



# PAC Partners Ag Conference

by Erling Sorensen

Friday 28th April 2017

*“Controlling our destiny”*

**Murray  
River  
Organics™**

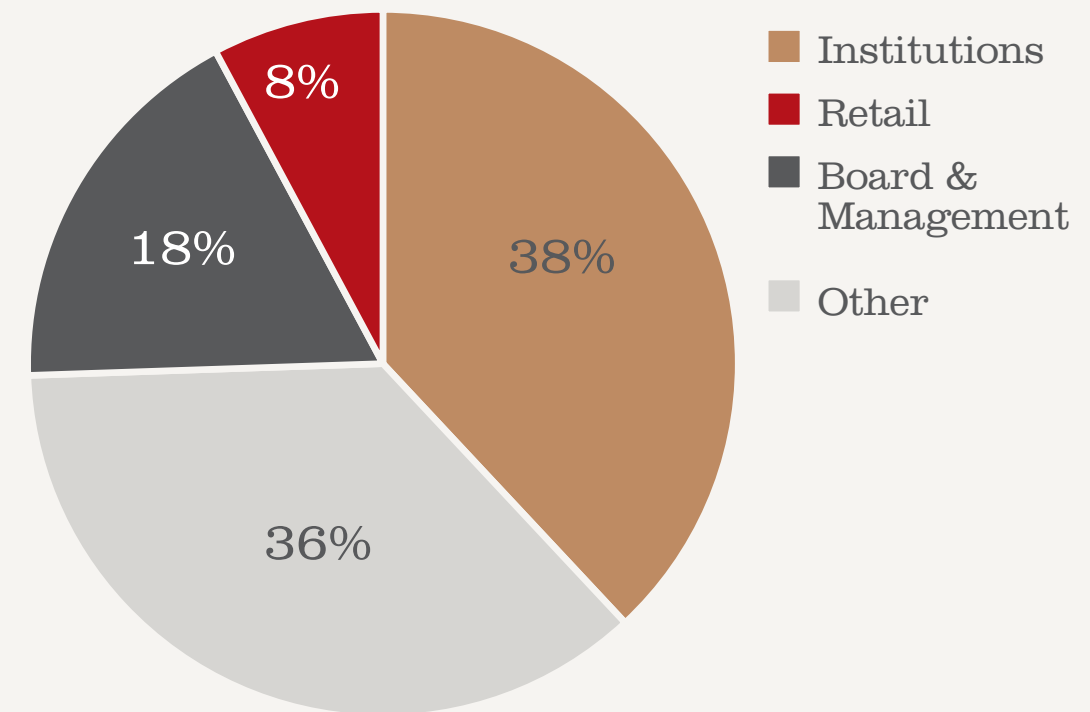


# Company overview

- World's largest vertically integrated producer of certified organic dried vine fruit and a leading Australian producer, marketer and seller of Organic, natural, healthy and better-for-you food and beverage products
- 4,726 acres of owned or controlled farmland
  - > 3,196 acres planted
  - > Significant embedded growth as:
    - Approx 50% mature
    - Balance 50% is expected fully mature by 2021, with majority of CAPEX required already invested
  - > 290 acres still plantable
- Selling into 26 countries
  - > Own sales teams in place in Europe, North America, North Asia (Japan), China and Australia (reps in most States)

## Corporate overview

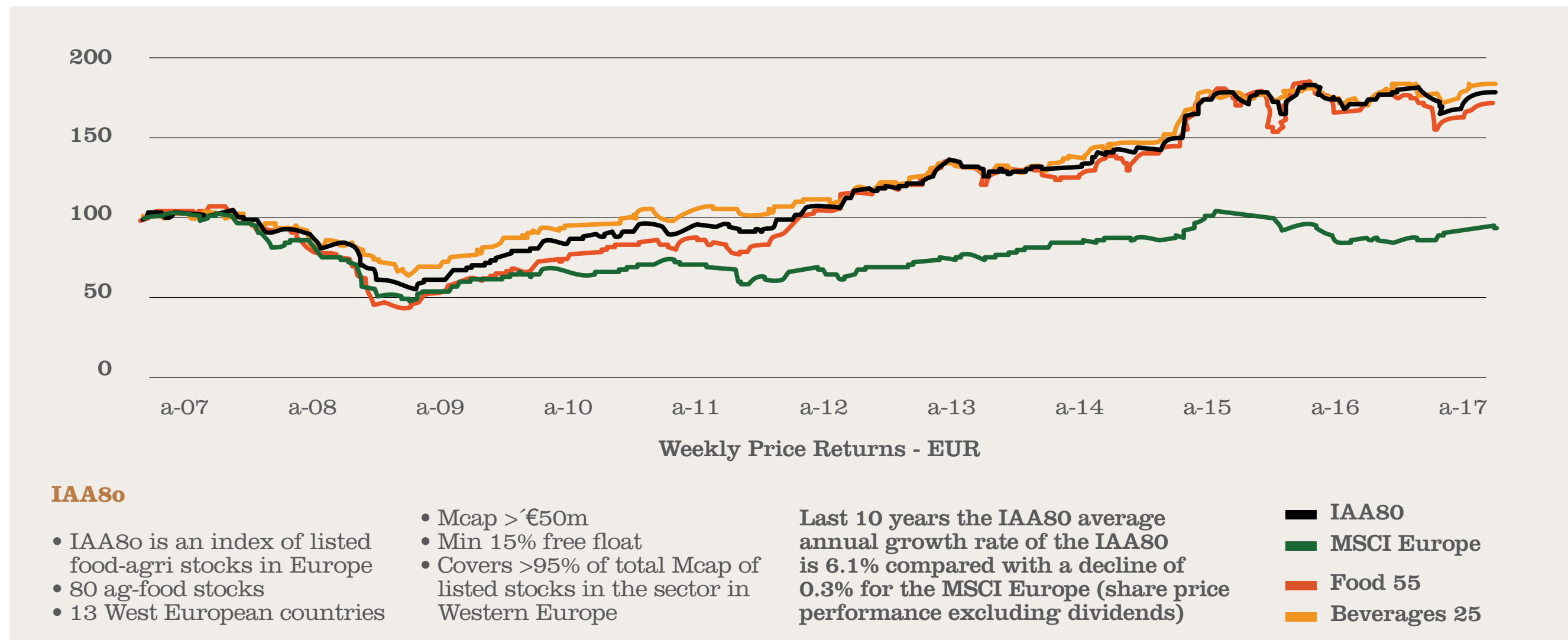
- ASX:MRG – listed December 2016
- Market cap – \$97m (as at 26th April 2017)
- Shares on issue: 87,086,550





