

Rural Funds Group (RFF)



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ASX Release

27 February 2014

Subject: Webinar presentation – 1H14 financial results

Attached is a presentation to be delivered by David Bryant, Managing Director of Rural Funds Management Ltd at 11.30am 27 February 2014.

To join the webinar, please contact RFM Investor Services on 1800 026 665.

About Rural Funds Group (RFF)

RFF owns a diversified portfolio of high quality Australian agricultural assets. RFF's investment objective is to generate a stable income stream derived from leasing its assets to suitable counterparts and capital growth through appreciation in the value of those assets. Rural Funds Management Ltd (RFM) is the responsible entity of RFF.

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Rural Funds Group (ASX: RFF)

2014 Half Year Results

27 February 2014

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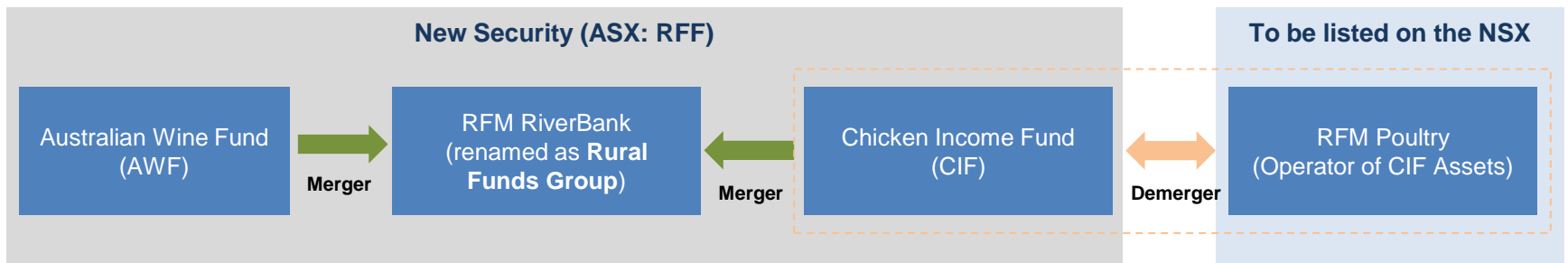


1. Rural Funds Group Overview

The evolution of Rural Funds Group

Rural Funds Group was created through the merger of 3 existing unlisted funds

- The RFM Chicken Income Fund (**CIF**) and RFM Australian Wine Fund (**AWF**) were merged with RFM RiverBank (**RiverBank**)
- RFM RiverBank was subsequently renamed the Rural Funds Group and listed on the ASX under the code RFF on 14 February 2014
- The rationale behind Revaluation (the merger and listing process) was to provide liquidity, diversification of assets, access to capital and greater potential for future growth
- Revaluation received overwhelming support and was approved by Unitholders on 16 December 2013
- In order to align the risk profile of CIF with that of RiverBank and AWF, CIF was demerged into two entities, with one entity owning the land and infrastructure (CIF) and the other entity leasing and operating the land and infrastructure. RFM established RFM Poultry (**RFMP**) to lease and operate the CIF assets
- RFF is externally managed by Rural Funds Management Ltd (**the Responsible Entity**)



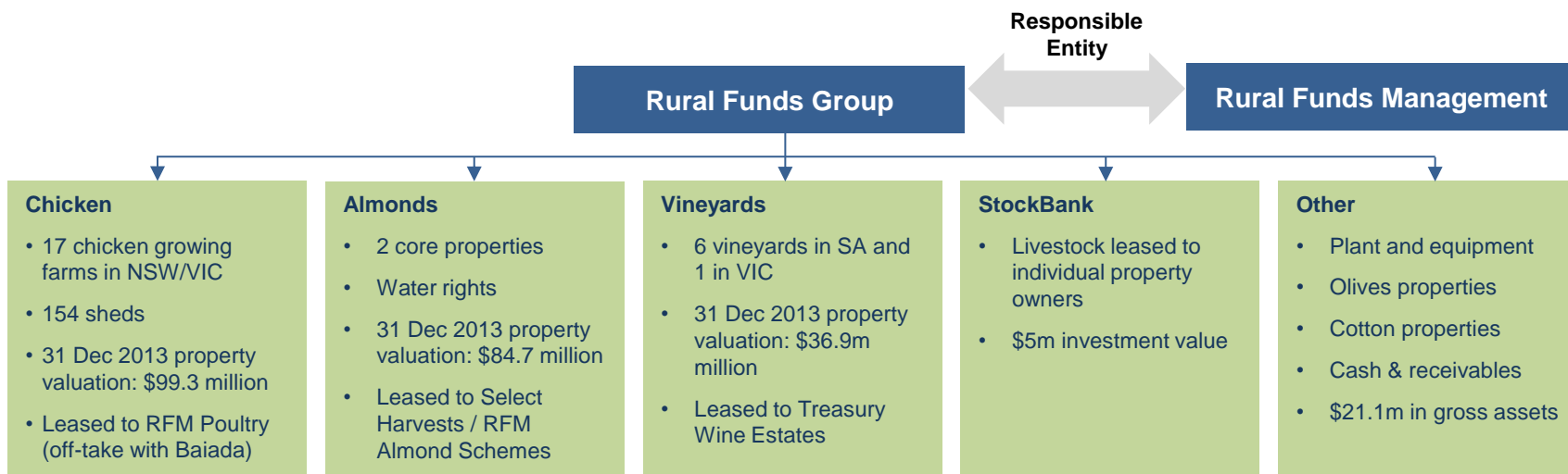
Overview of Rural Funds Group (RFF)

