

Melbourne 31<sup>st</sup> May 2019

Dear Andrew,

**Re.: Murray River Organics (MRG)**

Thanks for taking the time to meet Friday 17<sup>th</sup> May. I appreciated our conversation very much.

After spending significant time reflecting on our conversation I thought it best, and hopefully useful to you, for me to put my thoughts in writing to you. Please feel free to share this letter with your fellow directors in MRG for matters to discuss. I would encourage that.

I have previously put my thoughts in writing to you, per my letter dated 9<sup>th</sup> October 2018 and my email to you dated 12<sup>th</sup> September 2018. While I never received a response to either of these I believe a large number of the matters I raised still hold true, and I recommend you take the time to read and reflect on these.

During our meeting 17<sup>th</sup> May I advised you of the key concerns I have in relation to MRG. My concerns can broadly be summarised under the following three groupings:

- A. Balance Sheet
- B. Cash
- C. Communication

Before expanding on each of these four groupings there are three points of strong recommendations I wish to make to you and your colleagues

1. **Face Reality: I implore you** and MRG not to becoming the metaphorical frog that doesn't notice the water it's in is warming up until it's too late. The markets are telling you the water is nearing its boiling point and your ability and preparedness to recognise this and accepting that reality is in my opinion now vital. It's a lot better to accept harsh realities *RIGHT NOW* rather than avoiding them. The sooner you face the harsh reality, the sooner you can start to change it. **Please do not lose sight of the fact that you cannot wipe reality out, but reality can wipe you and MRG out.**

In assessing reality I urge you and your colleagues to please disregard any perceptions you may have of what a company in distress may look like. I believe it is near impossible to come up with just one working definition of a company in distress, and hence I think it is dangerous to potentially think that you may have one for MRG. Problems are seldom made up of just one or two issues, rather it is the result of a greater number interacting together and with other external factors. I believe there are numerous signs of distress - and a distressed company is typically dealing with multiple signs. These include

### **Working Capital/Liquidity**

- Declining or negative cash flow
- Large contingent liabilities
- Unresolved near term debt maturities
- Increase in accounts receivable aging
- Increase in outstanding accounts payable

### **Financial**

- Declining share price
- Inability to meet debt covenants
- Increasingly more stringent covenants
- Diminishing liquidity

### **Profitability**

- Shrinking margins
- Reduced capital investment programs
- Going concern opinion
- Deteriorating industry fundamentals
- Adverse regulatory environment

### **Employees**

- Large or unplanned reductions
- Management turnover
- Disruption in workforce

From the outside, I believe there are a number of the above signs that MRG are dealing with. Again, **I urge you and your**

**colleagues to urgently, critically and honestly review matters and consider, through a reality-based lens, which signs MRG are dealing with now and likely will be dealing with in the near future.**

2. **Review your plan:** You decided to take advantage of easy access to what was very expensive capital to stay the course, believing MRG could push through it.

**I believe it is high time, incumbent and urgent for you now to take charge and step back to critically review the plans that were set out for MRG** objectively, asking “Is this what I thought would happen when we first started going down this road? Is this still realistically achievable?”

Acknowledging that your plan isn't or may not be working as anticipated is a necessary first step to make the required changes.

In my opinion, one of the biggest thing you can do to avoid distress is to periodically review your business plans. Have they got appropriate trigger points built into them? E.g. “If we don't have this type of performance by this date or we haven't gotten the following x-number of things done by this date, then we will step back and decide if we're going down the right path, given what's happened since our last review.”

Such trigger points should be oriented to basic financial metrics and cash flow, as well as to operational and market performance.

If you keep missing targets, ask why.

3. **Expect more from the Board / Deliver more as the Board:** The beauty of a Board is that it has enough distance from the company to see the forest for the trees. You will no doubt be familiar with the notion that many managers often treat their Board as a necessary evil to placate so they can get on with “their” business. But that can undermine the Board's role as an early-warning system when a company is heading for distress.

It's also the board's responsibility to look the CEO, the CFO, and the COO in the eye and say, “OK, we like your plan. Now let's talk about what it would take to cut costs not just by 5 percent but by

40. Let's talk about all the things that can go wrong—the risks to the business.”

You have been around long enough to know that targets in most businesses emerge from negotiations. Leaders and line managers go back and forth: the former invariably push for more, while the latter point out all the reasons why the proposed targets are unachievable. Inevitably, the same dynamic applies during transformation efforts, and this leads to compromises and incremental changes rather than radical improvements.

