

# RFM Poultry

NSX:  
RFP

Managed by:  
 Rural  
Funds  
Management



Proposed sale to ProTen and  
wind-up of RFM Poultry

1 November 2019

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The presentation should be read in conjunction with the RFP Notice of Meeting and Explanatory Memorandum dated 28 October 2019.

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## RFM presenters



**David Bryant**  
*Managing Director*



**Stuart Waight**  
*Executive Manager*



**Daniel Yap**  
*Financial Controller*



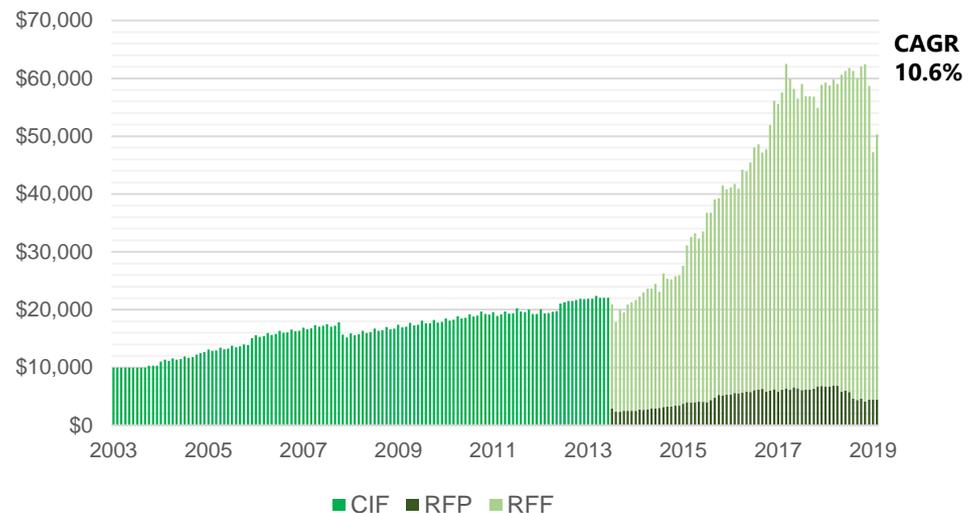
**James Powell**  
*General Manager –  
Investor Relations and  
Marketing*

# History of RFM Poultry (RFP)

RFM have managed the poultry assets since 2003. Original Unitholders have received a compound annual total return (CAGR) of 10.6%.

- RFM invested in the poultry industry in 2003 through the acquisition of a portfolio of poultry assets via the RFM Chicken Income Fund (CIF).
- Following a Unitholder vote in 2013:
  1. RFP demerged from the CIF to form an entity to operate the poultry farms.
  2. The poultry farms formed part of the Rural Funds Group (ASX:RFF).
  3. CIF investors received units in RFF and RFP.
- Approximately 65% of RFP Unitholders retain a holding in RFF.
- The compound annual return to the initial CIF investors has been 10.6% per annum.

Value of \$10,000 invested in RFM Chicken Income Fund<sup>1</sup>

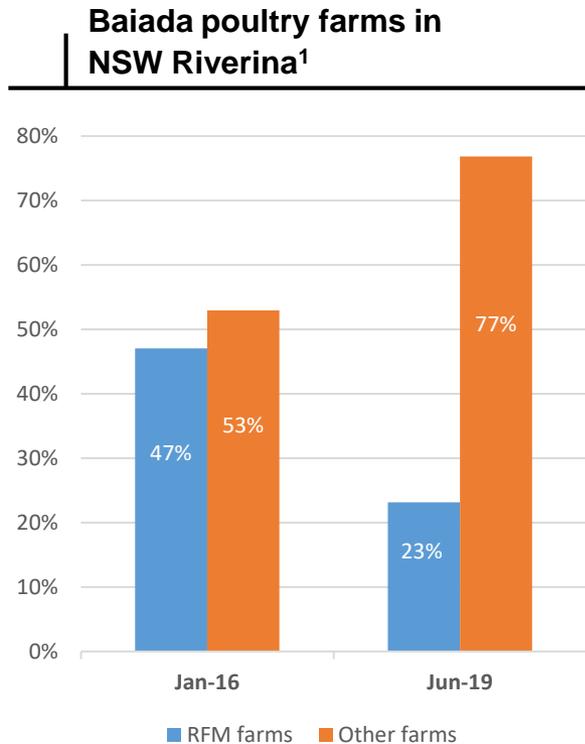


Note:

1. Key assumptions: Returns calculated from September 2003 to October 2019, Distributions (including the value of franking credits) reinvested at closing market price for month of payment. October 2019 closing prices of \$1.80 for RFF and \$0.72 for RFP.

# Deterioration of profitability

The construction of new poultry farms has negatively impacted RFP. In addition, many of the RFP sheds are reaching the end of their useful life and have Grower Contracts expiring from December 2023.



