Mackay Sugar Ltd

Grower Presentation | 26 April 2017

Kidder Williams Limited

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Introduction

- Engaged by Mackay Sugar Limited ("MSL") in August 2016 to review:
    - strategic plan;
    - business development opportunities;
    - capital and corporate structure; and
    - capital raising options.
- The Board also asked us to consider:
    - MSL's ability to raise capital to fund mill improvement and reduce debt;
    - value realisation for shareholders; and
    - ensuring growers retain control.

What we have done

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Since our engagement, we have:

- Conducted site tours, interviewed senior management and the Board
- Reviewed capital structure, financial and other relevant information
- Benchmarked key financial metrics to the industry
- Met with over 50 Growers, QSL, banks, investors, other sugar companies and interested parties
- Worked with the Board and management to refine detailed financial modelling and sensitivities
- Presented to growers.

Our advice so far

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- Debt is close to double the industry average and the mills need significant capex to restore performance;
- MSL needs circa $140m to reduce debt and to fund capex;
- Funds will need to come from asset sales and Growers; and
- A full sale is unlikely as the equity valuation is estimated to be too low for Growers to retain control.
- This presentation is focussed on our advice to implement the "mill improvement charge" and how we came about it.

Our detailed financial model

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- Detailed mill by mill financial model which assists us to forecast future performance
- Allows us to turn on and off various assumptions to see the impact on the company
- Key assumptions for our cash flow modelling:
  - Mackay CCS for FY18F at 13.3%
  - Mossman 50% sale in FY19F and balance 50% in FY21F
  - Long-term gross IPS sugar price around $460

Key Assumptions	FY18F	FY19F	FY20F	FY21F	FY22F	FY23F	FY24F
Mackay Crop (Mt)	5.50	5.45	5.50	5.55	5.60	5.65	5.70
Mackay CCS (%)	13.3 %	14.1 %	14.1 %	14.1 %	14.1 %	14.1 %	14.1 %
Mossman Crop (Mt)	1.20	0.61	0.55	-	-	-	-
Gross IPS Price ($/t)	492	468	468	458	458	458	458
EBITDA ($'m)	33	36	37	35	35	33	31
Capex ($'m)	(40)	(39)	(25)	(21)	(18)	(18)	(18)

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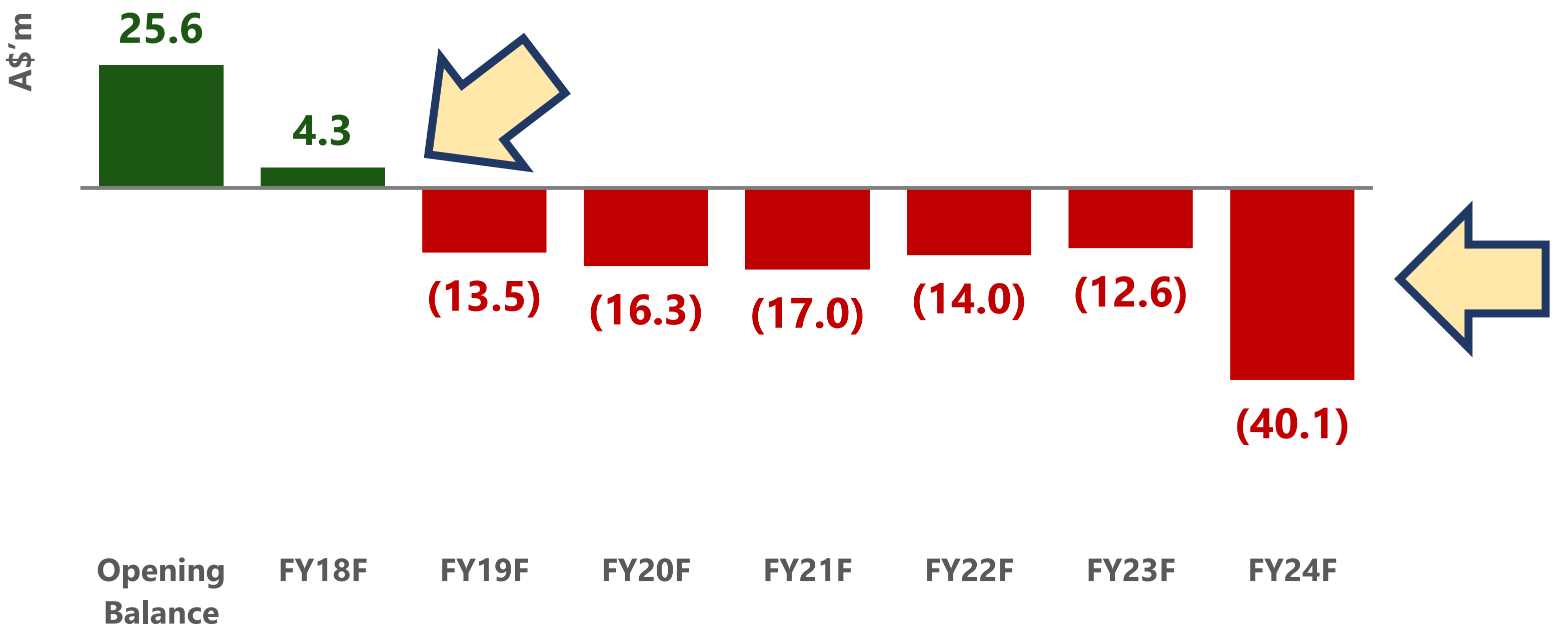
Note: Based on information supplied to Kidder Williams end December 2016 and presented to growers on 23 February 2017