The issue is that targets = accountability, and, when missed, has adverse consequences for the compensation of those accountable for the targets. This results in the default setting of “let's under-promise and overdeliver.”

To counter this natural tendency, **an active Board at MRG should in my opinion demand a clear analysis of the company's full value-creation potential: specific cash, cost, revenue and profit goals, all backed up by well-grounded facts.**

To achieve this the Board will have to step outside the self-imposed constraints and define what is realistically and truly achievable. The message should be: it's time to take a single self-confident leap rather than a series of incremental steps that don't lead very far. **Have you and your colleagues looked at the transformational turnaround strategy that is talked about by MRG (defined by the CEO?) from this angle?**

I believe the objectives of a successful transformational turnaround strategy for MRG should be to first ensure the viability of the company and next to radically improve the important business drivers, such as top-line growth, capital productivity, cost efficiency, operational effectiveness, customer satisfaction and sales excellence.

In essence, it is largely about delivering the full potential of what's already there.

Of course, I understand that sometimes significant events happen that no one could have foreseen, of course. That's life. But **in a typical distress situation, not dissimilar to what I believe MRG**

**is facing**, there has usually just been 12 to 18 months of poor performance - and **the Board hasn't been aware, hasn't asked the right questions or hasn't done enough of the right things quickly enough.**

MRG has in my opinion for a long while needed a truly active Board and **now more than ever before requires a fully active Board** where...

	...as opposed to what would typically be expected of a Board where the....	....at MRG now it should be the...
Alignment	<ul style="list-style-type: none"> <li>• Board communicates goals, strategy and expectations</li> <li>• Board primarily engages with CEO</li> </ul>	<ul style="list-style-type: none"> <li>• Board that sets the pace by communicating timelines, milestones and targets</li> <li>• Board that engages with all levels of the company, with or without CEO's guidance</li> </ul>
Planning	<ul style="list-style-type: none"> <li>• CEO and Management report to Board at regular intervals</li> <li>• Board approves top-down targets such as budgets</li> <li>• Board develop incentive plans for long term growth, taking into account</li> </ul>	<ul style="list-style-type: none"> <li>• Board that actively seeks information updates as needed in between regular reports</li> <li>• Board that monitors and holds management</li> </ul>

	<p>corporate, unit and individual performance</p>	<p>accountable for specific initiatives</p> <ul style="list-style-type: none"> <li>• Board that incorporates specific goals and targets of the turnaround into individual incentive plans</li> </ul>
<p>Execution</p>	<ul style="list-style-type: none"> <li>• CEO hires and fires members of senior management team with Board input</li> <li>• Board communicates strategic intent and leaves management to execute</li> <li>• Board sets incentives and communicates consequences (Board uses carrot &amp; stick)</li> </ul>	<ul style="list-style-type: none"> <li>• CEO and Board that jointly determine the senior management team, with Board taking dominant role</li> <li>• Board that leads the “when” and supports management in the “how” and not just the “what”</li> <li>• Board that is available and present as an active thought partner to management, even if and when they don’t ask for it (Board helps pull the cart)</li> <li>• Board create focus and commitment to</li> </ul>

		<p>priorities: driving to establish clearly identified and agreed objectives, where progress towards achieving these objectives is measured and tracked for accountability.</p> <ul style="list-style-type: none"><li>• Board takes accountability for creating a high-performance organisation, that wants to stretch for amazing, by ensuring there is clarity throughout the organisation about what is important and equally about what doesn't matter. Such clarity impels hard choices to be made and when done well provide organisational-wide focus and alignment.</li></ul>
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Andrew, I believe **you have to take charge now to establish MRG as a company where you, your colleagues and key decision makers in MRG understand the only thing that matters is “how we as a business know we are right”**. It does not and should not matter where the right answer comes from. To achieve this, I believe **you must instil and seek to foster a culture of truth, openness and broadmindedness where the value of constructively considering multiple viewpoints is understood, appreciated and is actively encouraged throughout the company**. Such culture and preparedness to consider multiple viewpoints was clearly not in place at the time of my email and letter September and October last year. I plead that you have changed things since then.

