

3 June 2019

BUSINESS UPDATE AND REVISION TO EARNINGS GUIDANCE

Murray River Organics Group Limited (ASX:MRG) ("MRG") provides this business update and revision to earnings guidance;

- In what has been an intensive 6 months since completing the restructuring and refinancing of the Company MRG has achieved its strategic aims of significantly expanding its export market for organic dried vine fruit. Exports to China and USA markets have doubled since this time last year driving overall growth in gross margins across MRG's business. MRG remains on track to grow these and new export markets.
- Despite challenging summer conditions, the harvest for Fresh Table Grapes has seen yields increase considerably with 868 tonnes harvested, a 74% increase on the 2018 yield. The investment in the turnaround program at the Fifth Street farm is the catalyst for this improved performance, and is expected to achieve its full benefits with an additional growing season. While the 5th Street property remains for sale, MRG Management and Board believe its value has risen significantly, which is expected to add positively to asset valuations and earnings in FY20.
- Harvest for Dried Vine Fruit (DVF) has been completed with total yield of 2081 tonnes across the farms, an 18% reduction on the previous season's harvestⁱ. This is lower than expected primarily due to summer weather conditions [which were hotter and drier than usual]; yields have been impacted across the Sunraysia district. In addition, an essential major irrigation project completed part way through the season at the Colignan farm and the residual impact of poor vine management in prior seasons contributed to this result. Throughout FY19, significant additional investments have been made in vine remediation, nutrition and water management to deliver enhanced value and productivity to the farms in future seasons. Also, as previously reported, pricing for dried vine fruit has increased, this partly offsets the lower yields and additional remediation costs.
- MRO advises an update to guidance with an estimated EBITDA loss before SGARAⁱⁱ range of \$3.7 to \$4.2million. Significantly, this represents a \$10 million turnaround in EBITDA before SGARA performance from FY18, in year one of the three-year plan. The key drivers for this change to guidance include the previously reported harvest delays that have impacted MRG's ability to meet all customer orders for Q4, especially during May; pushing these sales into 2020, and the higher costs per tonne associated with a delayed and lower yielding harvest.
- MRG has ongoing support from its bank with a three-year debt facility expiring 30 November 2021.

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- Reflecting on the new growth and development phase, MRG has completed planting a new 130ha Greenfield Dried Vine Fruit Development at the Colignan property which will add significant new volumes when it reaches maturity. Despite the tough summer conditions, there has been good growth in these juvenile vines. Trellis system installation will commence this winter. First harvest from the Greenfield development is expected in the 2021 growing season.
- Project Magnum (development of 2,300 Ha arable area on the Nangiloc farm) will commence in FY20 with planting of high demand annual crops as part of Phase 1 where MRG will utilise existing infrastructure including 2 irrigated pivots covering over 77 hectares. Further detailed modelling is underway for the long-term development of the 2300ha arable land, together with alternative funding models and partnerships for the future development of this property.
- Current producing farming assets contribute just 30% to overall revenue, 70% of MRG's revenues are attributed to value added processing and an innovative range of products to service the growing organic and better-for-you markets. Further new product launches are planned for the first half of FY20.
- The positive launch and ranging of nine new branded retail products in the Organic Gobble Minis Flavoured Raisins range as well as the Organic Premium Australian Clusters range in China across premium retailers underscores the value of MRG's strategy of "Taking Sunraysia to Asia" .

Crop and Harvest

Hot weather conditions had an impact across the Sunraysia growing region for DVF. The industry body, Dried Fruits Australia, revised their total district crop to be down from early estimates of 17,000 tonnes to 15,000 tonnes, as reported in early May.

As we previously reported, these weather conditions affected MRG's harvest for fresh table grapes and DVF. However, slightly better yields than expected were achieved at some of the Merbein farms with the improved organic farming systems and new management as part of Project Yield. The Colignan and Gol Gol farms had many vines going through intensive remediation programs during the year, these have produced a reduced crop. Further significant improvements in these farms is expected in future seasons.

With the baseline harvest year now completed, the turnaround program is well underway. Initiatives include the \$1.6m irrigation infrastructure upgrade completed in January, significant remediation works over the last 6 months and long overdue repairs and maintenance, together with a restructure of the operating model and appointment of new management and capability over the last 7 months. The new farm management team is now well positioned to optimise the farm portfolio performance and accelerate growth over the next three growing seasons.

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Taking Sunraysia to Asia – China Update

MRG launched nine new products under its “Gobble” and “Premium Australian Clusters” brands in China at SIAL, Asia's Largest Food Innovation Exhibition, in May 2019. Ranging has been secured with premium retailers and first orders to be delivered by end of June.

MRG has achieved its strategic aims of significantly expanding its export market exposure for organic dried vine fruit exports to China which has doubled in the last 12 months. Most recently, significant contracts have been secured for roll out during FY20 and beyond.

Chief Executive Officer Valentina Tripp said, “Our brand recognition in the Chinese market is building and will continue to strengthen as we grow supply from our farming properties in Sunraysia. Demand for organic products has grown tenfold since 2010, at a rate of 26% per annum, as the local Chinese consumers shift their buying behavior to healthy, better-for-you and chemical-free products. Our focus and investments in organic production and value-added new product development gives us a unique opportunity to meet these emerging and growing consumer needs with high-quality, Australian-grown, Organic Dried Vine Fruit for snacking”.

Outlook

Valentina Tripp added: “As we get closer to the end of FY19, our reset year, we are proud of the enormous efforts of our people to transform MRG into a strong integrated food business. Significant positive operational improvements have been delivered as we build our branded organic product portfolio as well as new capabilities to achieve our accelerated growth plans. MRG farm teams are rebuilding the health of our vines and have embedded a new farm operating model to enable strong yield growth over the next three seasons. Our Sunraysia to Asia program has been successfully launched, with new products, ranging and a strengthening of market position and distribution platforms.

We are leveraging our integrated organic food business model across our key categories (including dried vine fruit, other dried fruits, nuts, coconut, grains and seeds) and over 300 SKU's to bring the best organic ingredients from around the world to our customers and consumers here in Australia. We recently relaunched our Ingredients Division and are confident we are on our way to become the leading Organic Ingredients supplier to Australian value-added food manufacturers and distributors. Our unique vertical business model provides the opportunities to benefit from the increasing global demand for healthy, better-for-you products.”

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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.

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

ⁱ 2018 Crop adjusted for sale of Pomona

ⁱⁱ EBITDA before SGARA is a non-IFRS financial measure ie Earnings before Interest Tax Depreciation & Amortisation and excludes the SGARA (the impact of the Fair Value Adjustment of Biological Assets). SGARA means Self-Generating and Re-Generating Asset

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