Why we need to sell Cogen and have a mill improvement charge?

- FY18F opening cash balance of $25.6m, with estimated net cash outflow of $21.3m
- FY18F closing balance of $4.3m
- FY19F onwards is negative and unable to repay STL debt in FY24F



Note 1: Based on information supplied to Kidder Williams end December 2016 and presented to growers on 23 February 2017
Note 2: STL debt repayment in FY24F is optional

Why we need to sell Cogen and have a mill improvement charge?

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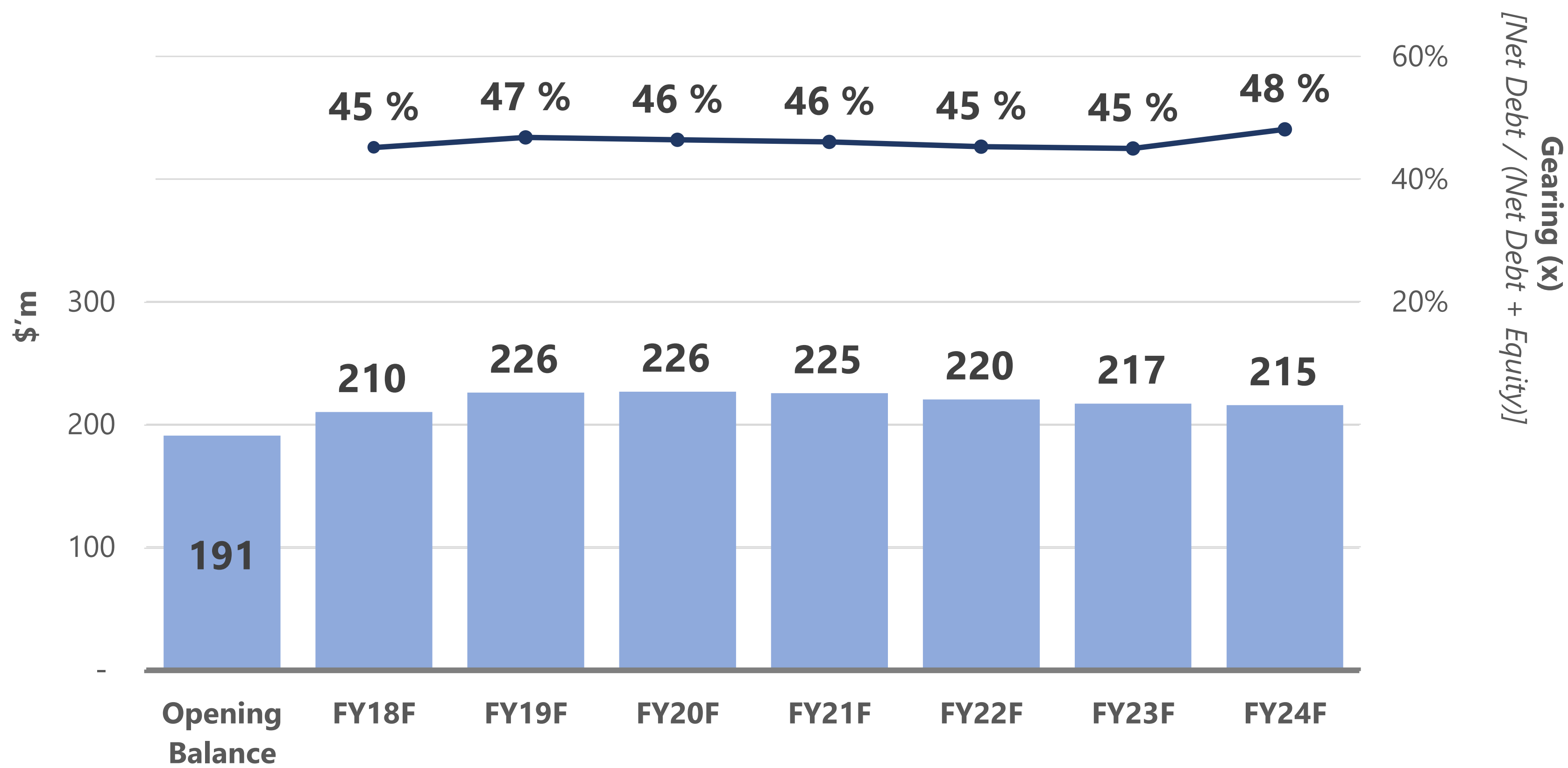
- **Gearing** is projected to be circa 46%. Industry average is **<u>below 30%</u>**



	Opening Balance	FY18F	FY19F	FY20F	FY21F	FY22F	FY23F	FY24F
Net Debt / EBITDA (x)		6.4	6.3	6.2	6.5	6.3	8.2	8.7

Net Debt (Incl. STL)
Net Debt / (Net Debt + Equity) [Excl. STL]

Note: Based on information supplied to Kidder Williams end December 2016 and presented to growers on 23 February 2017