An active, important and likely reasonably quick way for you to demonstrate the way of operating I describe, would be for you to put in place a grower advisory committee. This was recommended to you by Jamie and could deliver input directly to the Board, not through management. This would enable the Board to gather additional viewpoints to those provided by management, as to how MRGs farmland most optimally should be operated. I view this not only as a smart thing to do. In fact, in view of the knowledge and experience in growing dried vine fruit held by the Board, I also view a move like this as a necessity from a good corporate governance viewpoint.

Andrew, as the chair of MRG I believe it is critical for you to stay humble and receptive. Be voraciously curious. Question if you are wrong, and continuously seek and take in information. Find people who disagrees with you so you can make sure the right decisions are made and that you can learn how to improve.

Now, having provided the above three recommendations, I wish to provide some detail around my key concerns for MRG, being

- A. Balance Sheet
- B. Cash

## C. Communication

I will discuss these concerns one by one below.

### 1. BALANCE SHEET

I know that you a number of times have said the recent raise was to reset the balance sheet and execute a turnaround strategy.

You will be aware that the share price has declined 25 - 28 percent from an already heavily discounted raise price and from the price since announcement of HY result, in which you were quoted as saying that the turnaround and growth strategy were well underway.

The raise was done at more than 35 percent discount to an NTA that had been written down intermittently by ~33 percent from the NTA as at 30 June '18.

MRG is still trading at the same discount to the discounted NTA the raise was conducted at.

The current marketcap is ~\$32.5m vs an equity capital injection of \$27.3m some ~7 months ago and with more than \$57m having been invested into farming properties over time.

The share price erosion since the capital raise and since announcement of HY results tells you market does not believe the business is taking the right steps quick enough.

**This is the market trying to tell you something loud and clear. Per my recommendation 1, above, I implore you to please listen to what the market is telling you.**

Prior to the recent raise I made a very specific, strong and pointed recommendation to the CEO, the CFO, your lead manager (Shaw and Partners) and yourself in respect of the allocation of shares, and in particular which institutional manager NOT to allocate shares to. Unfortunately this recommendation was ignored and significant selling by this

investor is now, as anticipated and advised it would, also weighing on the share price.

While use of funds from the raise were informed to be for

- vineyard development
- securing third party fruit supplies
- covering operational cash losses for FY19
- covering Colignan farm lease payments till FY20; and
- the provision of a debt service reserve

it would appear, however, that instead all funds raised (\$27,431m) were indeed used as partial repayment of current borrowings.

Whilst I am aware that if you look hard enough through the prospectus then you will, through interpretation of section 5, be able to ascertain that the funds raised would be used as partial repayment of current borrowings.

I trust, however, you will appreciate that given e.g. the table in section 4.1 along with presentation material provided at the time, the use of the funds raised for many people would be understood to indeed be for the purpose of that it was explicitly informed, i.e. those 5 points listed above.

I do not believe this lack of clarity has served MRG well and nor do I believe it aligns with your stated objective of reporting in a frank manner.

I understand from our conversation 17<sup>th</sup> May that funds can be released from NAB, and that such releases would be staged and subject to meeting certain hurdles.

It was Yogi Berra who once famously said: *“In theory there is no difference between theory and practice. In practice there is.”* And while I understand the funds in theory may still be readily available to MRG. It may well be that in practice they are not.

The following financial covenants, were listed in Section 5 of the Prospectus:

- “Underlying EBITDA before SGARA to not adversely vary from the forecasted position provided to and accepted by NAB for the financial years ended 30 June 2019, 30 June 2020 and 30 June 2021;
- Minimum Net Tangible Assets (NTA) to not adversely vary from the forecasted position provided to and accepted by NAB for the financial years ended 30 June 2019, 30 June 2020 and 30 June 2021.

The Financial Covenants can be reviewed upon request based upon updated Board approved forecasts as deemed acceptable by NAB. Both covenants exclude the impacts of new accounting standards introduced during the term of the Banking Facilities. MRG expects to comply with the Financial Covenants and other undertakings of the Banking Facilities.”

Again, in the spirit of frank, transparent and proactive communication, and to enable me to form a view as to MRG’s ability to comply with the financial covenants, I would be grateful if you could please advise the underlying EBITDA before SGARA as well as the Minimum Net Tangible Assets provided to and accepted by NAB for each of the financial years ‘19, ‘20 and ‘21. Thanks very much in advance.

Andrew, in my opinion the market is very clearly telling you

- it does not trust you
- it does not believe in the turnaround strategy - either it is not impactful enough or it is not being executed quickly enough or well enough
- the balance sheet is still broken
- you do not have the capital and resource allocation skills required to fix it

Per above, best to face reality and do something about it. Sooner rather than later.