- The construction of new poultry farms has:
  - Provided processors access to more efficient facilities, enabling them to request cost reductions and higher facility standards.
  - Resulted in RFP’s poultry farms competing with new poultry farms which are achieving better growing performance.
- Furthermore, many of the sheds operated by RFP are reaching the end of their useful life, with Grower Contracts expiring from December 2023.
- These factors have negatively impacted RFP’s financial performance (FY17 to FY19) through additional costs and discounts to growing fees, including:
  - Labour costs: up 20% (or, \$0.85m)
  - Repairs and maintenance: up 17% (or, \$0.39m)
  - Changed operational costs: up 122% (or, \$0.27m)
  - Drought related costs: up 80% (or, \$0.25m)
  - Insurance costs: up 48% (or, \$0.19m)
  - Grower fee discounts: up 29% (or, \$0.13m)
- As a result a significant financial loss occurred in FY19 (\$1.97m) and an additional loss is forecast for FY20 (\$1.83m).

Note:

1. Based on square metres of shed capacity contracted to Baiada in the New South Wales Riverina region.

# Options considered by RFM

**RFM has considered multiple strategies and considers it in the best interests of Unitholders to exit the poultry industry to limit further losses.**

## **1. Continue to operate**

- ✘ Forecast losses are likely to continue because of increased costs (labour, operational requirements, insurance and drought related) and grower fee discounts. This may result in RFP becoming insolvent, triggering a termination event under the Growing Contracts. RFP would then need to commence a wind-up process.

## **2. Request rent relief from the Lessor**

- ✘ Several concessions have already been provided by the Lessor. The outcome of further negotiations is uncertain and further operating losses would be incurred during this process.

## **3. Redevelop older farms**

- ✘ RFM expects that the terms for new growing contracts would increase the risks and reduce returns to Unitholders. Notwithstanding, redevelopment of older farms would require agreement with the Lessor.

## **4. Sale of the assets subject to Leases and Growing Contracts**

- ✘ RFM is pessimistic about the ability of RFP to continue to operate, regardless of who is the Lessor.

## **5. Exit the poultry industry and wind-up RFP**

- ✓ RFM believes this option is in the best interests of Unitholders to limit further losses.

# Proposed sale to ProTen and wind-up

**RFM has entered into agreements to sell all of RFP's poultry assets to ProTen who will then take over all farming operations (ProTen Transaction).<sup>1</sup>**

- Continuing forecast losses mean that the capital position of RFP is deteriorating and the ability of RFP to continue as a going concern beyond the current financial year is uncertain.
- After assessing multiple options, RFM has concluded that it is in the best interests of RFP Unitholders to exit the poultry industry and wind-up RFP to limit further losses.
- As required by NSX listing rules, the transaction is considered a significant change to the nature and scale of RFP's activities and therefore requires the approval of the Unitholders to implement the sale of assets to ProTen and wind-up RFP.<sup>1</sup>
- ProTen are the logical acquirer of the assets due to their existing industry scale and presence in the Griffith region, where the majority of RFP operations are located.

## Profit and net asset value

	FY20f	FY19	FY18	FY17
Operating profit/(loss) before tax - \$m	(1.83)	(1.97)	0.88	1.17
Operating profit/(loss) after tax - \$m	(1.83)	(2.00)	0.62	0.82
NAV per unit	\$0.46	\$0.77	\$1.12	\$1.13

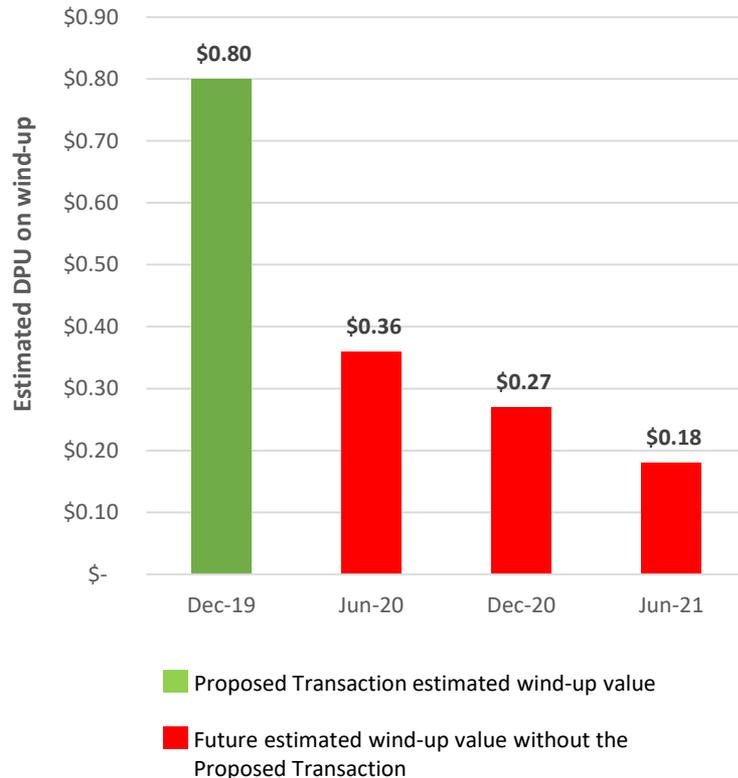
Note:

1. RFM, on behalf of RFP, has entered into agreements to sell all of RFP's poultry assets to ProTen Investment Management Pty Ltd ACN 124 095 030 as trustee for ProTen Investment Trust (ProTen), who will then take over all farming operations. Simultaneously, ProTen will also acquire the Properties currently leased to RFP. Upon completion of the sale to ProTen, both the Leases and the Growing Contracts will come to an end (ProTen Transaction). Provided the Resolution is passed by Unitholders, RFM estimates to make a capital distribution of \$0.80 per unit to Unitholders, wind-up the Fund and subsequently de-list RFP from the NSX.