RFF generates lease revenue and potential capital growth through owning agricultural assets

- Rural Funds Group (RFF or the Fund) is a listed property trust with a diversified portfolio of Australian agricultural assets
- The Fund had total assets of \$247 million and net assets of \$118 million at 31 December 2013
- Revenues are derived from lease rentals across 3 broad sub sectors (chicken, almond and vineyards; property values of each are detail below)
- The Fund is externally managed by Rural Funds Management Ltd (**RFM**)

Key Statistics at 31 December 2013

Net Asset Value	\$118m
NAV per Unit	\$1.01
Forecast 6 Months Ending 30 June 2014 Distribution per Unit	4.26 cents
Forecast 6 Months Ending 30 June 2014 Distribution Yield (annualised)	8.32%
FY15 Distribution per Unit	8.59 cents
LSR	41% (core debt 40%)



1

Quality, pure play Australian agricultural property trust

- Exposure to quality agricultural properties located in major chicken, wine and almond producing regions of Australia
- Assets include commercial scale poultry growing infrastructure, productive almond orchards, premium-wine producing vineyards and livestock

2

Attractive forecast distribution yield

- Annualised distribution yield of 8.32% for 6 months ending 30 June 2014 and 8.55% for 12 months ending 30 June 2015
- Minimal maintenance CAPEX requirement – payout ratio of 90% of funds from operations and 95% of earnings for the 12 months ending 30 June 2015

3

Stable income and potential capital growth

- Income underpinned by long term fixed lease payments and rental increases
- Potential for capital growth over time

4

Long term, experienced tenants

- Rental income is underpinned by leases to proven agricultural operators
- Strong financial capacity to meet rental payment over the farm cycle

5

Strong industry dynamics

- Agricultural land in Australia has grown at an average yearly compound rate of 5.3% over 1978 – 2011¹
- Future growth driven by solid industry dynamics including population growth, emerging Asian middle class and constraints in global supply of agricultural land

6

Significant investment opportunities

- Potential to identify and acquire value accretive investment opportunities

¹Source: ABARES - Agricultural land growth comprises growth in the value of cattle and sheep grazing properties and cropping land

Quality Australian agricultural portfolio

Exposure to quality agricultural properties located in the major chicken, wine and almond producing regions of Australia

Portfolio Overview

- The properties are centred around the south east corner of Australia.
- Assets include:
 - commercial scale poultry growing infrastructure
 - productive almond orchards
 - premium-wine producing vineyards
 - livestock

Key Portfolio Statistic as at 31 December 2013

Number of properties	27 properties
Weighted Average Lease Yield (Gross)	9.0%
Weighted Average Lease Expiry (WALE)	13 years
Occupancy	100%

Portfolio Location

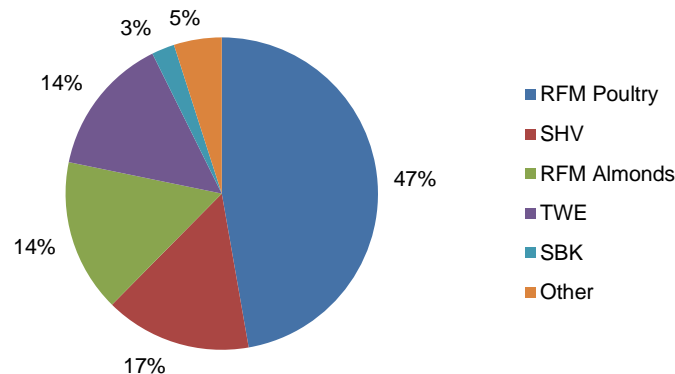


Diversified, stable income stream

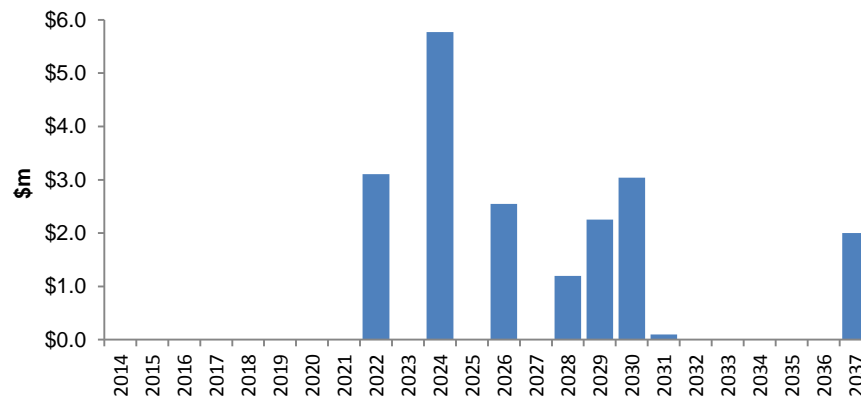
Income is underpinned by fixed rental payments with rental increases and potential capital growth over time


- **Diversified, stable revenue stream underpinned by:**
 - Fixed lease payment with annual escalation mechanisms
 - 100% of properties are leased
 - WALE of 13 years
 - Experienced tenants
- RFF's stability of income is enhanced by:
 - **Minimal exposure to operating risk**
 - Counterparties bear commodity/market, climatic, disease related risks, exchange rate, regulatory etc.
 - Lease revenue is not linked to counterparty profitability
 - **No concentration of risk**
 - Diversification by geographic region, commodity and counterparty
 - **Access to secure, long term water rights for all properties**