You will be aware the initiation report on MRG issued by Shaw and Partners mid-November ’18 had a twelve-month price target of \$0.25. This price target was arrived at using a discounted cash flow model. As Shaw and Partners acted as the lead

manager in the raise there is a high expectation that the assumptions they have used in their discounted cash flow model would be very close to MRGs own assumptions.

Note also, importantly the report had MRGs NTA as \$0.16/share.

The significant divergence from this initiation report is the market trying to tell you something.

Shaw and Partners estimate MRGs Weighted Average Cost of Capital (WACC) as being 13.8%. As I mentioned to you when we last met, I believe this is flawed and that your WACC is significantly higher.

More importantly than what I think though, **what do you believe MRGs WACC is? And what figure is being used in your assessment of the turnaround plan and when allocating capital?**

Andrew, I believe you must demonstrate to the market that you and the Board are realistic and understands the position MRG is currently facing, and that you have the skills to make the right and necessary decisions quickly.

In my opinion you have to lighten the balance sheet and thereby also restoring the markets belief that you are a capable allocator of capital. Do not hesitate in moving quickly and decisively in doing so:

- Nangiloc is utilising expensive capital for non-cash productive gains unless sold. Fact is MRG does not have the capital nor does it have the expertise and nor should it have the management bandwidth to develop Nangiloc in the foreseeable future.  
The property, when last suggested to you in Sept'18, could have fetched \$17m plus in the market. Sell the property and use the proceeds to pay down term debt.
- Fifth Street is utilising expensive capital for a product that is non-core to MRG, in a market where MRG is a minor at best and has no pricing power.  
Sell the property and use the proceeds to pay down term debt.

- Sell Alkira with a long-dated off-take agreement in place so you retain all products grown from the vineyard yet eliminate any production risk, production operating costs and capital expenditure.  
Use the proceeds to pay down term debt.
- Sell the rest of the Merbein farms, one by one or combined, with long dated off-take agreements in place so you retain all products grown from the vineyards yet eliminate any production risk, production operating costs and capital expenditure.  
Use the proceeds to pay down term debt.
- GolGol is utilising expensive capital with a large part of the capital being tied up to produce a product (citrus) that is non-core to MRG, in a market where MRG is a minor at best and has no pricing power.  
Sell the property with long dated off-take agreements in place so you retain all dried vine fruit products grown from the vineyard areas on the property yet eliminate any production risk, production operating costs and capital expenditure.  
Consider doing the same for citrus grown on the property depending on whether it is a financially better proposition to transfer the risk of citrus sales to the market to the buyer of the property  
Use the proceeds to pay down term debt.
- It will not be difficult to find an investor/group of investors with a lower cost of capital than MRG, looking for a long dated income stream.  
Sell Mourquong and lease the property back on long dated terms with optional periods in MRGs option  
Use the proceeds to pay down term debt.
- Myself and Jamie have previously given you and Valentina the contact details of large institutional investors who own large properties in Sunraysia that they are seeking to plant out against long dated off-take agreements.  
Engage with these and secure large volumes of long-dated dried vine fruit production.

This is will not restrict MRGs balance sheet, you will lock in large volumes of future production and you have not assumed any project execution risk nor will you assume any future operational risks.

## 2. CASH

There must be a constant, relentless and razor sharp focus on cash and it does not appear that there is.

In my opinion, a successful turnaround really comes down to one thing, and that is a constant, relentless and razor sharp focus on cash and cash returns.

That means bringing MRG back to its basic element of success. Is it generating cash or burning it? And, even more specifically, **which activities and which investments in the business are generating or burning cash?** Which are the parts of your value chain that delivers the best margin? Which could be outsourced for same/similar or better return? What would MRG look like if you “shrank it to greatness”, no longer having Dandenong - only selling dried vine fruit processed and packed at Mourquoung?

**You and the Board**, in addition to the CEO, CFO and the management team, **simply have to know and understand the answers to these questions intimately.** And you have to understand why and how much each of the activities, investments and alternatives are or could be generating or burning of cash.

**Do you have the exact and detailed insight and understanding? In light of the state of the business, I cannot stress the significance and importance of this enough.**

Running a troubled company, you will undoubtedly find that there are many financial types reviewing reports and showing you all sorts of charts. You will be inundated with metrics and it may be a challenge keeping up with all of the terminology. There are so many problems. How do you know what to focus on?

