



**Welcome**  
**Supplier Information Session**  
July 2016

# Philip Tracy

## Chairman



# Agenda



1. 2015-16 season and Milk Supply Support Package recap
2. 2016-17 season initiatives
3. Applying the Profit Sharing Mechanism
4. Impact of the global market on farmgate milk pricing
5. Global market analysis and outlook
6. Next steps
7. Milk pricing transparency
8. FY17 opportunities and risks
9. Q&A forum

# Challenges and change



- The Board and management acknowledges and deeply regrets the difficult conditions suppliers are facing.
- MG has faced an unprecedented set of circumstances:

FEBRUARY

- Sales revenue continued to indicate that milk products would more than offset ingredients shortfall.
- Significant demand for sachet powder into China continued – MG and others faced shortage of capacity.

MARCH  
APRIL

- China import regulation confusion and a dramatic drop in demand for milk powder.

JUNE

- Global commodity pricing has never been this low for this long.

- **Our response:** Reviewing approach to forecasting; companywide focus on cost reduction and initiatives to minimise impact of the Milk Supply Support Package.
- The Board is acutely aware of its core responsibility to achieve the strongest possible farmgate milk price.

# Key initiatives



- **Senior leadership changes:** New Chief Executive Officer and Chief Financial Officer recruitment underway; Chief Operating Officer appointed; Executive Leadership Team reduced and restructured to improve coordination and reduce costs.
- **Board renewal:** Multiple nominations have been received for the four Supplier Director vacancies.
- **Whole of business review underway:** Management focus on reducing costs; generating additional efficiencies and; improving cash flow.
- **Better communication:** Today's session has been refreshed reflecting supplier feedback

**1** More time for discussion

**2** Post-session summaries

**3** Advance question submission

# MSSP and other support initiatives



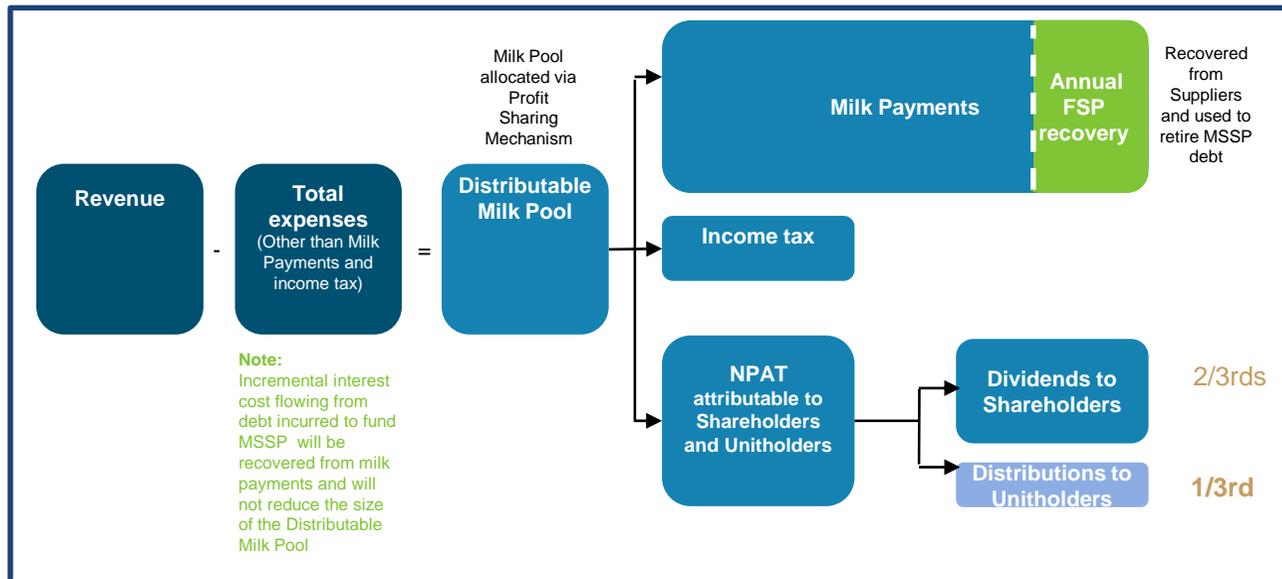
- Suppliers paid an average cash farmgate milk price of \$5.49 until the end of the 2015-16 season.
- A fair and rational response recognising the difficult position the co-operative had put its suppliers in.
- Opportunities have been identified to offset the longer term impact of the MSSP:
  - Removal of short term incentive payments to Senior Management recognising poor performance for shareholders
  - Immediate salary freeze for Senior Management
  - Senior Management team reduction
  - Increased cost efficiencies
- Supplier support initiatives announced.



