SunRice

Independent Expert Report
Proposed acquisition by Ebro

May 2011

Scope – fair and reasonable

ASIC RG 111 – Content of Independent Expert Reports

Fair

"An offer is fair if the value of the offer price or consideration is equal to or greater than the value of the securities the subject of the offer"

Reasonable

"An offer is reasonable if it is fair. It will also be reasonable if there are sufficient reasons for securityholders to accept the offer in the absence of any higher bid"

Other definitions

- EBITDA Earnings before interest, tax, depreciation and amortisation
- Net assets Total assets less liabilities (as shown in accounts)
- Gearing Net debt to shareholders funds

Valuation methodology

- Going concern businesses are generally valued by reference to their on-going sustainable earnings
- Two methods have been applied
  - Capitalisation of EBITDA
  - Capitalisation of profit after tax
- Valuation range reflects significant premium to net asset value

Maintainable EBITDA

- Must reflect sustainable on-going earnings
- Assessed at A$70 million (per annum)
- Our assessment recognises that in some years EBITDA will be materially lower and materially higher than A$70million
- FY09 benefited from significant (unhedged) increases in the global rice price. This resulted in large one-off gains not considered sustainable
- In FY10 EBITDA attributable to SunRice was A$53.5 million
- SunRice has announced that EBITDA in FY11 is not expected to be materially different to that achieved in FY10

EBITDA multiple

- We adopted a multiple of 8.25x to 8.75x
- There has been comment that SunRice is worth 11.3x EBITDA based on the KPMG report of 2009
- KPMG did **<u>NOT</u>** use 11.3x in coming to its value of $2.07 - $2.67 per B Class share:

  *"[KPMG] are of the opinion that an EBITDA multiple in the range of **<u>6.5 to 7.0</u>** is appropriate"*

- KPMG report is some two years out of date and contains pre Global Financial Crisis transactions:
  - Businesses acquired were not directly comparable (eg Uncle Toby's, National Foods, Dairy Farmers etc)
  - since the KPMG report, a significant number of shares have been issued. Adjusting their report for this and the current debt gives a trading value of $1.72 to $2.11 per B Class share

Valuation summary

	LEA		
	Low A$m	High A$m	
EBITDA	70.0	70.0	
Multiple	8.25	8.75	
	577.5	612.5	
Less net debt and surplus assets	(292.7)	(292.7)	
Equity value	284.8	319.8	
Adopted	290.0	320.0	
Less A Class share value	(41.5)	(30.0)	
Value of B Class shares	248.5	290.0	
B Class shares on issue	54.7	54.7	
Value per B Class share	$4.54	$5.30	

Key findings

- We concluded that *"the Scheme is fair and reasonable and in the best interests of the A and B Class shareholders of SunRice in the absence of a superior proposal"*
- The A Share Scheme Consideration is at the top end of the assessed valuation range of $37,500 to $51,875
- The cash payment of $5.025 per B Share is above the midpoint of the assessed valuation of $4.92:
  - valuation range is $4.54 to $5.30 per B Share
- Without the Proposal, the ability to realise monetary value for A Shares is extremely limited:
  - not listed
  - no dividend entitlements
- The Proposal provides holders of B Shares with an opportunity to realise cash for their B Shares which is consistent with their full underlying value

Key findings

- We consider the Proposal to be a *"superior outcome for Shareholders and Growers"* compared to the alternatives considered by the Board
- Concluded that *"if the Scheme is implemented SunRice shareholders (as shareholders) will no longer be exposed to the risks associated with the SunRice business, including its prevailing high debt level and limited ability to raise further equity capital when required"*
- The conclusions are based primarily on value considerations:
  - we recognise that active growers will also be interested in other issues e.g. *"farm values, and include, in particular, the on-going security arrangements regarding the purchase of the annual rice crop and market price paid"*
  - we note that Ebro has made a number of legally binding commitments to growers to purchase future crops based on a formula linked to Californian Medium Grain Prices
  - SunRice has advised that it will not offer such a price commitment

ASX Listing – implications

- Will not realise same value as Ebro Proposal
- SunRice can not list in current form. Need to:
  - remove A Class shares for corporate governance and investor reasons
  - appoint majority independent directors (not growers) including independent Chairman
  - significantly reduce debt
- Loss of grower control (no equivalent protections to those being offered by Ebro)
- Director obligation to act in best interests of shareholders (not growers)
- Likely to require a significant capital raising:
  - Graincorp & Goodman Fielder gearing ratios are 24% and 57% respectively
  - a 40% gearing ratio would require SunRice to raise around $140m in new equity
- ASX listing would take significant time (12+ months) and would be subject to market conditions

Illustrative ASX listing metrics

	Graincorp	Goodman Fielder
Maintainable EBITDA ($m)	70.0	70.0
Forward EV/EBITDA multiple (x)	6.4x	6.6x
Enterprise value ($m)	**448.0**	**462.0**
Net debt ($m)	(298.2)	(298.2)
Surplus assets ($m)	5.5	5.5
Equity value ($m)	**155.3**	**169.3**
A Class value – assumed mid-point of valuation ($m)(1)	(35.8)	(35.8)
B Class value ($m)	119.5	133.5
B class value per share ($)(2)	**$2.18**	**$2.44**
Ebro premium to B Class share price (%)	**131%**	**106%**

1) Value attributed to A Class could be lower under ASX listing as total value to apportion between A and B Class is reduced
2) Ignoring dilutionary effect of capital raising.