You've heard the old saying, "Cash is king." I believe that is never truer than the state MRG appears to be in right now. Well-meaning accountants don't always look at things in a basic way. You may well be told comments such as "*Don't worry, this expense is capitalised over many years and the impact is small this year.*"

Though that is true, and I appreciate the approach, I don't know any of us who can overspend at home and not worry about something because of accrual accounting methodology. At home we look at the cash that is in our wallet and in our bank account. What is coming in and what is going out? That is the basic level that is required when you turn around MRG: Look at where you are sending cash. All of the other measurements may be important, but look at Cash above anything else. Cash *is* king.

I recommend you consider thinking about cash in the same way one would if running say a local hardware store. By that, I mean asking fundamental questions, such as whether there is enough cash in the register to pay the utility bill, for example, or to pay for the pallet of goods that will arrive next week, or how much more cash can be made by investing in say a new delivery truck.

Bringing it back to these basic elements, the actions you and the Board need to take to get back on track become pretty clear.

The risk is that you, the Board and management become focused on complex metrics that for instance are related to earnings before interest and taxes and return on investment that exclude major uses of cash.

These are all fine metrics, but they are not where I believe you can afford for your focus and attention to be now. **Nasty surprises await if you are not focused on cash.**

Keeping track of cash isn't just about watching the bank balance. To avoid surprises, I recommend you need a good forecast that keeps a midterm and longer view. For example, failing to pay attention to the cash component of capital investments can get MRG in trouble. The net present value of projects can look the same whether the return begins gradually

say at year two or jumps up dramatically at year five. But if you're not focusing on the cash that goes out the door while you're waiting for that year-five infusion, you can suddenly find yourself with very little cash left to run the business, sending MRG into a spiral it may not recover from.

A key objective of the turnaround in MRG must in my opinion be to rapidly improve operations to reduce costs. Such improvements will in my opinion almost always entail changes to the organisation or the operating model resulting in finding places to cut or restructure costs, such as by reducing the number of management layers, selling off certain business activities and assets (as discussed elsewhere), simplifying product portfolios (as discussed elsewhere) or lowering head count.

**To improve cash generation I believe decisive moves across the entire current portfolio must be made to a) significantly reduce costs and complexity; b) cut all capital expenditures that are not critically required; and c) shut any overcapacity.** It appears the working capital has been reduced which is great. The questions I believe you and the Board must continue to ask at this point is "can it be further reduced? By how much? Why not by more?"

I believe it is incumbent on you and the Board to treat the current situation - the turnaround - like a crisis. Without a crisis mind-set, I believe there is a very high probability you will get a stable company's response to change: risk is to be avoided, and incrementalism takes over. Staff is asked to do a little more (or the same) with less. More aggressive ideas will be analysed ad nauseam, and the implementation will be slow and methodical.

**This describes, in large, my perception of what is currently taking place at MRG.** I believe it would appear the market has a similar perception to me.

In contrast, **a crisis demands significant action, NOW, which is what a distressed company needs.** The Board and management will need to use words like crisis and urgency. A company that accepts the reality that it is in true crisis will be willing to try some things that it normally wouldn't consider, and

it's those bold actions that change the trajectory of the company. Crisis drives people to action and should open the Board and management up to consider a full range of options.

**Are you challenging yourself whether you and your colleagues approach and manage, and continue to approach and manage, MRG with a sufficiently strong crisis mind-set?**

### **3. COMMUNICATION**

I understand that few challenges would be as daunting as communicating with investors in the middle of a restructuring. You must reckon with heightened scrutiny of reporting and regulatory disclosures, and while doing so you must simultaneously convey a sense of humility about what went wrong and a strong sense of confidence that you know how to correct it, and quick.

Investors will be focused on the slightest nuances of every statement, report, public appearance, and performance metric for signs of strength or weakness. Competitors will cast any hesitation and ambiguity in the most ominous terms, to win over customers, suppliers, and key employees. And, of course, all these challenges come at once, just when managing the core business is most difficult.

I get it.

As with most complex situations, there is no one-size-fits-all approach to communicating in the type of situations MRG is now finding itself.

**However, I do believe there is room for significant improvement to the type and level of communication currently coming from MRG.**

I think it is important you draw on and utilise your nominated advisors in EM Advisory and Shaw and Partners. God knows you rewarded them both exceedingly well and now is the real time for them to earn what they have already been paid. You have stated yourself that the raise was conducted largely with

existing shareholders, apart from in particular the one discussed above.

