

# SunRice Update RGA Branch Meetings

June 2012



The Rice Food Experts

# Agenda

- Capital structure
- The Board
- Business performance and creating shareholder value
- Questions

- SunRice has experienced a stronger than anticipated second half performance.
- The 2011 crop paddy price should be above \$250 per tonne (subject to financial year end audit).
- The strong result has allowed for retentions to continue to address debt and gearing.
- The Board's focus has been on business performance post drought, including regaining market share, and reducing debt.

# Capital Structure

- Since converting to a company, drought and an external offer have highlighted shortcomings with the structure adopted in 2005.
- Following the return to normal crops the Board will review the current structure to assess if it is appropriate for the future and consider if change is desirable.
- The Board is communicating that the review will take place.
  - No proposals of any nature have been received and offers are not being sought.
  - Your input will be sought and we will provide updates, however the process could take considerable time.
- *The Board will not issue new A and B Class shares during the process. However B Class shares can still be bought and sold on the NSX.*

# Capital Structure

- In 2005 it was anticipated that Active Growers/A Class shareholders would convert Rice Bonds/RMB Equity to B Shares to provide permanent capital and funding for SunRice.
- Conversion by A Class shareholders has been limited, partially because of the drought. Therefore large percentages of A Class shareholders now own smaller percentages of B Class Shares.
- As highlighted by the Ebro offer, A Shares may have a control value in limited circumstances.
- This potential value could lead to “devices” to obtain A Shares for minimal financial and rice contribution.

# Capital Structure

- Some growers choose not to have an A Share (and not make any financial contribution) or to have an A Share (and make a minimal financial contribution) – yet receive the benefits of premium markets and brand investment.
- A Paddy Supply Charter is proposed to be developed to define key principles and ensure consistency and transparency for all growers.
- In 2007 SunRice listed on NSX to enable B Class shareholders to trade and realise value for their shares.
- The significant restrictions on B Shares result in:-
  - A limited and illiquid market where the price does not reflect the inherent value; and
  - Opportunism as economic ownership of the company can be taken up/transferred at a discounted value.



# The Board

- After seven years Russell Higgins will retire as an External Director. He will be greatly missed.
- Under the Constitution and the RMB arrangements seven Directors must be A Class shareholders.
- Therefore the Board has a concentration of Grower skills and a heavy reliance on two External Directors for non Grower skills.
- In searching for a new External Director it appears that our fees are below market, for the skills that we require.

# Business Performance and Creating Shareholder Value

Rob Gordon  
CEO



The Rice Food Experts



# Introduction

- SunRice has experienced a strong 12 months:-
  - Returning to full production and re-establishing our operations;
  - Reclaiming significant international markets lost during the drought, including the Middle East, North Asia and the Pacific;
  - Establishing new markets in Indonesia and Malaysia and extending our footprint in North America; and
  - Continuing to address our gearing and strengthening our balance sheet.
- This has resulted in a strong profit **performance**, which should enable SunRice to pay above \$250 per tonne and make the necessary retentions to strengthen the company for the future.
- There is now a clear opportunity to build shareholder value, create wealth for all shareholders and maintain strong returns for Australian rice via organic growth and strategic investment.

# SunRice Gearing Target

- Debt has been an ongoing issue for SunRice.
- In 2009 the Board set a gearing target of 70%:
  - At the time SunRice's gearing was 168% and its peers' gearing was around 57%.
  - SunRice's reliance on bank funding meant it was vulnerable to profit shocks and the risks associated with the global financial crisis
    - particularly tightening credit markets and higher interest rates.
  - SunRice had limited potential to grow its business and to secure returns for growers.
- When the Ebro bid was made in 2010, SunRice's gearing remained high at 118%.

