

# News release



29 February 2016

ASX Announcement

## Murray Goulburn Announces First Half 2016 Results

Murray Goulburn Co-operative Co. Limited (MG) today announced financial results for the half year ended 31 December 2015 (1H16).

Consolidated statement of profit and loss (\$ million)	1H16	1H15	Change	Change %
Revenue	1,379.3	1,330.1	49.2	3.7%
EBIT	27.0	27.9	(0.9)	(3.2%)
Profit before tax	15.6	13.6	2.0	15.0%
NPAT – consolidated	9.3	12.9	(3.6)	(28.1%)
<b>NPAT – attributable to shareholders and unitholders</b>	<b>10.0</b>	<b>15.2</b>	<b>(5.2)</b>	<b>(34.1%)</b>
Adjustment for Profit Sharing Mechanism (post tax)		12.2		
Inventory holding adjustment (post tax)	15.2	7.0		
<b>Pro-forma NPAT attributable to shareholders and unitholders – Profit Sharing Mechanism</b>	<b>25.2</b>	<b>34.4</b>		
Dividend/distribution per share/unit (cents)	3.5			

Financial highlights include:

- **Revenue of \$1.38 billion**, up 3.7 percent on 1H15, reflecting MG's active efforts to shift to higher-value dairy foods and away from volatile dairy commodities assisted by a weaker AUD:USD and optimising product mix to support farmgate milk prices
  - **Dairy Foods segment:** Outstanding revenue growth both domestically and internationally, with revenues of \$694.7 million, up 27.2 percent on 1H15. Segment contribution increased by 357 percent from \$14 million in 1H15 to \$66 million in 1H16
  - **Ingredients and Nutritionals segment:** Sales impacted by weak commodity markets, partially offset by continued growth in value-added nutritionals sales. Revenues of \$517 million, down 13 percent on 1H15
  - **1H16 milk intake of 2.0 billion litres**, marginally lower than 1H15 – in line with the Australian milk pool falling 0.2 percent over the same period
  - Approximately 70 percent of sales volume now in value-added or ready-to-consume dairy foods products – a key strategic focus
- **Earnings Before Interest and Tax (EBIT) of \$27.0 million**, down 3.2 percent on 1H15, a solid result given global dairy commodity prices are trading at near record low levels
- **Net Profit After Tax (NPAT)** attributable to shareholders and unitholders of \$10.0 million, compared to \$15.2 million in 1H15, impacted by low dairy commodity prices

- **Fully franked interim dividend/distribution of 3.5 cents per share/unit declared**
- **MG maintains FY16 Available Weighted Average Southern Milk Region Farmgate Milk Price (FMP)<sup>1</sup> of \$5.60 per kilogram milk solids (kgms)**
- Substantial progress made in executing our strategy to deliver sustainable future growth
  - **Dairy Foods and Nutritionals products:** Delivered revenue growth of 24.1 percent since 1H15, reaching total sales of \$784 million. Within this, sales of MG's flagship Devondale brand grew 46 percent from 1H15, achieving sales of more than \$250 million for the half
  - **Infant formula:** MG to launch Devondale Natra Start infant formula nationally in March 2016, leveraging the strength and reputation of the Devondale brand to drive infant formula sales in Australia and Asia
  - **Nutritionals investment:** MG is in advanced negotiations with global nutritional companies to secure major nutritional supply agreements – expected to underpin the planned nutritionals investment at Koroit. MG expects to be in a position to announce these agreements in the coming weeks

## Review of Results

Commenting on the half year result, MG Managing Director, Gary Helou, said:

“The first half has seen the continuation of the decline in Chinese imports of commodity dairy ingredients and the ongoing Russian embargo on dairy imports. This has been compounded by increased European milk supply, resulting in a period of significant oversupply in global dairy commodity markets, driving commodity prices towards record lows.

“Against this backdrop, MG has continued to perform well, with substantial further progress made in moving product mix from commodity products towards higher-margin, value-added or ready-to-consume dairy foods. Our ability to drive strong revenue growth in these tough markets demonstrates that MG's growth and value creation strategy is supporting our ability to deliver higher returns, particularly with farmgate milk prices significantly above those achieved when global commodity prices were last at these low levels.

“In Australia, Dairy Foods' strong sales growth of 28.1 percent was underpinned by a surge in demand for Devondale consumer milk powders, dairy beverages sales across the chilled milk and UHT categories and a very strong performance by the food service business.

