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Murray River Organics Business Update

Murray River Organics (ASX:MRG) provides the following update on Harvest, Earnings, Turnaround Plan, Director and Company Secretary appointment

Harvest Update

The dried vine fruit harvest is over 90% complete. Fruit quality is being assessed as 'good' across the portfolio with the fruit harvested close to or at required moisture levels desired for processing, compared to last year's harvest where the moisture level was high.

Overall, the harvest is tracking better than in 2017 when the total yield reported was impacted by undesirable higher moisture levels, which led to a poorer quality crop and consequently resulted in significant inventory write downs, as previously reported. However, the company is forecasting to fall short of its previous estimates primarily due to some farms reporting fruit size below pre-harvest forecasts.

There has also been a significant change between the mix of fresh grapes and dried vine fruit in 2018, as compared with pre-harvest forecasts.

A more detailed summary of the 2018 harvest will be communicated in the coming weeks, once the remaining dried vine harvest is complete and the citrus harvest ramps up.

Sales Update

Sales for FY18 are now expected to be $67million to $70million. The key drivers of the expected sales shortfall are as follows:

- Export sales are tracking below expectations due to the quality issues from the 2017 harvest
- The company was late in engaging with fresh table grape customers and marketers, missing critical timeframes within which many of the stronger sales channels for organic and conventional grapes were confirmed. This prompted a shift in product mix from fresh to dried, resulting in a timing lag whereby fruit that would have been sold fresh in FY18 will now be sold as dried fruit in FY19
- The expected sales growth in high value 'Clusters' has not performed as expected. The Cluster market is relatively new and future growth will be dependent on the further development of this category domestically and internationally

Earnings Update

As a result of the lower than expected sales forecast, underlying Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) is now expected to be a loss in the range of $8.3 million to $9.3million for FY18. In addition to the sales impacts described above, this loss is driven by a reduction in the profit progressively recognised in the Fair Value of Agricultural Produce (SGARA) arising from the write back of projected cluster sales, lower 2018 harvest yields and higher farming costs, amounting to $7.9million; slower than expected benefits due to the delayed installation of the new snack packing equipment; and higher processing costs associated with outsourced activities during its commissioning.

Furthermore, it has been necessary to further discount/write down the remainder of the 2017 harvest stock (impacted by quality being below customer expectations), as customers have advised they are waiting on the new 2018 harvest to restart ordering and other expired stock. This has resulted in $1.7million in additional stock provision.

The total EBITDA loss (including impairment charge and other one off items at 31 December 2017 and $0.5million in restructuring costs year to date) is in the range of $27.9million to $28.9million. It should be noted that any adjustments arising from a full stock take of all inventory which is expected to be completed by 30 June 2018, and any impact from the revaluation and sale of properties are not included in the forecast range.

The carrying value of the Group's assets are subject to impairment testing at 30 June 2018 which is dependent upon a number of factors including the Turnaround Plan referenced below. It is anticipated there could be a further impairment in the FY18 year-end accounts however it cannot be quantified until impairment testing is completed. The Group has also initiated a formal external valuation of all its properties in line with the Group's accounting policy which will be finalised in conjunction with its 2018 audited Statutory Accounts.

Furthermore, management is currently reviewing its estimates and methodology used to determine its Fair Value of Agricultural Produce (SGARA), which essentially results in profits being booked in relation to forthcoming harvests based on best estimates. Moving forward (FY19 - 1 July 2018) management is proposing to transition to reporting EBITDA before SGARA, which focuses on year on year operational performance.

It is important to note that most of the changes are accounting adjustments and leave short term cash largely unaffected.

Turnaround Plan

In light of the financial performance of the Group, new CEO Valentina Tripp has initiated a plan to address sales and costs.

Sales

Dried vine fruit sales are to be refocused domestically and optimised internationally primarily in Vietnam, Japan, China and Korea as we take "Sunraysia to Asia".

The new high speed Yeaman processing line, which is expected to be fully operational by June 2018, will increase the availability of snack packs where there is strong customer demand for new products.

Refocus effort towards high volume wholesale value added customers in the specialty retail, gourmet and health food channels with our Pacific Organics and Murray River Organics ranges.

Costs

A cost out programme "Project Muscat" has been initiated which is estimated to give a $5 million per annum of annualised savings by the end of FY 2019. The cost of this exercise is estimated to be no more than $1million of one off restructuring costs.

Ms Tripp commented "the team have been extremely busy, and we have made good progress in identifying and starting implementation of the turnaround plan that is my key focus."

She continued, "while it is regrettable that the company finds itself in a position where earnings are below expectation, we cannot sit and wait for conditions to improve. Decisive, immediate action has commenced to start restoring shareholder value, and we are confident that the plan we have in place will deliver results."

Asset Sales

The company announced in March that it had undertaken a review of the Fifth Street conventional table grape property and that it had engaged Colliers International to seek expressions of interest before deciding on whether or not to take further steps in a sale process. Whilst, the company has received several offers for the property with varying conditions, the sales process is still ongoing.

Director Appointment

The Board of Murray River Organics has approved the appointment of Alan Fisher as Independent Non-Executive Director and Chair of the Audit and Risk Committee.

Alan is currently Chair of Audit and Risk Committees for Bionomics Ltd and Thorney Technologies Ltd, while being a Non-Executive Chair for Centrepoint Alliance Ltd and IDT Australia Ltd.

He has extensive ASX experience and strong ties with the Sunraysia farming region, complementing the skill set of the current board of MRO. He also has a strong track record in restoring and enhancing shareholder value.

Company Secretary

Ian Sinclair has notified the company of his intention to resign as Company Secretary effective 14 May 2018. The company has engaged CD Plus Corporate Services to provide company secretarial services. Ms Carlie Hodges will be appointed Company Secretary with effect from Mr Sinclair's resignation.

Chairman Andrew Monk thanked Mr Sinclair for his service. "On behalf of the Board I wish to thank Ian for his tireless work for the company, particularly during the transition of the company from private ownership to listing on the ASX."

Summary

Chairman Andrew Monk commented "2018 has brought significant change to the company, with a newly structured board and now a new CEO with sector specific skills critically needed for a company of MRG's complexity. There is strong alignment between the Board and management to address the challenges arising from the rapid expansion of the business while it focuses on improving sales and reducing costs. The new Board and Management values the continued support of its shareholders whilst implementing the turnaround plan".

"The company must now stabilise and execute thoroughly on the basics of farming, wholesaling and branded business while it enjoys organic growth in its dried vine footprint and market for its organics range of products."

Ends

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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

Certifications