

# Capital Structure Review Shareholder Roadshow

March 2013



The Rice Food Experts

# Chairman's Introduction



# Agenda for tonight

1. The need for change
2. Your feedback
3. Update on progress
4. Mechanisms and options
5. Next steps
6. Paddy charter
7. Governance
8. Feedback and discussion
9. Chairman's conclusion



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# Our approach to change

- The Board is committed to enhancing the SunRice business, its shareholders, its growers and its people while preserving grower control
- We need to deliver a range of changes to benefit both classes of shareholder and strengthen the company for the long term
- All A Class Shareholders are also B Class Shareholders

# We must continue to change while preserving grower control

- To resolve outstanding governance issues:
  - Ensure certainty for growers on paddy price setting
  - Qualification for A Class Shares
  - Address estate planning issues

# We must continue to change while preserving grower control cont.

- To provide access to capital markets to build a more resilient SunRice:
  - Grow the business to benefit both A and B Class shareholders
  - Invest in existing complementary businesses
  - Invest in future diversification of earnings

# We must continue to change while preserving grower control cont.

- To ensure B Class Shares are tradable at fair value:
  - The Board has an obligation to deliver both dividend and capital growth
  - As the number of retired growers increases, this issue is more important than ever
  - Improved tradability should enhance the value of SunRice shares
  - Improved tradability will encourage banks to treat them as assets and security for lending



# Your feedback

- Very strong support for maintaining grower control
- Near unanimous support for growing the business
- Concerns over liquidity and capital growth of B Shares
- Mixed feedback on the paddy charter
- Concerns over A Class eligibility criteria (1 tonne is too low)
- Concerns over limited succession planning options
- Support for changes to the Board to ensure a broad skills base, with maintenance of a Grower Director majority
- General acknowledgement of the need for change



# Update on progress

The Board is considering a range of structures, focusing on those that achieve these priorities:

- Preserve A Class shareholder controls:
  - Voting rights on any change of control
  - Right to appoint directors
- Ensure fair value and improve tradability of B Class Shares
- Improve ability to access capital

# Update on progress cont.

- We identified unique challenges for SunRice's structure, which were confirmed by your feedback
- We further determined what we needed to achieve and looked for the best advisors to help us
- The Board ran a thorough, competitive process and conducted lengthy interviews with a number of leading investment banks
- Macquarie has been appointed based on the following selection criteria:
  - Impressive creativity in resolving capital structure and governance issues
  - Extensive experience in working with businesses of a similar scale and profile as SunRice
  - Strong understanding of SunRice's unique challenges





