Rory Gwozdz, Matt Briggs, Amanda Zhao, Chaitanya Mittal, Avery Burke, and Alina Skripets
Schedule

1. High Level Overview
2. Investment Thesis & Business Segment Breakdown
   a. Agriculture
   b. Sugar
   c. Meat
   d. Fats & Oils
3. Three Pronged Variant
   a. Vertical Integration
   b. Far East Expansion
   c. Government Subsidies
4. Valuation
5. Risks
   a. Government
   b. Ruble/Oil
Rusagro is a leading vertically-integrated agricultural producer and food processor in Russia.

Rusagro operates in four segments:
1. Agriculture
2. Sugar
3. Meat
4. Fats and Oils

Historically, management’s grown the company by expanding its asset base.

Rusagro places a strong emphasis on vertical integration and symbiosis between the different business segments.
Agriculture Division

Rusagro has 504 kha of arable land to produce sugar beet, wheat, barley, peas, soybeans, sunflower and corn.

Not only is Rusagro is one of the most massive producers, they’re also one of the most efficient. Their average crop yield was 33%-86% higher than the average Russian yield, differing by crop.

Rusagro sells its surplus on the spot market.

Wheat Sales
- 26% Internal
- 74% External

Beet Sales
- 100% Internal

All commercial farms are near processing companies such as sugar plants, animal feed mills, and grain elevators.

The total capacity of their four grain elevators is more than 735 thousand metric tons.

Gross Profit Growth of Agriculture

<table>
<thead>
<tr>
<th>Year</th>
<th>RUB 5,000</th>
<th>RUB 10,000</th>
<th>RUB 15,000</th>
<th>RUB 20,000</th>
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<tbody>
<tr>
<td>2013Y</td>
<td>7,163</td>
<td>6,672</td>
<td>10,723</td>
<td>12,867</td>
</tr>
<tr>
<td>2014Y</td>
<td>8,613</td>
<td>10,723</td>
<td>14,154</td>
<td>14,437</td>
</tr>
<tr>
<td>2015Y</td>
<td>7,163</td>
<td>10,723</td>
<td>14,437</td>
<td>14,726</td>
</tr>
<tr>
<td>2016F</td>
<td>6,672</td>
<td>12,867</td>
<td>14,437</td>
<td>14,726</td>
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<tr>
<td>2017F</td>
<td>10,723</td>
<td>14,154</td>
<td>14,437</td>
<td>14,726</td>
</tr>
<tr>
<td>2018F</td>
<td>12,867</td>
<td>14,437</td>
<td>14,726</td>
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<tr>
<td>2019F</td>
<td>14,154</td>
<td>14,437</td>
<td>14,726</td>
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</tr>
<tr>
<td>2020F</td>
<td>14,437</td>
<td>14,726</td>
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</tbody>
</table>
Sugar Division

Sugar is the largest element of Rusagro’s structure and is the company’s core operation. There are favorable trends occurring in the Russian sugar industry that will benefit this segment of the business.

### Russian Sugar Industry

**Per capita sugar consumption (kg)**

- Brazil: 54.4
- Germany: 49.4
- Russia: 39.7
- USA: 33.5
- China: 12.2

Russian sugar demand has remained stable over the last 10 years. Demand has proven to remain stable through various market conditions.

### Favorable Conditions

1. Recent acquisition of 3 sugar mills greatly expanded Rusagro’s beet sugar capacity
2. Global sugar consumption is outpacing production for the first time since 2011
3. While sugar prices are already higher in Russia, we could see an increase in the global price in sugar over the next few years – this could help to increase export prices and further provide support to Rusagro’s profitable sugar
4. Favorable market/demographic trends in Russia with regards to sugar
5. Demand does not fluctuate much year over year, yet sugar consumption changes based on per capita GDP growth
6. Rusagro has exposure to industrial and consumer end markets and this is properly positioned to remain a strong player in any market conditions
7. Russian policy is geared towards protecting domestic production
Sugar Division

Rusagro is currently the number three sugar producer in Russia, holding a 19% market share after acquiring three additional mills from a competitor.