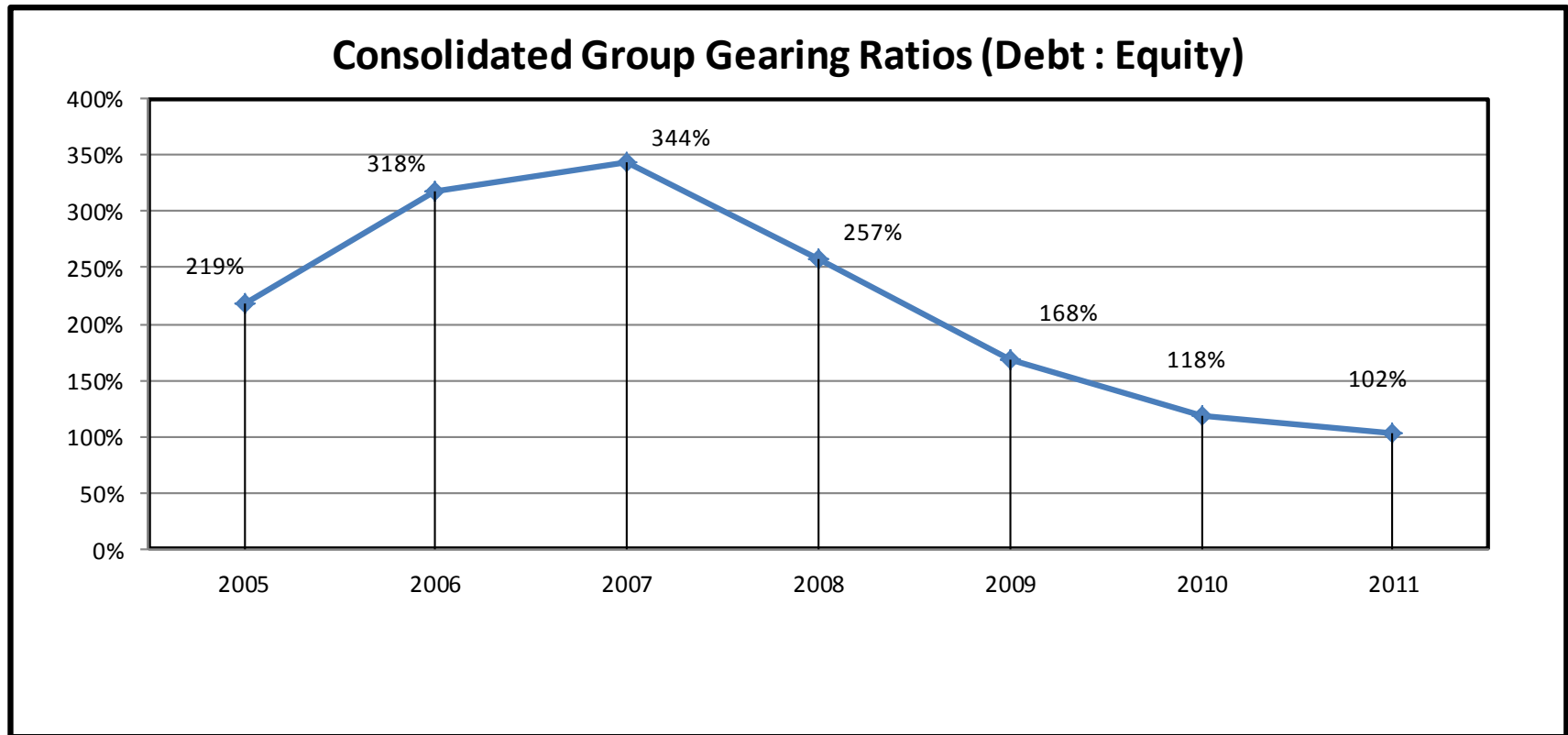
# Key Drivers to Reduced Gearing

- At October 2011, SunRice's average gearing for the previous six months was 98%. At year end, subject to finalisation of audit, we expect our gearing to drop below the target we set in 2009.
- We have achieved this through a combination of actions, including:
  - Stronger than anticipated performance across the group, allowing the retention of profits;
  - Reductions in working capital\* (including reduced inventory holdings) which generated increased cash-flow;
  - Lower capital expenditure^ versus depreciation; and
  - The impact of a weaker A\$ at year end, which improved the group's overall equity value from overseas entities.
- These results will be presented in full at the SunRice AGM.

*Note – \* working capital may fluctuate due to operational reasons.*

*^ SunRice is likely to spend an increased amount over the next four years to keep its asset base competitive.*

