

31 August 2020

**MRG GAINING MOMENTUM IN ITS TRANSFORMATION INTO A STRONG INTEGRATED BRANDED ORGANIC FOOD BUSINESS**

**Results for the full year ended 30 June 2020**

\$M	FY20	FY19	Change
Revenue	48.3	60.1	-19.5%
Underlying EBITDA-SL loss <sup>1</sup>	(10.3)	(3.6)	-188%
Underlying EBIT-SL loss <sup>2</sup>	(15.2)	(8.0)	-89%
NPAT (loss)	(39.1)	(12.0)	-225%

- Total revenue of \$48.3m, down 20% on last year driven mainly by reduced private label contracts, with strong underlying growth in branded Retail, Wholesale & Ingredients and H1 Export
- Fresh Table Grapes and H2 Export sales affected by COVID driven by market closures in H2
- Farm profitability severely affected by extended drought, water cost and extreme weather events
- Net loss after tax of \$39.1m largely due to adverse weather and cost of restructure of the farming operations
- Sale process for conventionally farmed Fifth Street farm being finalised

Murray River Organics Group Limited (ASX:MRG) (“the Group”) today reports its results for the full year ended 30 June 2020, with the Group achieving significant milestones while also experiencing some unexpected challenges.

Despite these challenges, we have continued to focus on growing our branded product range in retail and export whilst increasing the scale of our ingredients business.

1. Underlying EBITDA-SL, represents earnings or losses before interest, tax, depreciation, amortisation, impairment and before the fair value gain or loss on Self-Generating and Regenerating Assets (“SGARA” or biological assets), excluding the impact of AASB 9 Financial Instruments, AASB 15 Revenue from Contracts with Customers and AASB 16 Leases, and excluding one-off items as agreed with the Company’s financier. – Unaudited non-IFRS term
2. Underlying EBIT-SL, represents earnings or losses before interest, tax, and before the fair value gain or loss on Self-Generating and Regenerating Assets (“SGARA” or biological assets), excluding the impact of AASB 9 Financial Instruments, AASB 15 Revenue from Contracts with Customers and AASB 16 Leases, and excluding one-off items as agreed with the Company’s financier. – Unaudited non-IFRS term

Our non-core asset realisation program is progressing well. The sale process for the Fifth Street table grape property has been disrupted by COVID-19 the restrictions, with final stage discussions are now underway with shortlisted parties following strong interest.

During the period we delivered transformative and essential restructuring which saw us pivot to being a branded products company with a more focused and productive vertical supply chain in dried vine fruit.

### **Branded portfolio and customer relationships**

Our branded portfolio strategy for National Retail was launched twelve months ago and is seeing us transform our business from a predominantly private label offering to an innovative purpose-driven branded manufacturer.

Our branded category sales grew 28% driven by collaborative partnerships with Coles, Woolworths and Metcash to launch over 37 new products into mainstream retail. These launches are aimed at building a large-scale organics business with ranging in dried fruit, healthy snacking, oils, breakfast cereals (muesli), pantry staples and more recently, healthy, innovative confectionery.

Chief Executive, Valentina Tripp said: “We are really proud of the innovation the team is bringing to our branded portfolio which is contributing to the momentum we are building. Our products are quite special.”

Lower margin private label contracts with retail customers reduced by over \$13m, which contributed to all the recorded sales contraction. These contracts are predominantly non-organic (conventional) products and pricing is highly sensitive.

### **Wholesale and Ingredients (W&I)**

W&I sales grew strongly by over 50%, notwithstanding the challenges brought by COVID-19, which affected global freight movements and prevented or constrained key sourcing partners.

We have developed strong partnerships to supply Ingredients to leading Australian food producers with growing supply across a range of organic categories.

Grower-producer supply partnerships continue with ingredients sourced from international organic certified producers for a variety of our products such as dried fruits, grains, flours, dried berries and seeds.

The W&I business is on its way to becoming the leading organic ingredients supplier to Australian food manufacturers and distributors.