# Agri-Food stocks outperform

European agri-food stocks have largely outperformed the market over the last 10 years.

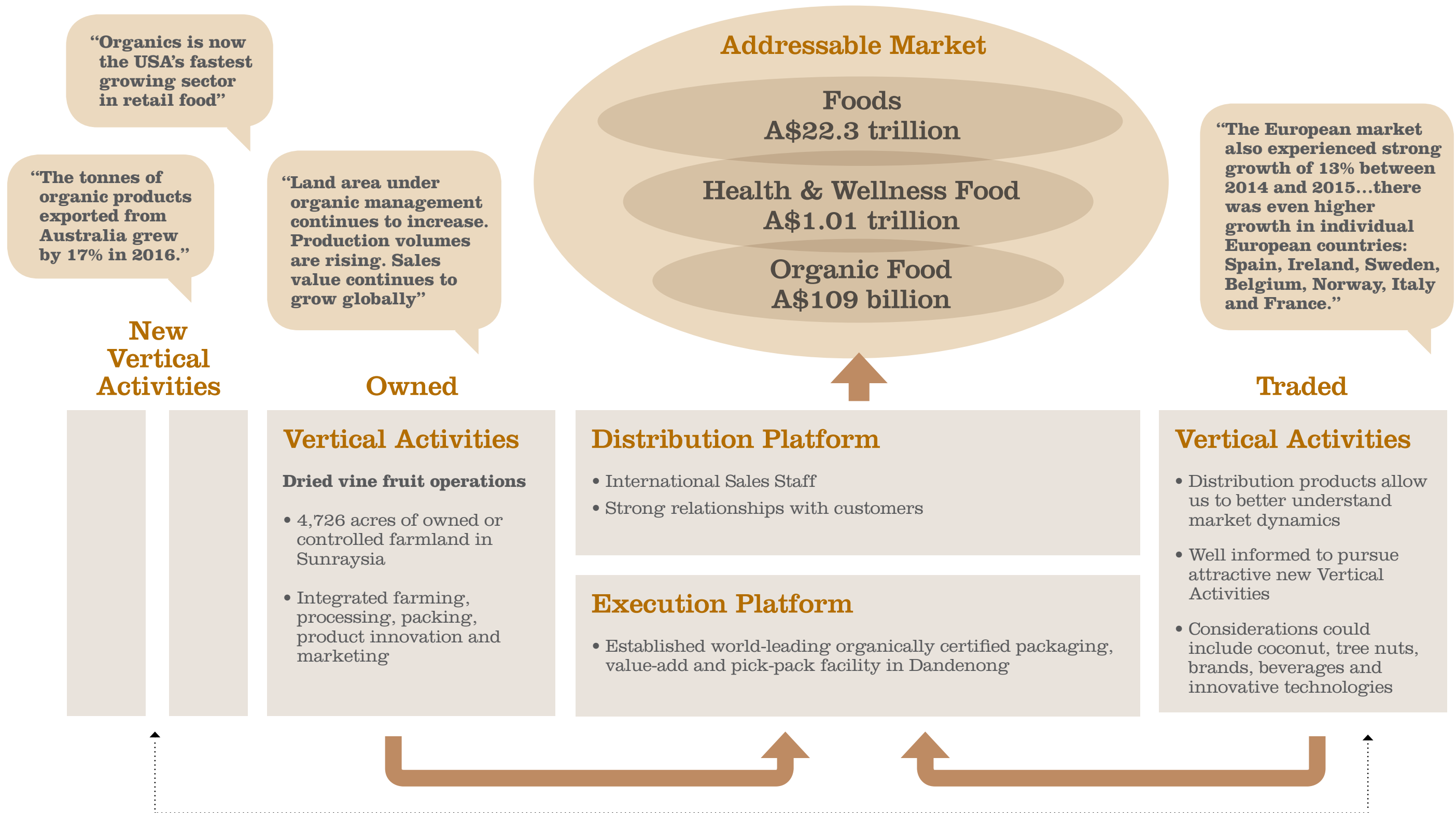


Annual Growth (as at 31st March 2017)

	1 month	3 months	6 months	1 year	3 years	5 years	10 years
IAA80	1.1%	6.0%	0.1%	5.5%	9.9%	10.9%	6.1%
MSCI Europe	1.4%	4.8%	11.2%	15.0%	3.6%	7.5%	(0.3%)



# Business model





# Controlling the controllables

MRG has achieved a number of significant milestones since listing in December 2016...

