



## ASX Proposal In-depth Information Session: SunRice Strategy and the Need for Funding

June 2018



**SunRice Group Strategy**  
**Rob Gordon - CEO**

In 2012, we pursued a Strategy that moved from marketing the Australian rice crop to servicing market demand for branded rice products.

## The 2012 Strategy



Differentiate & Build Value in Domestic Consumer Markets



Build Presence in High Growth Consumer Markets



Target the more premium commodity tenders



Double CopRice at existing returns



Establish Secure + Sustainable Supply



Operational Excellence through efficiency and Innovation

## Benefits of this Strategy

### 1 Move from bulk to branded

- Less volatile pricing
- Higher profits and returns

### 2 Premiumisation

- Less volatile pricing
- Highly profitable
- Increase shares in flat or competitive consumer markets

### 3 Sales Diversification

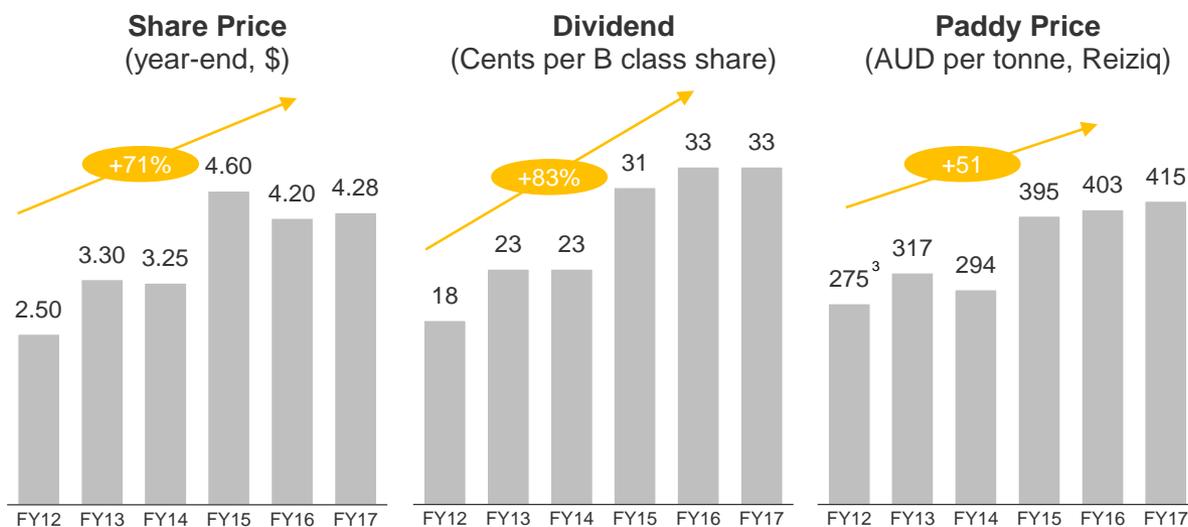
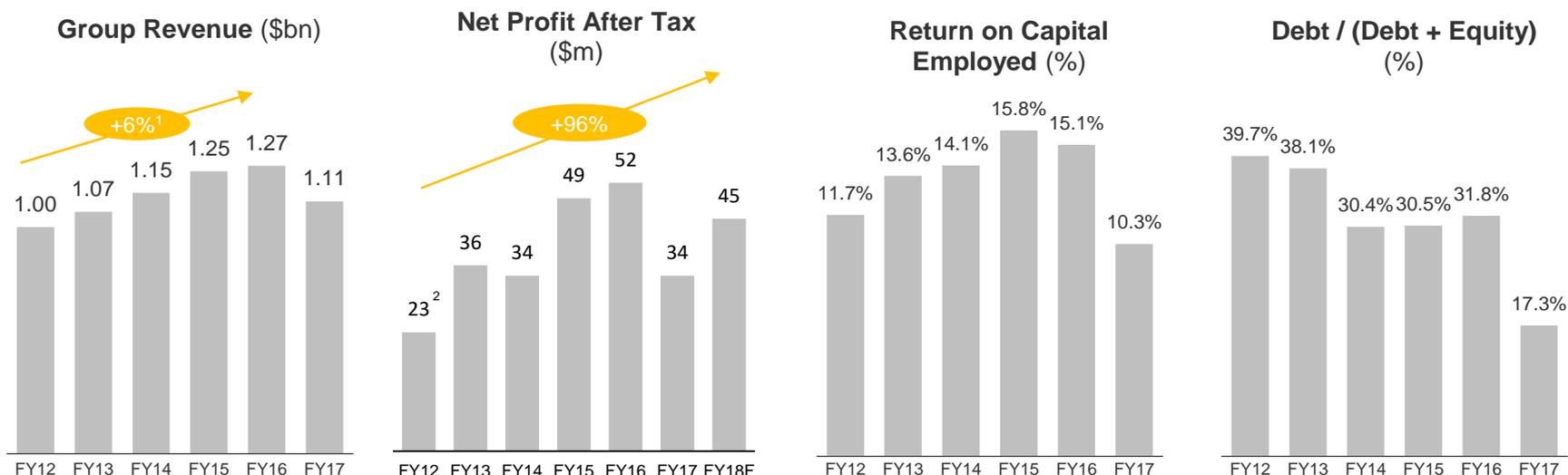
- Built a new sales pillar in the Middle East
- Invested in CopRice and Riviana
- Built a profitable traded rice portfolio