# Profit Sharing Mechanism

66% of profit will go to supplier/shareholders

Illustration of PSM including FSP



## Mechanism

- The mechanism specifically retains smaller amount for investors when FMP is low
- **The minimum amount of 3.5%** is forecast to be set aside for NPAT in FY17
- This means 96.5% of the remaining pool is retained by farmers
- Investors accept this as an inbuilt support for suppliers

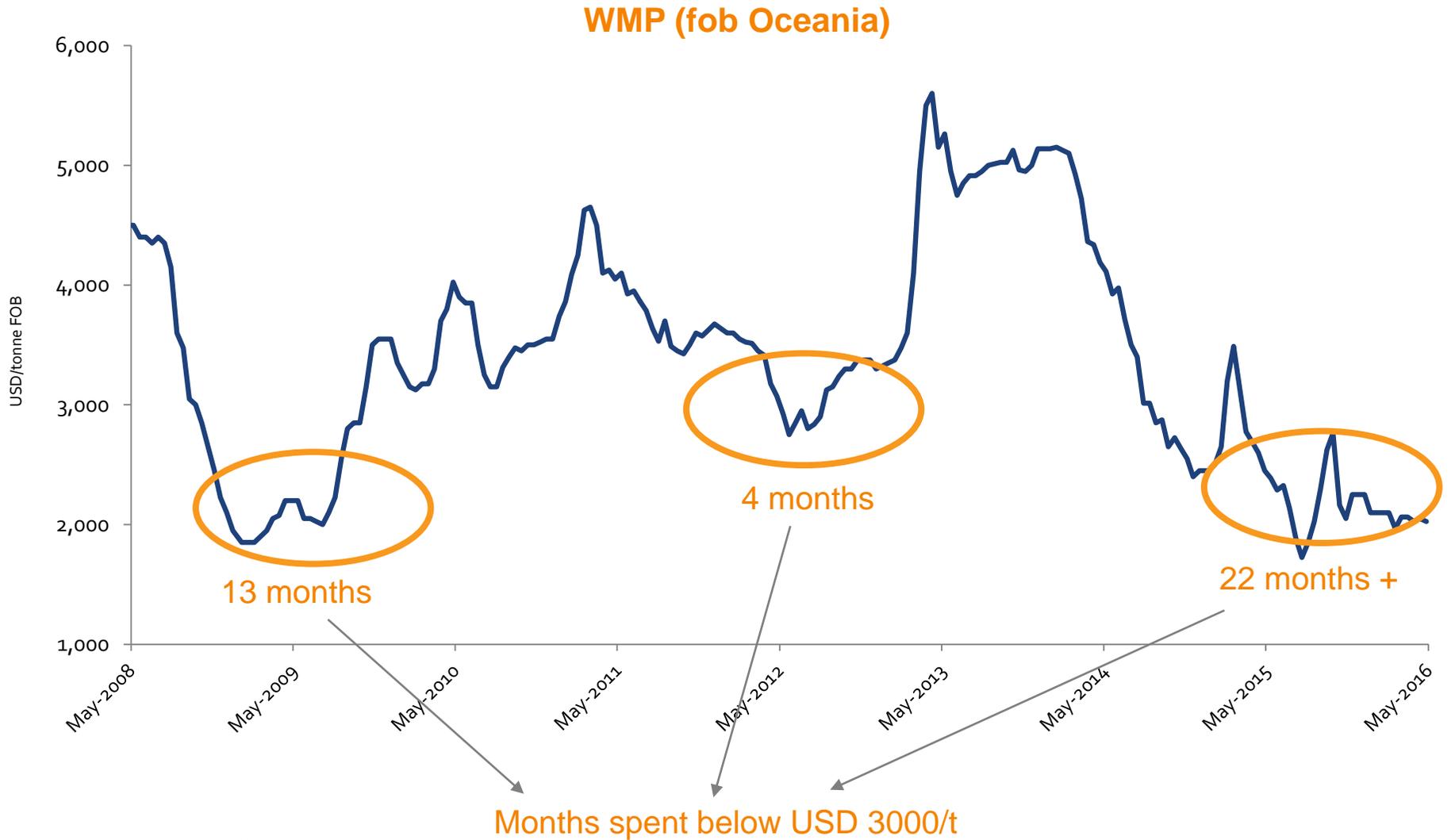
Comments

- All distributable profits get distributed with two thirds going to suppliers and one third to investors
- MG has always paid a dividend for it's capital, even during the Global Financial Crisis
- **In FY17, forecast approximately \$14m after tax to be distributed to investors**