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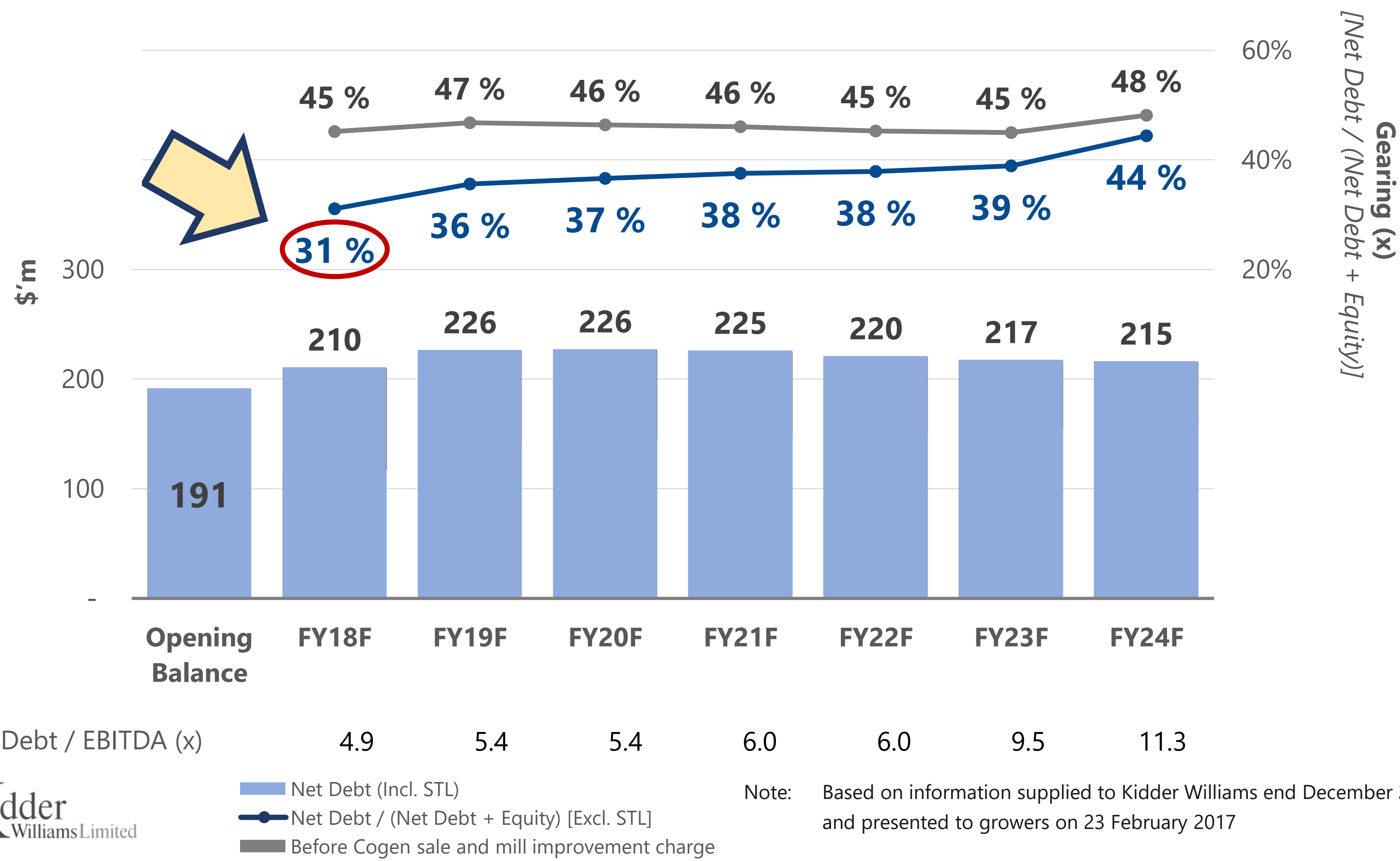
How the Cogen sale reduces debt

- $83m repayment will reduce gearing to a healthier 31%
- However, without Cogen earnings, net debt, gearing and leverage will escalate again



