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Trading update and acquisition of earnings accretive farmland for future growth

Murray River Organics Group Limited (ASX: MRG), the world's largest vertically integrated certified organic dried vine fruit producer, and a manufacturer, marketer and seller of certified organic, natural and better-for-you food products, provides a FY17 trading update and announces the acquisition of more than 7,700 acres of farmland in Sunraysia, adjacent to MRG's Colignan vineyard, for cash consideration of \$7.5 million¹ (earnings accretive in FY18).

FY17 Trading update

MRG today advise that:

- FY17 bulk dried vine fruit revenue is expected to be up more than 30 per cent on FY16, driven by the maturing profile of existing vineyards;
- FY17 Cluster revenue is expected to be up by more than 100 per cent on FY16, driven by the Company's continued focus and effort in developing this market;
- Export market sales channels being developed by MRG's newly established international sales team continue to gain traction. Nearly 25 per cent of MRG's projected Cluster production has already been contracted to export markets for 2017/2018; and
- The two recently acquired businesses, Food Source International and Australian Organic Holdings, have under MRG's ownership achieved improved and broadened customer engagements with FY17 proforma revenue for these two businesses expected to exceed internal forecasts by 8 per cent.

Despite these achievements, the Company has also experienced some teething issues due to the rapid pace of the planned growth it has been undertaking. While these issues have now been addressed, they have resulted in the near-term delay of some planned operating efficiencies and have, on an interim basis, lead to higher than forecast FY17 operating expenses:

- Unanticipated delays in obtaining all accreditations and certifications at its newly established Dandenong packing facility (DN01) required to satisfy its entire customer base. This has led to MRG having to operate the two warehouse facilities previously controlled by Australian Organic Holdings for longer than planned.

¹ Excluding transaction cost and stamp duty

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- The installation and commissioning of packing equipment at DN01 being behind the schedule provided by the manufacturer with resultant delay in realisation of efficiencies.
- Delays in local council approvals related to the fit-out of DN01.

These matters have now been addressed, investments towards new equipment is near complete, and the benefits from the efficiencies these activities and investments will generate will flow in FY18 onwards. The \$3 million annual run rate in cost synergies exiting FY18 (as previously advised) is still on track to be delivered.

The FY17 proforma revenue is expected to be down by \$10 million, with approximately half of this reduction being attributed to the previously communicated 5-6 week delay in harvest season caused by an unusually cool and wet spring, coupled with more recent wet weather. The other half of the reduction is attributable to slower than anticipated uptake in sales following delays to the refurbishment of the Company's Sunraysia processing facility, during which dried vine fruit could not be processed, as well as a lower contribution from Cluster sales following the previously communicated write-down of some Cluster inventory. All other things being constant, approximately \$8 million of this revenue (and the earnings it will generate) will add to what is expected for FY18.

These matters, in conjunction with the previously advised \$1.8 million inventory write-down to some of the Cluster inventory, are all absorbed by and managed within the Company's existing cash and working capital facilities, and results in the Company now expecting to generate FY17 pro forma EBITDA in the range between \$12.5-13.5 million in FY17 and pro forma FY17 NPAT in the range between \$4.2-4.9 million (excludes any contribution from the new acquisition).

The above forecasts remain subject to harvest outcomes. MRG completed the cutting of all growing canes for its bulk dried vine fruit by the end of March. The cutting of canes starts the process of drying the vine fruit and significantly reduces the risk of losing the crop. MRG has, to-date, completed the harvest of approximately 20 per cent of its dried vine fruit crop. Whilst at this point yields remain consistent with expectations, the Company does note the impact the unusually cool and wet Spring appear to have had on crop size of different produce originating from the Sunraysia region, including some recent articles in the media stating dried vine fruit production from the region may be down by as much as 25 per cent compared to 2016. However, the Company further notes that it expects some of this reduction in production is attributable to the hailstorms that occurred in the region late last year, which, as previously advised, did not impact MRG.

With the strong performance of the acquired businesses, robust growth in customer activity across all product categories, continuously improving processes and implementing new equipment at MRG's operating facilities in both Sunraysia and Dandenong, the Company is well placed to deliver growing performance in FY18 (excluding the additional revenue as a result of the timing difference in FY17 harvest) and beyond.

Further updates will be provided as the Company completes harvest and finalises its FY17 result and FY18 financial targets.