### 4 Supply Diversification

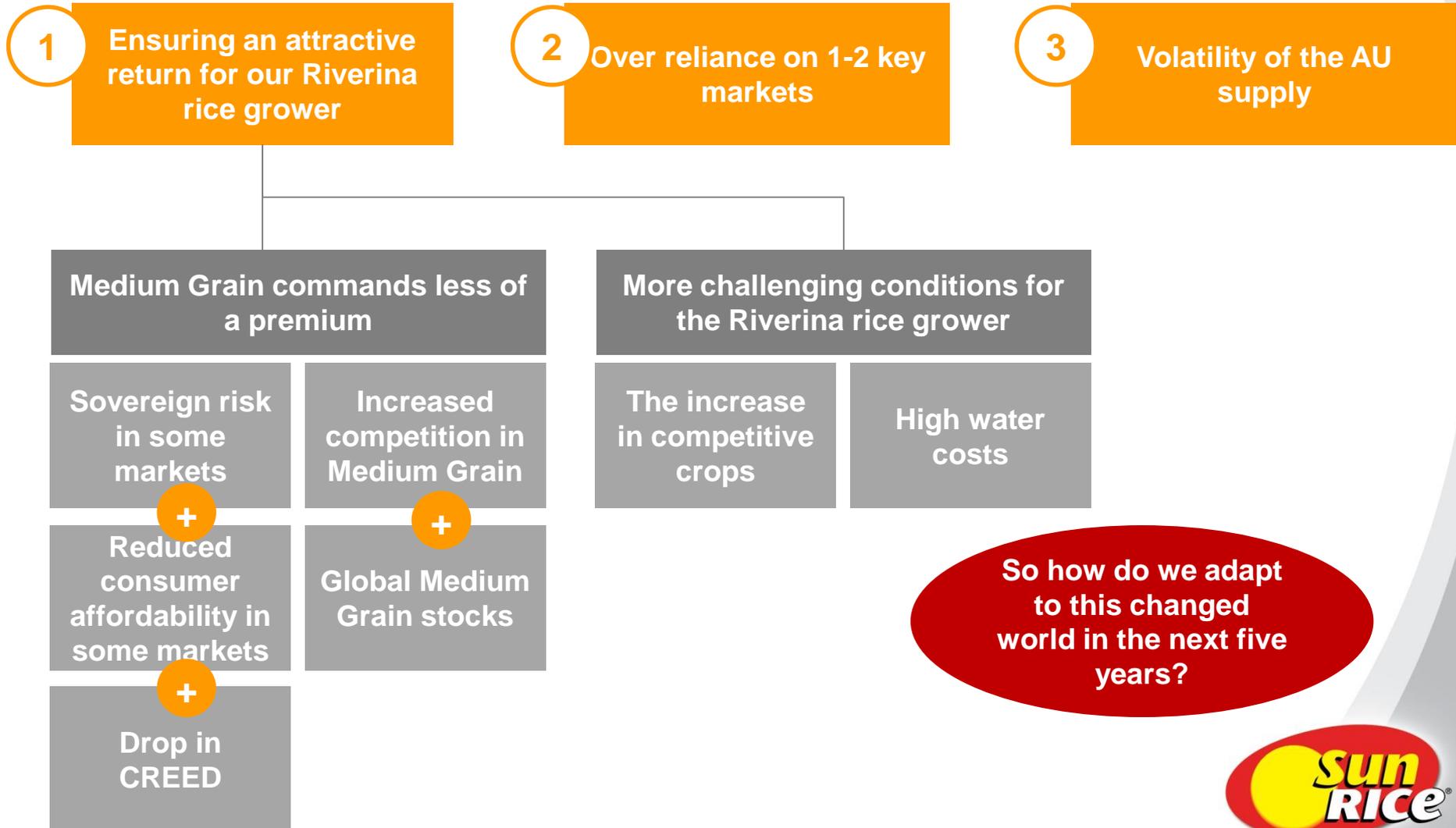
- Built experience in offshore agronomics and supply chains



**This translated into a very healthy financial performance, marked by strong sales and profit growth in addition to significant increases in shareholder returns**