I believe that by adopting an investor's point of view, monitoring shifts in the shareholder base, targeting specific future milestones, working to rebuild credibility, and branding the turnaround, the Board and management can better maintain focus and shore up critical investor support.

- Communicating from an investor's point of view

A successful turnaround requires input and collaboration with a wide range of stakeholders, such as investors, employees (including unions and work councils where relevant), financiers (i.e. your bank), customers, suppliers, government bodies, and communities.

Communicating early and often is crucial to create a consistent narrative and convince stakeholders that the turnaround is a winning proposition for all involved.

But investors (and your financiers) hold the purse strings. If they recognise your progress and reward it with a higher share price, employees may well be encouraged to double down on their efforts. Conversely, if the investors' view remains glum for too long, it can dampen morale, lead to defections, and ultimately undermine the viability of the entire turnaround.

As discussed above, weak performance can also lead to a decline in share price. In that environment, no news is usually considered bad news. Lack of communication can accelerate this process and it becomes self-reinforcing, as does the obvious risks this brings.

Moreover, communications with investors should set the tone for discussion with all audiences. It can be tempting to tailor messaging heavily for different stakeholders. But I believe this only takes additional time and hence adds costs, adds complexity, conflicting narratives, and risks.

- Watch for shifts among core shareholders

Even in the best of times I believe, a prudent Board and management should devote energy to understanding how their largest and most important shareholders view and value the company. It is after all the interests of these shareholders you as the Board represent, so it would make sense that you understand them best possible.

In my experience most investors base their decisions on a deep understanding of a company's strategy, its performance, and its potential to create long-term value. Because they are focused on a company's long-term intrinsic value, they are more likely than shorter-term investors to support management through a turnaround - and most likely to move the company's share price as the turnaround evolves.

Obviously, and as discussed above, the opposite also holds true.

Thorough analysis of investors can help you assess their expectations. Interviews by external parties, such as Shaw and Partners and EM Advisory, can be particularly helpful for you to tease out pain points or concerns.

It is then your task to address those points head on and not try to hide the real issues behind platitudes and pleasing statements.

- Express a specific vision for the future

As you know from my previous communication, I strongly believe that as a company undergoing a turnaround, MRG must paint a detailed and compelling strategic vision of its plans to address the root cause of underperformance or distress. I do not believe this has been provided at near the detail and specificity required as yet.

I believe such vision must also include high-level financial goals, with an outline of how they will be met. You should be candid about any trade-offs MRG will be making, for example, between capturing savings to improve the bottom line in the short term and reinvesting in the business to

sustain performance after the turnaround effort is complete.

I believe investors understand that reinvestment is an important part of long-term value creation and they will be supportive as long they are confident that firstly MRG will survive, secondly that the immediate focus is on generating cash and then, thirdly, when trust and credibility has been restored, they understand the investments MRG will be making and when returns from these are expected.

While getting too specific on timing can backfire, I believe most investors typically value, and in some cases demand, some sort of concrete guideposts against which they can regularly track progress.

- Rebuild credibility

As mentioned above, until you, the Board and management earn back credibility with investors, their valuations are unlikely to reflect more than a heavily discounted version of the improvements management is claiming.

Regaining trust - both to demonstrate open and honest transparency and, frankly, to inspire confidence that the Board and management know what they're doing - requires a change in tack from usual communications on a number of fronts.

- *Break all the bad news at once.* As a general rule, I believe you should make a point of being as candid as possible from the very start. It's a well-established principle of politics, but it's just as applicable to companies in a turnaround. I am not sure you have done this sufficiently efficiently and now the task may be even more daunting.

It takes strong leadership to criticise one's own actions, sometimes at the risk of being replaced. Investors may be more patient at the outset of a turnaround while they await evidence that the

turnaround is working. **But the patience of even the most committed investor will wear thin if bad news just keeps dribbling out.**

- *Build a track record of delivery.* Communicate only the goals you know you can achieve - using metrics and milestones you revisit regularly - and then prove you can achieve them.

Credibility is at a premium in a turnaround—and nothing erodes it like making a promise and falling short.

Metrics do not need to be purely financial. Also using operational metrics offers investors a way to track MRGs performance and hold management accountable for improvements.

- *Tie incentives to targets.* Talk is cheap, and I believe investors gravitate to management teams that put their money where their mouth is.