Acquisition of earnings accretive growth option aligned with the Company's growth strategy

Consistent with the Company's strategy, MRG continues to explore additional growth options that:

- Further expand and diversify MRG's vertically integrated product range and brand portfolio in organic, healthy, natural and better-for-you food and drinks categories that provides opportunity for growth exceeding 5 per cent;
- Are earnings and value accretive;
- Enables the servicing of multiple end-use markets;

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- Are non-perishable;
- Allows the utilisation of existing uniform marketing, sales and distribution network and will enable the expanded servicing of an increasing number of customers in the fast growing organic, natural and better-for-you food and beverage markets internationally and domestically;
- Delivers returns exceeding our cost of capital;
- Provides us with scale and an ability to influence price; and
- Generates cash.

Consistent with MRG's growth strategy, the Company is pleased to advise that it has today agreed to acquire an additional and significant property of 7,764 acres adjacent to MRG's Colignan vineyard in Sunraysia. The acquired property plays favourably to MRG's core agronomy strength and provides an immediately earnings accretive large scale growth option for future development of new vertically integrated healthy and better-for-you food products.

Competition for large-scale high-quality-soil free-hold farmland in Australia is increasing significantly. Acreage with soil suitable for numerous crops, such as tree nuts, citrus, vines, grains, ancient grains and high protein beans and legumes, that is favourably located, with infrastructure and irrigation in place, is in high demand. The acreage acquired possesses these attributes, and is strategically valuable to MRG for the following reasons:

- Is EBITDA and EPS accretive, on a steady-state basis without permanent development of the land, and is in FY18 expected to add \$2 million EBITDA and increase EPS by \$0.012;
- Secures a future large scale flexible growth option for MRG to develop new and favourable vertically integrated healthy and better-for-you food products;
- Has 3 pump sites on the Murray River and a ~150 megalitre dam already in place;
- The citrus that is already planted to easy-peel varieties in high demand in Asia. The plantings are young with approximately 60 per cent of the acreage still maturing and many years of cropping ahead;
- The property has a history of limited use of non-allowed inputs from an organic certification perspective and as such is deemed convertible to becoming Certified Organic in a short time frame;
- The soil is of high quality and multi-purpose, amongst others highly suitable for tree nuts, citrus, vine fruit and centre pivot/row cropping, including grain, ancient grains and high protein beans and legumes. Bio-diversity acreage is in place to satisfy government requirements for irrigated land development;
- Located favourably relative to MRG's other operational assets and the Murray River; and
- Provides capital enhancement opportunity from further development of the acquired property.

Acquisition overview

MRG will pay \$7.5 million cash consideration to acquire 7,764 acres of farmland in Sunraysia, adjacent to MRG's Colignan vineyard. Commenting on the acquisition, MRG Managing Director Erling Sorensen said:

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"Murray River Organics has successfully developed a large scale vertically integrated business model in organic dried vine fruit. Once all of our existing vines reach maturity we expect that Murray River Organics will be supplying more than one quarter of the total global market for this product.

"We believe this is a strong global position and have, in line with our focused growth strategy, been actively and strategically reviewing new healthy and better-for-you food product verticals we can develop. The acquisition of this earnings accretive and very attractive acreage, adjacent to our existing farmland in Sunraysia, opens up a number of opportunities to develop production of new vertically integrated healthy and better-for-you food products with attractive supply-demand characteristics, and where Murray River Organics can become a leading global market participant."

Details of the acreage of the large and flexible future growth option acquired include:

- 157 acres planted to citrus where the land is drip-irrigated. Plantings are still maturing with approximately 60 per cent currently mature and full maturity will be reached by 2021
- 177 acres planted to wine. Land is drip-irrigated
- 5,980 acres bare. Arable land highly suited, amongst others, for development to tree nuts, citrus, vines and or growing of grains, ancient grains and high protein beans and legumes
- 1,450 acres bare. Non-arable land where value creation opportunities will be explored.

The acquisition is earnings accretive in year one and will be funded via existing banking facilities. Further development of this new acreage is not an immediate priority to the Company, as the acquisition, on an as-is basis, is earnings accretive. Any future development will be subject to disciplined project and funding assessment to deliver shareholder value.

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About Murray River Organics

Murray River Organics Group Limited (ASX: MRG) is a leading Australian producer, manufacturer, marketer and seller of certified organic, natural and better-for-you food products. We service the organic, natural and healthy food and snack market globally. Our customers include industrial customers (such as cereal manufacturers, bakeries and confectionary manufacturers), retail customers (such as supermarkets, organic food stores, mass-market, e-commerce retailers and convenience stores) and food service channels (such as specialty and natural food distributors). We operate both in the domestic and international markets, with customers in 26 countries.

For further information please visit www.murrayriverorganics.com.au

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