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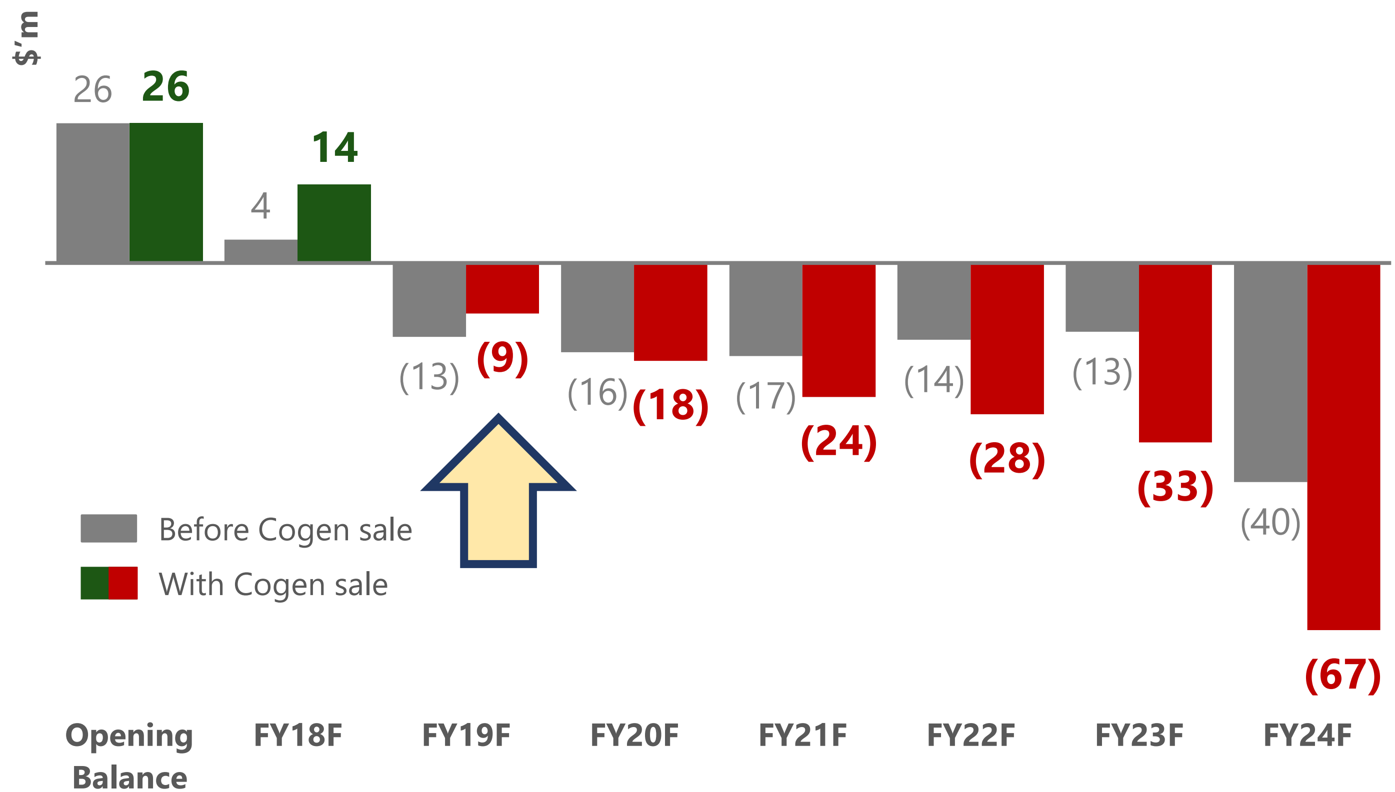
Effect of Cogen sale on future earnings and cash

- The sale of Cogen will reduce debt significantly, increase the cash surplus in FY18 and slightly reduce the cash deficit in FY19
- However from FY19 onwards, the lack of Cogen earnings increases the cash deficit



