32 Crompton Way
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Market Briefing

Murray River Organics Chairman and Managing Director on FY17 results, balance sheet, board & management changes, and outlook for FY18

Interview with Craig Farrow (Chairman) & Erling Sorensen (Managing Director)

In this Market Briefing interview, Craig Farrow and Erling Sorensen, discuss Murray River Organics' full year 2017 (FY17) results, balance sheet, management changes, and outlook for FY18, including:

- *FY17 harvest conditions*
- *growing customer engagement*
- *strengthened balance sheet*
- *management restructure and Board changes*
- *focus on maximising profit and growth from existing operations*

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Murray River Organics' (MRG) FY17 results were significantly impacted by poor harvest conditions. Can you elaborate on the impact of the poor weather on revenue, and whether the adverse conditions are expected to have any impact on FY18?

Erling Sorensen

As has been well documented, it was unfortunately a wet and cold Spring across the Sunraysia region. This resulted in, firstly, MRG having to push out the harvest of our vineyards, and secondly, lower harvest yields as a result of lower bunch weights. Compounding the poor harvest conditions was the delay in the refurbishment of the Sunraysia processing facility, which also resulted in a slower uptake in sales.

Revenue was lower than expected by approximately $15 million, with approximately $10 million being attributed to the delay in harvest and the impact of the processing facility refurbishment delay. Having said that, we expect that approximately $8 million of this revenue will be derived in FY18. Approximately $4 million in revenue has been lost due to lower yields as a result of the lower bunch weights, while approximately $1.8m in revenue was lost due to the previously communicated cluster write-down.

While the financial results for FY17 were disappointing, it has allowed MRG to further improve its processes to provide additional robustness to its operations. New risk mitigation processes have been implemented, including improved progress-monitoring throughout the season, stricter cutting and harvest procedures, and improved drying, sorting and processing equipment.

Provided weather conditions for the 2018 crop are less severe than what was experienced by the 2017 crop, then we would expect to achieve a much-improved financial outcome. In addition, we also expect that the key strategic investments in our asset base that were made throughout FY17 will help drive strong profit growth over the long term.

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You mentioned that MRG made a number of key investments over FY17. Can you please provide more details on these major activities?

Erling Sorensen

FY17 has been a milestone year for MRG. In addition to the IPO, we have invested some $44.5 million into growing, streamlining, and improving the business through a number of significant acquisitions and capital projects.

Through the strategic acquisitions of the Fifth Street vineyard and the Nangiloc property, MRG now owns or controls 12,253 acres of high quality farm land in the Sunraysia region, which helps to secure our future growth. With most of the required capital expenditure having already been invested on our acreage, there is a very strong platform in place to drive future profits, whilst also maintaining additional future growth options through additional development.

In addition to the above, we also completed the conversion of 476 acres from wine grapes to certified organic dried vine fruit, and installed additional irrigation pumping capacity, irrigation lines and ramping posts, in preparation for the 468-acre greenfield planting of dried vine fruit which will commence in the Spring of 2017. This further adds to the strong growth platform we have in place.

We completed our Dandenong Facility, which provides us with a new organically certified, consumer packed goods facility, accredited to what we believe are some of the highest food safety standards in the world. This provides us with a strong competitive position in supplying our large and growing range of certified organic, natural and better-for-you products to our global customers.

We fully integrated the businesses, customers, suppliers, and brands of Food Source International and Australian Organic Holdings. This included the closure and subletting of two warehouses in Sydney, and moving all packaging activities to our Dandenong Facility.

We also invested $5.4 million into the ongoing consolidation and improvement of the Company's Sunraysia Facility, where our dried vine fruit is sorted, dried, stored, processed, packed and dispatched direct to export markets globally. The improvements have been many, and the benefits that are expected to arise from the consolidation and upgrades include cost savings, improved product quality, and increased efficiencies. The upgrade and consolidation is ongoing, and is expected to be complete by mid-September 2017.

Lastly, over FY17 we implemented a company-wide single-solution ERP, "SAP", which consolidated the use of four different systems. This has enabled improved reporting and analysis and will help to drive efficiencies across the business.

We are very confident that the investments made over FY17 will drive increased profits and ensure MRG is able to grow sustainably for the long term.

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Are you able to provide any update on new customers, or growth in existing customer relationships? Can you provide some further light on the competitive landscape MRG is operating in?

Erling Sorensen

Building a "Customer First" culture is at the heart of what we do, and will ensure that new and existing relationships will continue to grow. Over FY17 we have continued to win new, high quality customers through the delivery of superior healthy food products. In addition, engagement with existing customers continues to grow, as witnessed by the growing number of products per customer we are supplying.

Through our strategic investment in FY17, we have diversified our revenue streams and created what we believe is a much stronger business. Additionally, the establishment of the organically certified Dandenong Facility means we can innovatively and competitively service our large and fast-growing customer base.