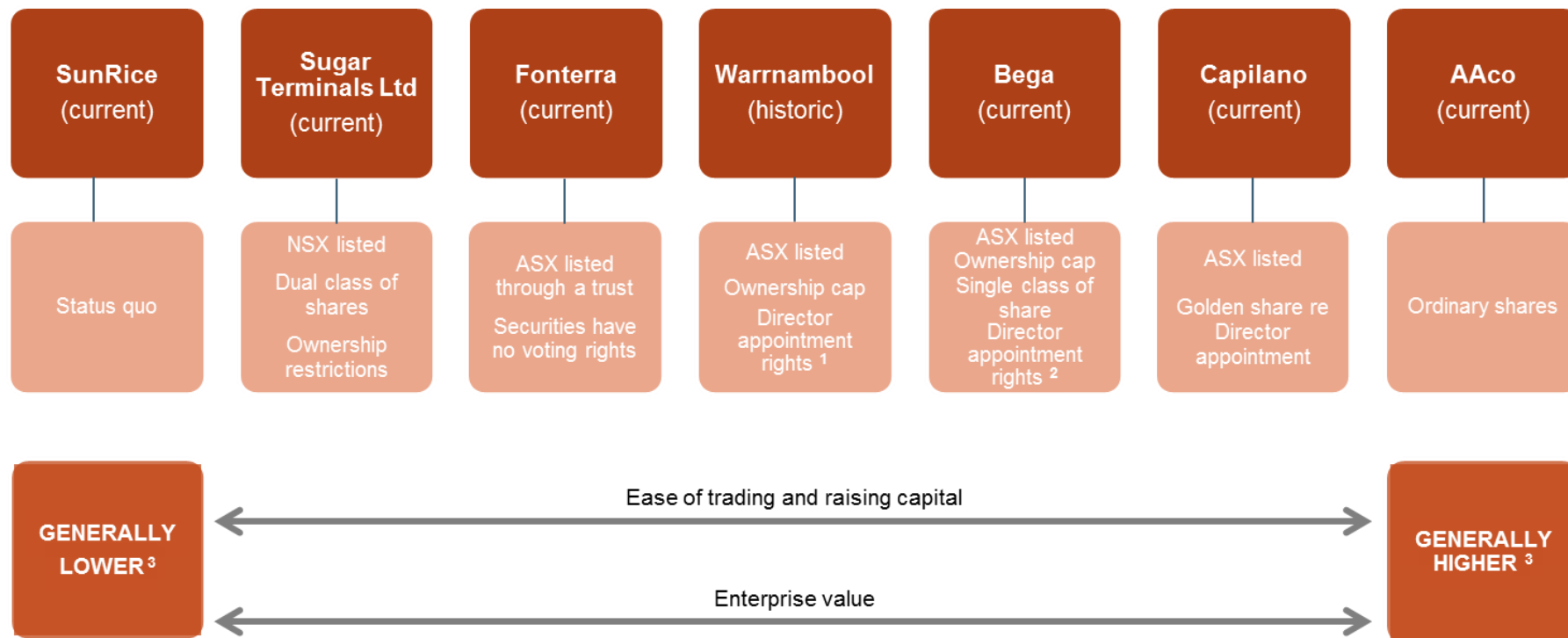
# Mechanisms and Options



# Mechanisms and options

- There is a wide range of options open to SunRice
- None of the models used by our peers are directly suited to SunRice
- However, there are certain mechanisms within these models that could potentially be used to help meet the Review's objectives
- SunRice has its own unique set of issues to resolve, so any model is likely to be a variation of these mechanisms
- Let us take you through some of the models

# Models used by others



1. Warrnambool required 4 (out of 10) Directors be Supplier Directors
2. Bega requires 4 (out of 8) Directors be Farmer Supplier Directors
3. For the one company using the various structures above, all other things being equal.

# SunRice modified NSX



- SunRice B Class Shares could remain listed on the NSX in their current form, preserving existing shareholder rights
- Potential to allow a broad range of investors to own SunRice B Class Shares, which may resolve issues such as estate planning
- The SunRice constitution would need to be changed to remove the current eligibility requirements for ownership of B Class Shares
- B Class Share ownership requirements for A Class shareholders would remain in place
- The rights attaching to B Class Shares would not change
- Relative to the ASX, NSX listed companies generally raise substantially lower levels of new capital



# SunRice modified NSX cont.

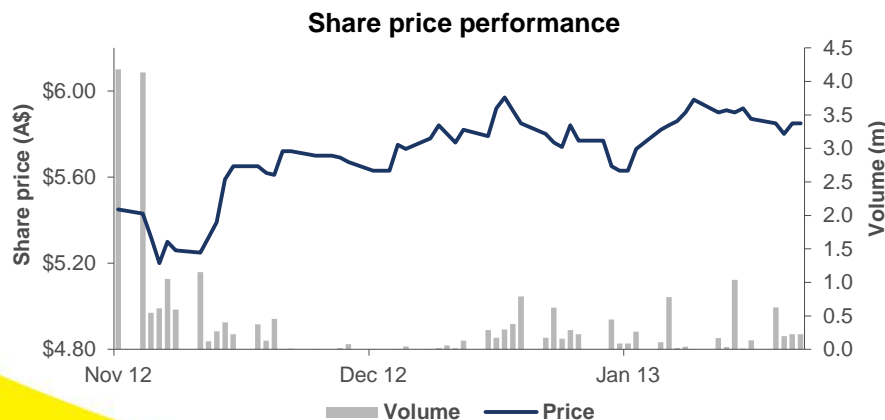
- Existing control mechanisms remain unchanged:
  - Only A Class shareholders can vote on board appointments
  - Only A Class shareholders can vote at General Meetings
  - B Class shareholders can vote only on matters directly affecting B Shares
  - A Class shareholders are required to own a minimum number of B Shares



# Fonterra: overview



- Recently listed on the NZX and ASX through a unique structure
- Started as a co-operative and remains grower controlled by requiring growers to hold a quantity of Shares relating to their milk production
- Primary listing of non-voting securities on the NZX to protect grower control
- Securities also listed on the ASX
- Cap of 25% of economic benefit can be listed via NZX/ ASX
- ASX securities trading at healthy multiples
- AU\$600 million in equity capital raised via ASX listing