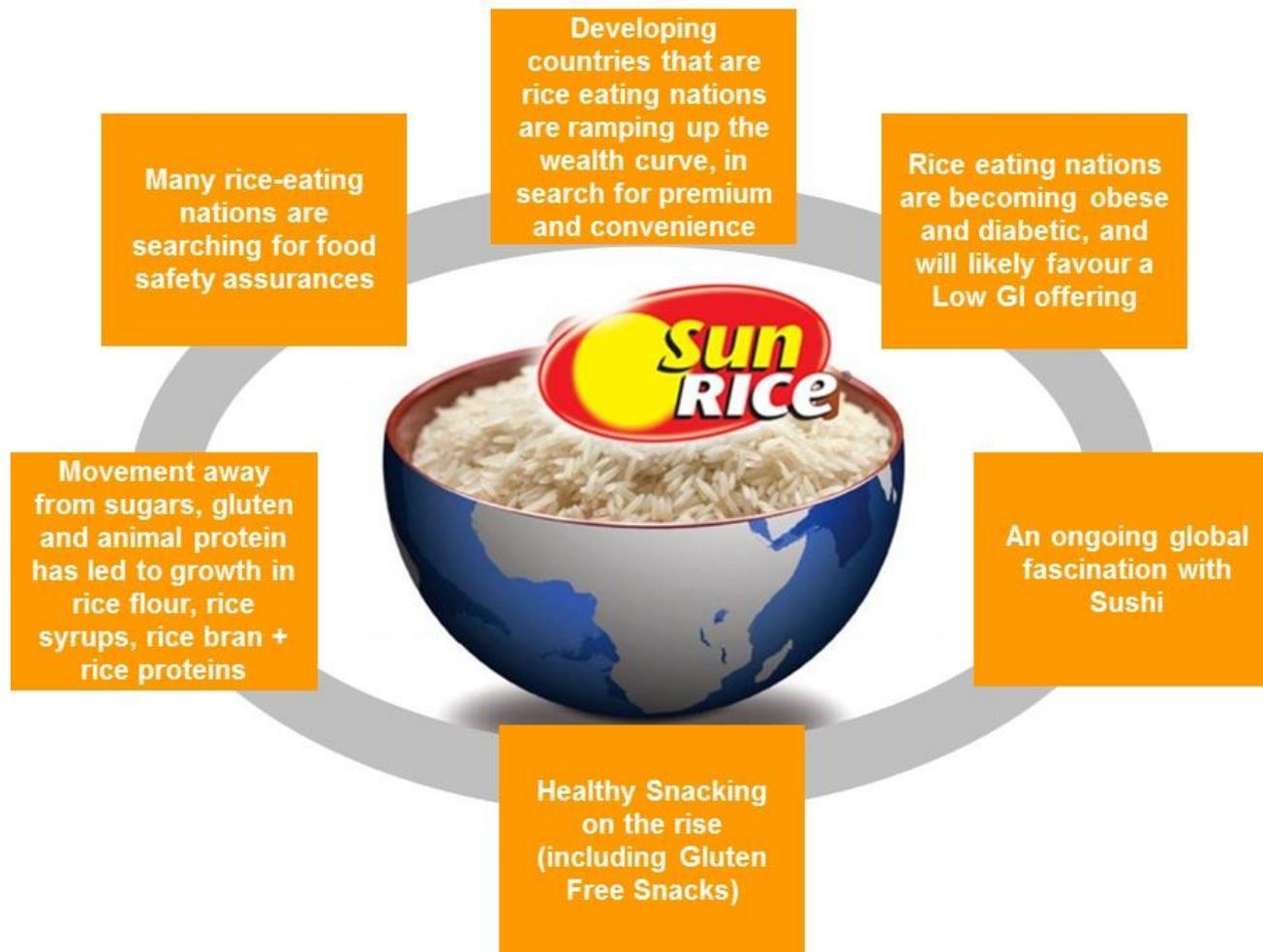


## What's been a challenge?



Fortunately, being an Australian-owned branded rice player today is exciting given that the world is changing in our favour

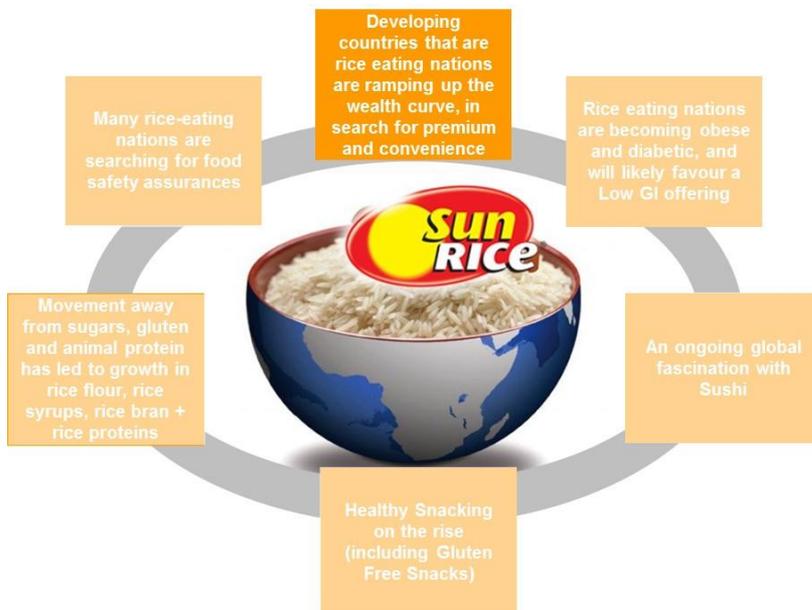
## Food trends that affect SunRice



Our opportunity to grow and diversify, whilst playing to our core capability is an exciting path for the company – 1/6

## Food trend

Developing countries that are rice eating nations are ramping up the wealth curve, in search for premium and convenience



## SunRice intent

Diversify into new markets

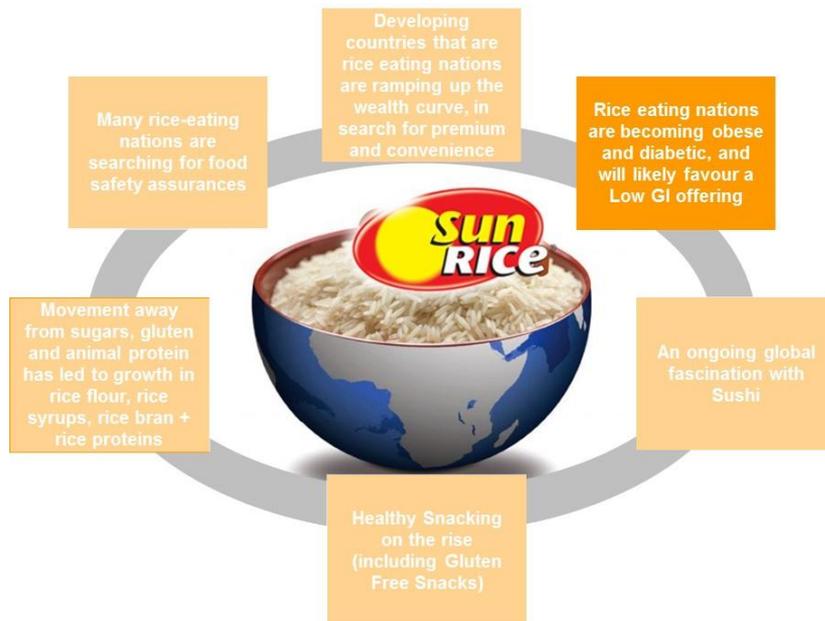
- New markets poised for significant growth in Packaged Rice
- Many of these are in Asia, as consumers migrate from traditional markets into modern trade



**Our opportunity to grow and diversify, whilst playing to our core capability is an exciting path for the company – 2/6**

