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Preliminary FY2018 Results and Outlook for FY2019

Murray River Organics Group Limited (ASX:MRG) ("Group") presents the preliminary results for the year ended 30 June 2018.

FY2018 Results Summary

- Net sales of $68.5 million, in line with guidance (FY2017: $48.5 million)
- Underlying EBITDA before Self-Generating and Regenerating Assets (SGARA) loss of $14.3 million (FY2017: loss of $10.7 million)
- Net Loss After Tax (NLAT) after SGARA $59.6 million (FY2017: NLAT of $5.9 million). The SGARA accounting estimate has changed materially between FY2018 and FY2017. The FY2018 NLAT includes a number of one-off and significant items
- Net Tangible Asset per share as at 30 June 2018 of 16 cents

The FY2018 results reflect the impact of the underperformance and poor management of the Group's assets, which are now being addressed.

Sales Results

Net sales for FY2018 were $68.5 million, in line with market guidance and up 41.3% or $20.0 million on FY2017, primarily due to the contributions of the Food Source International and Australian Organic Holdings (Pacific Organics) business assets, acquired in 2016.

- Sales with major retailers continue to be healthy, albeit affected by inconsistent fill rates arising from out of stocks and delay in delivery of a new high-speed Yeaman snack box packing line. In July 2018, the new line was commissioned and is being progressively ramped up.
- Wholesale and Industrial sales were below expectation predominately due to poor order fill rates and the significant reductions in the sales team implemented by previous management in early 2018. The Company is in the process of rebuilding its sales team, with sales staff with the right mix of experience. Raw materials and finished goods inventory levels in Dandenong have been reset and more effective working capital management processes have been introduced.
- Export sales of dried fruit increased 38.4% on FY2017, however these sales were affected by quality issues from the 2017 harvest. Demand in this channel continues to be strong. Whilst "Cluster" product sales increased 77.6% (from 67 tonnes in FY2017 to 119 tonnes in FY2018) this

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was significantly less than previous estimates used in the FY2017 Profit and Loss as "Fair Value Gain from Agricultural Produce". The market for the "Cluster" products is a relatively new and significant category development work is now underway to develop this category both domestically and internationally.

- Disappointingly, due to poor farm operating practices, fresh table grape yields were both below expectations and FY2017 levels, compounded by the business being late in engaging with fresh table grape customers and marketers, and as a result missed critical timeframes.
- Citrus sales of $3.097 million in FY2018 from the Nangiloc, Coligan and Gol Gol farms increased by $1.778 million from FY2017, predominately as a result of the additional volume from the Nangiloc property acquisition in June 2017.

Earnings results

Although sales increased significantly from the acquisitions of the Food Source International and Pacific Organics business assets, underlying earnings were lower than FY2017 due to:

- Lower Wholesale and Industrial sales and reduced margins, as a result of the sales team being significantly reduced by prior management and stock supply issues. Furthermore, due to operational challenges with the third-party storage facility (leased in late 2017) and excess stock purchases, the Group had to accelerate the exit of some stock lines into lower grade markets, at lower margins.
- Lower yields and margins from fresh table grapes.
- Increased freight and distribution costs arising from higher sales volume and additional logistics costs such as the additional third-party storage facility and hire of warehouse equipment and pallets.
- Slower than anticipated commissioning of the Dandenong manufacturing facility, together with poor integration of the Food Source International and Pacific Organics business assets acquired. The commissioning of the Yeaman new high-speed snack box packing line was delayed by more than nine months.
- Slower than anticipated commissioning of the new Sunraysia processing facility (including dehydrator and biomass equipment) which resulted in the Group incurring additional cost in third-party dehydration and dried vine fruit processing services.

On review of the operations in May 2018 by the new management team, a cost reduction program, Project Muscat, commenced with the benefits expected to be realised in FY2019. Further cost savings are expected throughout the supply chain as the business continues to relentlessly review and eliminate poor operational practices, as well as rebuilding relationships with our strategic supply partners and growers.

As part of the review and in consideration of the new and changing markets the Group has realigned the valuation of its total dried fruit crop to a fair value less costs to sell, based on the farm-gate price of loose dried fruit (which reflects the pre-processed third party grower price at the point of harvest) in accordance with “AASB 141 Agriculture” and consistent with other agricultural growers. This approach has also been applied to fresh table grapes and citrus. As a result of this change in accounting estimate, the fair value reported in the Profit and Loss Statement was $0.2 million (FY2017: $13.2 million).

Financial results

Going forward, the key focus for the business will be on EBIT before SGARA and EBITDA before SGARA.

