



Murray Goulburn 2017 half-year results

24 February 2017

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Forward looking statements

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Non-International Financial Reporting Standards (Non-IFRS) information

This presentation makes reference to certain non-IFRS financial information. Management uses this information to measure the operating performance of the business and it has been presented as this may be useful for investors. This information has not been reviewed by the MG group's auditor. Forecast information has been estimated on the same measurement basis as actual results.

Introduction



Introductory comments

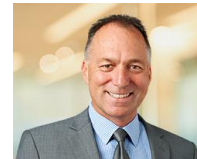
- Challenging first half
- Industry milk production down 9.9%, driven by seasonal conditions¹
- Lower milk intake impact felt across MG's business due to aggressive competition for milk supply
- Macro factors showing signs of improvement
- Delivery on commitments a key focus
- Focused on restoring stability

Presenting today



Introduction

*Chief Executive Officer
Ari Mervis*



1H17 overview

*Executive General Manager
David Mallinson*



Financials

*Chief Financial Officer (Interim)
Alan Tilley*

1H17 result summary



Key observations

Financial performance

- 1.6 billion litres of milk received, down 20.6%
- \$1.2 billion of revenue, down 14.8%
- Net loss after tax attributable to shareholders/unitholders of **(\$31.9) million**
- Normalised NPAT¹ of **\$9.4 million** excluding one off costs after tax of \$41.3 million
- Net debt of **\$677 million** with gearing of **37.8%**
- Half year dividend / distribution of **1.7 cents per share/unit, fully franked**

Operational performance

- ✓ Cost efficiency programs on track
- ✓ Refinance of \$265 million syndicated facility completed in December 2016
- ✓ New consumer cheese plant in commercial production
- ✓ 1H17 'peak' inventory holdings down 15% vs 1H16

Outlook

MG maintains forecast FY17 Available Weighted Average Southern Milk Region Farmgate Milk Price (FMP) of \$4.95² per kgms

Key financial indicators

(\$ million)	1H17	1H16	(%)
Actual Southern Milk Region FMP (\$/kgms)	4.12	5.04	
Distributable Milk Pool	480.5	701.7	(31.5%)
Applicable NPAT allocation per profit sharing mechanism	3.50%	3.58%	(8 bps)
Normalised NPAT ¹	9.4	10.0	(6.0%)
One-off items after tax ³	(41.3)	-	nm
NPAT attributable to shareholders/unitholders	(31.9)	10.0	nm
Net debt	677	393	72.3%
Gearing (%)	37.8	25.6	12.2pp
Dividend (cents per share/unit)	1.7	3.5	(51.4%)

1. Normalised NPAT excludes one off costs related to MSSP impairment and debt funded milk pool support, as announced 27 October 2016. NPAT at the half year includes Inventory holding adjustments of \$15.2 million in 1H16 and \$7.4 million in 1H17. See note 3 in MG's interim financial report for the half year ended 31 December 2016 for further detail.

2. Including debt funded step ups as announced 27 October 2016. Subject to assumptions outlined on page 17.

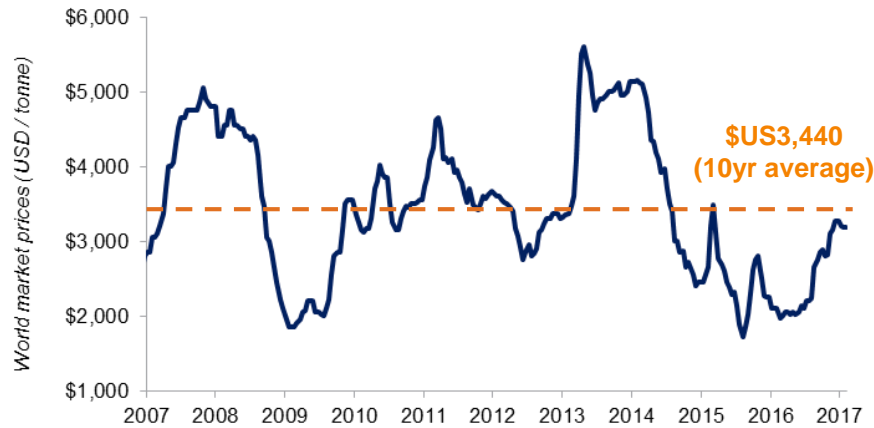
3. On 27 October 2016 MG announced a deviation from the Profit Sharing Mechanism of \$57.3 million post tax comprising an impairment of the MSSP and debt funded step-up payments to suppliers. Final instalments of the debt funded step ups will occur in 2H17 and in the early months of FY18. The 1H17 post tax impact of the tax deviation was \$41.3 million.