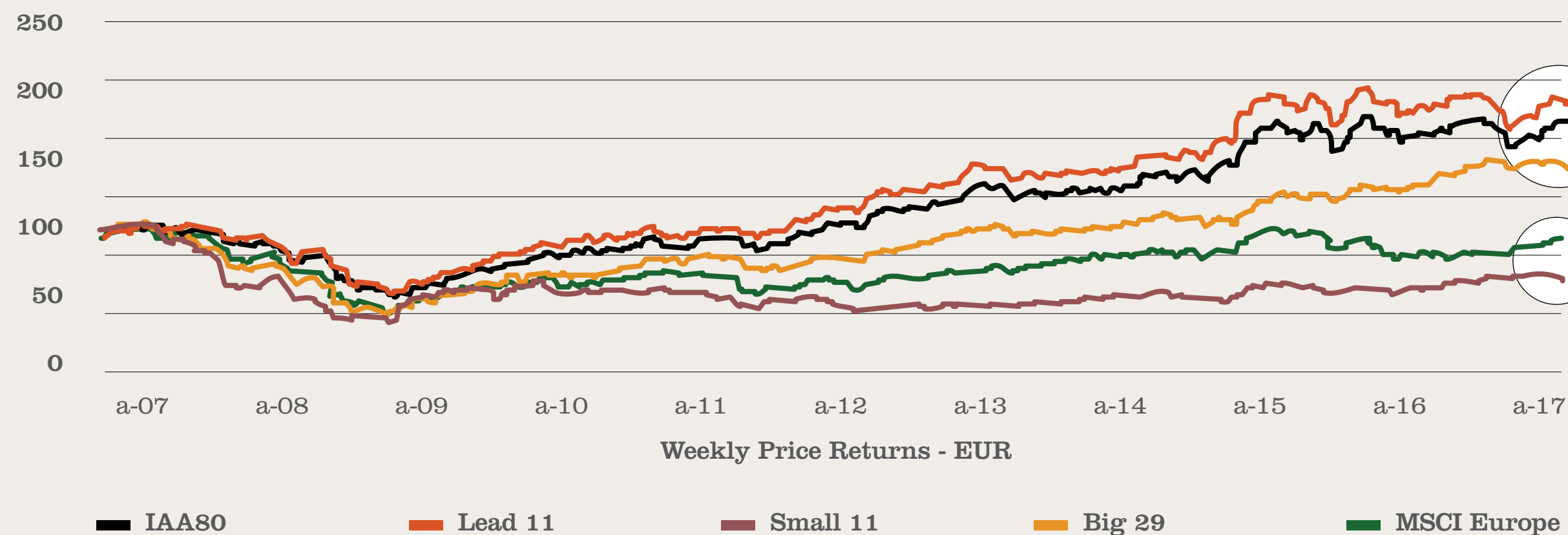
Activity	Update
<b>Acquisition of Fifth Street Vineyard</b>	<ul style="list-style-type: none"> <li>• MRG now owns or controls 4,726 acres of farmland in the Sunraysia region</li> </ul>
<b>Conversion of 476 acres of bulk wine plantings to certified organic dried vine fruit</b>	<ul style="list-style-type: none"> <li>• Bud grafting completed</li> <li>• &gt;95% success rate</li> </ul>
<b>Planting out (greenfield) ~468 acres to certified organic dried vine fruit</b>	<ul style="list-style-type: none"> <li>• Main irrigation lines in place</li> <li>• Posts being rammed</li> <li>• Planting commence July '17</li> </ul>
<b>Acquisition of complementary businesses - Food Source International &amp; Australian Organic Holdings</b>	<ul style="list-style-type: none"> <li>• Integration of acquired businesses is well progressed and implementation of uniform operational, marketing, sales &amp; distribution strategies across the Group is on track</li> <li>• Broader product range + strengthened relationships with key domestic retailers</li> </ul>
<b>Establish new organically certified consumer packaged goods, value-add and pick-pack facility in Dandenong, Victoria</b>	<ul style="list-style-type: none"> <li>• Packaging facility is now operational and is also the new Head Office of the Group</li> <li>• 4,219 sqm facility has been fitted with more than 2,500 pallet spaces</li> </ul>
<b>Consolidate and upgrade processing facilities in Sunraysia</b>	<ul style="list-style-type: none"> <li>• Commence utilising phase 1 by end May '17</li> <li>• Surplus assets being placed on market for disposal</li> </ul>
<b>Improve reporting capabilities and efficiencies</b>	<ul style="list-style-type: none"> <li>• New single-solution ERP has been implemented across the entire Group</li> </ul>

Cost synergies expected to deliver savings of \$3 million run rate exiting FY18



# Size matters – and forms part of the destiny

Changes in IAA80 sub-indices per size category (rebased to 100 in April 2007)



Historical Average  
EV/EBITA  
Multiple for  
IAA80 : x 11.8

## Destiny Considerations

- Market Size matters  
(capital markets and product markets)
- Diversification drives size and provides benefits



# Our Vision & Mission

## **Mission: To create and grow shareholder value**

By continuously:

### **1) Defining our full potential:**

#### **Vision:**

**We help provide consumers globally with the opportunity to maintain a healthier way of eating, snacking and living**

To improve profits and share price we make strategic choices with a clear picture of MRG's FULL potential in mind. Asking and answering 'How do we turn \$1 of equity value into \$5 tomorrow?' Defining and pursuing a few core initiatives is what will get us there:

- > Operational performance Improvement
- > Broaden Distribution to Reach Customers Whenever, Wherever and However
- > Innovating & Renovating the Product Portfolio
- > Strengthening consumer communication

### **2) Revisiting our blueprint**

Our road map for getting us to our full potential destination. Our strategic operating plan which measures key initiatives associated with our core initiatives.

