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主题: RV: TS Negotiation with Rabo and Projection

Hi Qingtong, let me give you some context first.

Chile as you know is a really small country, in which the banking community is really close. All participants know each other, and all of them share opinions. If you are a reliable player, you will do ok, but once you lost trust from any bank, all things related get much more difficult. Keep a good reputation is key, for Joyvio and Australis, not only to get this new loan, but to keep a good reputation with other financial entities, such as confirming, factorings, etc. We can't afford to have a failed syndication process, word will come out and the current problem will be bigger, losing some confirming lines, short term banking support and affecting our credit score with insurance companies and losing bargain power with suppliers. This is something we need to avoid at any cost.

Rabo's proposal so far is backed on Australis past reputation, even when last time they propose a TS, to finance Dumestre project for 40 mm, it was under the assumption that Dumestre land was granted by BOC to be unpledged, as was confirmed by former Joyvio CEO at that time and it turn out later that was false and the whole operation failed. Even after that, Rabo is trusting us to go ahead with this operation that is not easy for them to push, given Australis bad shape financial balance. We really need to be careful not to make any false step here with them.

Also, Rabo's proposal so far is they are willing to commit 50% of the 300 mm loan, but for the other 50% still we need to go and convince other banks to join, and timing is not good. We haven't still confirmed those funds. This means every other bank will raise new questions, go through the numbers, legal due diligence process, and own risk assessments. There will many eyes taking a close look into us. And there's a lot they can find out, like an abnormal accounts payable balance sheet compare to peers, a high % of past due accounts payable to suppliers, and more than 80 mm in confirming lines (that they already know they exist, because they are the same banks that lend us that money, like BCI, Santander, Scotia, Security, among many others) that can bring up many doubts into the current financial condition of the company and their willingness to go forwards with the operation. Even more in a political landscape not particularly favorable for us.

To convince them to let's us keep 300mm debt + app 45 mm in leasing+fofage + 80-100 mm confirming lines in a company that aims to have a 100-150 mm ebitda per year, is a huge leap of faith in a industry that is as risky like salmon farming (without adding the fact that they will know that there's more debt upstream, and Australis will need permission to lend/distribute Foods the money to repay those interest and outstanding debt.). Local banks are or will be pretty aware of that, but the key and what will persuade them to go through with this operation will be the trust on the company to follow their harvest and sales plan, and so far we have the best productive performance of the industry by far, so banks will rely on us that we can meet the targets that we are proposing. Rabo, DNB and other local banks knows this industry has being very unstable in the past regarding prices, but they know the key to trust a company is their performance in the sea. That's our strategical advantage.

Finally, PT overproduction is not a secret to Rabo, we have spoke about it in the past, when Blumar told the press about the subject, I downplay the situation, telling them that past government and us were indeed taking a proactive action to fix the problem, with the past government holding charges from the SMA, actually helping companies to move forward with sites re allocation process, giving new sites in XII region (only to us), and being pro active in trying to facilitate companies to get PT increases approval in the SEA (the project environmental evaluation system). All of this, right now has to be put into a really big question mark by new government policies,

So, regarding your comments,

1. Agree on banks hate risks and huge change in projections, but they do hate more to be kept in the dark and later find out abruptly. Last week, Morgan news go out finally into the press (only newspapers and digital media). So far no bank has comment anything, most likely because past week was a very controversial in big political events, so we went below the radar on this. Also, we were expecting a bigger reportage broadcast by one of the main TV channels of the country for this week, but finally its appear it wont be aired this week and will be put on hold until May, in which the new government planned to celebrate XII region month of the sea. We will most likely face lots of media pressure in the next months, and this subject will be raised again to the public. So far, I was waiting to see if the reportage was coming out, to better manage the situation with banks and measure their response. As the reportage will be delayed, there's no point into keep delaying so I will move forwards asap with the TS negotiations. And given our context with Rabo, I'm with the opinion we should address this subject first with them before they find out by the press, explain to them that we are taking measures to keep our production plan unchanged, tell them that we have some limited exposure to this and perhaps we will have more sites in the next 3 years in this situation, that will have some effects in cost and capex related issues but overall impact shouldn't be that big and assess on a way to move forward together. It's key that this doesn't blow up uncontrolled into our faces when the time comes and at least Rabo we aware of this. If we are in the middle of the process and Rabo back out, all other players will follow. If they remain, the other will follow too, specially DNB that apparently is back on the table again.

2. OK, I won't delay negotiations more, but at least with Rabo is better to come clean with "part" of the situation as see how we can manage it properly.

3. OK, agree with the dates, we will work with that targets.

Finally, I need the assurance that even if we move ahead without telling Rabo about PT contingency, when it's come out, I can tell them we have an approved plan to take care of the situation that doesn't let us become a 65k/year ton company with bad comparative cost than peers. That the key subject for this to work.

That's are my thoughts on this. Perhaps we can have a meeting when you have time to further comment. Meanwhile, I'm sending today the new TS draft to them anyway.

Best regards,
Santiago