## Food trend

**Rice eating nations are becoming obese and diabetic, and will likely favour a Low GI offering**



## SunRice intent

**Aggressive expansion of our Low GI Rice especially into Asia**

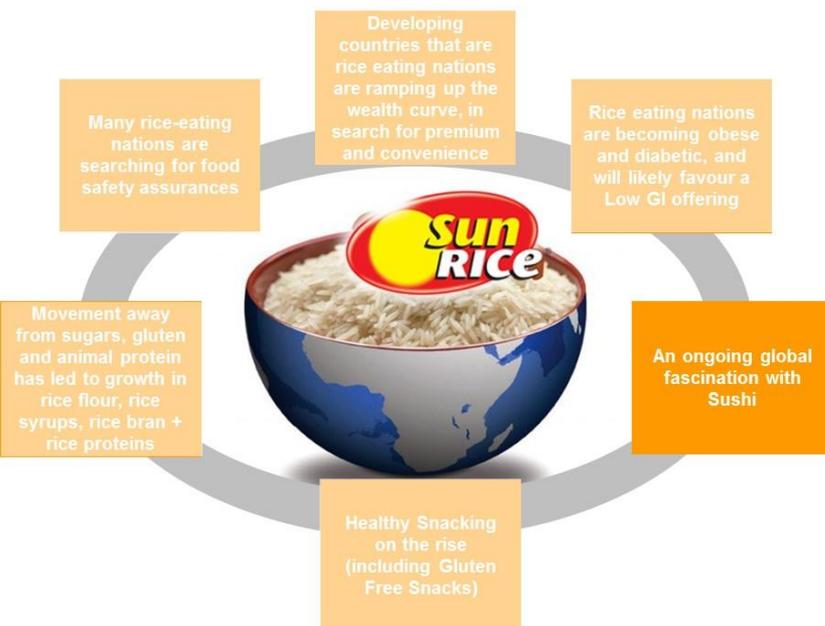
- We have a real head start in Low GI – let's take it to the world
- Largest concentration of diabetics live in Asia, and they are natural rice consumers
- High returns for the Riverina grower



Our opportunity to grow and diversify, whilst playing to our core capability is an exciting path for the company – 3/6

## Food trend

An ongoing global fascination with Sushi



## SunRice intent

Aggressive expansion of Short Grains to consumers in new and existing markets

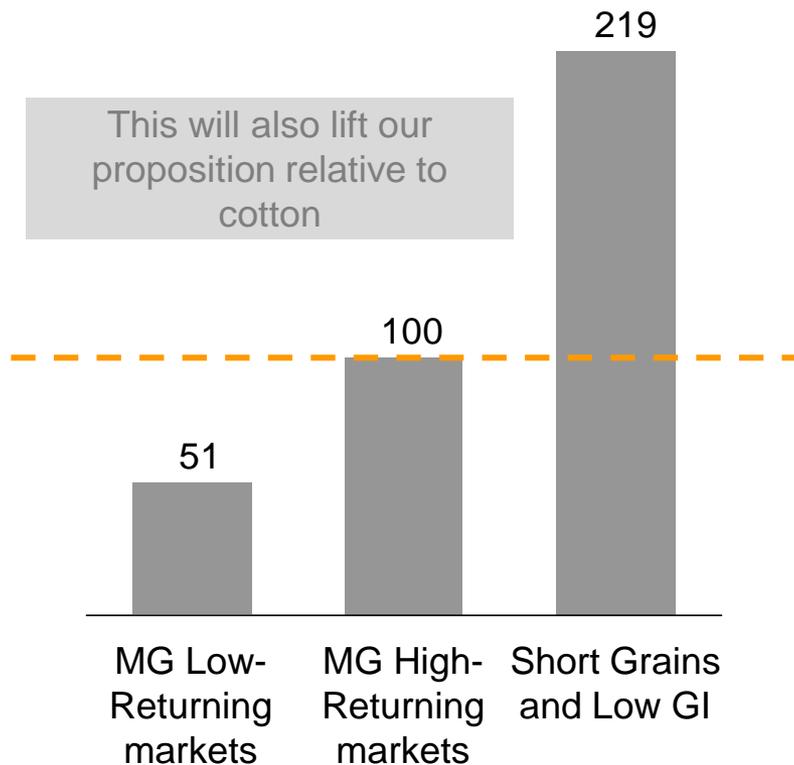
- Not many places in the world can grow sushi rice - the Riverina can grow some of the best varieties
- We have interest from customers in Japan, Pan-Asia, Europe, and the US
- High returns for the Riverina grower



## Sidebar: A look at Low GI and Sushi returns show that they offer an attractive proposition to the Riverina grower

### Indexed – a comparison of paddy returns

Medium Grain to High-returning markets =  
Indexed at 100



- The Riverina should be positioned as the premium Medium Grain source for premium Medium Grain markets
- The Riverina is well positioned to grow high-returning varieties that are growing in demand and have less global competition
- We should not abandon our lower returning markets, but serve them from lower cost supply sources

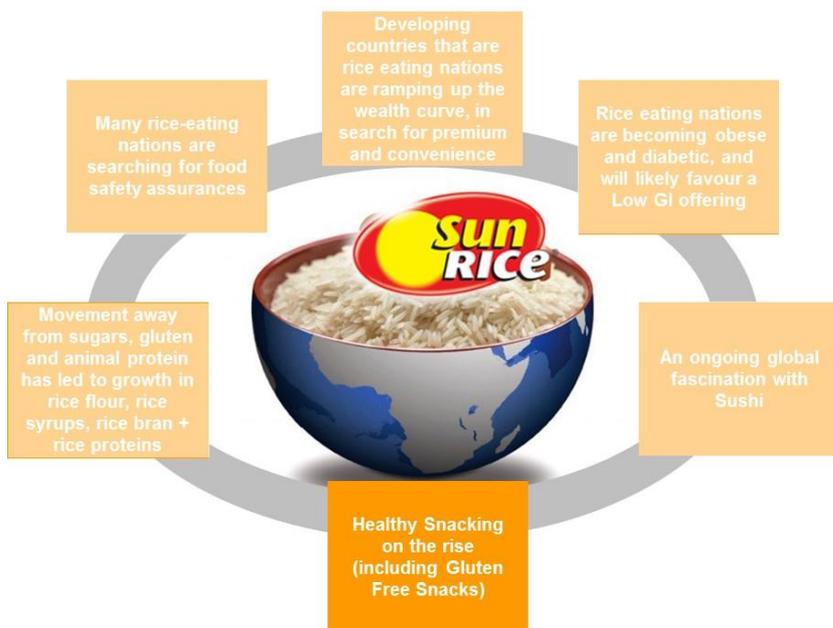
**We need a more permanent offshore supply to serve these lower-returning markets**