“Internationally, Dairy Foods sales growth of 21.4 percent was supported by a broadened distribution network and very strong demand for Devondale branded consumer milk powders. In particular, we are pleased to have advanced our Asian distribution strategy in this period by securing valuable supply agreements with major retailers and entering into joint business plans with global eCommerce platforms including JD.com and Tmall.com.

“For the Ingredients and Nutritionals segment, while commodity prices have not improved as we expected, sales of value-added nutritional powders grew 3.8 percent in the half. This follows the outstanding nutritionals revenue growth of 33.5 percent achieved in this part of the business during FY15.

“Our announcement today that we will launch Devondale Natra Start infant formula is an exciting milestone for MG. We will be able to provide world class, Australian product to our customers, which is 100 percent controlled by MG from farmgate to shelf. We expect strong support for the Natra Start range by our customers, particularly those in China, where Devondale is a leading UHT and consumer milk powders brand.

“Given the growing significance of value-added nutritional powders in our business, MG has been focused on securing anchor supply agreements with global nutritional suppliers to support the planned nutritional investment at Koroit. Our negotiations are well advanced and we expect to be in a position to make formal announcements in the coming weeks.

“Looking ahead, we will continue to drive MG's strategic focus on value added and ready-to-consume dairy foods, transforming the business as we progress on our journey to become a 'first choice dairy foods company' for our suppliers, investors, customers and consumers globally,” Gary said.

<sup>1</sup> For the purposes of the Profit Sharing Mechanism the Actual Weighted Average Southern Milk Region FMP \$5.56 per kilogram milk solids is used, based on the maintenance of the \$5.60 per kilogram milk solids. The Actual Weighted Average Southern Milk Region FMP does not include the add-back of quality adjustments accrued from the supply of non-premium milk.

## **Business segments**

### ***Dairy Foods***

Dairy Foods delivered another very strong performance in 1H16 with revenues of \$695 million, up 27 percent on 1H15, driven by outstanding sales and marketing execution in the domestic market and continued strong growth across international markets. This is the second consecutive comparable period where Dairy Foods revenue growth has exceeded 20 percent. This growth drove a 357 percent increase in segment contribution to \$66 million for the half, from \$14 million in 1H15.

Dairy Foods Australia delivered revenue growth of 28.1 percent to \$612 million, driven by strong demand for Devondale branded products including fresh milk across the chilled and UHT categories, cheese and consumer milk powders. Sales in the food service business also continued to grow strongly in the half, particularly shredded cheese sales.

During the half, MG launched a number of new products as part of its drive to bring new energy and interest to key dairy categories in Australia with the Devondale milkshakes and 8Bar iced coffee ranges, in particular, being well received by consumers and performing strongly.

In addition, in February 2016, MG announced it had agreed a five-year national private label contract to supply Coles brand Australian cheese, which will generate approximately \$130 million in additional sales per annum and importantly from February 2017, deliver a stable stream of profits to MG over the life of the contract.

For Dairy Foods International, revenue was also up strongly by 21.4 percent to \$83 million compared to 1H15. All markets delivered revenue growth, particularly Vietnam, Singapore and China. In China, MG's largest dairy foods export market, sales of consumer milk powders and cheese were up strongly compared to 1H15, supported by expanded grocery and online listings, cross-border sales and a broadened distribution network that extends MG's reach to tier two and tier three cities across China.

In response to growing demand for MG's Devondale products, a series of investments have been completed to increase production capacity for Devondale consumer milk powders, cheese and dairy beverages.

During the half, MG finalised the development of Devondale Natra Start infant formula and received regulatory approval for the product's launch. MG has secured distribution for the national launch of Devondale Natra Start infant formula from March across Australia, with the brand available in China shortly afterwards.

MG has a long history of producing infant formula in Australia for market-leading third party brands, which we will continue to do. The launch of our own branded infant formula range is designed to drive further growth for our business, leveraging the reputation and strength of the Devondale brand to drive sales.

### ***Ingredients and Nutritionals***

Volatility in global dairy commodity markets has continued in the new financial year, and prices have not materially recovered despite a brief rally early in 1H16. As a result, revenue for the Ingredients and Nutritionals segment was down 13 percent to \$517 million compared to 1H15. Revenues in MG's value-added nutritionals business of \$88 million were 3.8 percent higher reflecting a growing base of nutritionals business with key global customers. Segment contribution declined \$57 million to a loss of \$25 million in 1H16 due to the weaker dairy commodity prices.

Significant progress has been made in pursuing the nutritionals strategy. MG is in advanced negotiations with global nutritional suppliers to secure anchor supply agreements and expects to be in a position to announce agreements in the coming weeks. This will underpin the planned \$260 million - \$300 million nutritionals investment at Koroit, which will expand MG's nutritionals capacity by 63,000 tonnes per annum.