### **3) Pushing to perform**

With priorities mapped out, the overriding goal is to push the performance of MRG. Making sure we are moulded to the blueprint and we match talented people to the right key initiatives, and they become the owners of these initiatives.

### **4) Harnessing talent**

No plan gets executed well without the right people to implement them. We need great people and we need them to think like owners. We strive to have the right incentives and the right culture, and a minimum of bureaucracy to allow people to take ownership.

### **5) Making our equity sweat**

Which means being comfortable with some leverage, managing cost and working capital aggressively, allocating capex with great discipline, and using the balance sheet as a dynamic tool for growth – including eliminating unproductive or underperforming capital.

### **6) Fostering a results-oriented mindset**

Rewarding an attitude that seeks solutions proactively rather than reacting to events. Continuously resetting the hurdles so that focus is maintained, utilising and acting on the collective wisdom in MRG all the way through the company. Being prepared to challenge and be challenged – all with the imperative of focusing MRG maniacally, relentlessly and zealously on achieving results.



# Value creation

We act and behave as owners of the business, following three principles, to shape the company in pursuit of value creation

## Portfolio Management

To determine if any assets are destroying value, don't fit strategically or operationally, or are valued more by others than by us

### We constantly;

- Review assets against strategic objective
- Separate out assets that destroy value and assets that are valued more by others than by us
- Review ongoing alignment of Vertical Activities, assets, products and brands with our corporate strategy



## Business Improvement

To improve the return on Capital from our portfolio of assets by increasing operating margins and optimising the invested capital base

### We constantly;

- Set policy and process standards
- Drive scale synergies across areas of activity and assets
- Control resources (cash and people)
- Define specific measures of success to drive performance (set KPI's)

## Growth

To implement growth that:

- Delivers returns exceeding our cost of capital
- Builds strong competitive positions in markets that have value potential and in which we have expertise
- Generates cash

### We consistently;

- Assess trends to discover opportunities in organic, healthy, natural and 'better for you' food and drinks
- Determine if a screened opportunity can be turned into a Vertical Activity by assessing, financial attractiveness, strategic and industry attractiveness.

- Screen these opportunities for industry bottlenecks, supply-demand imbalances, strategic importance, to determine if strong competitive positions can be built.

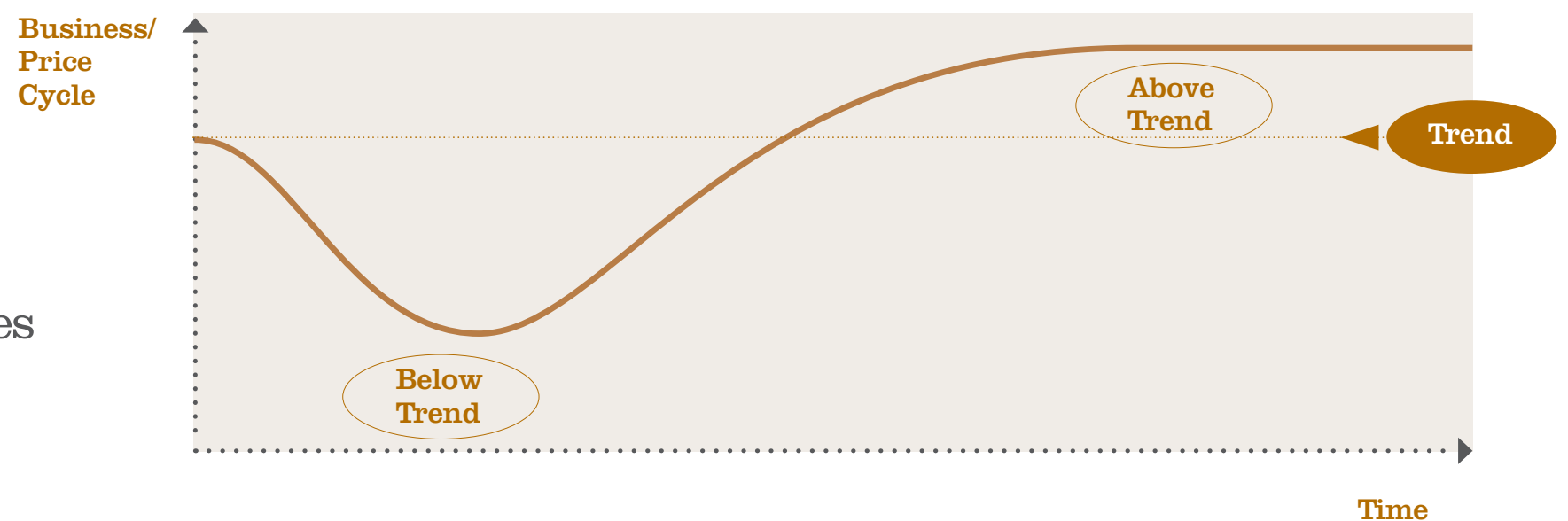


# How we grow

## We seek to grow:

- Organically through the ongoing development and expansion of existing assets
- Through the disciplined earnings accretive value-enhancing acquisition of assets, businesses, products and brands that:
  - provides diversification opportunities with >5% growth in the organic, healthy, natural and 'better for you' food and drinks category,
  - enables us to service multiple end-use markets
  - are non-perishable
  - allows us to utilise our uniform marketing, sales and distribution
  - delivers returns exceeding our cost of capital
  - provides us with scale and an ability to influence price
  - generates cash