Global dairy commodity markets improved during 1H17



Full Cream Milk Powder

(Oceania FOB USD / MT – 10 year to February 2017)¹



Commentary

- Full cream milk powder and butter prices have rallied since mid August 2016
- Approaching long term US\$ average prices
 - FCMP spot of ~US\$3,200 vs average for the prior 6 months of ~US\$2,750
- Forward selling creates 3 to 6 month lag effect across MG's Ingredients sale book

Average observed prices across key commodities

(Oceania FOB nominal prices)¹

Commodity	1H16	1H17	Variance
FCMP ²	US\$2,261	US\$2,787	23.3%
SMP ³	US\$1,891	US\$2,208	16.7%
Butter	US\$2,932	US\$3,688	25.8%
Cheddar	US\$3,111	US\$3,413	9.7%

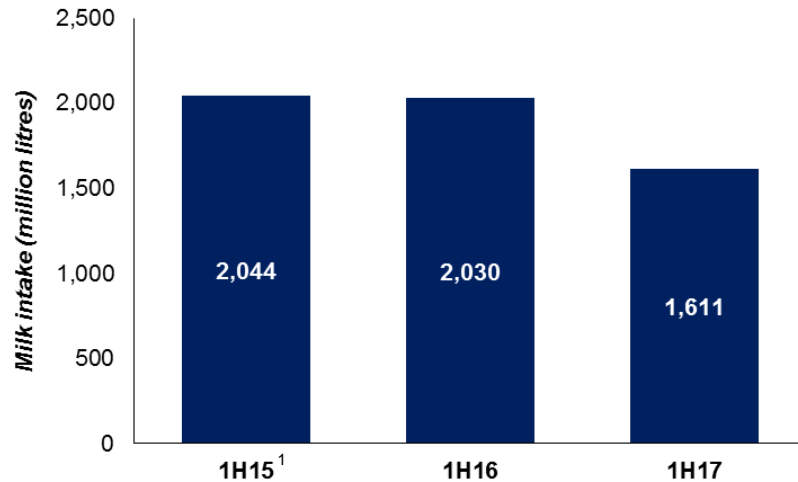
Commentary

- Average prices moved up in 1H17
- Cheddar prices stable and represent MG's largest milk allocation
- Butter prices reflect growing shortage of fat globally
- Skim milk powder prices remains soft and global market remains in oversupply

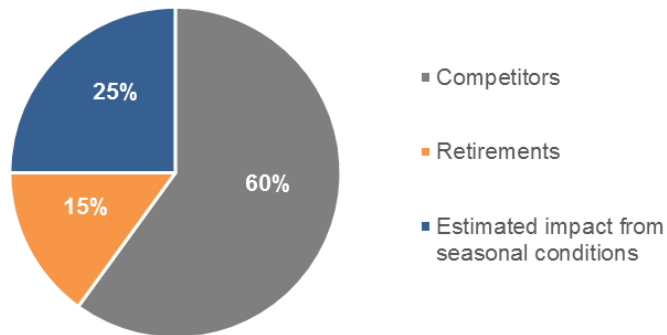
1H17 milk intake of 1.6 billion litres, down 20.6%



MG total milk intake (million litres)



Contributors to milk intake decline³



Commentary

- Victorian production down 9.9% to December 2016²
 - Driven by record rainfall during September 2016 impacting crops and pastures
- Aggressive competitive environment has resulted in substantial milk loss to competitors as all players seek to replace intake lost due to seasonal conditions
 - Particularly when commodity prices rallied

Commentary

- Seasonal reduction broadly inline with industry decline
- Retirements slightly higher than historical norms
- Strong competition given reduced industry milk pool

1. FY15 includes MG's subsidiary, Tasmanian Dairy Products Pty Ltd, which was majority owned in FY15, and wholly owned in FY16.

