Rubicon Annual Shareholders' Meeting – 17 September 2018

Luke Moriarty – CEO's address

Thanks Dave … and good afternoon ladies and gentlemen. It's a pleasure to be with you.

In 2018, we managed to balance a huge transactional year with strong performance at the ArborGen operating level.

So by way of recap, the fiscal year just completed saw us –

- Acquire our two partner's 67% interest in ArborGen, to allow Rubicon to become the 100%[1] owner of this exciting business.

- This outcome had been the Board's core objective for some time, but we first needed to navigate through some difficult partnership and funding issues before we could make this happen. Fortunately, the move was strongly supported by our controlling shareholders – Knott Partners and Libra, who together own ~46% of Rubicon's issued shares, and who provided US$12.5 million in new Rubicon equity to assist with the funding.

- We were able to successfully negotiate the acquisition on a deferred payment basis, to allow us the time to find all of the money we needed to complete the transaction. And we were also able to persuade ArborGen's three bank lenders to continue to extend funding lines to the company despite the fact that ArborGen was losing the 'support' of two large investment grade rated partners (International Paper and WestRock).

- Because we had no desire to approach Rubicon shareholders for further cash, <u>and</u>, in order to refine Rubicon to be a pure-play on the ArborGen business, the Board then made the decision to exit our remaining 45% interest in the Tenon Clearwood Limited Partnership (TCLP) – i.e. the clearwood processing and global distribution business located in Taupo. At a special shareholders meeting in January this year, shareholders voted overwhelmingly (99% in favour) to sell this investment. 40% of the 45% TCLP position was sold to our controlling shareholders – Knott and Libra, with the remaining 5% going to the existing TCLP shareholders under the pre-emptive rights provisions of the partnership agreement.

- After all this was completed, the cashflow for the six months to Mar'18, and the closing net debt[2] position[9] at balance date looked like this.

- Since balance date, in June this year, we made the final US$10 million deferred ArborGen acquisition payment, and we received further liquidation proceeds from Tenon. If we were to adjust the 31 March positon for those two items, the Company's consolidated net debt position would have been as shown [here].

- From a balance sheet leverage perspective, and taking a conservative view by using our current market capitalisation as the equity number, the Rubicon Group's ratio was ~18% on a pro-forma basis.

- In addition, earlier this month we announced that we had expanded ArborGen's US working capital line to US$17 million and rolled the facility for another two years … and ArborGen's existing ~US$12 million asset loan has an 18-year term remaining. In total today, the Group has bank funding lines of more than US$30 million, and drawn debt (net of cash balances) of only ~US$18 million. So, 'all-in-all,' we feel we are in good funding shape right now.

With that transactional and funding recap behind us, let's turn to operational matters, where we have been equally busy and successful.

Upon acquisition of ArborGen, we set performance targets for the March '18 fiscal year – each of which was met, despite a tough hurricane season in the US which negatively impacted sales. So the year to March saw ArborGen achieve –

- Total sales of 347 million seedling units
- 236 million of which were loblolly in the US
- … and 73 million of those were in advanced genetics
- … as MCP sales in that geography lifted 22% on the prior year, and
- Advanced genetics sales as a % of the total loblolly sales in the US, increased from 25% to 31%
- … which in turn saw the US loblolly pine ASP lift 7% y-o-y.

In terms of financial outcomes (under US-GAAP[3] terms), ArborGen recorded EBITDA of US$4.3[6] million … which was more than double the previous year's result.

This current year we have set ourselves a target[7] of achieving an EBITDA result of US$7 [7,8] million, on unit sales 10%+ higher than last year's number. To date, in our largest market, the US, we are currently ~ 85% sold, in a 'lifting' season that does not even take place until the first quarter of next calendar year.

To help raise operational intensity following our acquisition, a comprehensive 10-year Plan review of the business was completed, and signed-off by the Rubicon Board. Milestones have been set, and the management team will be measured and rewarded on their achievements against those. In essence, the Plan establishes an integrated advanced genetics supply, manufacturing, and marketing program for each geographic market in which ArborGen operates – the United States, Brazil, and ANZ – designed to ensure the financial goals for the Company are achieved each year moving forward. If that Plan is met, the next fiscal year should see a further lift in earnings yet again … and we will announce to you exactly what our target is for the Mar'20 year once we have successfully closed the current fiscal year.

We will be aided in our improved earnings and cash generation goals, by the Rubicon-ArborGen 'one company' rationalisation program that we have now put in place. The immediate goal is to improve the cash performance of the consolidated Group by more than US$2[7] million this year, and then a higher level of improvement on an on-going basis in future years.

I don't want you to think that this is a cost-out program at the expense of growth, or a reduction in the critical resources needed to run the business – we are continuing to invest in ArborGen growth opportunities wherever that makes economic sense to do so.

So, for example, in February we announced ArborGen was the successful candidate in a proposal with the South Carolina Forestry Commission to exclusively lease, modernise, and operate the Taylor nursery. This represents a strong 10-year partnership, in relation to a 30 million per annum seedling nursery, located in a high-demand geography.

And we are currently also well-advanced with another opportunity, which if all goes well, we hope to announce to the market in the next quarter.

And we will continue to invest in strong strategic growth moves where we know they will quickly convert into earnings, cashflow, and share price value – and to the extent we can, we will do so in a capital-light or capital-deferred manner.