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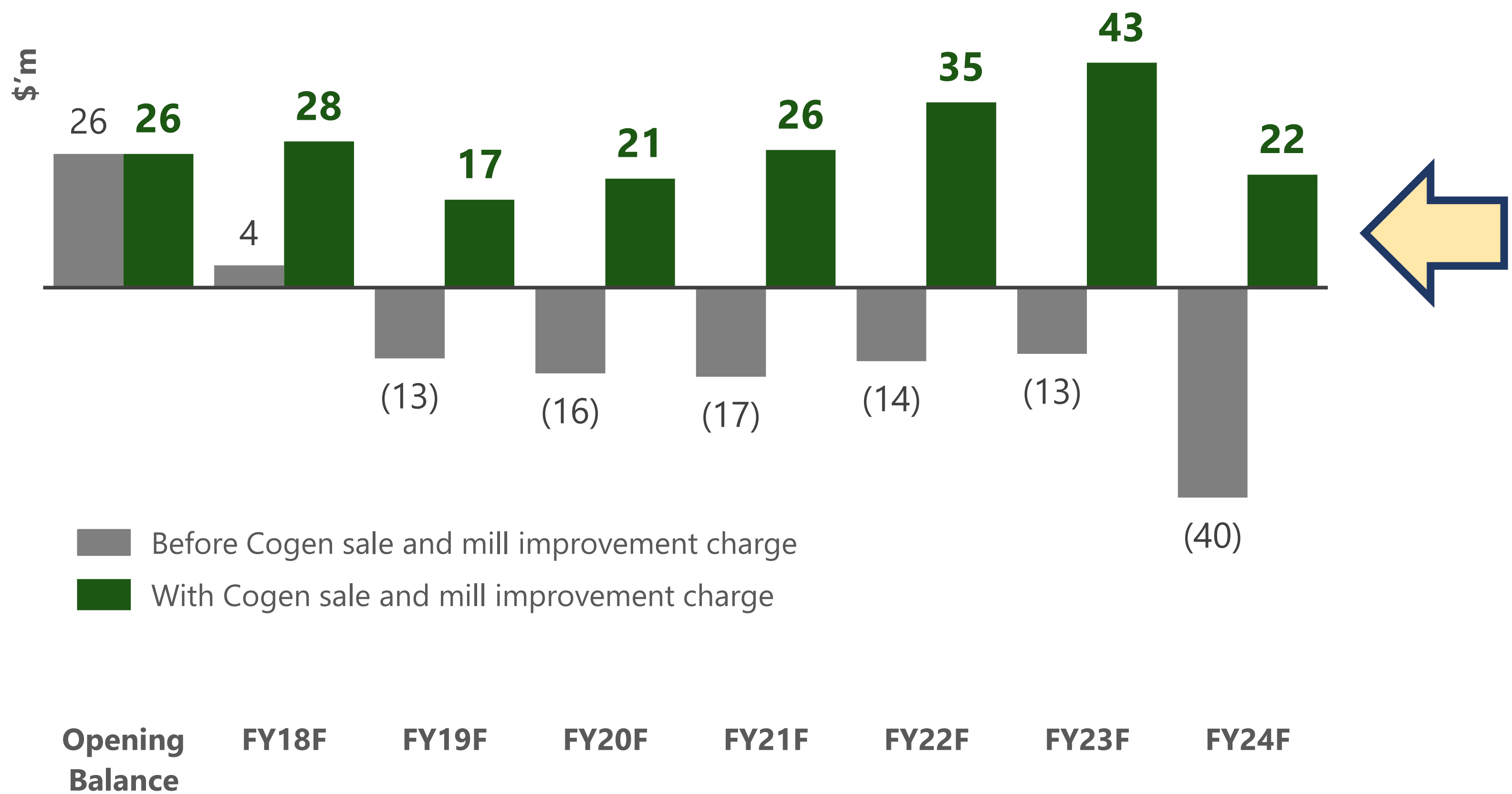
Effect of the mill improvement charge

- $2 per tonne going forward. Kidder recommended $3 per tonne
- MSL can stay cash positive, build cash over time and repay STL debt in FY24F