Structuring compensation packages to directly tie them to turnaround targets, as well as having executives and Board members buy meaningful amounts of shares, signals a commitment and confidence to follow through and deliver on promises made.

- *Increase transparency.* Just as breaking bad news all at once can improve credibility in a turnaround, I believe candor can help not only at the level of overall financial guidelines but also of specific projects.

Consider making a practice of detailing, during earnings calls and investor gatherings, the projects you have in place for fixing your balance sheet, generating cash, reducing costs, improving operational efficiency and workforce behaviour.

I am a strong believer that all investors will appreciate the more vivid picture of the type of transformation MRG is undergoing.

As stated above, in my opinion, in the state MRG is currently finding itself no news is usually considered bad news. Your continued lack of specific communication can accelerate this process and it becomes self-reinforcing, as does the obvious risks this brings.

- *Be confident - and humble.* I think it is very important that you, the Board and management exude confidence at your ability to withstand challenging times from markets and competitors - as well as project the success of MRG planned turnaround.

But you will also need to show humility in the face of distress, whether it's due to underperformance or external factors. Be aware that shareholders will examine word choice and tone for signs of the kind of arrogance and overconfidence that come from denying missteps or avoiding being truly forthcoming with information and transparent with it.

- Brand the turnaround

I know that to many, branding a turnaround may seem to be mere marketing. In my opinion it can be an effective way to crystallise a focal point and amplify the narrative - making the rebuilding effort more credible.

Note, in case I haven't been clear enough about that in what I have written above, I do not think Project Muscat is anywhere near sufficient in terms of what is required for you to turn around MRG.

You will know when the project is sufficient, is understood and when the branding has caught on. That is when investors, media and staff alike are citing the project by name as shorthand for the turnaround. When that occurs it will render internal and external communication more

coherent and give employees' internal efforts some external recognition.

Ultimately, communication is not a substitute for performance. Nothing will drive MRG's share price like strong performance and beating of expectations. Yet thoughtful approach to your communication to investors and other stakeholders can help assist you build the momentum needed to bring MRG back into an era of value creation.

I think the litmus test is that if you can tell MRG's turnaround story in a paragraph or less, in a way that means something to the average person on the packing line, then people will get on board. I still believe that MRG is a company where employees, if they could trust the company would sustain, would want to have their children and their grandchildren work. The key is a simple message, not fancy metrics.

Lastly, in respect of the employees – I believe that in any given company, you're likely to find that say a fifth of employees across the organisation are almost always supportive. They work hard. And they will change what they're doing if you just ask them. These are the people you'll want to spend most of your time with, and they're the ones you'll promote - but you'll probably spend too much time with the bottom fifth of employees. These are the underachieving ones who actively resist change, look for ways to avoid it, or are simply high maintenance.

What often gets ignored is the remaining 60 percent of the employees. These are the fence-sitters, and they are tuned into action, not just talk. They see the changes going on, and if you proactively work with them, then you will have 80 percent of the employees behind you. But conversely, if you don't give them a reason to stand up and be positive about MRG, they'll go negative. That's the importance of quick wins. When you quickly take real action, and when those actions affect the management team as well, you send a powerful message.

Again, in assessing whether this has occurred or is occurring, making sure you are basing yourself on reality is obviously crucial.

I, and I strongly believe most other investors, think culture important for two key reasons. One, culture is where your employees live every day. Improving the culture helps productivity. When they are happier and more productive, that improves the customer experience which translates into more sales. Two, if you fix the financials and don't fix the culture, you will end up in the same position. The culture created the problems - and the opportunities – for MRG. It's important for the long-term, and it's important for the short-term.

Finally, on communication, please make sure you, the Board and management show a very strong focus on the customer. It should be a given yet in a turnaround crisis, the risk is that it is all too easy to have the Board and management locked up in boardrooms getting or giving advice. Doing that, you may lose the connection with the customer and that MRG can not afford. In my experience, you need all of the advice you can get, but much of the best advice isn't found in a boardroom; it's found visiting a customer.

The last point I wish to bring up with you in this letter is that of MRG's incentive plans. You will recall I have long requested that details of these be made known to investors. Obviously they were included in the recent Prospectus.

Andrew, I believe management incentives are often the most overlooked tool in a turnaround. Unfortunately they are often too complex, not specific and result in cash payments without knowing if what was done delivered the actual objective which in most instances can only be truly measured over time. Therefore they are often not as effective, nor as aligned with investors, as they could be. I believe this to be the case with MRGs incentive plans.