AGRO Production (kt)

<table>
<thead>
<tr>
<th>Year</th>
<th>Cane</th>
<th>Beet</th>
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<tbody>
<tr>
<td>2012</td>
<td>547</td>
<td>57</td>
</tr>
<tr>
<td>2013</td>
<td>502</td>
<td>109</td>
</tr>
<tr>
<td>2014</td>
<td>498</td>
<td>219</td>
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<td>2015</td>
<td>582</td>
<td>183</td>
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<tr>
<td>2016</td>
<td>733</td>
<td>60</td>
</tr>
<tr>
<td>2017</td>
<td>764</td>
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Average Realized Selling Price (Rub/kg)

<table>
<thead>
<tr>
<th>Year</th>
<th>Price</th>
</tr>
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<tbody>
<tr>
<td>2012</td>
<td>24.5</td>
</tr>
<tr>
<td>2013</td>
<td>24.6</td>
</tr>
<tr>
<td>2014</td>
<td>28.4</td>
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<tr>
<td>2015</td>
<td>40.4</td>
</tr>
<tr>
<td>2016</td>
<td>40.4</td>
</tr>
<tr>
<td>2017</td>
<td>42.0</td>
</tr>
</tbody>
</table>

Sales Mix

- Branded packed: 25.7%
- Industrial: 61.4%
- Branded Cubed: 7.3%
- State Reserves: 5.6%

The company is able to sell sugar at a 5% premium to the average Russian selling price. This is because 30% of AGRO’s sales are through the more profitable B2C segment, ala their strong brand portfolio that covers a range of prices and qualities.
Meat Division

Rusagro is the second largest pork producer in Russia with heavy expansion pending.

Rusagro’s meat division is heavily subsidized by the Russian Government to encourage domestic production.

Also, roughly 38% of the grain used to feed the pigs is internally sourced, and all of the fodder is made at Rusagro’s own facilities, which allows for a significant decrease in production costs for pork, adding c7.5% to the EBITDA margin.
Rusagro holds significant market share in the production of sauces, oils, and soya-based products.

**Distribution of Plants**
- Samara, purchased recently, produces vegetable oils of which 85% are sunflower seed-based. Shutdown for part of 2015 due to seed shortage.
- EZhK has plans to increase mayonnaise production by 11000 tonnes per year.
- Primorskaya in Far East shares advantageous border with China, opening access to new markets.

**Structure of Exports**
- Rusagro, is the no.1 producer of margarine in Russia, producing many times the domestic consumption capacity, so most of it is exported to former Soviet Union.
- 50% of all fats & oils goods are exported, so segment suffered due to declining living standards in Central Asia.
Fats and Oil: Problems

Fats & Oils was worst-performing segment due to lower profitability in vegetable oils

### Product Pricing

<table>
<thead>
<tr>
<th>RR per kilogram, excl. VAT</th>
<th>Year ended</th>
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<tbody>
<tr>
<td></td>
<td>31 December 2015</td>
</tr>
<tr>
<td>mayonnaise</td>
<td>72.7</td>
</tr>
<tr>
<td>margarine</td>
<td>70.7</td>
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<tr>
<td>processed sunflower oil</td>
<td>61.4</td>
</tr>
<tr>
<td>sunflower raw oil, 3rd parties sales</td>
<td>48.3</td>
</tr>
<tr>
<td>sunflower meal</td>
<td>13.4</td>
</tr>
<tr>
<td>soybean raw oil</td>
<td>24.4</td>
</tr>
<tr>
<td>soybean processed oil</td>
<td>59.1</td>
</tr>
<tr>
<td>soybean meal</td>
<td>28.6</td>
</tr>
</tbody>
</table>

- Prices of inputs overall increased across the board, forcing higher price/kg for end product.
- Mitigated by domestic dependence on mayonnaise as a staple sauce and foreign dependence on margarine as a cheap substitute for butter in worsening Asian economies.
- Raised brand awareness for new Mehta Khozyaiki mayonnaise line also helped.

### Oils and Fats Production, ’000 Tonnes

- Vegetable oils took a major hit due to a shortage in sunflower seeds.
- The price hike in seed prices combined with declining demand not only decreased profitability, but also increased costly exports.
- Future plans to construct a new vegetable oil facility do not bode well given that current trends are expected to persist through 2016.
**Competitive Landscape**

### Sugar
- Soft ruble => lower demand for cane sugar imports, beet sugar up;
- Low demand for artificial sweeteners;
- Localized international players.

### Meat
- B2C market position taken in 2015;
- Vertically integrated operations;
- Poultry integrated with pork;
- GCHE, Atyashevo – largest player;
- Regional players with weak distribution networks.