2. Source: Dairy Australia.

3. Approximate percentages based on year to date results, as at February 2017.

Focus on competitive FMP



	FY17	Status	FY18 and beyond
Cost reduction	<ul style="list-style-type: none"> \$10 million to \$15 million benefit expected 	On track	<ul style="list-style-type: none"> \$50 million to \$60 million annualised in total
Working capital	<ul style="list-style-type: none"> Expect \$100 million to \$110 million to be released by FY17 year-end 	On track	<ul style="list-style-type: none"> Better capital allocation Savings from lower inventory
Consumer cheese plant	<ul style="list-style-type: none"> Commercial production started 	On track	<ul style="list-style-type: none"> Legacy site to be exited Savings from increased efficiency
Business review	<ul style="list-style-type: none"> Assets and distribution network 	Commenced	<ul style="list-style-type: none"> Focus on delivering optimised efficiencies into milk pool
	<p>Maintain forecast FY17 FMP of \$4.95¹</p>		<p>Foundation for improved financial performance</p>

Dairy Foods

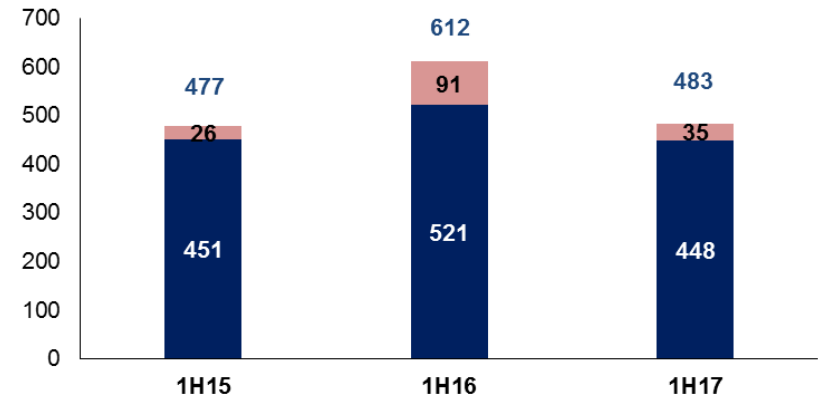
Revenues down as cross-border channel stabilises



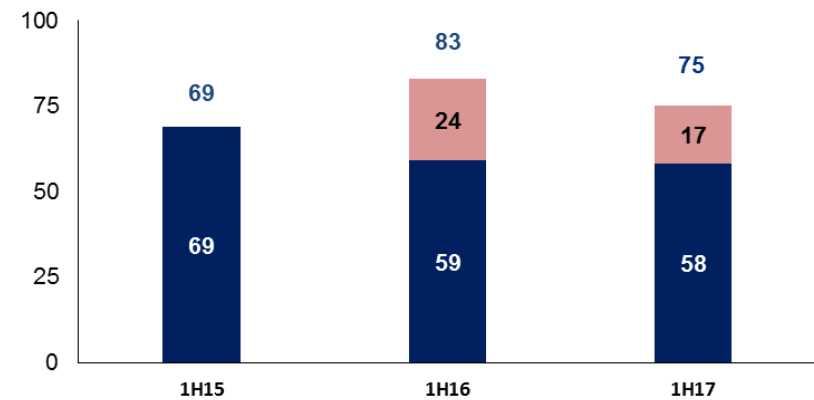
Dairy Foods revenue of \$558 million

- **Domestic sales down 21.0% to \$483 million**
 - Cross-border sales (particularly adult milk powder) have stabilised, falling from peak in 1H16
 - Active decision to cease some low returning bulk products
 - Rising commodity prices will flow into domestic sales in coming months due to contract pricing mechanisms
- **International sales down 9.6% to \$75 million**
 - Reduced adult milk powder sales from 1H16 peak
 - Continued flow of EU milk into China
 - Continuing development of China traditional channel