Ok, with all that said, let me wrap up now.

And I'm going to do that by leaving you with a series of 5-year ArborGen charts, which show where we have come from and where we are now heading. Let's take a look at them [one by one] …

- Gross Margin
- EBITDA
- Operating Cashflow, and
- Free Cashflow

What you can see from these tables, is that the very heavy technology and product development phase, and the related past EBITDA losses are well behind us.

Unquestionably there have been some disappointments along the way, those that all technology growth companies need to traverse as a matter of course, but we have also had to face some tough sector-specific and ArborGen-specific hurdles we would rather not have had to – the GFC, the 10-year impact of the extreme US housing recession, the changed regulatory approval regimes - particularly in the US, and the employee litigation, each slowed momentum at critical junctures in the Company's life.

But they are all behind us now.

ArborGen's 'tree machine' platform has been built. An existing advanced genetics product portfolio (not requiring regulatory approval) is now in place. A pipeline of new products continues to be advanced through our annual R&D spend. The conversion process of the US industry to higher-value genetics is now taking hold. Macro conditions in the US are at last favourable to us, and the NZ government's approach to forestry planting is bearing fruit also - and in that regard, I can announce today that ArborGen-NZ has just signed a 12 million seedling supply contract with Crown forestry for next year as part of the government's 10-year 1 billion tree planting program … of which we are very proud to play a part. And of course, we have also established a foothold in Brazil – a geography ArborGen is hoping to turn into a growth engine in future years.

So - the hard work has now been done.

We are now entering the 'harvest' phase.

And as my rugby coach used to say to us at half time – "it's ours to lose."

This is my final ASM as the CEO of Rubicon. I am proud to have had the opportunity to work with many passionate and committed people at Rubicon, Tenon, and ArborGen during my tenure, and also to have been able to report each year to you as supportive owners of the Company. I am comfortable that I am leaving the Rubicon-ArborGen business in good health – albeit with one current regret, the share price. Although we have seen a ~40% increase in Rubicon's price over the past 12 months, there is no argument that the current share price is not where we would like it to be. Having said that, we do believe that the combination of the 'one-company' cash improvement program, the upcoming earnings result for current fiscal year, and guidance for next year, along with the positive impact of the funding and growth moves that have been made this year, should see the share price continue to track up over the next 12 months.

And to this point, I should note that Edison Research has just this month issued a research report on Rubicon. This is freely available on-line if you wish to read it. The succinct summary is that Edison's initial valuation of Rubicon is NZ 74 [10] cents per share – more than 2.5x the current market price. So not only is the Edison report supportive of our carrying (i.e. book) value of ArborGen, but it also lends credence to our stated view as to the strong future upside value inherent in the underlying business.

Thank you Ladies and Gentlemen.

That's all from me - for good this time.

I will now hand back to Dave.

Footnotes

[1] Rubicon owns 100% of the issued share capital of ArborGen. In addition, there are warrants outstanding over 5% of the issued ArborGen share capital that can convert to ArborGen shares at nil consideration, and options equivalent to 4.6% of ArborGen's share capital have been issued to ArborGen management and which have a strike price equivalent to the ArborGen value implied by the price paid by Rubicon for the International Paper and WestRock shareholdings. Please refer to Note 15 of the 2018 Audited Rubicon Financial Statements.

[2] Net interest bearing debt (net of cash) is $18 million, calculated as Term debt ($11 million) + Current debt ($15 million) + Finance lease obligations ($13 million) less Cash and liquid deposits ($29 million), each as at 31 March 2018, adjusted for two cash items since that date being the Tenon liquidation receipt ($2 million) and the final ArborGen deferred acquisition payment made ($10 million). Market equity is $85 million, calculated as 487.9 * 26.5 cents * 0.66 (being the approx share price and cross rate at the time of preparation of this presentation)

[3] The relevance of US-GAAP rather than NZ-IFRS is that is the accounting basis under which ArborGen would report in a US-listing situation.

[4] Pre-depreciation.

[5] EBITDA (Earnings before interest, tax, depreciation and amortisations) is a non-GAAP earnings measure that equity analysts tend to focus on for comparable company performance, because that number removes distortions caused by differences in asset ages, depreciation policies, and debt:equity structures.

[6] This is pre-impairment costs ($0.8 million, relating to the rationalisation of ArborGen-NZ's varietal programme) and pre-transaction costs (being the direct costs relating to the ArborGen acquisition plus the cost of the ArborGen management retention package, of $1 million in total).

[7] Pre-restructuring costs. This is a 'forward-looking statement.' As this and other forward-looking statements in this presentation are predictive in nature they are subject to a number of risks and uncertainties relating to Rubicon and ArborGen, many of which are beyond our control [please refer the inside front cover of Rubicon's 2018 Annual Report for a discussion of some of those uncertainties and risks]. As a result, actual outcomes, results and conditions may differ materially from those expressed or implied by such statements.

[8] US-GAAP, pre impairment, transaction, and restructuring costs (and subject to 7 above).

[9] Excludes Tenon and TCLP consolidated net interest bearing debt which was deconsolidated on liquidation / sale.

[10] Pre 5% warrants and ~5% management options over ArborGen shares, or ~NZ68 cents adjusted for both.