### Fats & Oil
- Mayonnaise competition with premium souses;
- Brand loyalty matters;
- Competition in margarine based solely on pricing.

### Agriculture
- Prodimex (largest landowner);
- Low levels of diversification and integration;
- Russian market shielded from foreign competition.
1.) Far East Expansion
2.) Vertical Integration
3.) Government Subsidies
Vertical Integration: Sugar Division

EBITDA Margins of Sugar vs. Global Peers

Vertical integration is a key reason Rusagro maintains its 22%+ EBITDA margin. By internally producing all sugar beets (which they’re projected to do by 2020) Rusagro not only mitigates supplier pricing risk, but also increases their margins. This transition to high margin beet production, is an ongoing shift for Rusagro and will drive future profitability.
Vertical Integration: Meat Division

Use excess grain as feed
- Extensive cost savings for pork production
- Lower saturation allow higher prices of grain

Use manure as fertilizer
- Cost savings for grain segment
- Mainly implemented in Far East plants

Meat Segment Cost Savings
- About 38% of grain used to feed pigs is internally sourced, all fodder made in internal facilities
- Add about 7.5% to EBITDA margin
- **2014:** Higher price for grain and transportation costs caused 20-25% rise in production cost for market
  - Agro only had 7% cost growth
Far East Expansion

The Far East Expansion gives not only access to an untapped domestic market, but also allows for growth into massive foreign markets. By 2019 the domestic market can be fully supplied. By 2020, Foreign markets can begin to be supplied.

There’s a 50% premium for pork paid consumers in the Far East, but there’s no difference in cost of production for Rusagro.
Government Subsidies: Overview

Primary Types of Subsidies

- Partial compensation of land and equipment acquisitions
- Reimbursement of interest expenses
- Reimbursement of operating expenses
- Proceeds from government grants have fallen from $4B (2013) to $3B (2016)

Government Grants (Thousands of Rubles)
Government Subsidies: Far East Expansion

Far East Expansion

• Construct 10 commercial complexes and feed plants for pork production
• Completion by 2022, with forecasted growth in meat business by 10.1B rubles

• **Total cost:** 15.8B rubles
• Government financing up to 12.65B rubles at discount interest rate of 11.5%

Future Outlook

• Animal products budget projects decline from 66.6B rubles in 2016 to 58.3B rubles in 2020
• **Main risk:** unstable Russian economic situation from dependence on oil/gas
  • Risk of further ruble depreciation
  • Wider state budget deficit

Agr Development Program (2013-2020)

• Provides: (1) special purpose loans at reduced rate, (2) state guarantees to secure up to 25% of loan amount
• Has provided the first tranche for construction of pig farms in 2015

Source: Data from the State Program 2013-2020, Ministry of Agriculture’s draft of August 2011, and the first draft prepared by economists in 2011.
Government Subsidies: Risks

2013-2020 State Program and Far East Expansion

Favorable Funding Goals

• >30% of program for livestock and poultry (excluding beef industry)
• More aggressive production goals for meat and poultry production relative to other sectors (33.3% increase by 2020)
• Government interest in wellbeing of agricultural industry:
  • 2008-2012 state program

Mitigated Risk

• First phase of construction completed in 2021 while state program concludes in 2020 – limited impact
• State program conclusion not significant concern considering investment horizon

• General government support of livestock expansion, little evidence of government preference of other companies over Rusagro
• Low economic risk if government subsidies end on far east expansion
• However, should note that while funding expected to increase overall from 2013 to 2020, livestock sub-program projected to slightly decrease overtime
Valuation – WAAC Calculation and Discount

<table>
<thead>
<tr>
<th>Capital Asset Pricing Model (CAPM)</th>
<th>#</th>
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<tbody>
<tr>
<td>Risk Free Rate of Return</td>
<td>1.70%</td>
</tr>
<tr>
<td>Expected Return of the Market</td>
<td>14.00%</td>
</tr>
<tr>
<td>Beta Regression</td>
<td>0.7351</td>
</tr>
<tr>
<td>Discount Rate = Cost of Equity</td>
<td>10.74%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Weighted Average Cost of Capital (WACC)</th>
<th>#</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of Equity</td>
<td>10.74%</td>
</tr>
<tr>
<td>Cost of Debt</td>
<td>6.51%</td>
</tr>
<tr>
<td>Debt</td>
<td>$58,917,330</td>
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<tr>
<td>Equity</td>
<td>$102,470,588</td>
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<tr>
<td>Weighted Average Interest Rate</td>
<td>7.05%</td>
</tr>
<tr>
<td>WACC = Discount Rate of Firm</td>
<td>9.20%</td>
</tr>
</tbody>
</table>