Domestic Dairy Foods Revenue (A\$m)



International Dairy Foods Revenue (A\$m)



Adult milk powder revenue

Ingredients and Nutritionals



Ingredients down on lower milk allocations – commodity price increases to benefit 2H17

Ingredients and Nutritionals revenue of \$481 million

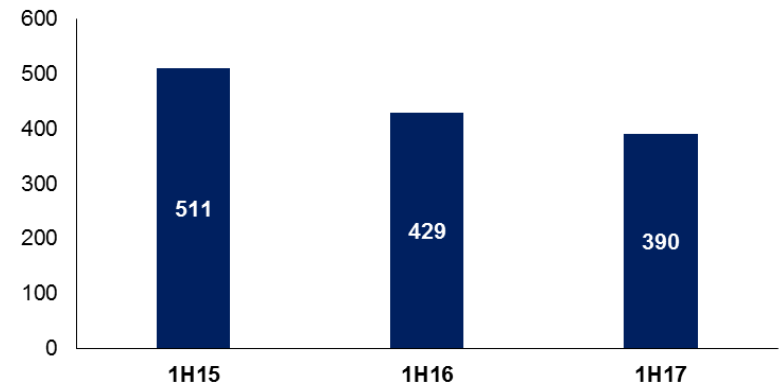
– Ingredients revenue \$390 million, down 9.1%

- Volumes lower as a result of lower milk allocation
- Ongoing reduction in working capital has supported revenue in this half
- Improving commodity prices will benefit 2H revenues given forward selling activities

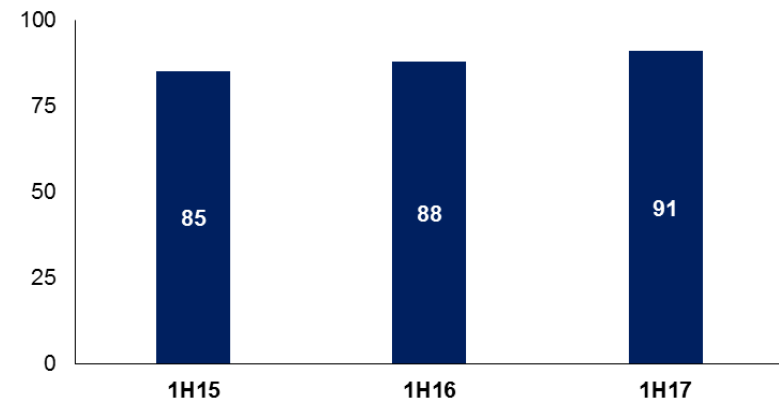
– Nutritionals revenue \$91 million in-line with 1H16

- Revenue broadly in-line with 1H16
- China remains uncertain and major customers remain cautious, given regulatory environment

Ingredients Revenue (A\$m)



Nutritionals Revenue (A\$m)



Consumer cheese plant operating

MG's new state of the art consumer cheese plant at Cobram has commenced production



Consumer cheese plant



- MG's consumer cheese plant is now in commercial production
- Ramp up to full capacity and transition of our Devondale branded products will continue over coming months
- Commercial trials of MG's new packaging formats are progressing well
- Ongoing focus on operator training, safety, and quality



MG's new consumer cheese plant
Cobram, Victoria

Update on other major projects



- MG remains committed to the strategy of adding value in Nutritional and Dairy Beverages
- As previously announced, investments in these areas remain under review
- MG will continue to update stakeholders as these reviews are completed