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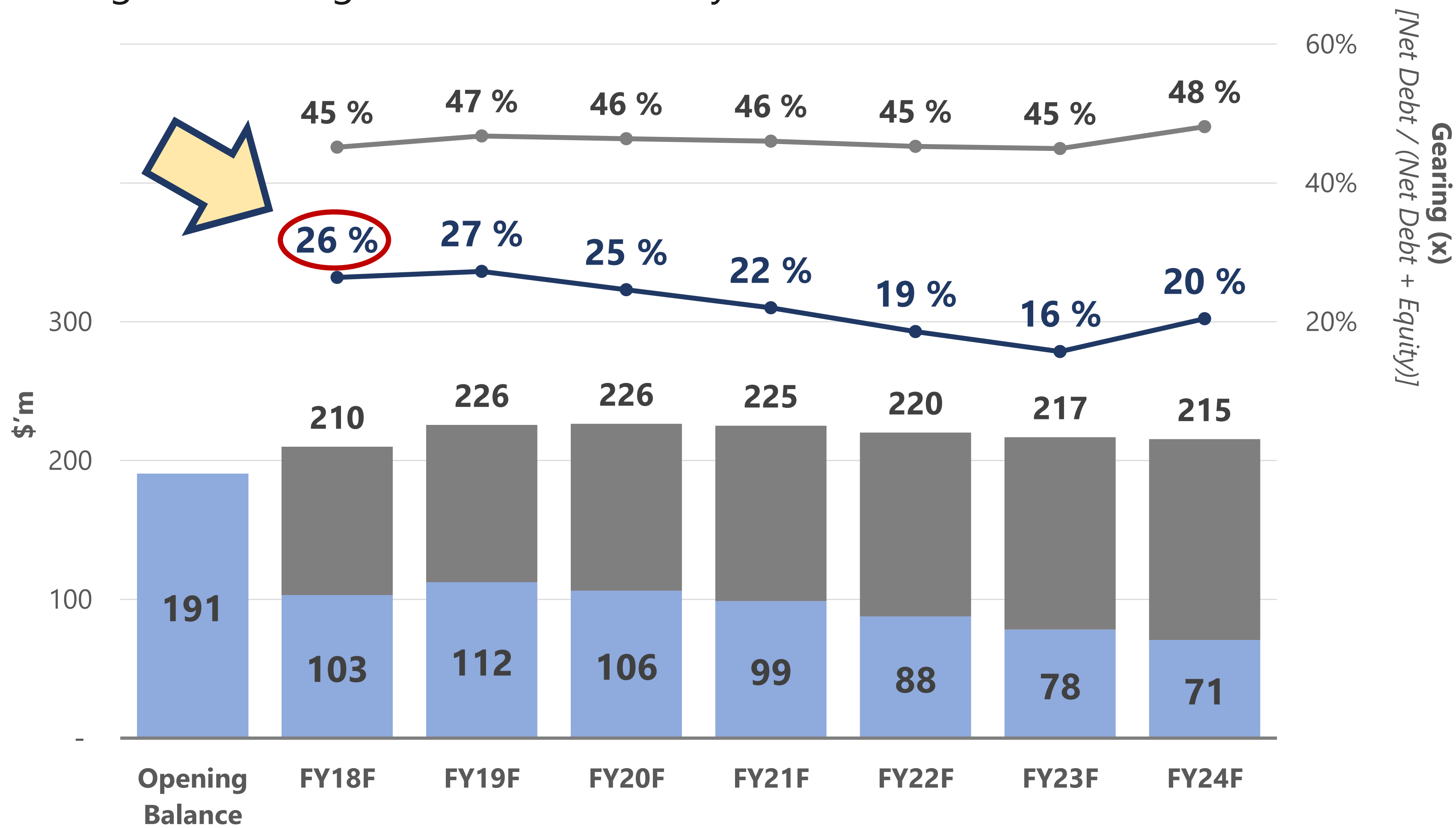
Effect of mill improvement charge on debt balance

- Gearing and leverage restored to healthy levels



Net Debt / EBITDA (x)	2.8	3.0	2.7	2.7	2.4	2.8	2.8

Note: Based on information supplied to Kidder Williams end December 2016 and presented to growers on 23 February 2017

Can we reduce the mill improvement charge?