### **Exports**

Export sales were up 19% in the first half of FY20, however the onset of COVID-19 saw countries restrict and close their borders across all major export markets. As a result, our second half sales were

impacted, however despite the impact, export sales achieved a 3% growth on the prior year. Export markets re-commenced in June 2020 and we are seeing demand returning to pre-COVID levels. This is a testimony to the strength of demand that is evident for our unique, high quality, organic certified Australian food offering.

Branded retail value-added exports to China were up 139% for the year with our products now available across more than 1800 stores across China as well as a range of e-commerce sites.

Particularly pleasing was our export retail branded offering, which grew and strengthened despite the global uncertainties. Sales in this category now comprise 35% of our total Export sales.

The Export business has a strong growth pipeline with over 50% of our export portfolio being under contract for FY21, of which a third are locked into multi-year agreements.

### **Farm portfolio and harvest results**

Following our strategic review in 2019, we exited from the long term Colignan farm lease in December, which was a critical milestone in the Group's capital management initiatives and has reduced ongoing cash requirements by an estimated annualised \$10m. While this change is fundamentally transformative for the Group, a \$11.7 million loss on the lease was required as a result of this restructure whilst further asset write downs on other farm properties also occurred to bring total one off farm write downs to \$15.6m for the year.

In FY20 we navigated through a series of challenges that severely affected the profitability of our farms. Following an extended drought, water costs rose significantly and caused our annual farm costs to increase by over 32%. The extreme summer was followed by rain events in March and April during the harvest period, which combined to decrease crop quality and yields.

On our owned farming assets, we continued to remediate existing vineyards, made strategic decisions on varietal changes, and planted our first edible organic hempseed crop.

Our organic vineyards are better placed for an improved crop for the 2021 season, and we expect significant reduction in cash outflows as we further rationalize under-performing farm assets and earmark them for future development.

### **Project Magnum**

Our 2019 feasibility scoping study was initiated to create a vision for the future of the ~2600Ha of Nangiloc vacant organic certified land. The opportunity to extend organic farming into a range of crops at Nangiloc was examined and a short list of potential crops developed.

Phase 1 commenced in October 2019 with a pilot program to grow low-THC cannabis organically and resulted in a successful harvest of approximately 21 tonnes of high-quality seeds. Our plan for next April is to sow our first organic oat crops under pivot to be used in our Organic Muesli.

Phase 2 of our plan is in the planning stage and will determine the optimum combination of crops focusing on dried vine, almonds, dates and pistachios for Nangiloc.

Ensuring long term security of access to economically priced water is the focus of the next phase of development. We have secured a 5-year water lease for 4GL of water, this will meet all our current water requirements and allow for initial development once the planned sale of our non-core farms is completed. The project team is reviewing alternative water access solutions including a potential localised water desalination plant on the balance of the Nangiloc property. This proposed solution involves accessing ground water and reducing salinity to make the water suitable for irrigation at economically viable rates. A scoping study is now undertaking further technical analysis and securing regulatory approvals to proceed to the next stage.

### Outlook

Our journey to transform into a strong integrated branded organic food business is gaining momentum. Consumers' awareness of their health and wellness is growing, a trend which has been accelerated by the global pandemic. The demand for clean, sustainable, healthy organic products is growing as a result, and MRG is well positioned to capitalise on this trend

Global demand for organic dried vine fruit and organic products more broadly remains strong, whilst the market for organics continues to build across Asia, USA, Europe and now Australia. With accelerated investment in marketing, branding, and product development we are growing the market and building our share of organic products in Australia and internationally. Furthermore, we will explore strategically attractive, value-accretive, acquisition opportunities to supercharge our growth to build on our integrated operating platform and scale.

As we strive to reach our vision, we are building a business that is better for you.

For further information:

Helen McCombie  
Citadel Magnus  
P: +61 411 756 248  
E: [hmccombie@citadelmagnus.com](mailto:hmccombie@citadelmagnus.com)

Valentina Tripp  
Chief Executive Officer & Managing Director  
P: +61 414 550 337  
E: [vtripp@murrayriverorganics.com.au](mailto:vtripp@murrayriverorganics.com.au)

This announcement has been approved for release by the Board of MRG.

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