- We used 10 year treasury as risk free rate. We feel this is appropriate and accurately reflects our risk, despite AGRO being based in Russia.
- We feel a higher market risk premium is necessary for the investment for the following reasons:
  - Low liquidity risk
  - Russian exposure risk
- While actual cost of debt for Rusago is 2.4%, we felt it was necessary to adjust this number to back out the effect of government subsidies on Rusagro’s effective interest rate
Valuation Charts

Steady Growth
Discounted Cash Flow Analysis

Far East Expansion
Discounted Cash Flow Analysis

$21.23

$33.57
## Valuation

<table>
<thead>
<tr>
<th>Case</th>
<th>Description</th>
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<tbody>
<tr>
<td>Bear Case</td>
<td>Assuming the market <em>unfavorably</em> views a slow revenue growth of AGRO</td>
</tr>
<tr>
<td>-13%</td>
<td></td>
</tr>
<tr>
<td>Base Case</td>
<td>Assuming the market <em>favorably</em> views a steady revenue growth of AGRO &amp; continues to be profitable</td>
</tr>
<tr>
<td>66%</td>
<td></td>
</tr>
<tr>
<td>Bull Case</td>
<td>Assuming the market <em>very favorably</em> views large growth from the Far East Expansion</td>
</tr>
<tr>
<td>163%</td>
<td></td>
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Recommendation

- Buy with 8% allocation, use cash

Our buy recommendation revolves around the following points:

1. Rusagro is a well diversified stable business that will continue to generate free cash flow and positive EBITDA growth for the foreseeable future.

2. The Company has a stronghold in the sugar market and is an optimal position to benefit from stable and strong demand and Russian policy geared towards Russian self-reliance

3. There is incredible upside potential as Rusagro expands into the Far East
   i. This also includes an optionality of exporting excess production to China, one of the largest pork consuming markets in the world.
Risks (Government)

Concerns

Subsidies by the government are unstable and unpredictable;
Payment counted upon but not provided;
Operations discontinued as a result.

M&A growth strategy relies on approval of purchase of smaller producers;
Potential overproduction in sugar and meat industries (happened before).

Mitigating Factors

All companies in Russian agriculture face delays and uncertainty in regard to subsidies;
Risk across the board.

Small business faces unfavorable conditions in the market;
Large export opportunities in China etc M&A project are likely.

The project of the government budget for 2017, RUB 204.5 Bill were allocated for the development of the Agricultural Production Complex. In 2016, however, the government committed RUB 237 Bill for the goal of developing agricultural sector but only RUB 214.8 Bill were actually used to subsidized production.
Risks (Ruble/Oil)

GAZ.DE VS AGRO

- Y-axis = AGRO
- X-axis = Gazprom
(Russia’s main producer of oil and gas stock price)

Corr (X,Y) -0.38707377

Currency Considerations

- The weak ruble would keep foreign demand for exports (East expansion into China)
- Recent exchange rate fluctuations and import ban => Import fell 24% YoY - unsustainable?
- Prices in commodities market depend on fluctuation in world prices (set in foreign currency)
- In the event of ruble appreciation, revenue decreases faster than product costs
- Russian tax is subject to varying interpretation of legislation and rapid unforeseen changes.
Questions?
Appendix
# Projected Agriculture Program Allocations

## Annex 3


<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>State Program for Development of Agriculture and Regulation of Agricultural Commodity Markets</td>
<td>156.6</td>
<td>158.9</td>
<td>162.0</td>
<td>175.4</td>
<td>186.0</td>
<td>194.7</td>
<td>203.5</td>
<td>211.3</td>
<td>217.9</td>
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<td>—— Ministry of Agriculture</td>
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<td>192.5</td>
<td>200.0</td>
<td>206.4</td>
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<td>—— VPSS</td>
<td>8.6</td>
<td>9.5</td>
<td>11.1</td>
<td>10.4</td>
<td>10.4</td>
<td>10.7</td>
<td>11.0</td>
<td>11.2</td>
<td>11.5</td>
</tr>
</tbody>
</table>

Including Sub-Programs and Target programs:

- Development of Crops Production, Processing and Marketing of Products of Plant Origin
  - 2012 (est.) | 40.2 | 46.0 | 43.4 | 47.3 | 53.7 | 60.2 | 67.3 | 72.7 | 76.1 |
  - 2013 (plan) | 50.4 | 57.8 | 61.9 | 67.3 | 66.6 | 65.2 | 62.4 | 59.9 | 58.3 |
  - Ministry of Agriculture | 30.4 | 37.5 | 60.7 | 66.0 | 65.2 | 63.8 | 61.0 | 58.4 | 56.7 |
  - VPSS       | 0.0  | 0.2  | 1.3  | 1.3  | 1.3  | 1.4  | 1.5  | 1.5  | 1.6  |

- Development of beef cattle
  - 2012 (est.) | 0.0  | 9.8  | 7.1  | 7.7  | 8.0  | 8.4  | 8.7  | 9.1  | 9.5  |
### Projected Agriculture Program Allocations (con.)

<table>
<thead>
<tr>
<th></th>
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<th></th>
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<tbody>
<tr>
<td>- Support of Small Forms of Business</td>
<td>11.2</td>
<td>8.6</td>
<td>8.6</td>
<td>9.9</td>
<td>10.4</td>
<td>10.8</td>
<td>11.3</td>
<td>11.8</td>
<td>12.3</td>
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<tr>
<td>- Technical and Technological Modernization and Innovative Development</td>
<td>12.0</td>
<td>2.0</td>
<td>2.0</td>
<td>3.3</td>
<td>3.2</td>
<td>3.2</td>
<td>3.3</td>
<td>3.3</td>
<td>3.4</td>
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<tr>
<td>- Management of Implementation of the State Program</td>
<td>21.2</td>
<td>21.7</td>
<td>22.7</td>
<td>22.1</td>
<td>25.2</td>
<td>26.2</td>
<td>27.1</td>
<td>28.3</td>
<td>29.1</td>
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<td>- Federal Target Program &quot;Social Development of Rural Area through 2013&quot;</td>
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<td>9.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
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<td>0.0</td>
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<tr>
<td>- Federal target program &quot;Sustainable Development of Rural Territories in 2014 - 2017 and Until 2020&quot;</td>
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<td>9.0</td>
<td>9.0</td>
<td>10.6</td>
<td>11.9</td>
<td>14.2</td>
<td>16.5</td>
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<tr>
<td>- Federal Target program &quot;Development of Land Reclamation and Irrigation by 2020&quot;</td>
<td>10.9</td>
<td>7.2</td>
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<td>0.0</td>
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<tr>
<td>- Support of on-farm land reclamation</td>
<td>2.0</td>
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<tr>
<td>- Federal Target Program &quot;Development of reclamation of agricultural lands in 2014-2020 (draft)&quot;</td>
<td>0.0</td>
<td>0.0</td>
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<td>8.8</td>
<td>8.4</td>
<td>8.8</td>
<td>9.2</td>
<td>9.6</td>
<td>10.0</td>
</tr>
</tbody>
</table>

Source: [www.mcx.ru](http://www.mcx.ru)
What Rusagro Sells in Agriculture

- Other (incl fallow)  10%
- Soybeans  18%
- Corn  21%
- Sunflower  17%
- Sugar beet  6%
- Wheat  5%
- Barley  23%
Base Case – Revenue Growth

- Moderate Revenue Growth is driven by current trends and the Far East Expansion. The expansion will drive an increase of revenue in the Meat and Agriculture.

- The switch from Cane to Beet Sugar Production will result in a 3% increase in Gross Profit Margins for the sugar production.
DCF with Far East Expansion

- With the growth prospects found in our Variant Perception

<table>
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<th>WACC</th>
<th>Terminal Growth rate</th>
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<tr>
<td></td>
<td>-1.0%</td>
</tr>
<tr>
<td>8%</td>
<td>83%</td>
</tr>
<tr>
<td>9%</td>
<td>58%</td>
</tr>
<tr>
<td>10%</td>
<td>37%</td>
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<tr>
<td>11%</td>
<td>20%</td>
</tr>
<tr>
<td>12%</td>
<td>6%</td>
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</tr>
<tr>
<td>8%</td>
<td>$25.21</td>
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<tr>
<td>9%</td>
<td>$21.73</td>
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<tr>
<td>10%</td>
<td>$18.89</td>
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<td>11%</td>
<td>$16.53</td>
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<tr>
<td>12%</td>
<td>$14.55</td>
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