Source: Company announcements; IRESS

## Key financials<sup>1</sup>

Market Capitalisation (Company):	<b>NZ\$ 11,483m</b>
Market Capitalisation (Fund) <sup>2</sup> :	<b>NZ\$ 535m</b>
Revenue:	<b>NZ\$ 19.8bn</b>
Earnings Before Interest & Taxes (EBIT):	<b>NZ\$ 1.03bn</b>
Net Profit After Tax (NPAT):	<b>NZ\$ 624m</b>
ASX abbreviation:	<b>FSF</b>

1. Year ended 31 July 2012  
2. At 15 March 2013



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# Fonterra: control mechanism



## Shareholder fund

1. Only Active Farmers can own voting shares in Fonterra
2. Fonterra has a Shareholders' Fund in which outside investors can acquire units:
  - Units are entitled to Economic Rights associated with Shares, but not voting rights
  - The Fund is only able to hold a maximum of 20% of Shares on issue
  - No Unitholder can own more than 15% of Units within the Fund



# Fonterra: control mechanism cont.



3. Fonterra ensures only Active Farmers retain control by requiring them to hold a quantity of Shares relating to their milk production
4. Active Farmers are required to alter their shareholding if required (i.e. the higher their milk supply, the more Shares they are required to own, and vice versa)



# Bega: overview



- Bega Cheese operates five dairy manufacturing sites across NSW and Victoria producing a wide range of dairy related products
- In 2008 Bega changed from a co-operative to an unlisted public company, although both shareholding and board control were retained by Farmer Suppliers
- In 2011 Existing Shareholders agreed to list on the ASX and raised ~\$35 million
- Existing Shareholders mostly consisted of current or former Farmer Suppliers, and on Initial Public Offer (IPO) they retained ~85% of shares on issue



Source: Company announcements; IRESS

## Key financials<sup>1</sup>

Market Capitalisation <sup>2</sup> :	<b>\$392m</b>
Revenue:	<b>\$926.8m</b>
Earnings Before Interest & Taxes (EBIT):	<b>\$35.9m</b>
Net Profit After Tax (NPAT):	<b>\$20.4m</b>
ASX abbreviation:	<b>BGA</b>

1. Year ended 30 June 2012

2. At 15 March 2013



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# Bega: control mechanism

## Shareholding limits and board structure requirements

1. Bega has limited the possibility of a change of control by imposing shareholding limits:
  - 5.0% shareholding limit for the first two years of listing
  - 10.0% shareholding limit for years three to five
  - 15.0% shareholding limit, if renewed after five years of listing



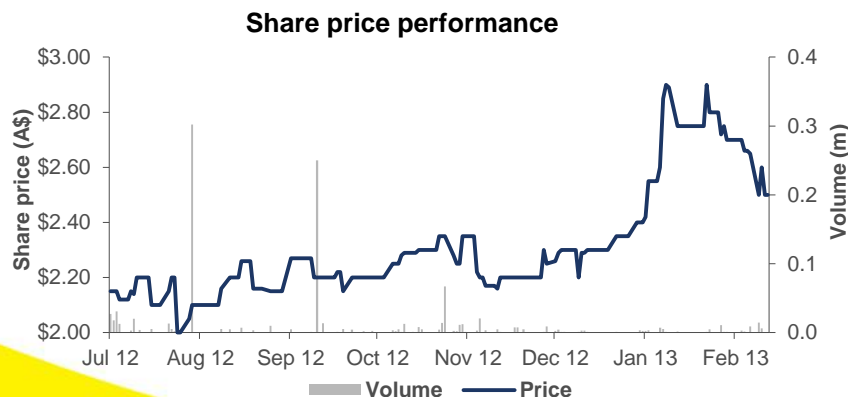
## Bega: control mechanism cont.

2. Shareholding limit will cease at the earlier of:
  - Shareholders approve the removal via a special resolution (75% of votes)
  - Five years after listing, the renewal is not approved by an ordinary resolution (50% of votes)
  - If renewed after five years, ten years after listing
3. The Board is required to comprise at least four Farmer Supplier Directors out of a maximum of eight:
  - Today, the Board has six farmers as Supplier Directors and two Independent Directors



# Capilano: overview

- Between September 2009 and 2011, in response to poor performance due to adverse market conditions, Capilano restructured its business and altered its corporate strategy and ownership structure
- It listed on the ASX in July 2012 and reinstated some of its previous control mechanisms for beekeeper suppliers by issuing a Foundation Share, in addition to ordinary shares
- The market capitalisation of Capilano increased by 5% when it transitioned from the NSX to the ASX. Capilano shares are currently trading around 22% higher than when it delisted from the NSX