Tenant Portfolio Diversification by FY14 Revenue



Lease Expiry Profile based on FY14 Revenue





2. Half Year Results

2014 half year results

Key metrics as at 31 December 2013

Income		
	Net loss after income tax	(3,591,962)
	Adjust for merger transactions	4,798,149
	Adjusted net profit after tax	1,206,187
	Adjusted FFO per unit	3.10 cents
Portfolio		
	Net assets value (NAV)	118,354,594
	NAV per unit	1.01
Balance sheet		
	Gross assets	247,319,678
	External borrowings	95,766,888
	Loan to value ratio	41%
Distributions		
	Declared October 2013	923,464
	Declared December 2014	2,489,525
	Average CPU per distribution adjusted for merger	2.13 cents

- All results in line with expectations for the period
- Transitional period:
 - 170 days pre merger
 - 13 days post merger
- NPAT includes transaction costs associated with merger
- Group borrowing refinanced with ANZ

2014 half year results

Summarised income statement

	6 months ended Dec-13	6 months ended Dec-12
Property revenue	5,467,207	3,992,599
Other income	98,052	35,085
Total income	5,565,258	4,027,684
Cost of goods sold	(605,551)	(112,638)
Property expenses and overheads	(1,742,346)	(1,793,685)
Revaluations	(438,268)	11,616,954
Financing costs	(1,788,298)	(1,503,499)
Derivatives	409,998	(49,440)
Depreciation and impairments	(90,582)	(1,230,079)
Profit / (loss) on sale of assets	70,195	(28,761)
Merger related transactions	(3,466,807)	-
Profit / (loss) before tax	(2,086,401)	10,926,536
Tax expense	(1,505,561)	(3,361,465)
Profit / (loss) after tax	(3,591,962)	7,565,071

- Transitional period:
 - 170 days pre merger
 - 13 days post merger
- Dec 13 includes merger related expenses of
 - \$3.5m pre tax
 - \$4.8m after tax
- RFF and acquired entities ceased any owner occupation of properties in current period and re-classified appropriate assets as investment property
- Dec 12 included \$11.6m market revaluation reflecting further maturity of the almond orchards

2014 half year results

Summarised balance sheet

	As at Dec-13	As at Jun-13
Cash	6,618,835	182,462
Property investments	225,887,478	89,332,456
Inventory	381,568	987,119
Deferred tax assets	1,859,527	-
Other assets	12,572,270	6,194,733
Total assets	247,319,678	96,696,770
Interest bearing liabilities		
- Current	2,486,530	5,287,752
- Non-current	95,080,358	33,692,000
Deferred tax liabilities	18,513,952	4,433,478
Other liabilities	12,884,244	5,719,406
Total liabilities	128,965,084	49,132,636
Net assets	118,354,594	47,564,134
Units on issue	116,901,822	32,733,121

- Merger increased assets by 156%
- NAV \$118.4m
- Total interest bearing liabilities \$97.6m
- Loan to Security Ratio 41%
 - 40% core
 - 1% non-core

2014 half year results

Funds from operations (FFO) 6 months ended 31 Dec 2013

Net property income	4,959,707
Gross income	4,959,707
Property expenses and overheads	(1,742,346)
EBIT	3,217,361
Net interest	(1,788,298)
Derivatives	409,998
Earnings before tax	1,839,061
Adjusted Tax expense	(311,816)
Adjusted FFO	1,527,245
Weighted average number of units on issue	49,254,661
Adjusted FFO per unit	3.10 cents

- FFO per unit reflects pre merger entity and is adjusted for transaction costs
- FFO of 3.10 cents per unit (CPU)

Refer to Appendices for reconciliation of Net profit / (loss) after tax to Adjusted FFO

Financing facilities

- 31 December 2013: bank facilities of \$94 million fully drawn
- 14 February 2014: bank facilities amended on listing
 - \$97.5 million facility for a 5 year term with \$2 million per annum amortisation commencing 30 September 2016
 - 50% Loan to Security Ratio (LSR) covenant
 - Interest Cover Ratio (ICR) greater than 2.25



3. Strategy and Outlook

RFF distribution profile

- Declared:
 - Record date 22 November 2013 - \$0.0213 unfranked (on post merger basis)
 - Record date 31 December 2013 - \$0.0213 unfranked
- Forecast:
 - Record date 10 March 2014 - \$0.0213 unfranked
 - Record date 30 June 2014 - \$0.0213 unfranked
 - Quarterly thereafter - \$0.02147
- Expected distribution payment months: April, July, October, January

- Forecasts on track

- Manager focus on:
 - Improving awareness of RFF to increase liquidity and fair valuation
 - Cost control
 - Ongoing assessment of opportunities along the agricultural leasing spectrum