# Consolidated Group Gearing Ratio

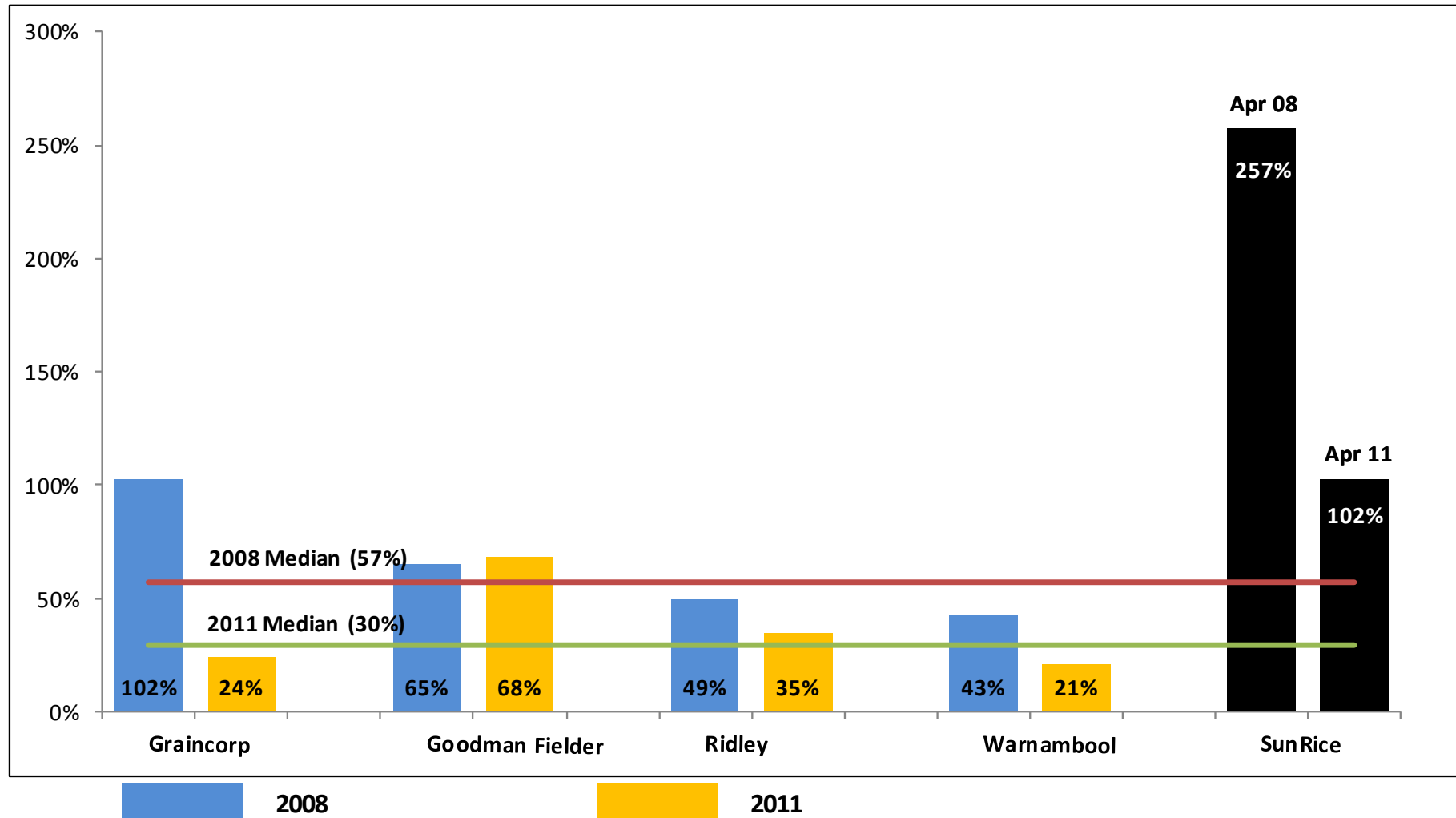


# Gearing Ratios of Comparable Companies

- While SunRice's gearing ratio has reduced over the past 18 months, so too has that of our peer group companies.
- Due to the seasonal nature of the business, funding needs vary considerably during the year.
- In a continued volatile financial market environment, companies have continued to reduce risk and de-leverage to reduce exposure to bank funding.
- Our peer group, which had a gearing median of 57% in 2008, has further reduced gearing to a current median of 30%.
- While SunRice's gearing has improved substantially, it needs to continue to do so in line with our peers.



# Gearing Ratios of Comparable Companies



# Addressing SunRice's Capital Structure

- While the 70% gearing target reduces SunRice's dependence on short term debt:-
  - It is still too high in the current economic environment; and
  - It still does not provide capacity to fund future growth.
- SunRice will continue to take all necessary actions to reduce its gearing in line with our peer group to:-
  - Protect SunRice against economic shocks;
  - Ensure strong returns and secure supplies of premium Australian rice;
  - Continue to grow its rice and rice foods businesses, including creating opportunities for organic growth;
  - Re-invest in its asset base (restrained during the drought) to remain competitive; and
  - Capitalise on strategic investment opportunities that deliver diversity and depth of earnings.

# Creating a Platform to Grow our Business

- My mandate from the Board is to identify the next phase of development for the SunRice business.
- Substantial work has already started, including:
  - Developing a new Strategic Plan for SunRice and its subsidiaries;
  - Global end-to-end supply chain review to optimise efficiency and competitiveness;
  - Reinvestment in our brands and innovation post drought; and
  - Growth in complementary businesses and expansion into new geographies.



# Creating a Platform to Grow our Business cont.

- SunRice has great potential and with the return of good supply conditions we need to be positioned to take advantage of opportunities in line with our Strategic Plan.
- To do this we will need financial capacity. Accordingly, the Board will continue to take the necessary steps to ensure the company has a strong and prosperous future.
- We are determined to position SunRice well for the future and thereby create wealth for all shareholders and ensure strong returns for Australian rice.

# SunRice Annual General Meeting

10:30am

Friday, 24 August 2012

Jerilderie Civic Hall

33 Jerilderie Street

Jerilderie



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# Chairman's Conclusion



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# Questions



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