Source: Company announcements; IRESS

## Key financials<sup>1</sup>

Market Capitalisation <sup>2</sup> :	\$21m
Revenue:	\$67.8m
Earnings Before Interest & Taxes (EBIT):	\$4.9m
Net Profit After Tax (NPAT):	\$2.6m
ASX abbreviation:	CZZ

1. Year ended 30 June 2012

2. At 15 March 2013



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# Capilano: control mechanism

## Foundation Share with Board appointment rights:

1. Beekeeper suppliers can exert a degree of control through the Foundation Share structure
2. Foundation Share confers Capilano Beekeepers Ltd. (“CBL”) the right to appoint two Beekeeper Directors:
  - Maximum number of board members is eight
  - Board consists of two Beekeeper Directors, one independent Director and Managing Director
  - Any increase in the number of board members requires board approval – in effect providing the Beekeeper Directors with a veto right



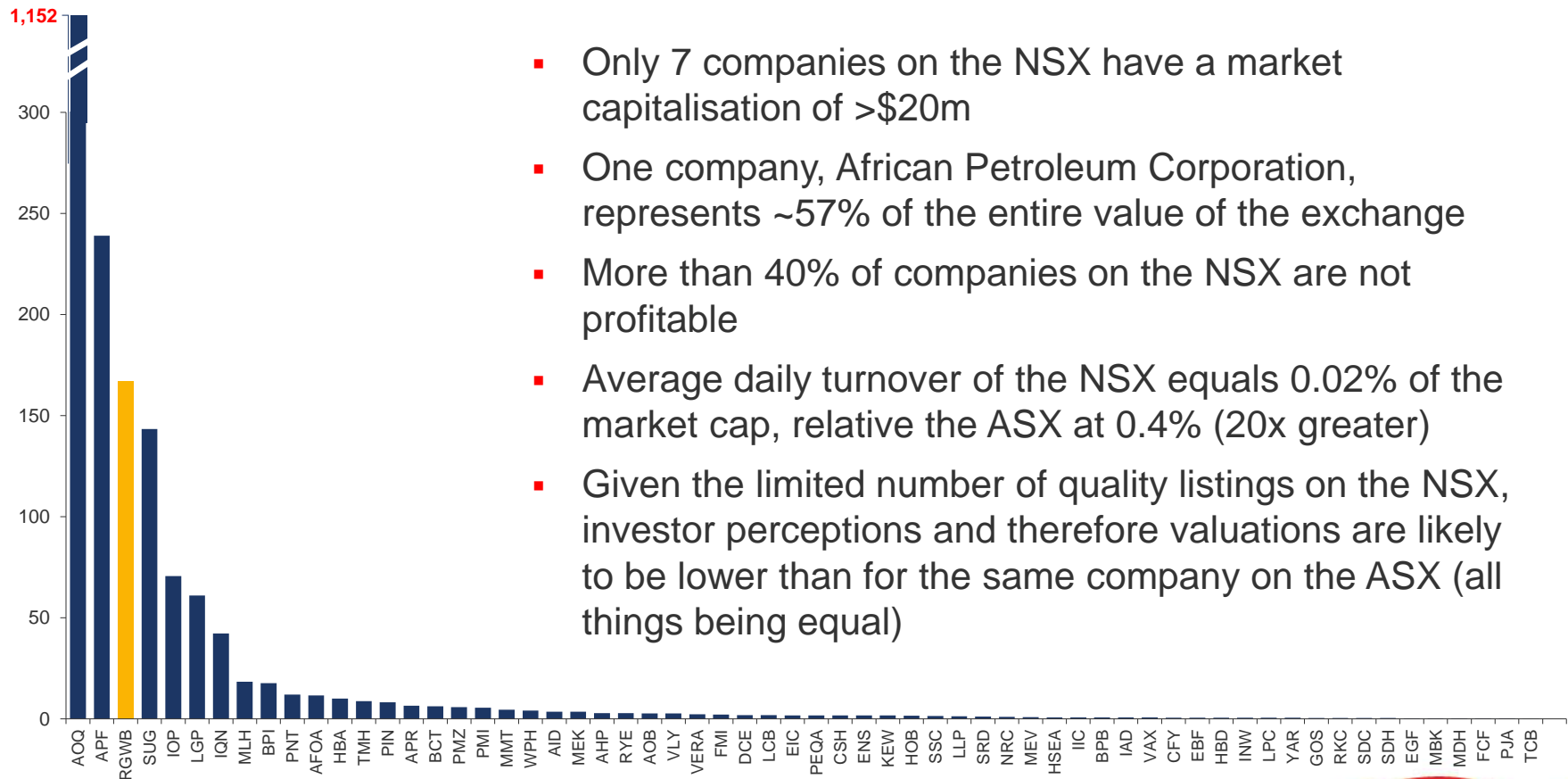
## Capilano: control mechanism cont.