Our opportunity to grow and diversify, whilst playing to our core capability is an exciting path for the company – 4/6

## Food trend

Healthy Snacking on the rise  
(including Gluten Free Snacks)



## SunRice intent

Diversify the portfolio by building our high-value Rice-based Snacks into a sales pillar

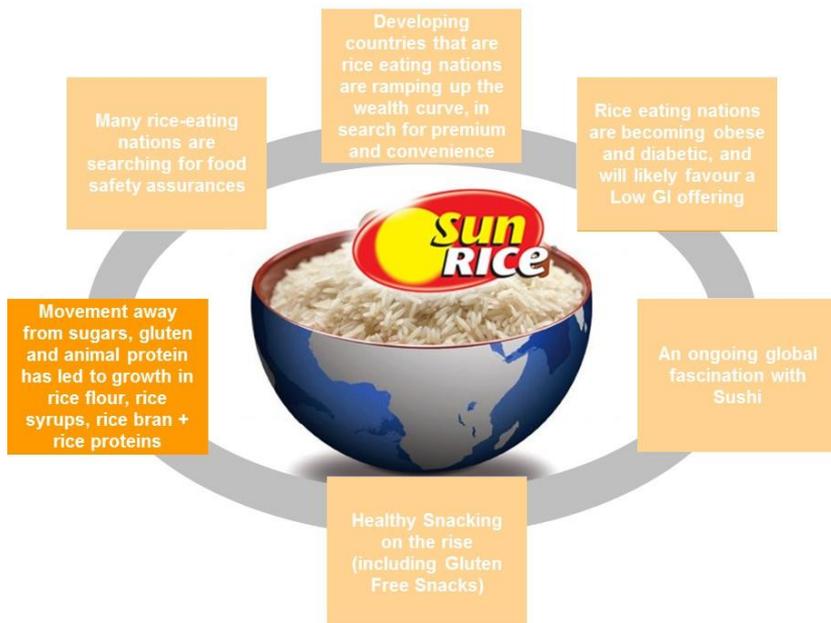
- Healthy Snacking is a fast growing category in ANZ, our existing offshore markets and also in new Asian markets
- Our play in this space has been rewarded with strong topline growth both here and offshore, in addition to strong consumer reinforcement (eg. Received Product of the Year for both Rice Chips and Minis)
- We need an efficient facility to support a larger scale and profitable effort



Our opportunity to grow and diversify, whilst playing to our core capability is an exciting path for the company – 5/6

## Food trend

Movement away from sugars, gluten and animal protein has led to growth in rice flour, rice syrups, rice bran + rice proteins



## SunRice intent

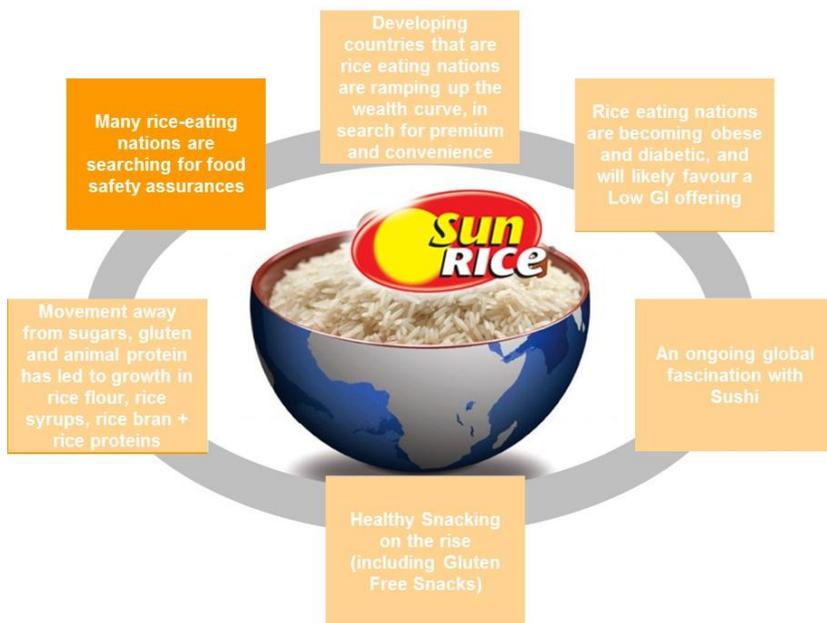
Diversify the portfolio by building a high-value Rice-derived Ingredients business

- Our **existing Food Ingredients** play has primarily centred on supplying rice and rice flour to ANZ Food Manufacturers and a by-products play into the Animal Feeds/Care sector
- As Food Manufacturers increase their needs for gluten-free foods and plant-derived protein, there is considerable **opportunity to offer rice-derived solutions**, that command a **high return for the Riverina grower**
- There is a **sizeable opportunity** to **expand** our Food Ingredients capability into a **regional** offer, especially with technology partnerships and bolt-on processing facilities

Our opportunity to grow and diversify, whilst playing to our core capability is an exciting path for the company – 6/6

## Food trend

Many rice-eating nations are searching for food safety assurances



## SunRice intent

Emphasise and invest in our commitment to quality

- The clean and green rice offering of AU rice will appeal to our offshore customers, especially in Asia
- Investments will be made to further ensure and communicate the traceability of our AU rice
- Any offshore supply chain will bear our stamp of quality and traceability, with a commitment to strict agronomic, operational and sustainability standards