Of course bonuses should be paid for services rendered. Outside listed company executive teams, bonuses are nearly always the result of past performance, but this is rarely the case for ASX-listed companies. Instead, complicated and opaque scorecards are used to determine both a short-term incentive and a long-term incentive. These are then 'paid' to executives based on equally complex, and often flawed, vesting conditions.

Quite frankly, I believe that many management teams, MRG included, most likely place little value on the long-term portion of their remuneration, given the difficulty in understanding the structure of the reward and the risks associated with its vesting.

This is staggering given the cost of these schemes to shareholders. It is quite possible that high base salaries and short-term incentives – often with large cash components – are now used to compensate executives, also in MRG, for the risk that their long-term incentives do not vest.

The above has resulted in remuneration structures that are the direct opposite of what I expect and what I believe shareholders deserve. I am sure that in your capacity as chairman you will agree?

These structures are complex with hard to understand hurdles and vesting conditions, short-term weighted, asymmetrical and not aligned with shareholders given their high proportion of cash. I ask that you please consider a new structure to address this.

I believe a successful remuneration structure should contain the following five attributes, listed below along with examples of how they could be applied:

### **1. Simple and transparent**

Replace short-term incentives and long-term incentives with a single bonus scheme, let's call it an Executive Incentive Plan (EIP). The EIP is a payment in shares (after paying income tax on the bonus amount). This eliminates short-term cash bonuses, makes the system easier for management to understand, and minimises the number of remuneration structures on which shareholders vote. Structured well, management are appropriately rewarded only for good long-term decisions.

### **2. Long-term focused**

EIP shares purchased are to be placed in trust for at least three years, but preferably five years (even if that exceeds the executive's employment term). Ideally, the term should align with MRG's natural capital investment cycle.

The ills of poorly executed corporate strategy often only manifest themselves years later and then often only with the

benefit of fresh eyes. It is only fair that departing management share in the fruits (or problems) of their long-term decisions after they leave MRG.

### **3. Symmetrical**

The EIP awards are free of ALL vesting requirements. Bonuses are paid for services rendered and are therefore already earned. Future vesting hurdles, which are unnecessarily complex and less important when the awards are used to buy shares (see point four below), should be abolished.

### **4. Aligned with shareholders' interests**

The after-tax bonus amount is invested in shares in MRG, not paid in cash. These shares are purchased on market rather than being issued by MRG.

These shares will rank equally with all paid-up shares in issue – they will carry votes, receive dividends and, importantly, their value will rise and fall with the market. Poor decisions, or badly executed corporate strategy, will likely see MRG's share price fall and along with it, the value of this award. Consequently, despite the award being free of vesting hurdles, outcomes will still be aligned shareholders' interests.

Its simplicity will save significant costs (tax consultants and accountants tasked with approving and monitoring complicated schemes, and the Board and management in discussing the outcomes) currently borne by shareholders.

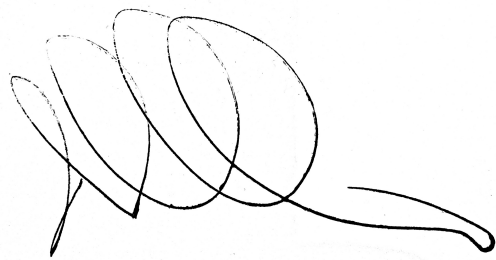
### **5. Quantum and fairness**

Addressing the structure of an EIP award remains the responsibility of MRG's board. Having the awards 'paid' in shares alleviates some of the risks around poorly constructed KPIs used to arrive at EIP award amounts, but it does not eliminate them. There is no cookie-cutter approach to setting 'quantum-determining KPIs'.

Andrew, this letter ended up being a long one. The performance of MRG's share price conversation and the continuous lack of meaningful, concrete and measurable communication has caused very significant losses to many of your investors, myself included.

Our recent conversation enlightened me of a large number of matters that I, as a remaining large shareholder, deem it critically important that you now take accountability for addressing and it is those I have sought to describe for you in this letter. I appeal for you to take these matters seriously and for you to share this letter with your fellow directors at the earliest opportunity.

Kind Regards

A handwritten signature in black ink, consisting of several overlapping loops and a long horizontal stroke extending to the right.

Erling Sorensen  
On behalf of the Sorensen Family Trust