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MEDIA RELEASE

Proposed legal action by minority group of Mackay Sugar growers puts Company future in jeopardy

In February 2017, Kidder Williams' delivered their report to the MSL Board after reviewing MSL's future capital requirements and capital structure. In their analysis, Kidder Williams considered several options available to MSL, but preferred to raise new capital from asset sales and a reduction in expenses. In arriving at this preferred position, Kidder Williams ruled out:

- a. Sell the business – ruled out due to probable lack of equity for owners after paying bank debt;
- b. Cornerstone Investor – again ruled out as internal equity does not support continued control with necessary external investment;
- c. IPO – ruled out as unlikely to raise sufficient funds as most of the returns from MSL go directly and indirectly to growers and are not retained with the company;

Growers supported the Board and Kidder Williams' advice, with a majority voting in favour of the deferred cane payment. This was further endorsed by Canegrowers and Australian Cane Farmers Association.

Threatened legal action by a small group of Mackay Sugar grower shareholders has the potential to severely limit the options available to the Mackay Sugar Board and management to take the Company forward, and may ultimately take the control of these decisions away from the company. Following extensive investigation and consideration of many options including full sale of the business, bringing in a cornerstone investor, and an IPO, Mackay Sugar has embarked on a clear plan to raise capital from asset sales while reducing expenses internally to improve mill performance and generate returns for both the mill and growers.

Mackay Sugar's Chief Executive Officer, Jason Lowry, says he believes that many of the assumptions in relation to the proposed legal action to have the \$2.00 per tonne contribution to the business by growers overturned are wrong, particularly in terms of the options that would be available for Mackay Sugar if the move was successful.

"Several of the proponents of this action have been involved previously in failed moves to consider the sale of Mackay Sugar either through a floating of the Company or via a straight takeover," Mr Lowry said.

"The recent survey of Mackay Sugar growers clearly identified that only 40% of the growers polled agreed to selling the business. For the Board to achieve a sale, 75% of shareholders would need to vote to support the sale. The proponents know it is unlikely that such a vote would be achieved. This attempt to overturn the \$2/tonne contribution/deferred cane payment may very well be a veiled attempt to

force shareholders into a position where the sale of the company is the only option.”

Mr Lowry said that Mackay Sugar growers and shareholders needed to clearly understand that if the option to deliver the preferred approach via the \$2 per tonne contribution by growers was removed, further deterioration of the asset base would likely force a decision to sell the business due to the debt situation.”

“I thought we had made it clear to growers in recent meetings and communications that Mackay Sugar was truly at a crossroads. We need to either work together to trade our way out of this and into better performance, or work to sell the business. Again, it is my fear that a minority of shareholders may block the way forward, and by default create a sale that the majority of shareholders clearly do not want.”

“We will vigorously defend our preferred plan which involves re-setting the single largest expense of the company (the cost of cane) by a contribution of \$2 per tonne from growers. We have a clear plan and path forward facilitated by this agreed contribution by growers. The company must invest in assets and systems to improve performance within the mills, to achieve a reduction in season length, and to increase yields and recoveries. Modelling shows that achieving this will return substantially more than \$2/tonne to a grower over a five year period, some through the cane payment system and the balance through reduction of farming inputs/costs.”

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