## The key initiatives that fall out of this Strategy warrant a look at our capital base

### The types of activities and investments we will be pursuing

1	Expand our Low GI and Sushi rices into new end markets, especially Asia	<ul style="list-style-type: none"><li>▪ <b>Agronomic packages</b> for Riverina growers</li><li>▪ <b>Investments in ANZ facilities</b> to ensure premium quality short grains</li><li>▪ Asian <b>sales and marketing</b> efforts</li><li>▪ Consumer-led <b>varietal development</b></li></ul>	\$ 30-50m Capital estimate
2	Grow our Healthy Snacks business	<ul style="list-style-type: none"><li>▪ Build <b>NPD and Innovation</b> either organically or through acquisition</li><li>▪ Global Sales and marketing efforts</li><li>▪ <b>Lower-cost Snacks facility</b> and global supply chains</li></ul>	\$ 30-50m Capital estimate
3	Build a regional Ingredients business in both Rice and Rice-derived products	<ul style="list-style-type: none"><li>▪ Customer-led <b>R&amp;D</b></li><li>▪ Global partnerships and potential <b>acquisitions</b></li><li>▪ <b>Quality-assured supply chain</b></li><li>▪ <b>Facility investments</b> in both <b>ANZ and offshore</b></li></ul>	\$ 20-50m Capital estimate
4	Cement one supply chain offshore	<ul style="list-style-type: none"><li>▪ <b>Quality-assured and traceable supply chains</b></li><li>▪ Consumer-led <b>R&amp;D</b></li><li>▪ <b>Facility investments in ANZ</b></li><li>▪ <b>Build a facility in Asia and invest in a QA supply chain</b></li></ul>	>\$50m

There is evidently a need for capital



**We wish to strengthen some of the existing cash-generative businesses of our portfolio in order to increase our ability to direct our profit towards these growth initiatives – this would likely be done through acquisition**

**CopRice: an established player that is capable of scaling up to be cash generative**

- Between C12-15, CopRice delivered some of the **highest ROCEs of the business** – (>20%)
- The profits of the business are exposed to the **cyclical dairy industry** which is now in the process of recovering
- CopRice's Strategy is to **scale-up the business - including M&A** in Dairy, Stabilised Bran offerings and premium toll manufacturing here and offshore and initiatives in sheep and beef - to **return to a 15-20% ROCE for the Group**

**With Riviana's strong address book, we could add a more with an optimised back office**

- Between C14-15, Riviana delivered some of the **highest ROCEs of the business** – (>25-34%)
- The profits of the business have **recently come under pressure** – although still remain high at 18% in C16) with increased competition in the retail and FS space
- Riviana's Strategy is to **scale-up the business - focusing on M&A** for widening its **product portfolio to include a broader range of entertainment foods** – and continue to cement its position as a **strong profit generator for the Group**

**\$50-100m capital estimate**

**There is evidently a need for capital**



**Given our strategic priorities, we would require an estimated \$200-300m of additional capital over the next 3-5 years**

1 Expand our Low GI and Sushi rices into new end markets, especially Asia

2 Grow our Healthy Snacks business

3 Build a regional Ingredients business in both Rice and Rice-derived products

4 Cement one supply chain offshore

5 Scale CopRice through M&A

6 Scale Riviana through M&A

**\$200-300m  
capital  
estimate**

*What are our  
funding options?*



## Driving better farm gate returns

- The recently completed C18 harvest has highlighted the strength of SunRice's pool and fixed price contract arrangements, as demonstrated by the gross profit margins achieved across our premium varieties based on contract prices for the 2018 crop year.
- As announced in May, the estimated opening price range for the C18 Paddy Pool is \$355 - \$400 per tonne for Reiziq, with pool payments being set from the lower end of this range.
  - The top yielding C18 crop achieved 14.8 tonnes per hectare grown in the Murrumbidgee Irrigation Area (MIA), 4.4 tonnes/hectare above the five-year average, and generated a gross profit margin of approximately \$3,700/ha or \$380 per megalitre of water.

Yield (tonnes per hectare)	14.8 T/Ha
Price (A\$)	\$360/T
Revenue (A\$)	\$ 5,328/Ha
Total Variable Costs (A\$)	\$ 1,658/Ha
<b>Gross Margin (per hectare)</b>	<b>\$3,670/Ha</b>
Water Use (ML)	9.6 ML/Ha
<b>Gross Margin (per ML)</b>	<b>\$382/ML</b>

\* This calculation is based on an MIA grower using the dry broadcast sowing method, with the price based on the C18 fixed contract price for Reiziq.



## Driving better farm gate returns (cont.)

- The following table shows gross profit margins for the top 20% of yields achieved for Reiziq, Doongara, Opus and Koshihikari in C18\*.

	Reiziq (MIA)	Reiziq (MV)	Doongara	Opus	Koshihikari
Yield (tonnes per hectare)	13.5 T/Ha	13.0 T/Ha	13.3 T/ha	12.2 T/Ha	9.4 T/ha
Price (A\$)	\$360/T	\$360/T	\$450/T	\$380/T	\$520/T
Revenue (A\$)	\$4,860/Ha	\$4,680	\$5,985/Ha	\$4,636/Ha	\$4,888/Ha
Total Variable Costs (A\$)	\$1,658/Ha	\$1,774/ha	\$1,678/Ha	\$1,753/Ha	\$1,571/Ha
<b>Gross Margin (per hectare)</b>	<b>\$3,202/Ha</b>	<b>\$2,906/Ha</b>	<b>\$4,307/Ha</b>	<b>\$2,883/Ha</b>	<b>\$3,317/Ha</b>
Water Use (ML) (average)	12 ML/Ha				
<b>Gross Margin (per ML)</b>	<b>\$267/ML</b>	<b>\$242/ML</b>	<b>\$359/ML</b>	<b>\$240/ML</b>	<b>\$276/ML</b>

- SunRice's C19 fixed price contracts that opened in early April are offering \$400/tonne for Reiziq, \$450/tonne for Doongara, \$415/tonne for Opus and \$550/tonne for Koshihikari.