**David Mallinson**  
Chief Executive Officer  
(Interim)



# Dairy commodities remain weak

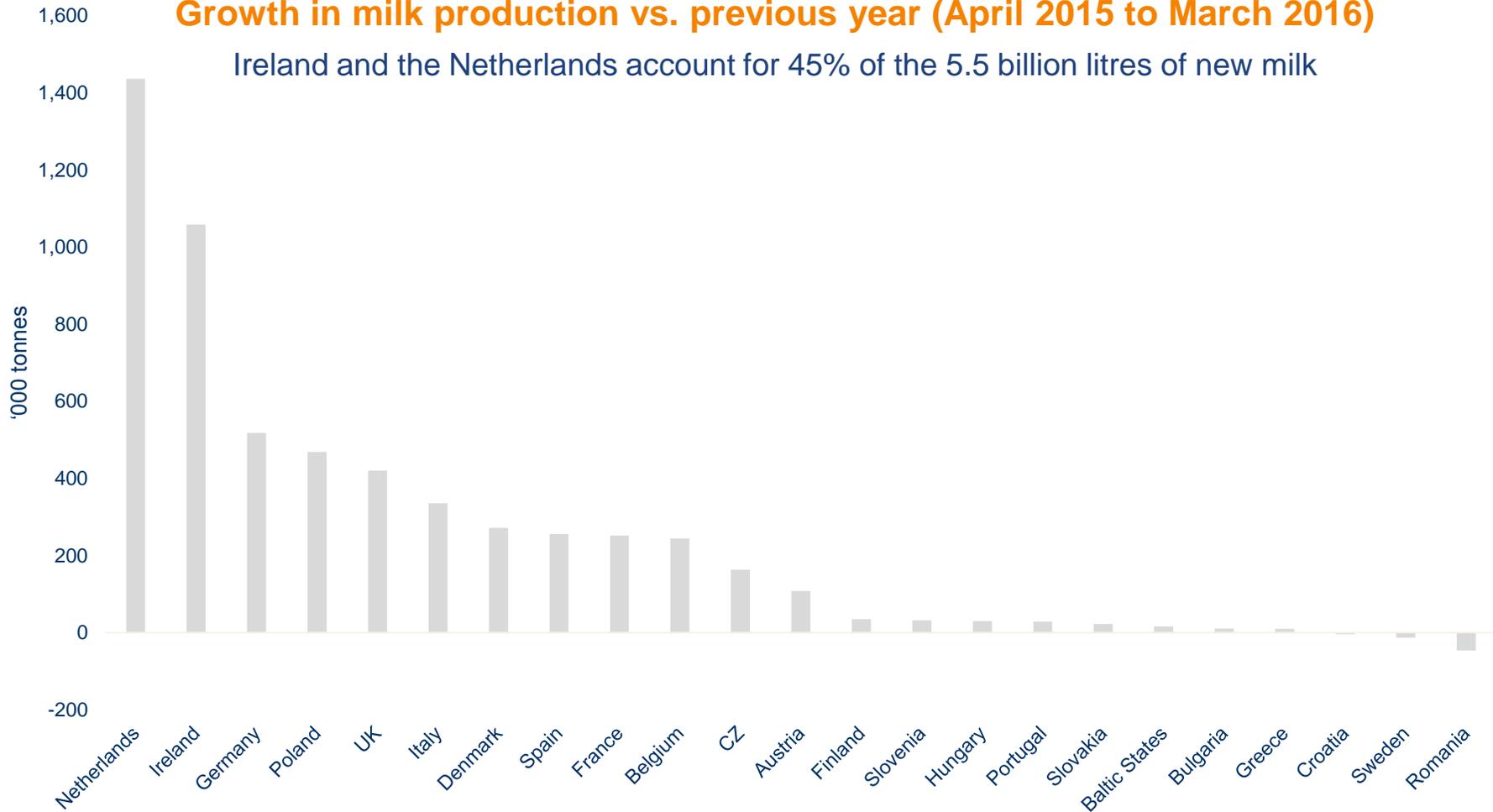


# EU growth is isolated



## Growth in milk production vs. previous year (April 2015 to March 2016)

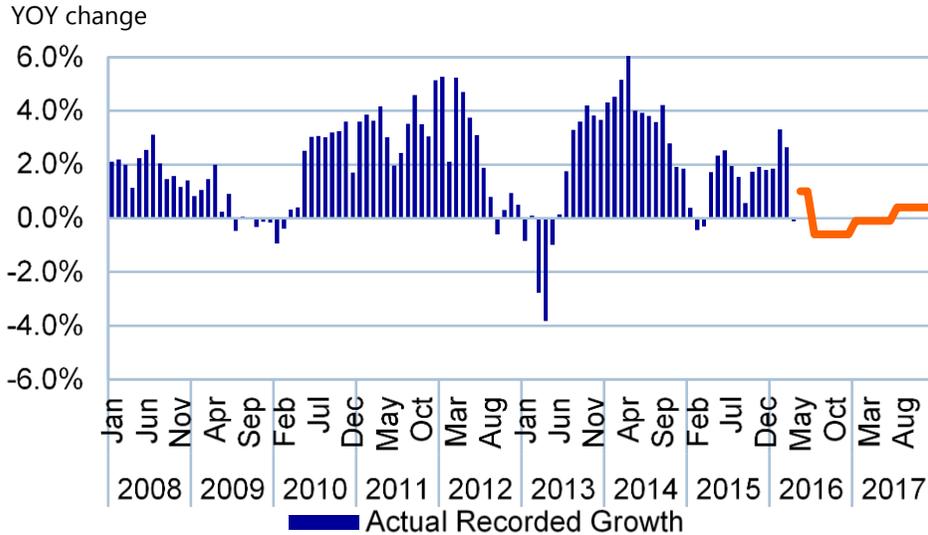
Ireland and the Netherlands account for 45% of the 5.5 billion litres of new milk





## Global milk production is slowing and prices are showing only modest recovery

Figure 3: Milk production growth, Big 7 exporters (actual and Rabobank forecast), 2008-2017f \*



\* Note: Big 7 includes EU, US, NZ, Australia, Brazil, Argentina and Uruguay.  
Source: Big 7 government trade agencies, Rabobank 2016

Figure 4: WMP FOB Oceania (historic and forecast), 2007-2017f



Source: USDA, Rabobank 2016

# FY17 farmgate milk pricing impacted by market conditions for all large exporters



MG can only pay out the profit it earns and elected not to severely cut the 2015-16 farmgate milk price, which has been somewhat overlooked when comparing 2016-17 season prices. Over two years the average farmgate milk price is \$5.00 per kilogram of milk solids (kgms).