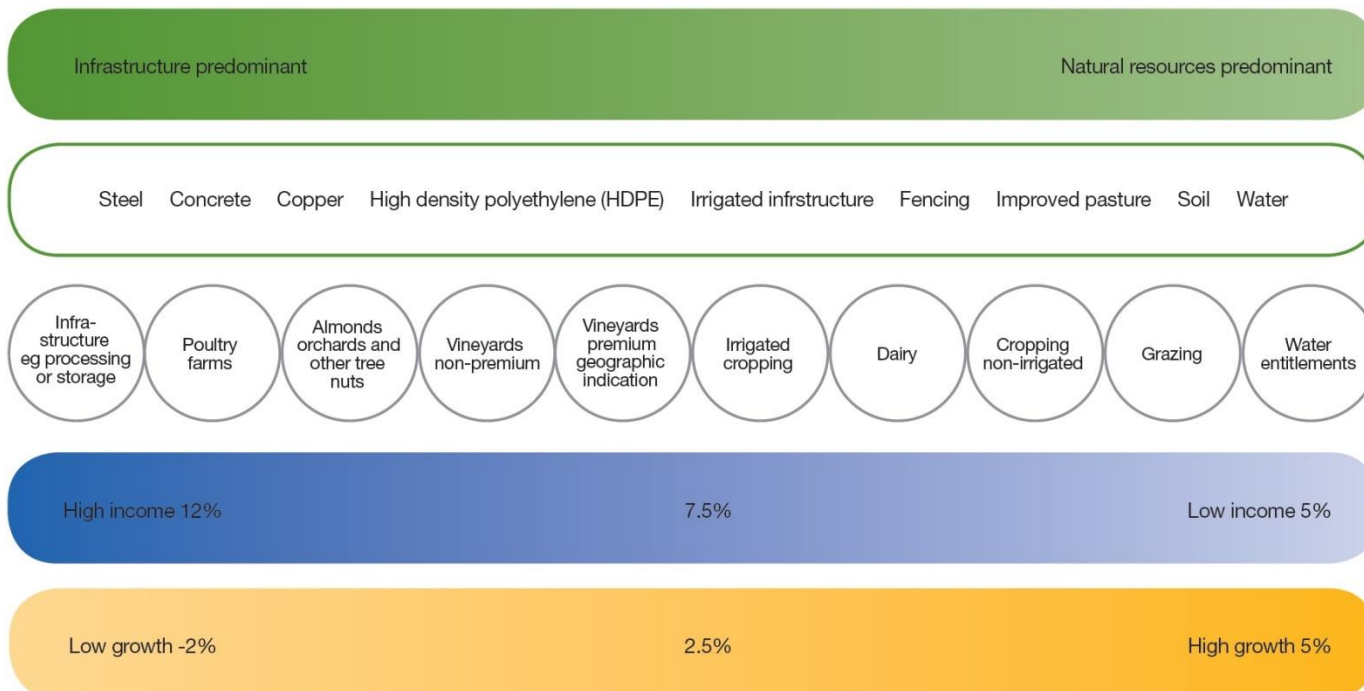
- Preparing unitholder resolutions to create stapled security and upgrade constitution for listed environment

Investment opportunities

RFF has identified a range of potential investment opportunities

- RFF will pursue acquisitions of additional assets to grow the quantum and diversity of its earnings
- The investment strategy is to invest across the full range of the asset continuum shown below, with the objective of ensuring the asset mix can continue to fund distributions consistent with current levels
 - Natural resource predominant assets that offer capital growth will be balanced by infrastructure predominant assets that generate higher initial yields

Spectrum of investment opportunities





4. Appendices

Appendix 1: reconciliation of net profit/(loss) after tax to adjusted FFO

Reconciliation from net loss after tax to Adjusted FFO 6 months ended Dec 2013

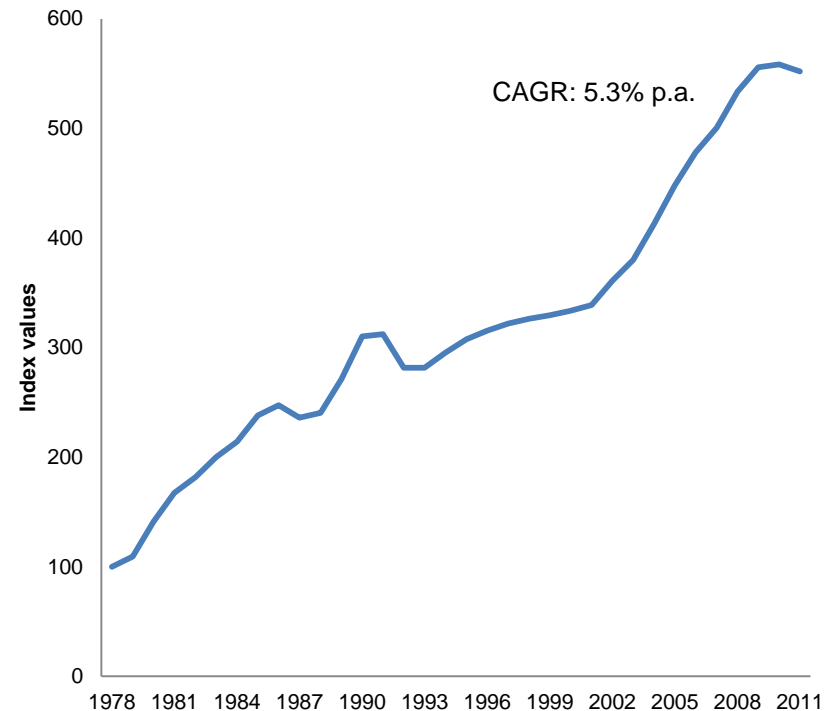
Net loss after tax	(3,591,962)
<i>Add:</i>	
Merger related transactions	3,466,807
Income tax assets written off due to merger	2,059,684
Fair value loss on investment property	438,268
Depreciation of P&E	277,839
<i>Less:</i>	
Reversal of impairment	(187,257)
Gain from sale of investment property	(70,195)
Tax impact of non-FFO items	(865,939)
Adjusted FFO	1,527,245