Given low in cycle, we will take advantage of external options while investing in short repayment internal options



- Internal options are available through the cycle at the same cost
- External options become less affordable as cycle moves to above trend
- Return on external options is more likely to be better when these are exercised below trend



# How we grow

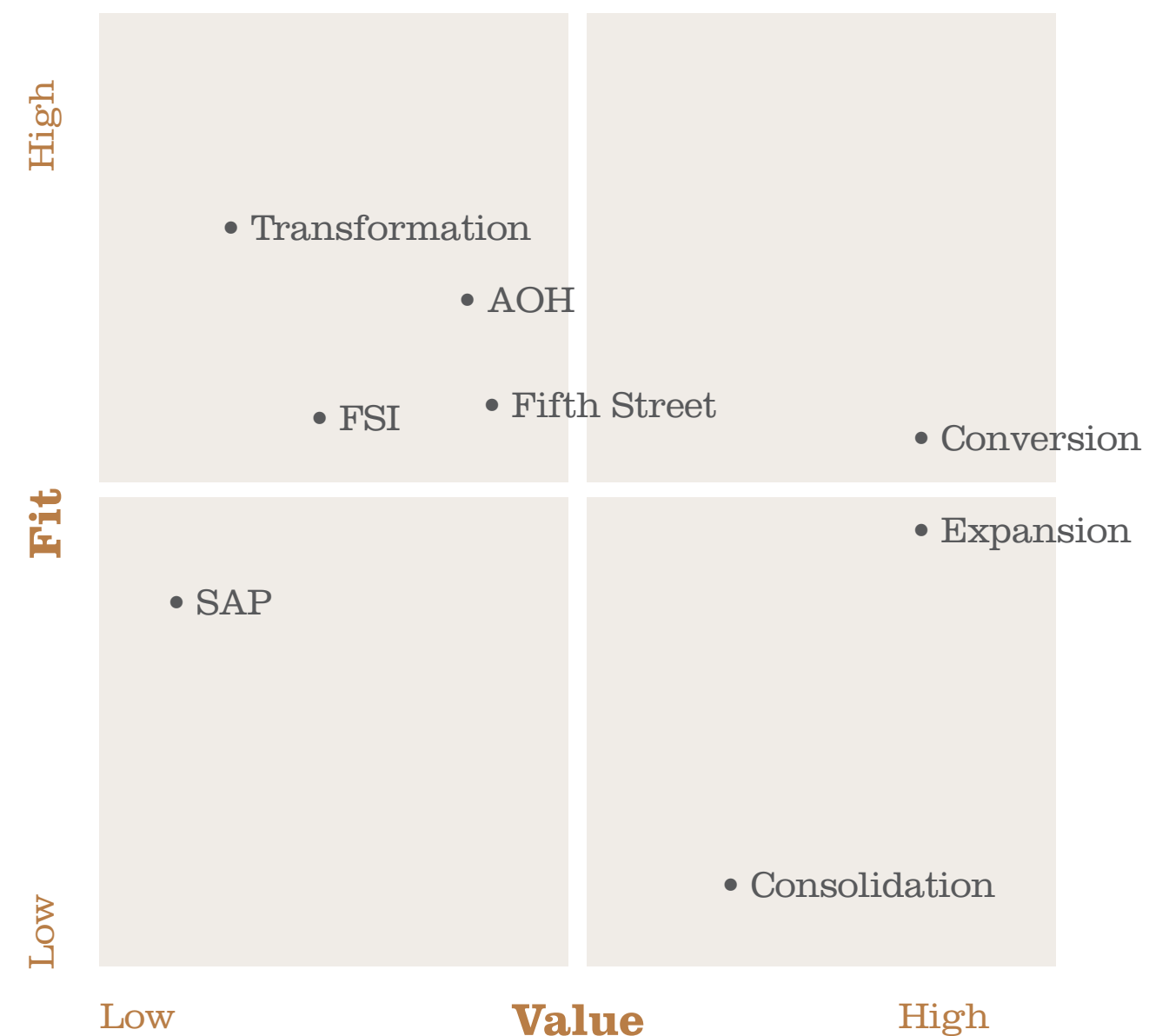
By screening for the following conditions:

## **Fit Conditions**

- Protect capital invested in our Vertical Activities
- Increase cash generation
- Grow market capitalisation
- Improve financial markets' perception of MRG
- Increase products' markets awareness of MRG, our products and brands
- Create options for the future
- Where we can utilise our uniform marketing, sales and distribution






## **Value Conditions**

- Must be material to the future growth of MRG
- Must be financially attractive, delivering returns exceeding our cost of capital
- Must be strategically sound
- Must be or lead to strong competitive position





## We will control our destiny by pursuing diversifying acquisitions with growth options and internal improvements with short paybacks