# Wind-up value

The ProTen Transaction includes a \$0.29 per unit transaction premium and can be implemented prior to year-end, thereby limiting further losses.

## Forecast DPU on wind-up<sup>1</sup>



- The ProTen Transaction provides an estimated wind-up distribution per unit (DPU) of \$0.80, representing a premium of:
  - 19.4% to the 14-day volume weighted average price (VWAP) of \$0.67 per unit.
  - 3.9% to the 30 June 2019 net asset value (NAV) of \$0.77 per unit.
- If Unitholder approval is not received and the ProTen Transaction does not proceed:
  - Unitholders would not receive the \$0.29 per unit transaction premium.
  - RFP may not be able to pay its debts as and when they fall due and the Lessor would be entitled to terminate the Leases.
  - RFM may make a court application to wind-up RFP on the basis that RFP may be insolvent, or nearly so.
  - The forecast wind-up value is \$0.36 per unit at 30 June 2020 and \$0.18 per unit at 30 June 2021.

Note:

1. Distribution on wind-up subsequent to an unsuccessful vote includes \$0.2m of break fees payable in the event that Unitholder approval is not received (assuming there is no material breach of the Sale Agreements) or waived as noted in section 4.5 of the Explanatory Memorandum, \$0.1m of other estimated transaction costs, \$0.6m of subsequent wind-up costs and exclude the impact of the new lease accounting standard, AASB16.

# Meeting and voting details

**Under the NSX listing rules the ProTen Transaction requires the approval of Unitholders. Your vote is important to complete a quick and orderly wind-up.**

## Key events<sup>1</sup>

Date	Event
4 November 2019	Posting of Notice of Meeting and Explanatory Memorandum including proxy forms
11:00am 26 November 2019	Latest date for receipt of proxy forms
7:00pm 27 November 2019	Date for determining eligibility to vote at the Meeting
11.00am 28 November 2019	Meetings to be held to vote on the Proposed Transaction
28 November 2019	Announce results of the Meetings
12 December 2019	Implementation of Proposed Transaction
prior to 29 February 2020	Initial distribution (approx. \$0.70 per Unit)
prior to 30 April 2020	Final distribution (approx. \$0.10 per Unit)

- Proxy Forms should be completed and returned by no later than 11:00am (AEDT) on Tuesday, 26 November 2019 by either:

**Fax** + 61 2 9290 9655

**Mail** Boardroom Pty Limited  
GPO Box 3993,  
Sydney NSW 2001 Australia

**In Person** Boardroom Pty Limited  
Level 12, 225 George Street,  
Sydney NSW 2000 Australia

**Email** [rfm@boardroomlimited.com.au](mailto:rfm@boardroomlimited.com.au)

- If you have any queries please don't hesitate to contact investor services on 1800 026 665 or email [investorservices@ruralfunds.com.au](mailto:investorservices@ruralfunds.com.au)

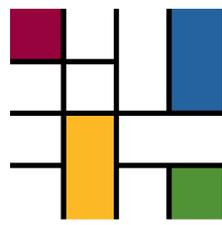
Note:

1. This timetable is indicative only and is subject to change.

# Conclusion

**The directors of RFM believe the ProTen Transaction is in the best interests of Unitholders and recommend that you vote in favour of the Resolution.**

1. The establishment of RFP followed a demerger from the CIF. The returns for CIF investors has been 10.6% per annum (compound annual growth rate).
2. The construction of new poultry farms and subsequent increased supply of shed capacity has negatively impacted RFP. In addition, many of the RFP sheds are reaching the end of their useful life and have Grower Contracts expiring from December 2023. RFM believes it is now necessary to exit the industry.
3. RFM has negotiated a transaction with ProTen which:
  - a) Can be implemented before year-end, thereby limiting further losses.
  - b) Includes a transaction premium of \$0.29 per unit.
  - c) Provides an estimated wind-up value of \$0.80 per unit; representing a premium to the both 30 June 2019 NAV and 14-day VWAP.
4. If the transaction is not approved:
  - a) The ability for RFP to continue as a going concern beyond the current financial year is uncertain.
  - b) Regardless, RFM may make a court application to wind-up RFP.
  - c) The wind-up value is forecast to be \$0.36 at 30 June 2020, or less after this.
5. **The implementation of the transaction requires approval from RFP Unitholders under the NSX listing rules, therefore it is important that RFP investors vote.**



# Rural Funds Management

Managing good assets with good people

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