**\*Assumptions:**

**Yield** - Based on Top 20% (tonnage basis)

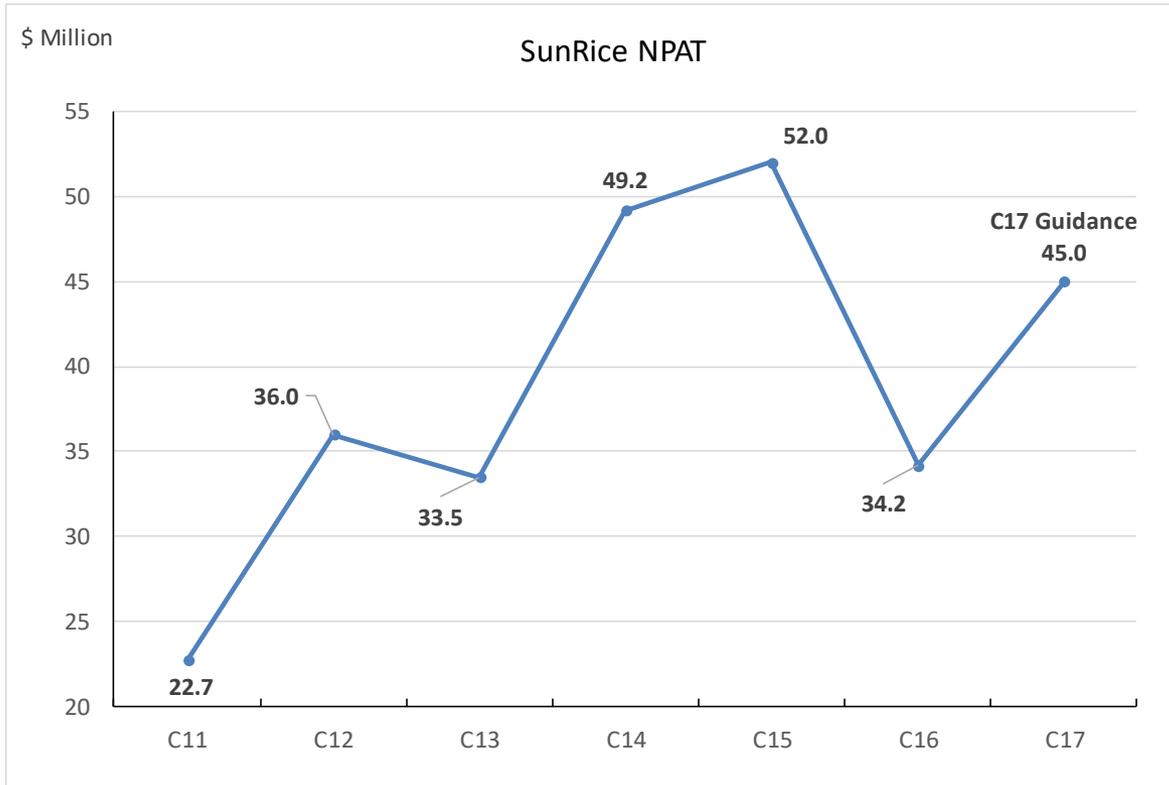
**Price** - Contract price for 2017/18 season

**Total Variable Costs assume** - Dry broadcast sowing for Reiziq, Doongara and Opus, drill sowing for Koshihikari  
 - Excludes temporary price of water but includes delivery charges for each valley  
 - Full contract rates for all machinery operations  
 - Recommended N rates for each variety

**Gross Margin/ML** - Based on an estimated average water use of 12ML/ha



## Profits Businesses critical to ongoing success



- Includes International Rice Business, Rice Food, Riviana and CopRice
- Diverse mix of profit businesses
  - Riviana
  - SunFoods
  - Trukai
- Increasing globally traded volumes requires intensified global sourcing
  - Last year secured 500,000 paddy tonnes to fill Riverina shortfall

In C17, the rice pool was supplemented by Profits Businesses, recognizing the loyalty of growers who dedicated resources to rice





**A well funded and capitalised SunRice**

## SunRice's funding options

Profits

Cash tied up in the business

Surplus assets

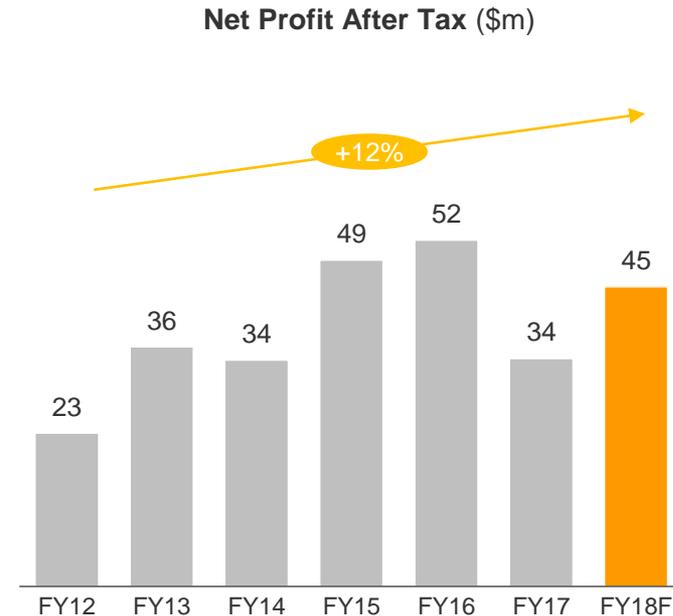
Borrowing from the banks

Raising equity



# Sources of funds – profits

- SunRice's NPAT has averaged \$41 million over six years since 2012
- From this we have paid out on average approximately 40% in dividends
- Dividend represents the necessary return paid to shareholders on their investment
- Many of our shareholders depend on this income
- Funds available after paying dividends are generally around \$20 million per annum