Appendix 2 – sector outlook: agricultural land

Agricultural land values have grown at an average rate of 5.3% over the period of 1978-2011

- Growth in the value of agricultural land is driven by increasing farm productivity and increases in soft commodity prices
- US agricultural land values have grown at a CAGR of 4.5% p.a. since 1890¹
- Macro trends include:
 - **Population growth:** World's population expected to increase 35% from 7 billion to 9.3 billion in 2050;
 - **Emerging Asian middle class:** Rising wealth and incomes leading to increased calorie consumption / higher protein diets
 - **Constrained global supply of agricultural land:** Agricultural land or water are approaching full utilisation.
- Australian agricultural businesses are well positioned to capitalise on global trends:
 - Close proximity to growth markets in Asia
 - Considerable agricultural production capacity
 - Robust biosecurity systems
 - Track record of innovation and reputation for high quality outputs
 - Skilled workforce

Growth in Australian agricultural land values: 1978 to 2011²



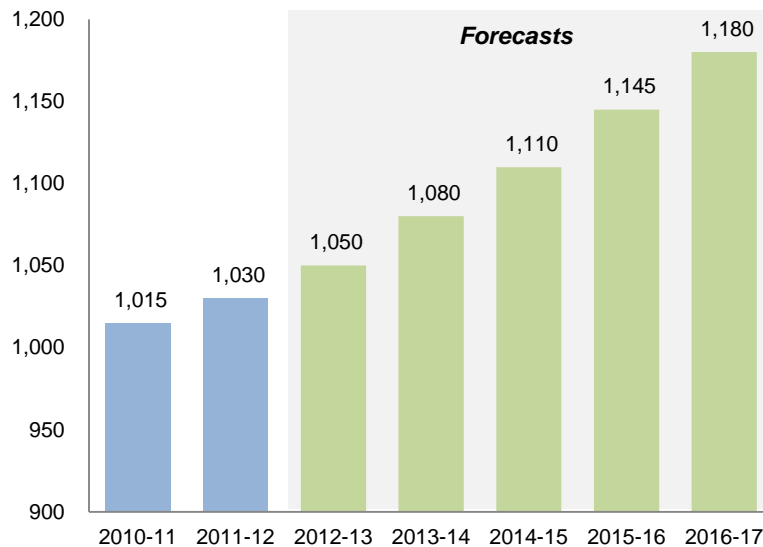
¹Source: US Census

²Source: ABARES - Agricultural land growth comprises growth in the value of cattle and sheep grazing properties and cropping land . Indexed to 100

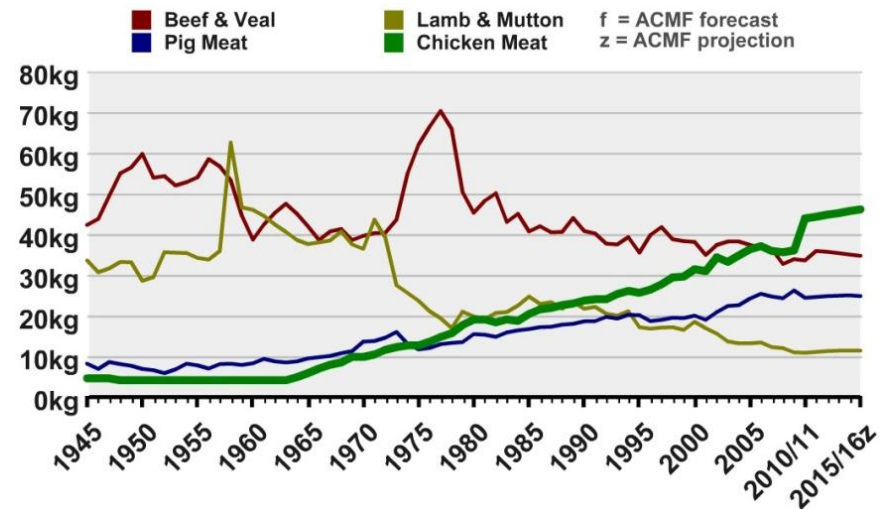
Appendix 2 – sector outlook: poultry

Chicken meat has continued to grow as a proportion of total Australian meat consumption as it is a cheap source of protein relative to other meats. This trend is forecast to continue in the near-to-medium term

Forecast Australian poultry production



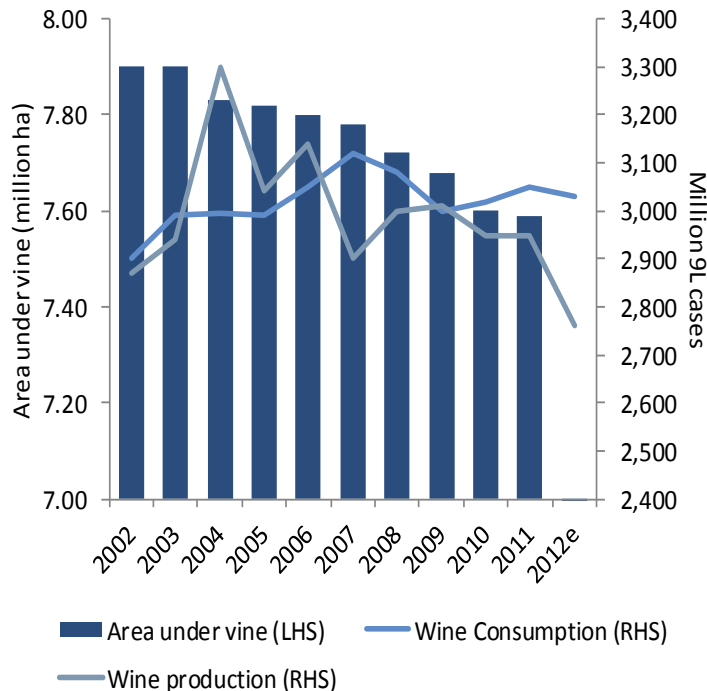
Increasing Australian consumption of chicken meat