### ***Other Segment***

The Other Segment which includes MG Trading and Milk Broking delivered revenues of \$250.3 million, up 1.8 percent on 1H15. Segment contribution was strong with an increase from \$0.4 million to \$9.6 million in 1H16.

### **Dividend/distribution**

The Board has declared a fully franked interim dividend/distribution of 3.5 cents per share/unit.

This reflects a prudent approach from the Board, which takes into account the natural seasonality in MG's earnings with the majority being delivered in the second half. The Board's stated intention is to pay out 100 percent of full year NPAT as outlined in the Product Disclosure Statement (PDS). The Board intends to use a similar ratio to split dividends between the first and second half in the future. The dividend/distribution is expected to be paid on 31 March 2016, and the Dividend/Distribution Reinvestment Plans (DRPs) will apply.

## Outlook

Since issuing the PDS for the IPO of the MG Unit Trust in May 2015, and again since MG's Annual General Meeting in October 2015, dairy commodity prices have continued to decline. Whilst MG and market commentators expect a recovery in dairy commodity prices, this is taking longer than expected due to the ongoing oversupply in global dairy commodity markets.

The weakness in dairy commodity prices is now expected to result in the Ingredients and Nutritionals segment materially underperforming against the PDS forecasts in FY16. This underperformance is expected to be partially offset by the growth in the Dairy Foods segment resulting from the acceleration of production mix shift and the expected strong performance of domestic and international ready-to-consume dairy foods product sales.

MG expects to maintain its opening Available Weighted Average Southern Milk Region FMP of \$5.60<sup>2</sup> per kgms in FY16 with Southern Milk Region milk intake of approximately 230 million kgms or higher. However, this is subject to there being no further material deterioration in dairy commodity prices or unfavourable changes to the current AUD:USD exchange rate. This is at the bottom end of the previous guidance provided and reflects the lack of improvement in global dairy commodity prices and the continued weak outlook for those prices.

Under the Profit Sharing Mechanism, a \$5.60 per kgms milk price would be expected to generate for the full year FY16 NPAT attributable to shareholders and unitholders of approximately \$63 million. In line with the Profit Sharing Mechanism and applying the proposed 100 percent payout ratio, the dividend/distribution to be determined for the full year is expected to be approximately 11.3 cents per share/unit.

Ends.

## Results webcast

A webcast of the financial results for the half year ended 31 December 2015 will be held at 11.00am (AEDT) today. Webcast details are as follows:

**Date**            **Monday 29 February 2016**

**Time**            **11.00am**

**To register:** <http://edge.media-server.com/m/p/gdm78eng>

The presentation will also be archived on the MG website [www.mgc.com.au](http://www.mgc.com.au) for viewing after the webcast.

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<sup>2</sup> For the purposes of the Profit Sharing Mechanism the Actual Weighted Average Southern Milk Region FMP \$5.56 per kilogram milk solids is used, based on the maintenance of the \$5.60 per kilogram milk solids. The Actual Weighted Average Southern Milk Region FMP does not include the add-back of quality adjustments accrued from the supply of non-premium milk.

## About the MG Unit Trust

The MG Unit Trust is a special purpose funding vehicle which provides its unitholders with an economic exposure to the business of Murray Goulburn Co-operative Co. Limited (**Murray Goulburn**). The MG Unit Trust invests in notes and convertible preference shares issued by Murray Goulburn. The Responsible Entity of the MG Unit Trust is MG Responsible Entity Limited, a wholly-owned subsidiary of Murray Goulburn. Unitholders are entitled to receive distributions equivalent to any dividends paid to the ordinary shareholders of Murray Goulburn. Dividends paid on ordinary shares will be determined by Murray Goulburn in accordance with the Profit Sharing Mechanism described in Section 6 of the Product Disclosure Statement dated 29 May 2015. Units do not confer a direct interest in Murray Goulburn.

Murray Goulburn is Australia's largest dairy foods company. Through its co-operative structure, Murray Goulburn has more than 2,600 supplier-shareholders. Murray Goulburn manufactures and markets a full range of dairy and nutritional products such as cheese, milk powder, butter and fat, drinking milk and liquid milk products, nutritionals and value-added products, such as infant formula. Murray Goulburn supplies the grocery, foodservice and ingredients channels domestically and around the world, particularly in Asia, with its flagship Devondale, Liddells and Murray Goulburn Ingredients brands.