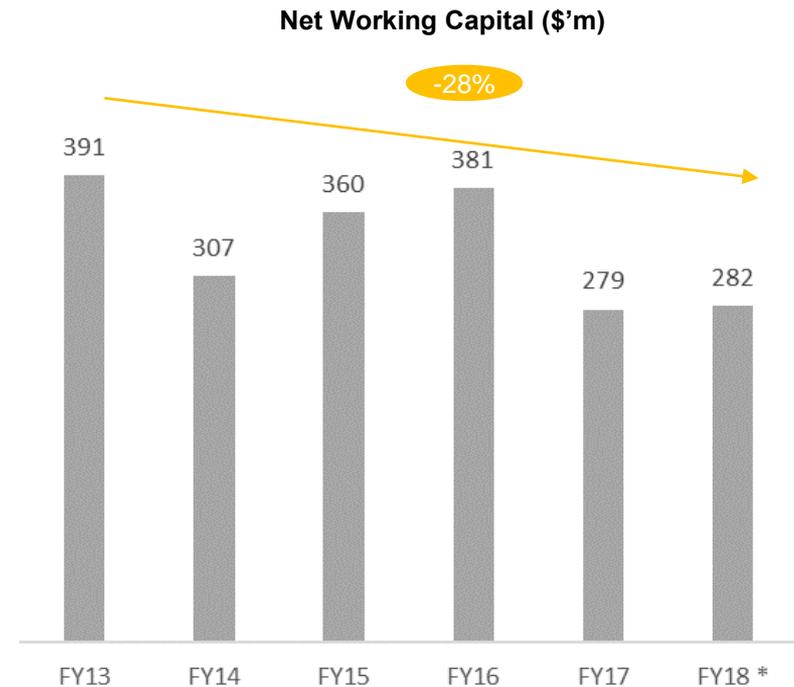
**Profits represent a limited source of funds to support growth opportunities**



# Sources of funds – Net Working Capital (NWC)

SunRice's NWC is influenced by debtors (money owed to us from customers), inventory (both Australian Crop Paddy and general inventory of supplies) and creditors (a combination of general creditors and growers payments). The business has been focused on pulling levers across all three to reduce the amount of working capital tied up in the business.

- Debtors, improved our days sales outstanding (DSO) through reducing the time taken to collect payment from our customers
- Inventory, whilst highly influenced by the size of the Australia crop, we have taken action to reduce non-crop related inventories
- On General creditors, where possible, we have increased standard payments terms as well as implemented Supply Chain Financing for key suppliers
- FY18 sees the implementation of PayRice, extending and smoothing out of payment terms to growers. It is estimated that this has resulted in a circa \$110m improvement in NWC



\* FY18 draft unaudited numbers

**Net Working Capital represents a somewhat limited source of funds to support growth opportunities**



# Sources of funds – asset sales

- SunRice has very few surplus assets:
  - Banna Avenue
  - Hull Farm
  - PNG rental properties
- Limited buyers, however, sale of these assets could potential raise around \$10 million one off

**Asset sales is a limited source of one off funds to support growth opportunities**



# Sources of funds – debt

- Incremental 'core debt' borrowing capacity is ~\$100m
  - Applying banking covenant on EBITDA multiple to the Obligor Group, which is a sub-group of SunRice that jointly guarantees debt facilities contracted in Australia
- Borrowing this amount would likely result in considerable increase in gearing levels
  - ASX peer group average gearing is around 30%
- If increasing debt to fund growth, there is a possibility that excess cash in the years immediately following would need to be used to maintain gearing levels in an acceptable risk range
- Increased gearing exposes SunRice, if there is a:
  - Market downturn (we operate in a cyclical industry)
  - Drought impacting operations
  - Banks call in borrowings

**Debt is a source of funding with  
potentially increased risk**



# Sources of funds – current equity raising ability

- Dividend Reinvestment Plan (DRP):
  - Previous participation rates between 2006-2011 ranged from 27-36%
  - 30% of \$20 million dividend is \$6 million pa
  - DRP reactivated: ~11% take up this year (\$2.1 million)
- Grower Share Purchase Plan (GSPP): ~31% take up this year (\$0.9m)
- B Class shareholder rights issue:
  - Last share issue undertaken in 2011 raised \$0.9 million
  - If we needed to raise \$150 million, that equates to \$70,000 per shareholder
- At current share price of ~\$4 any share issue
  - Expensive and dilutive for shareholders
  - Also limited by B Class shareholder restrictions:
    - Who can invest
    - Cap of 5% on ownership

**Raising equity at current share price is limited, expensive and dilutive**



# Sources of funds summary

- Post dividend profits: limited to around \$20m pa
- Sale of surplus assets: scope to raise \$10m one off
- Debt: limited headroom with associated risk to raise ~\$100m one off
- Existing equity raising ability up to \$8m pa
- Total at a full stretch SunRice could raise \$100 – \$150m
- However, it will take time, may be inefficient and will result in increased risk for a cyclical business like SunRice

**Current funding sources are not sufficient  
and/or well suited for SunRice to pursue  
sustainable growth**



# The proposal to keep SunRice's existing structure, transfer listing of B Class Shares from the NSX to the ASX and remove the ownership restrictions on B Class Shares is the most logical solution

- The ASX Proposal represents a straightforward change to help deliver on our objectives, including:
  - Improved ability to raise external capital and support future growth initiatives
  - Ongoing A Class grower shareholder control, which refers to the right to vote at general meetings, elect Directors and approve any changes to the Constitution

An ASX listing will allow new external investors in SunRice to support our growth strategy, which is designed to benefit the Company, our Riverina growers and our shareholders





**QUESTIONS**