	1 One shot diversifications	2 Bold moves to grow and diversify	3 Growth, diversification and improvement	4 Internal focus	5 Viticulture acquisition
Fit Criteria	<ul style="list-style-type: none"> <li>Fastest path to enter</li> <li>New verticals, creates options</li> <li>Neglects capital base</li> <li>Negative market perception</li> </ul>	<ul style="list-style-type: none"> <li>Possibly improves market perception</li> <li>Creates options</li> <li>Erodes current capital base</li> </ul>	<ul style="list-style-type: none"> <li>Improves market perception</li> <li><sup>a</sup> Protects capital base</li> <li>Creates options</li> </ul>	<ul style="list-style-type: none"> <li>No change in market perception</li> <li>Limits options for the future</li> </ul>	<ul style="list-style-type: none"> <li>Unclear market reaction</li> <li>Risks capital base</li> <li>Limits options for the future</li> </ul>
Value Criteria	<ul style="list-style-type: none"> <li>Entails maximum transaction risk</li> <li>Offers maximum materiality</li> <li>No focus on synergies</li> </ul>	<ul style="list-style-type: none"> <li>Offers materiality in acquisitions</li> <li>Allows for granular transaction risk management</li> <li>Less focus on synergies</li> </ul>	<ul style="list-style-type: none"> <li>Offers materiality in acquisitions and value creation through internal improvements</li> <li>Allows for granular transaction risk management and targeted synergies</li> </ul>	<ul style="list-style-type: none"> <li>Has limited materiality</li> <li>Improvement projects add value</li> </ul>	<ul style="list-style-type: none"> <li>Strong reliance on synergies</li> <li>Unlikely to offer materiality except if outside of Australia</li> </ul>
Financial Effort	<ul style="list-style-type: none"> <li>Exposes balance sheet excessively to downturn – no buffer</li> </ul>	<ul style="list-style-type: none"> <li>Manageable effort as each transaction is 'bite-sized' and most can likely be partly scripted</li> <li>Affords a cash buffer</li> </ul>	<ul style="list-style-type: none"> <li>Manageable effort as set of options are more granular than other archetypes</li> </ul>	<ul style="list-style-type: none"> <li>Medium – consideration to be given to expansion CapEx</li> </ul>	<ul style="list-style-type: none"> <li>Low-Medium – depending on size/maturity</li> </ul>
Feasibility	<ul style="list-style-type: none"> <li>Low, limited by market opportunity and ability to fund</li> <li>Entails risk of loss of control</li> </ul>	<ul style="list-style-type: none"> <li>Medium, as there are multiple transaction options</li> </ul>	<ul style="list-style-type: none"> <li>High-medium, balanced between internal control and market opportunity</li> </ul>	<ul style="list-style-type: none"> <li>High, given internal control</li> </ul>	<ul style="list-style-type: none"> <li>Lack of suitable targets in Australia</li> </ul>
					
	<ul style="list-style-type: none"> <li>Unviable at this point</li> <li>A large transaction may be viable in the future</li> </ul>	<ul style="list-style-type: none"> <li>Market opportunity driven approach to achieve diversified position</li> <li>Implies minimising capital re-investment in current perimeter</li> </ul>	<ul style="list-style-type: none"> <li>A balanced pathway to achieve scale, protecting and optimising the current base, whilst developing a position with manageable diversified risk</li> </ul>	<ul style="list-style-type: none"> <li>Fundamentally not aligned with the vision</li> </ul>	<ul style="list-style-type: none"> <li>Fundamentally not aligned with the vision</li> </ul>

