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Murray River Organics announces H1 FY18 results and provides update on the business turnaround plan

Murray River Organics Group Limited (ASX: MRG) ("MRG", "Company") today announced its results for the six months ended 31 December 2017 (H1 FY18) and provided an update on the turnaround plan.

H1 FY18 financial results

- Statutory results[1]
  - Revenue $39.4 million (H1 FY17: $16.7 million)
  - EBITDA loss of $16.0 million (H1 FY17: $1.8 million profit)
  - Net Loss After Tax of $22.2 million (H1 FY17: $1.2 million loss)
- Underlying results
  - EBITDA $3.1 million[2] (H1 FY17: $3.5 million[3])

Commenting on the H1 FY18 results, Chief Executive Officer of MRG, Mr George Haggar, said, "Financial performance of MRG was disappointing in the first half. Notwithstanding the one-off costs which we have brought to book, we are particularly disappointed with the poor margins across the commodity and bulk segments. However, the growth potential for MRG as a leading Australian producer, packer and seller of organic, natural and 'better-for-you' food products is evident. A turnaround plan, which in the first instance focuses on improving processes and systems across the supply chain, will assist in realising the embedded value of our company and its high-quality asset base."

Revenue increased 136 per cent mainly due to the full six-month contribution of acquisitions of Food Source International (September 2016) and Australian Organic Holdings (November 2016).

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[1] Prior period includes part year contributions from Food Source International (acquired in September 2016) and Australian Organic Holdings (acquired in November 2016)

[2] Excludes one off costs related to goodwill impairment, inventory write-down and provisioning, restructuring costs and reversal of provision for group reorganisation

[3] Excludes one-off costs related to IPO and acquisition related costs

However, underlying Earnings Before Interest, Tax, Depreciation, and Amortisation/Impairment (EBITDA) after on-off costs, was impacted by slower than anticipated efficiencies from the Dandenong manufacturing site and delays in the commissioning of the new Sunraysia processing facility. Lower margins with customers in commoditised and uncontracted environment and poor service levels due to out-of-stocks also contributed to lower sales and margins.

This has resulted in increased bank debt gearing, which is the subject of heightened management focus. Banking covenants have been removed for FY18 and the lender (NAB) remains supportive of the business.

The one-off impact on H1 FY18 results, as previously advised to the market, is $19.1 million. This includes inventory write-downs of $8.3 million, goodwill impairment of $10.4 million, restructuring costs of $1.4 million and reversal of provision for group reorganisation $1.0 million.

Outlook for H2 FY18

Commenting on the outlook, Mr Haggar said, "Management have taken some time to carefully and methodically review the underlying financial performance of the business and have now implemented important changes to key elements of the supply chain to drive performance improvement. While the initial effort has been to focus on people, process and systems, the business will continue to move through a turnaround and consolidation phase over the coming months."

Momentum towards improved financial performance, as well as a greater capacity to deal with challenges as they may arise in the future, will be driven from:

- Updated commercial and pricing models underpinning all future customer/sales proposals – contracted and uncontracted – to address margin pressure experienced in H1;
- A re-vamped post-harvest supply chain to 'push' product to finished goods based on better sales planning to avoid work in progress and inventory risk experienced in the last 12 months;
- Competitive tension brought to sourcing and procurement activities to deliver lower COGS as existing contracted supply arrangements are renewed;
- Processing and packing will take advantage of new equipment efficiency with a more strategic approach to 3rd party contract packing alliances;
- Domestic and global sales efforts revamped by upgraded customer/market plans, utilising all available data/insights.

Mr Haggar, alongside CFO Albert Zago, were pleased to be able to provide their first shareholder update on behalf of MRG but more importantly, the opportunity to present a very clear message from the Board and Management that the journey continues beyond today, and that there is a collective determination to realise the Company's full potential.

"There is no doubt the primary focus in the short term is to implement a turnaround plan that addresses the 'growing pains' we have clearly felt over the past 18 months. But simultaneously, we are very focused on the ultimate prize – the opportunity to play a leadership role globally in the organic and health food sector – one of the fastest growing sectors in the global food economy", Mr Haggar added.

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About Murray River Organics

Murray River Organics Group Limited (ASX: MRG) is a leading Australian producer, packer, marketer and seller of certified organic, natural and better-for-you food products. Our core product offering is dried vine fruit where we are Australia's largest vertically integrated producer of organic sultanas, raisins and currants. We also procure and manufacture many other organic and 'better for you' products in bulk and packaged formats. We service the organic, natural and healthy food and snack market globally. We operate both in the domestic and international markets, with customers in 18 countries.

The global organics landscape and the health food sector generally continues to grow at a rapid rate as consumers demand environmentally sustainable and healthy food.

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

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