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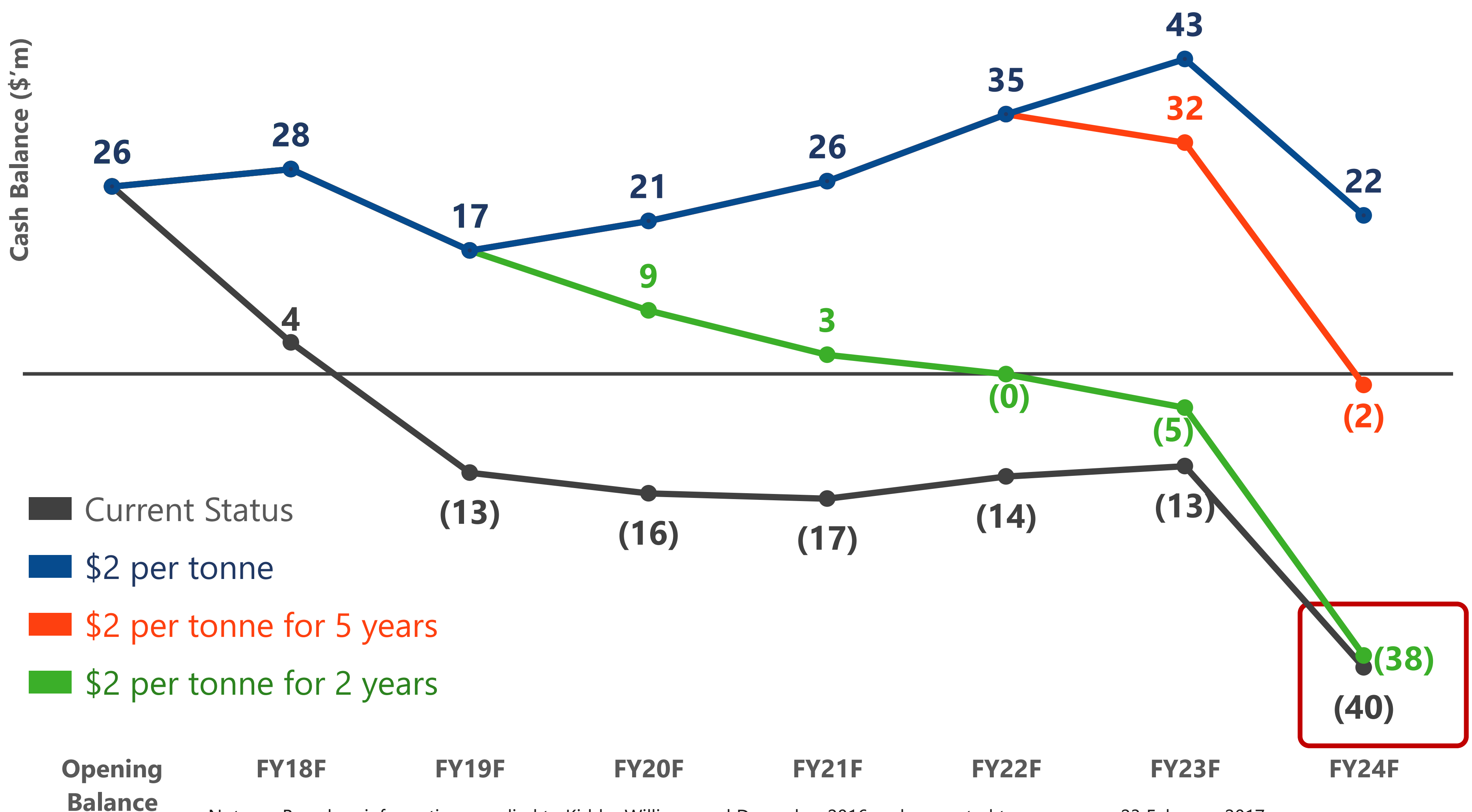
- Our proposed $2 per tonne going forward enables MSL to operate with sufficient cash and repay STL debt by FY24F (subject to assumptions)



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Reflecting on a full sale

- Equity valuation is likely to be too low for Growers to retain control
  - c. 10x historical EBITDA before Grower Choice
  - Implied enterprise value of $180m based on FY16 normalised EBITDA would deliver negative equity value.
  - A discounted cash flow valuation accounting for improved EBITDA is likely still negative due to significant capex.
- Kidder's view is that:
  - Growers unlikely to vote for MSL sale with minimal or zero equity value
  - Buyer are likely to be foreign parties (eg, Wilmar, MSF)
- Notwithstanding the above, Kidder will continue to evaluate the merits of this option as we progress and obtain feedback from Growers, financiers and interested parties.

Progress of the Plan

- Continue to pursue sale process for cogeneration - Preparation stage nearly complete
- Continue discussion with Mossman Growers - Process has commenced
- Simultaneously investigate other restructuring options.

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