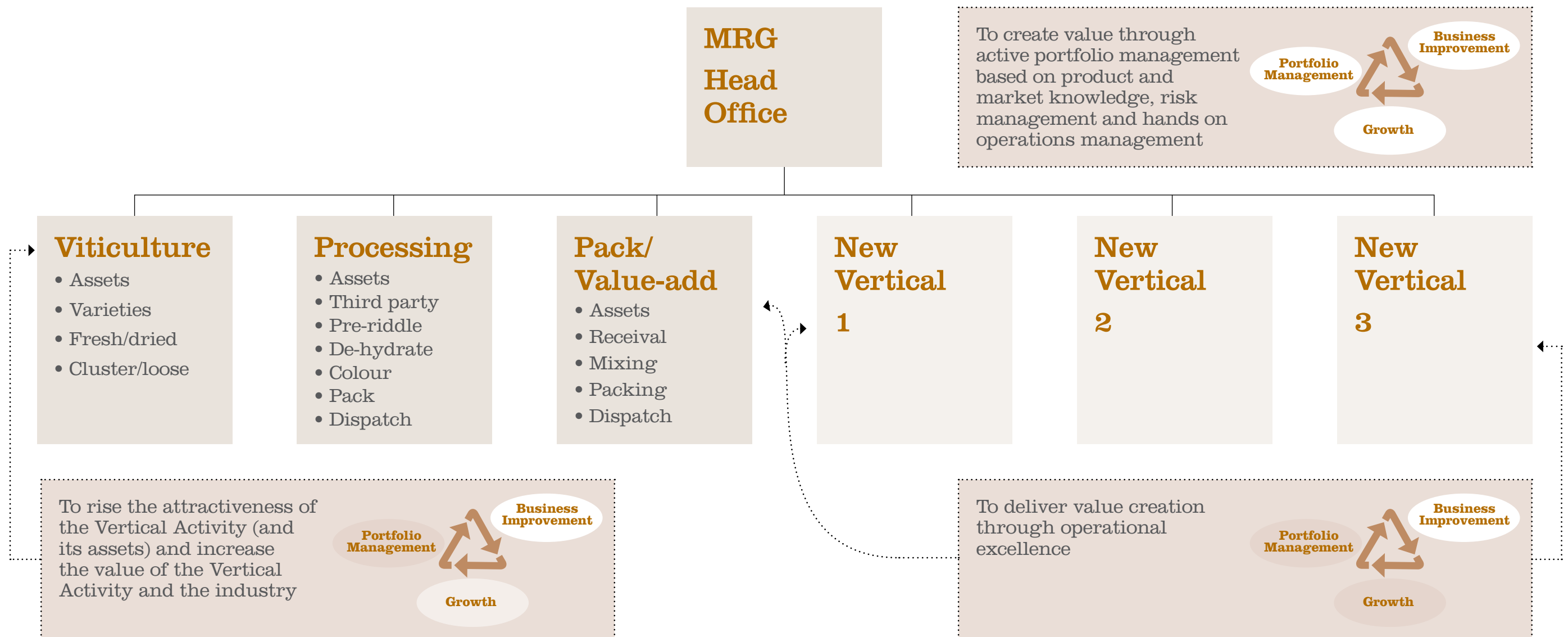
 Our Path



# Vertically integrated operations

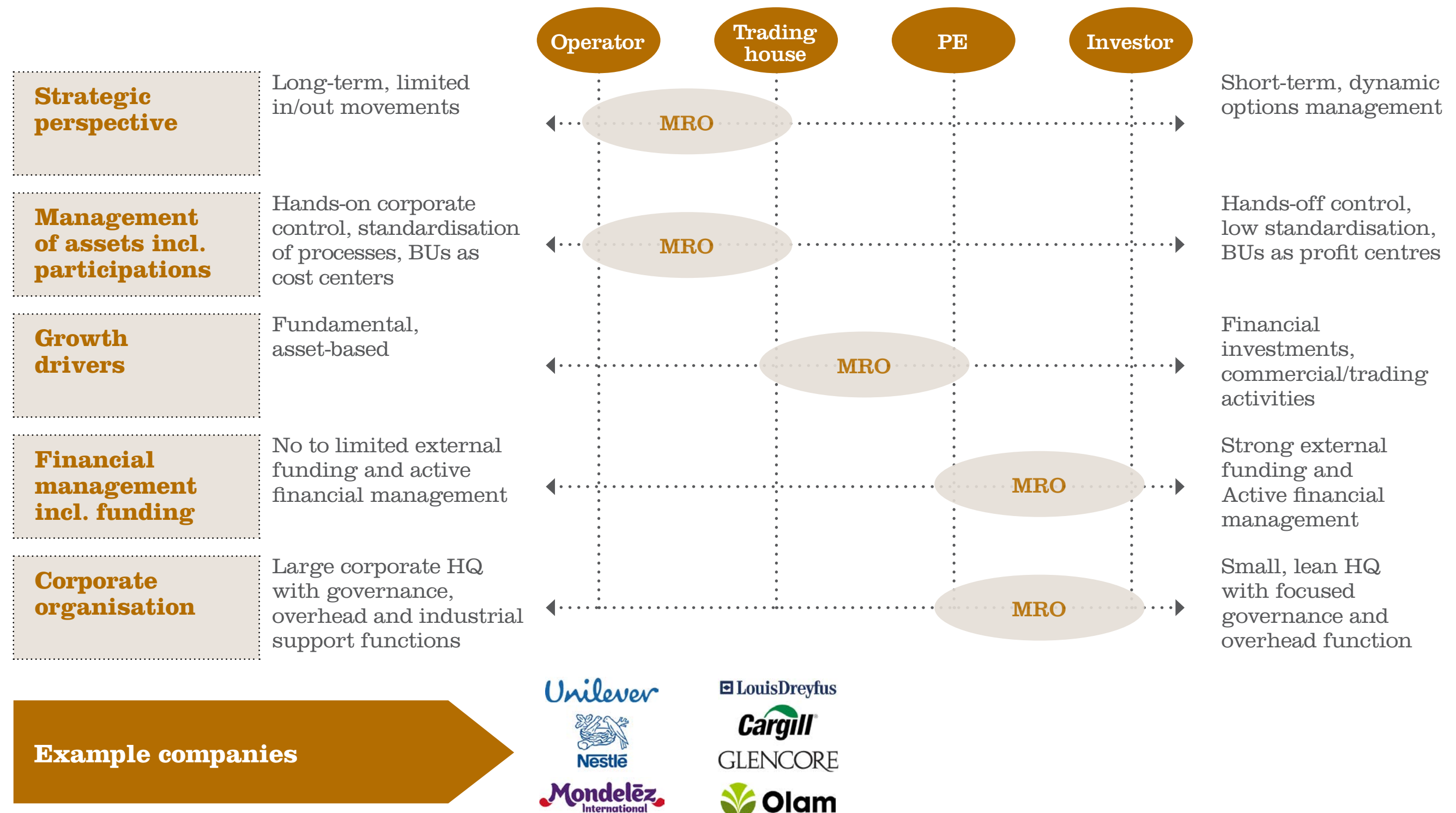
Owning supply in a growing market means we “control our destiny”

- MRG is the world’s largest vertically integrated certified organic dried vine fruit grower
  - Expecting to supply ~25% of global supply of organic dried vine fruit by 2020
- MRG will seek similar positions across other vertical activities
  - will drive value accretion
  - market scale and product diversification