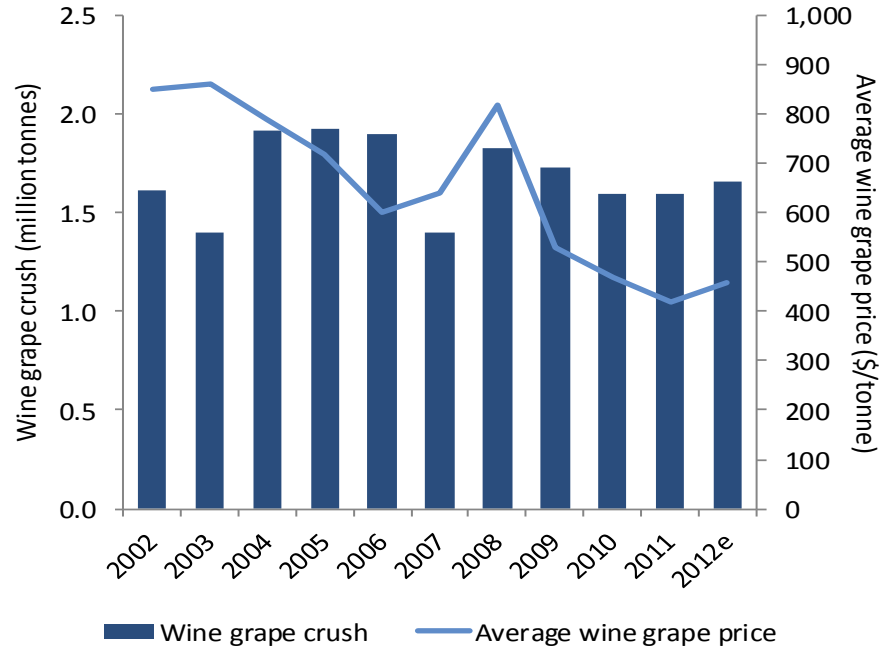
Appendix 2 – sector outlook: vineyards

Australian wine industry is still challenged by AUD and excess supply. Higher priced wine labels remain very profitable.

Global wine supply and demand



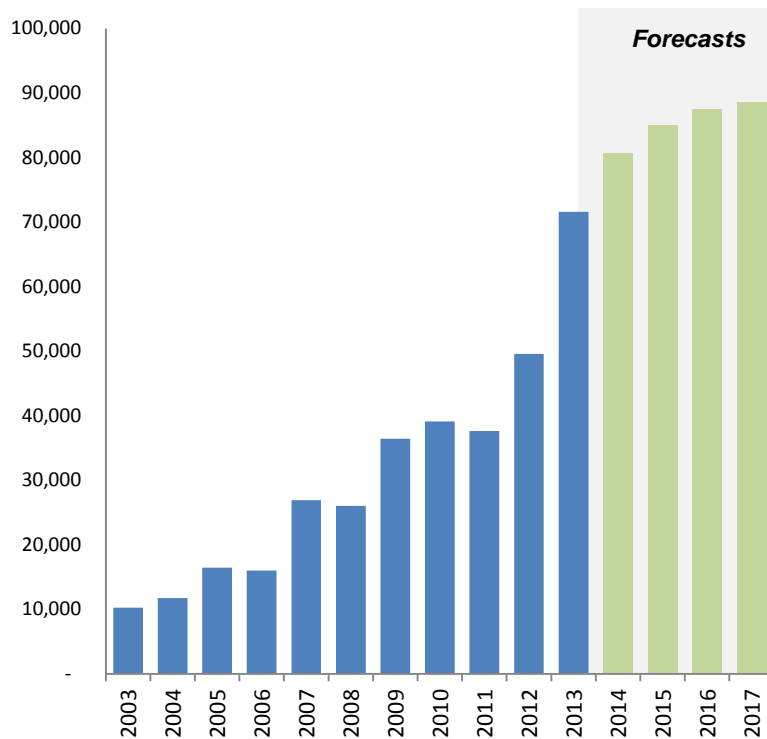
Australian wine grape crush and average price