We are benefiting from the global consumer shift towards natural, healthy and organic foods, and coupled with established key relationships with global customers, a diversified customer base, and an international sales team, we are well positioned.

Whilst there are currently an estimated 600 dried vine fruit growers located in the Sunraysia region, MRG is currently the largest vertically integrated dried vine fruit producer and marketer in Australia, and the largest vertically integrated producer of dried vine fruit in the world.
Our scale and access offer us high barriers to entry, and ultimately a strong position to drive further growth.

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The company also announced a fully underwritten pro-rata non-renounceable entitlement offer and placement to raise up to $12.1 million. What is the reason for this?

Erling Sorensen

The proceeds from the entitlement offer and placement will strengthen MRG's balance sheet by reducing debt levels and providing more working capital flexibility. With new and appropriate banking covenants now in place, and a strengthened balance sheet, we are very well positioned to drive profit and efficiencies.

The Directors of MRG have advised that they intend to take up their full entitlements under the entitlement offer. Post-capital raise, MRG's net debt is expected to be $43.7 million (including finance leases of $19.2m). Importantly, the debt components that make up MRG's total debt continue to be appropriately matched with the company's strong tangible asset base.

Inclusive of the recent 7,515-acre Nangiloc acquisition, MRG owns or controls 12,253 acres of high quality farm land. Following our recent capital expenditure program, we have a maturing asset base that will see production increasing substantially in the coming years.

As at 30 June 2017, MRG has Net Assets of $0.76 per share and Net Tangible Assets of $0.64 per share.

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Given FY17 was a significant year of investment, what is the outlook for FY18 in terms of capital expenditure requirements?

Erling Sorensen
The anticipated requirement for capital expenditure over FY18 is significantly lower than FY17. We are now very focused on driving profits, maximising growth and delivering efficiencies from the current projects underway.

In addition to the Nangiloc property acquisition, which has already been paid for, the key components of our FY18 capital expenditure program include:

- Acquisition of Mourquong land to facilitate the consolidation of Sunraysia Facility – $0.5 million
- Completion of Sunraysia Facility consolidation and improvements – $1.9 million. We also intend to sell existing facilities at Walnut Avenue and Benetook Avenue following the completion of the consolidation project, which will partially offset this investment
- Development of maturing vineyards – $2.2 million
- Colignan conversion project – $0.8 million. This will be reimbursed by the landlord
- Colignan expansion project – $1.7 million. This will be reimbursed by the landlord.

To reiterate, our focus is now centred on driving efficiencies throughout the business.

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Co-founder of MRG, Jamie Nemtsas, announced his resignation from the COO and Executive Director roles. Why is Jamie stepping away? What does this mean for Jamie’s shareholding in MRG? Will you be replacing his role?

Craig Farrow
Jamie felt that the time was right for him to now step away from the day to day operations of MRG. With the company having achieved enormous progress, particularly since IPO, Jamie is confident that the foundations are in place for MRG to grow sustainably over the long term.

On behalf of the Board, I would like to sincerely thank Jamie for his contribution to the business since its foundation. Jamie has been a significant driver behind the company’s scale and potential, and this is something he should be very proud of. We take comfort in the knowledge that Jamie continues to be a substantial shareholder, and look forward to his continued support.

Additionally, the Board has reviewed MRG’s organisational structure. With many of the major investments now in place that will shape the future of MRG, we have made changes to the existing management structure to ensure the company can best deliver efficiencies and drive consistency of processes across all aspects of the business.

We are very pleased to announce two new key positions that will ensure there is key oversight of our two major activities. James Tudehope, who has been with MRG since July 2016, has been appointed as Head of Packing & Processing Operations, and will be responsible for the Group's food processing and packaging operations in Melbourne and Sunraysia. James has a wealth of experience in food processing and packaging which comes from more than 30 years' experience in the food industry. Daniel Turner, who joined MRG in December 2015, has been appointed as Head of Farming Operations. He will be responsible for all of MRG's farming operations in Sunraysia. Daniel's experience in large scale viticulture and farm management spans more than 20 years.

The Board is very confident that the revised structure in place is the right structure to best deliver on MRG's strategy going forward.

The Board has also announced that it intends to commence a search for an additional Non-Executive Director to complement the skillsets of the current Directors.

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What are the key priorities for MRG in FY18?

Erling Sorensen

The focus for FY18 is about maximising profit, and maximising growth and efficiencies from our existing assets. We have just completed a significant capital expenditure program. We have in place a very strong platform for growth, and are now entirely focused on completing the existing growth and efficiency projects to drive profit and efficiencies throughout the business.

We will be pushing very hard on driving synergies, and maximising the significant embedded growth from our strong asset base. FY17 was a pivotal year for MRG, putting in place key foundations to grow and build a resilient and sustainable business that can deliver profits and thereby significant value for its shareholders. FY18 is about capitalising on these investments.

We have everything in place as we head into FY18 with renewed confidence and an absolute commitment to deliver.

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Thank you, Craig and Erling.

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