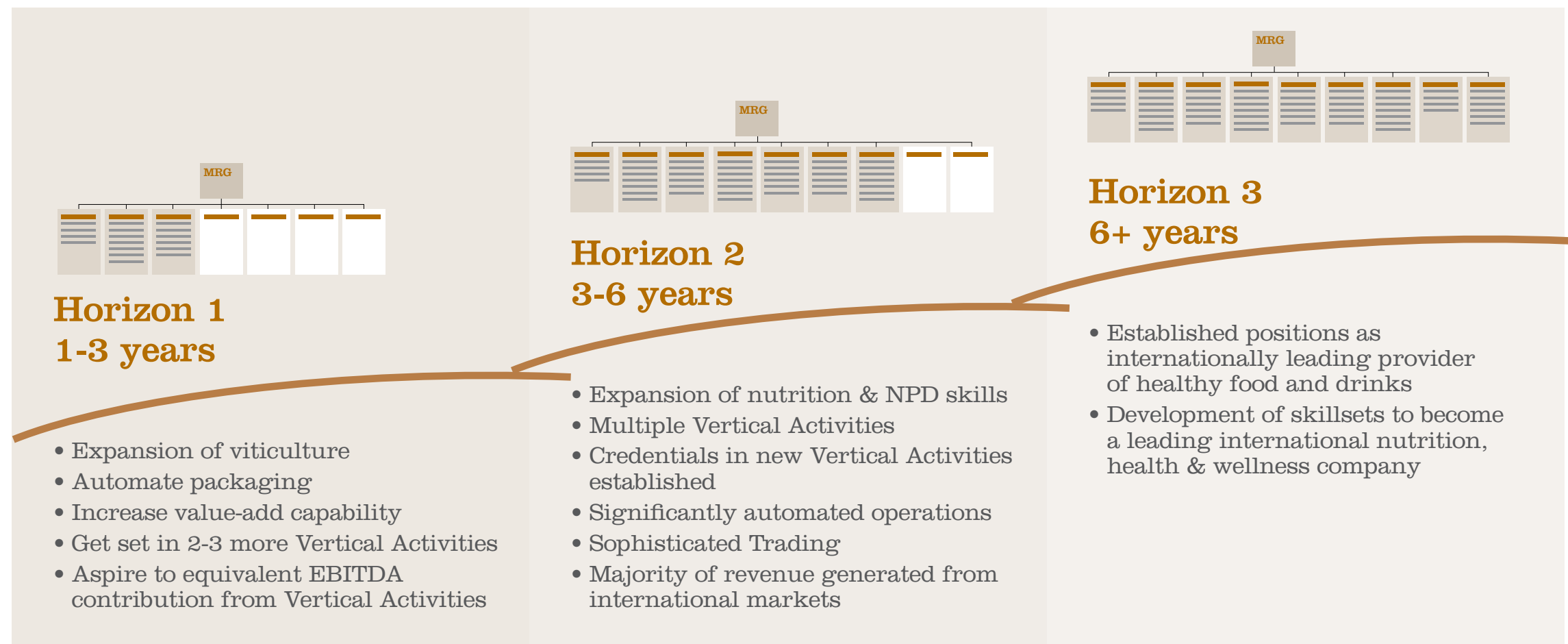
# MRG positions itself at the financial crossroads between hands-on industrial operators and investors



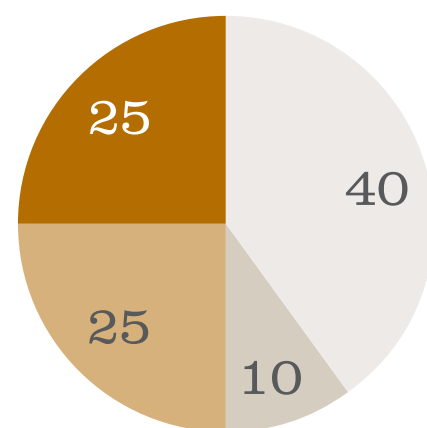


# Painting the future destination; scale and diversity

## Focus of the next chapter



**Illustrative  
EBITDA  
split, %**



- Viticulture
- Vertical Activity 1
- Pack/Value-add
- Vertical Activity 2

Increasingly diversified income streams





# What uncontrollable risks could prevent us from reaching our destiny?

## Timing



STOCK	BID	OFFER					
GROUP	0.060	0.070	0.000	0	FARM PRIDE	0.026	0.030
OGOLD	0.098	0.140	0.000	0	FE LIMITED	0.120	0.130
OP GAS	0.325	0.335	0.335	77T	FEQ.AX	0.024	0.033
COZ	1.000	1.020	1.000	4T	FERROWEST	0.052	0.057
UTION	1.935	1.940	1.935	2M	FERRUM	0.800	0.810
LTD	0.041	0.050	0.050	5T	FIDUCIAN	0.110	0.125
UT RES	0.000	0.000	0.000	0	FE.AX	0.110	0.125
AX	0.040	0.049	0.040	50T	FINBAR	1.075	1.080
ALBUR	0.001	0.002	0.000	0	FINDERS	0.200	0.220
ELA	0.010	0.090	0.000	0	FRESTONE	0.000	0.000

- Prices rising too high, too soon
- Doing too little, too late

## Competition



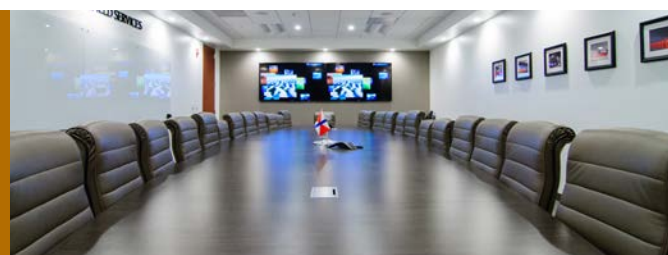
- Highly competed deals – from Industrial and financial investors

## Global Slump



- Medium term deterioration of demand beyond expectations

## External Takeover



- Option to the proposed strategy for the current shareholders





T: +61 3 8792 8500

32 Crompton Way,  
Dandenong South  
Victoria 3175 Australia

[www.murrayriverorganics.com.au](http://www.murrayriverorganics.com.au)

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