3. Only beekeepers who hold honey supply agreements with Capilano may be members of CBL
4. Rights associated with Foundation Share cease if:
  - Company's main business operations or undertaking ceases to be involved in the sale and marketing of honey; or
  - The company ceases to source honey from suppliers associated with or represented by the Foundation Share

# NSX market cap

**The market capitalisations of companies within the NSX is on average significantly lower than on the ASX and dominated by African Petroleum Corporation (\$1.15bn)**



Source: NSX as at 20 Feb 2013

# Comparing the exchanges: NSX vs ASX

NSX		ASX
Limited pool of capital and less market access	<b>ACCESS TO CAPITAL</b>	Deep pool of capital and better market access
Less participating brokers, banks less willing to lend against equity	<b>PARTICIPATION</b>	More participating brokers, banks more willing to lend against equity
Limited liquidity - makes buying and selling shares difficult	<b>LIQUIDITY</b>	Highly liquid - makes buying and selling shares relatively easy
Highly flexible regarding ownership and voting structures	<b>FLEXIBILITY</b>	Less flexible, although ASX has accepted differential voting and shareholding structures
Permitted	<b>ABILITY TO RESTRICT CERTAIN INVESTORS</b>	Not permitted
Permitted	<b>ABILITY TO CAP INDIVIDUAL OWNERSHIP</b>	Permitted in certain circumstances



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# Trading multiples of our peers

We have reviewed the trading multiples of listed peers in comparison to SunRice:



			EV / Earnings Before Interest, Tax, Depreciation & Amortisation (EBITDA)	Price to Earnings Ratio (PER)
A\$m	Enterprise Value (EV)	Market Cap	2012	2012
SunRice (\$3.00 per share) <sup>1</sup>	324	167	3.5x	5.3x
SunRice (\$2.50 per share) <sup>1</sup>	296	139	3.2x	4.4x
Bega Cheese	513	392	9.0x	22.3x
Capilano Honey	33	21	5.1x	8.3x
Fonterra <sup>2</sup>	12,267	9,127	10.4x	18.9x
Goodman Fielder	1,882	1,437	7.9x	non meaningful figure <sup>3</sup>
GrainCorp	3,213	2,758	7.5x	13.5x
Sugar Terminals <sup>4</sup>	210	225	5.2x	10.8x
Warrnambool Cheese & Butter	277	198	7.8x	13.0x

Note: all multiples calculated based on the FY2012 reported EBITDA and NPAT (excl. minority interests)

Note: Balance sheet and earnings numbers represent statutory reported numbers

1. Based on SunRice reported FY2012 results, including the retention

2. EV and Market Cap calculated on total number of Fonterra Co-Op shares

3. Goodman Fielder posted a \$146.9m loss in FY2012 due to significant items (relating to restructuring costs, impairments and asset write downs) of (pre-tax) \$267.2m

4. EV and Market Cap calculated on total number of G Class and M Class shares

## Next steps

- The Board is actively considering several models and mechanisms that meet the Review's objectives
- The Board is considering the requirements of regulators
- We are working to develop a model that works for our unique situation
- The Board will propose a recommended model in the coming months
- Shareholders will vote on any changes to the capital structure

# Paddy charter and governance





# The need for a paddy charter

- We are working on a paddy charter that will be part of any model
- A paddy charter provides an opportunity to lock in the existing rules and ensure paddy is always priced fairly – providing consistency and certainty for the future
- The charter will set out exactly how the paddy price is determined
- The charter will increase transparency for growers and shareholders
- The charter will underpin the benefits of vesting and help ensure we can demonstrate value not only to you but also to the State Government
- Everyone will have certainty over the arms-length process

# Governance

- The Board intends to unfreeze the A Class Share Register prior to any vote on the capital structure
- Unfreezing would allow Active Growers to apply for an A Class Share and have the application considered by the Board in time for any vote
- Feedback on tonnage delivery and minimum B Class Share requirements will be considered
- Board composition is being considered

# Feedback and Discussion

Capital Structure Review hotline: **1800 643 977**

Website: **<http://capitalstructurereview.sunrice.com.au/>**

A close-up photograph of a golden rice panicle in a field. The panicle is in sharp focus, showing individual grains. The background is a blurred field of similar rice plants under a clear blue sky. The text "Chairman's Conclusion" is overlaid in white at the bottom left.

# Chairman's Conclusion