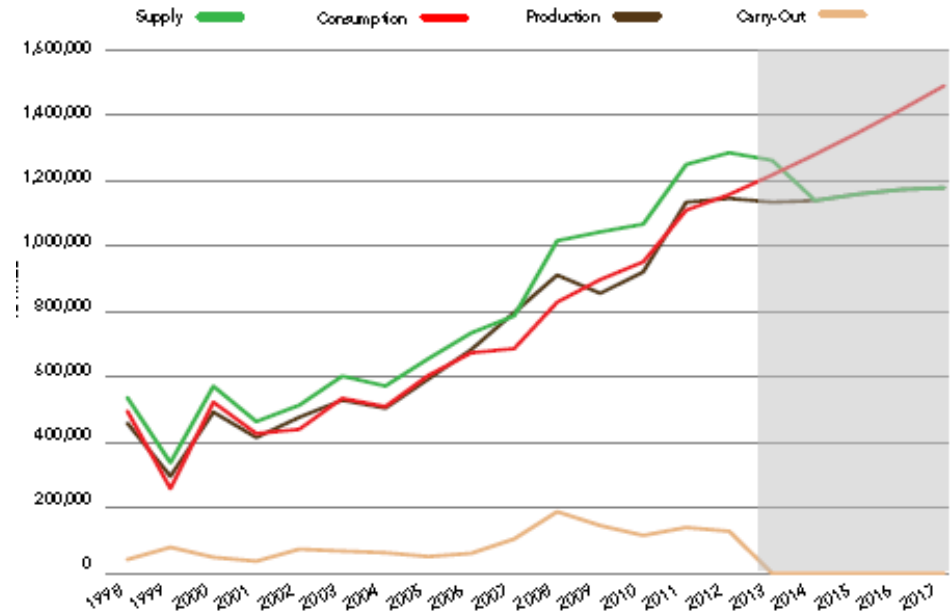
Appendix 2 – sector outlook: almonds

The almond outlook is positive. Global almond demand is growing at 8-10% pa with supply only growing at 4% pa.

Forecast domestic production

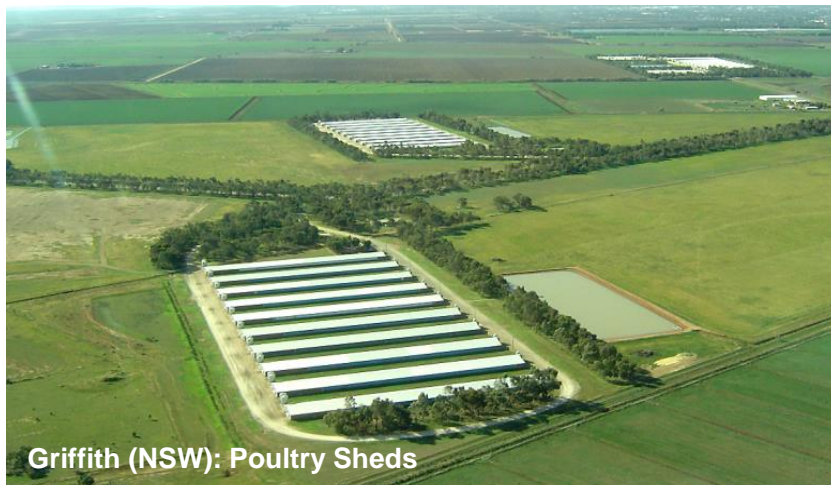


Global demand and supply outlook



Appendix 3: properties and assets - poultry farms

- The sheds provides shelter, heating and cooling for the chickens
- All sheds are fully automated. Farm managers can monitor and modify temperature, food and water supplies quickly and easily
- Majority of the farms are located in Griffith, NSW within 8km of the Baiada processing plant and are the primary contributors of that plant
- The farms are leased to RFMP who operates the farms in accordance with chicken growing contracts with Bartter Enterprises Pty Ltd – a wholly owned subsidiary of Baiada Poultry Pty Ltd.
- The Baiada processing plant supplies chicken meat to the national market



Griffith (NSW): Poultry Sheds

Asset Metrics	
Location	17 poultry farms consisting of 154 sheds located in Griffith, NSW and Lethbridge, Victoria
31 Dec 13 value	\$99.3 million
Gross Yield	10.2%
WALE	13.2 years
% of RFF Assets	42%
% of RFF Revenue	47%
Lease information	
Lessee	RFM Poultry
Property	All poultry farms
Expiry	Weighted average lease expiry of 18 April 2027
Area	303,216sqm
FY14 rental income	\$5.1m (17 Dec – 30 June)
Indexation	1.5% p.a.
Water entitlement	Leased property includes water entitlement attached to each farm.

Appendix 3: properties and assets - vineyards

- RFF owns 7 vineyards
 - 6 located in South Australia within the Barossa Valley, Adelaide Hills and Coonawarra
 - 1 located in Grampian, Victoria
- All vineyard are managed to produce premium quality grapes
- The vineyards are leased to Treasury Wine Estates Ltd expiring on 1 July 2022
- AWF also owns water entitlements which provide the vineyards with sufficient water supplies. These water entitlements are included in the leases to Treasury Wine Estate

Asset Metrics	
Location	7 vineyards located in South Australia and Victoria
31 Dec 13 value	\$36.9 million
Gross Yield	8.4%
WALE	8.5 years
% of RFF Assets	16%
% of RFF Revenue	14%
Lease information	
Lessee	Treasury Wine Estate
Property	All vineyards
Expiry	1 July 2022
Area	663 ha planted area
FY14 rental income	\$3.104m
Indexation	2.5% p.a.
Water Entitlement	Leased property includes water entitlement attached to each vineyard



Barossa Valley (SA): Geier Shiraz

Appendix 3: properties and assets – almond orchards and water entitlements

- RFF owns 2 Almond Orchards located near Hillston NSW
 - Yilgah – 1,006 planted ha
 - Moorah – 808 planted ha
- 1221 ha leased to SHV, and 593 ha leased to RFM Almond Schemes
- SHV lease has a significant market review 1 July 2016
- RFF also owns 27,210 ML of ground water entitlements which provide the orchards with sufficient water supplies. These water entitlements are included in the leases