- Underlying FY2018 EBITDA before SGARA was $14.3 million loss compared to the loss in FY2017 of $10.7 million.
- FY2018 Underlying EBIT before SGARA was $20.5 million loss compared to the loss in FY2017 of $15.0 million. Depreciation increased by $1.9 million arising from the increased capital investment following the completion of the Group's new processing facilities in Dandenong and Mourquong, acquisition of the Nangiloc farm in June 2017 and ongoing vineyard development.
- Reported consolidated Net Loss After Tax (NLAT) after SGARA for FY2018 was $59.6 million compared to a FY2017 NLAT of $5.9 million. We note that the SGARA accounting estimate has changed materially between FY2018 and FY2017.
- The FY2018 NLAT includes a number of one-off/significant items:
    - The Group’s review of the carrying value of tangible and intangible assets under the Accounting Standards resulted in an impairment of non-current assets of $21.2 million, comprising a $10.8 million write down of goodwill and $10.4 million impairment of leasehold improvements and plant and equipment. As the operational performance turns around the impaired tangible assets of $10.4 million can be written back up in future periods
    - Inventory write-downs and provisioning of $8.3 million predominately related to the poor quality of the 2017 harvest which was affected by a combination of weather events and poor operating practices.
    - Following the revaluation of the Group’s properties:
        - There has been a $7.0 million write-down in property values comprised of:
            - Fifth Street, Walnut and Pomona properties (which are held for sale) and have been written down by $2.6 million.
            - A $4.4 million loss recorded relating to the value of the Bearer Plants as a result of the performance of the farms being below previous valuation estimations.
        - There has been an increase in land and buildings of $3.0 million recorded in the Asset Revaluation Reserve.
        - As previously announced, there has been a net change in the valuation of the Group's farm properties (excluding properties held for sale) of $1.5 million (from $34.1 million to $32.6 million, a change of 4.2%).

- Restructuring costs of $2.3 million, comprising the costs associated with holding an Extraordinary General Meeting in January 2018; redundancies of senior executives; consultancy work to reorganise Group's tax affairs, banking arrangements and activities to undertake the sale of non-core assets of the Group; provisioning for make good costs in relation to previous leased premises of the Pacific Organics business acquired during FY2017; and preliminary work undertaken to recapitalise the Group; and
    - Reversal of prior year provision of $1.0 million for group reorganisation in relation to stamp duty savings.
- Net bank debt, excluding the Colignan finance lease, increased from $28.6 million to $44.9 million, with gearing (net bank debt divided by total equity) at 224.6% (FY2017: 43.2%). During the second half of FY2018 non-core property assets, Walnut and Benetook, were sold to release proceeds equal to $1.6 million before costs. The Group's main fresh table grape property (Fifth Street), which is considered by the Board to be a non-core asset, is currently being actively marketed for sale. As previously announced, to support the ongoing funding requirements of the business, the Group intends to undertake a $30.0 million capital raising to recapitalise the Group. The Board is continuing to work with its advisers and financier to develop the quantum and terms of the proposed capital raising.

Voluntary suspension

The Company is continuing to progress discussions with its bank and major shareholders regarding the capital requirements of the business, and to undertake the work required to issue a disclosure document for the proposed equity raising, as previously announced. While these matters are ongoing and uncertain, the Company believes that resumption of trading in its securities could be materially prejudicial to the Company's ability to successfully implement the proposed equity raising. The Company currently expects that the voluntary suspension of trading will remain in place until early October and will continue to inform the market of material developments as matters progress.

Guidance for FY2019

The Board expects revenue in FY2019 to be broadly in line with FY2018 but with focus on the turnaround strategy with a more strategic focus on customer and channel, better cost controls and operating performance the Company provides guidance of a EBITDA loss before SGARA of between $2.8 million and $3.2 million in FY2019.

CEO, Ms Valentina Tripp said, "During the initial period of tenure as CEO the business has already experienced an extraordinary amount of change and it has been a phenomenal effort from the extremely competent and dedicated people who have remained with the business, along with our new leaders and managers.

Customers are back at the centre of our focus and efforts, as our teams seek to meet the growing demand for organic and better-for-you-products.

Our turnaround and growth strategy are underway with a large amount of work ahead of us this year.

While continuing to grow our domestic supply and market base in Australia we are also focusing on increasing our exports into Asia, the US and Europe. We are seeing considerable unmet demand for our products and the year ahead will be very much about restructuring and transforming the platform to meet this demand and further build on our expansion plans.

Organic and better-for-you products remain a core focus, enabling high margin, high value-added products to lead our offering into retail and wholesale markets in Australia and across the world.

In the year ahead we plan to launch exciting new products to the market, both domestically and internationally.

We see the next twelve months as a transformational year for MRG, our people, our growers, our supply partners and our customers."

For further information, contact:

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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. Our customers include industrial customers (such as cereal manufacturers, bakeries and confectionary manufacturers), retail customers (such as supermarkets, organic food stores, mass-market, e-commerce retailers and convenience stores) and food service channels (such as specialty and natural food distributors). We operate both in the domestic and international markets, with customers in 26 countries.

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