	MG FY16	MG FY17
Average farm size (1.5m litres)	112,500 kgms	112,500 kgms
Forecast Final Price <sup>1</sup>	\$4.75 kgms	\$4.80 kgms
FY16 Top up	\$0.74 kgms	
FY17 MSSP		-\$0.27 kgms
Total Price	\$5.49kgms	\$4.53kgms <sup>2</sup>
Total Paid	\$615,375.00	\$509,625.00

Note 1: \$4.75 represents lower end of MG's published guidance range for FY16 of \$4.75 - \$5.00

Note 2: Opening Price \$4.31 kgms (including MSSP) or \$4.45 kgms (early repayment participants)

# Our immediate actions



- Maintain strong fiscal control to consolidate MG's financial strength.
- Drive basic business principles harder than in the past:
  - Developing a lower cost operating model – detailed update at August results
  - Focussing on product optimisation
  - Clearer lines of accountability and improved transparency
  - Improved supplier communications
- Review the milk pricing model in order to consider potential for greater transparency – such as the Coalition's election undertaking to set up a Commodity Price Index:
  - Clear market signals based on commodity milk price index
  - Easy to understand value-add component of milk price
  - Recognition of dividend and/or retained earnings impact

# Comprehensive business review



<b>Working capital release</b>	<ul style="list-style-type: none"><li>Controlled exit of inventory holdings and reduction in group net working capital</li></ul>
<b>Cost Controls</b>	<ul style="list-style-type: none"><li>A targeted efficiency program, including cost reduction across the business</li><li>'At risk' components of MG's executive remuneration for FY16 will not be paid</li><li>Senior management pay will be frozen in FY17</li></ul>
<b>Realisation of benefits from recent investments</b>	<ul style="list-style-type: none"><li>Incremental earnings are expected from recent investments at MG's new Cobram facility</li><li>The deployment of a new SAP system across the business</li></ul>
<b>Continued improvements to offline distribution in China</b>	<ul style="list-style-type: none"><li>MG continues to build offline distribution in China</li><li>MG has recently signed seven new regional distributors as part of an improved regional distribution strategy</li></ul>

# Providing greater milk pricing transparency



MG's FMP and estimated contribution



	FY15	FY16 <sup>1</sup>	FY17
WMP in USD ex DA	3,199	2,347	2,250
AUD:USD	\$0.87	\$0.74	\$0.74

With continuing low commodity prices we are seeing a migration of surplus EU milk being placed into consumer products in China (UHT & IN) impacting margins in our premium returns.

# FY17 key opportunities and risks



Opportunities	Risks
<ul style="list-style-type: none"> <li>AUD:USD weakens against the \$0.74 budget</li> </ul>	<ul style="list-style-type: none"> <li>Brexit fallout weakens the Euro to the USD, providing incentive for Europe to move intervention stocks at lower USD prices</li> </ul>
<ul style="list-style-type: none"> <li>EU milk production reduces taking pricing pressure off UHT milk and infant nutrition into China</li> </ul>	<ul style="list-style-type: none"> <li>Brexit fallout seeing investors take positions on the AUD with interest rate differentials and the AUD appreciating above the budgeted rate</li> </ul>
<ul style="list-style-type: none"> <li>Commodity prices improve above the 6% budgeted improvement</li> </ul>	
<ul style="list-style-type: none"> <li>Additional cost savings are delivered</li> </ul>	
<ul style="list-style-type: none"> <li>China Dairy imports continue to grow</li> </ul>	

A post-session Q&A summary is available at:  
[www.mgc.com.au/milk-price-information-centre/](http://www.mgc.com.au/milk-price-information-centre/)





Thank you