our desire to increase the amount of capital we return to our shareholders needs to be balanced with our need to have "dry powder" available to grow our business when opportunities arrive. Whether it is done through dividends, growth of our distribution footprint, or other strategic initiatives, our primary focus continues to be operating our business in a way to consistently drive long-term shareholder value.

## Looking Forward

Our success in 2017 would not have been possible without the strong partnerships that we have with our equipment manufacturers. I'd like to thank this group of leading original equipment manufacturers for partnering with us and allowing us to provide their world class brands to meet the evolving business and technological needs of our farming customers.

The focus, sacrifice, and hard work of our team over the past three years has paid off. We have delivered on our promises to our customers and investors, and our 2017 results reflect this.

In 2018, our focus will be to:

1. Maintain our lean cost structure and an Operating SG&A below 10% of sales;
2. Increase inventory turnover and return on assets through sales and inventory management; and
3. Allocate capital in a disciplined manner that maximizes our shareholder's returns.

Thank you for choosing to own Rocky Mountain Dealerships Inc. I believe that over the past three years we have continued to demonstrate that Dependable is what we do™.

Sincerely,

Garrett Ganden  
President and Chief Executive Officer