Asset Metrics

Location	Hillston, NSW
31 Dec 13 value	\$84.7 million
Gross Yield	7.8% (SHV 9%, RFM Almonds 7%)
WALE	14.9 years
% of RFF Assets	36%
% of RFF Revenue	32%

Lease information

Lessee	Select Harvest/RFM
Property	Yilgah – Select Harvest Moorah – RFM, Select Harvest
Expiry	Weighted lease expiry of 30 Nov 2028
Area	1,814 ha planted area
FY14 rental income	\$6.60m
Indexation	2.5% p.a.
Water entitlement	15ML/ha



Hillston, Moorah (NSW): Almonds

Appendix 3: properties and assets – StockBank

- RFF owns \$5 million of StockBank Units as at 31 Dec 2013
- StockBank purchases livestock that are leased to landowners
- StockBank generally divides its investment between approximately 80% cattle and 20% sheep
- Agricultural risks borne by farmer – lease fees are payable to StockBank irrespective of performance (e.g. mortality, price, weight gain, etc.)
- Short-term lease contracts & no property ownership – StockBank can respond to changing conditions (e.g. drought, flood, etc.)



Cattle on property near Yass NSW

Asset Metrics	
Location	Various (NSW, VIC, SA)
31 Dec 13 value	\$5 million
Gross Yield	10 -12%
Term	Maximum 12 months
% of RFF Assets	2%
% of RFF Revenue	2%
Lease information	
Lessee	Various livestock producers
Assets	Cattle – 80% Sheep – 20%
Liquidity	Maximum 6 months
Lease rate	Cattle 18% p.a. Sheep 20% p.a.
2014 lease income	\$0.565m

Appendix 4: the responsible entity

RFM is one of the oldest and most experienced agricultural funds management organisation in Australia

- Rural Funds Management Limited (RFM) is an experienced fund and asset manager that specialises in Australian agriculture
- Established in 1997, RFM is the responsible entity for 7 agricultural investment funds and as at 31 December 2013, had in excess of \$300m of agricultural assets under management in New South Wales, South Australia, Victoria and Western Australia
- The RFM management team includes specialist fund managers, finance professionals, horticulturists, livestock managers, and agronomists. This team provides RFM with the specialised skills and experience required to manage the agricultural assets
- RFM employs 31 full time corporate staff and 18 farm staff

Appendix 4: management team and board

RFF is externally managed and governed by a highly experienced management team and board

Board of Directors



Guy Paynter
Non-executive
Chairman

- Former director of broking firm JBWere with more than 30 years' experience in corporate finance
- Guy was former member of the ASX
- Agricultural interests include cattle breeding in the Upper Hunter region in New South Wales



David Bryant
Managing
Director

- Established RFM in February 1997
- Responsible for leading the RFM Executive and sourcing and analysing new investment opportunities
- Responsible for over \$300m in assets acquisitions across eight Australian agricultural regions, including negotiating the acquisition of more than 25 properties and over 60,000 megalitres of water entitlements



Michael Carroll
Non-Executive
Director

- Serves a range of food and agricultural businesses in a board and advisory capacity, including Queensland Sugar, Meat and Livestock Australia, Warrnambool Cheese and Butter, Select Harvests, Sunny Queen, Rural Finance Corporation of Victoria, and the Australian Farm Institute
- Senior executive experience in a range of companies, including establishing and leading NAB's Agribusiness division

Executive Management



Stuart Waight
Chief Operating
Officer

- Joined RFM in 2003
- Responsible for reviewing and optimising the performance of the RFM funds, and analysing future developments, acquisitions, and investments
- Oversees the Asset Management activities, as well as the Farm Management activities of the National Manager of each of Poultry, Vines, Almonds, and Cotton



Andrea Lemmon
Executive
Manager, Funds
Management

- Joined at inception in 1997
- Responsible for the development of new products, the continuous improvement of existing products, management of research activities, and the provision of services and communications to investors and advisers



Melanie Doyle
Chief Financial
Officer

- Joined RFM in December 2011
- Has over 20 years' experience working in financial services for a number of publicly listed companies and other business enterprises, including roles as the CFO of a global securities trading business operating in Australia, Asia, Europe and North America, and the CFO for a private equity company's investments

Appendix 4: relationship with RFM

The Responsible Entity, on behalf of the Fund, has entered into agreements with RFM in relation to management activities

- RFM will charge a fee and expense recovery for managing and administering the Fund

Funds Management	<ul style="list-style-type: none">• Management Fee of 0.6% p.a. of gross asset value• Reimbursement of all reasonable expenses• No additional performance fees
Acquisition Fee	<ul style="list-style-type: none">▪ RFM is entitled to an Acquisition Fee equal to 1% of the total purchase price paid for an asset
Forecast Indirect Cost Ratio	<ul style="list-style-type: none">▪ 2.25% annualised for 6 months ending 30 June 2014 (excluding one-off costs associated with the merger)
Asset Management Fee	<ul style="list-style-type: none">▪ The Fund is charged a fee for asset management services provided by RFM▪ The Asset Management Fee is equal to 5% p.a. of annual gross lease revenue, equivalent to 0.45% if expressed as a percentage of gross asset value

Corporate information



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