Robotic bulk cheese de-boxing unit

Financials

02



1H17 financial performance



Normalised Consolidated Statement of Profit or Loss ¹		
(A\$ million)	1H17	1H16
Sales	1,176	1,379
Cost Of Sales	(982)	(1,178)
Gross Profit	194.0	201.2
Other Income	5.5	3.8
Share of Profit (Loss) of Associates	(0.2)	(0.4)
Distribution Expenses	(71.9)	(92.7)
Selling & Marketing Expenses	(42.4)	(48.7)
Administration Expenses	(44.7)	(34.2)
Finance Costs	(12.0)	(11.4)
Other Expenses	(17.1)	(2.0)
Normalised Profit before Income Tax¹	11.2	15.6
Income Tax	(1.8)	(6.3)
Normalised NPAT¹	9.4	9.3
Non controlling interest	-	(0.7)
Normalised NPAT per PSM¹	9.4	10.0
One off items after tax ⁴	(41.3)	-
NPAT attributable to shareholders/unitholders	(31.9)	10.0
Half Year Actual weighted average SMR FMP	4.12	5.03
Half Year Actual weighted average SMR FMP (Including debt funded support) ²	4.36	5.03

Commentary

- **Group revenue down 14.8%**
 - Lower milk volumes and lower cross-border sales compared with 1H16
- **Operating expenses are decreasing, although \$15.3 million of one off costs booked in this half**
 - Reduction in sales & marketing expenses reflecting cost saving initiatives and lower variable costs in Dairy Foods
 - Lower distribution expenses given lower production, overall inventory volumes and cost saving initiatives
 - Administration expenses include ~\$10 million in new depreciation and maintenance costs associated with new SAP system
 - Other expenses contain \$15.3 million of one off costs including redundancy, advisory expenses, legal costs related to regulatory investigation and class action and a further impairment to MSSP of \$3 million³
 - Consumer cheese facility depreciation to begin through 2H17
- **NPAT loss attributable to shareholders/unitholders of \$31.9 million**
- **Normalised NPAT reduced as milk pool falls**
- **Profit Sharing allocation of 3.50%**

1. Normalised NPAT excludes one off costs related to MSSP impairment and debt funded milk pool support, as announced 27 October 2016. NPAT at the half year includes Inventory holding adjustments of \$15.2 million in 1H16 and \$7.4 million in 1H17 (see note 3 in MG's interim financial report for the half year ended 31 December 2016 for further detail).

2. As announced 27 October 2016, MG will debt fund approximately \$50 million of milk payments outside the Distributable Milk Pool in FY17.

3. This impairment is in addition to the impairments of \$31.8 million, announced as part of the MSSP review (27 October 2016), which have been excluded from the Distributable Milk Pool.

4. On 27 October 2016 MG announced a deviation from the Profit Sharing Mechanism of \$57.3 million post tax comprising an impairment of the MSSP and debt funded step-up payments to suppliers. Final instalments of the debt funded step ups will occur in 2H17 and in the early months of FY18. The 1H17 post tax impact of the tax deviation was \$41.3 million.

Segment contributions



Segment contribution			
<i>(A\$ million)</i>	1H17	1H16	Change %
Revenue			
Dairy Foods	558	695	(19.7%)
Ingredients and Nutritionals	481	517	(7.0%)
Other	141	250	(43.6%)
Inter segment revenue	(4)	(83)	(95.2%)
Total revenue	1,176	1,379	(14.8%)
<i>Average exchange rate (AUD:USD)</i>	<i>0.76</i>	<i>0.74</i>	<i>2 cents</i>
Segment contribution			
Dairy Foods	54.5	65.8	(17.2%)
Ingredients and Nutritionals	(11.9)	(25.4)	53.1%
Other	2.1	9.6	(78.1%)
Total segment contribution	44.7	50.0	(10.6%)
Corporate costs	(18.3)	(22.6)	19.0%
MSSP impairments²	(3.0)	-	<i>nm</i>
Finance costs	(12.0)	(11.4)	5.3%
Share of profit / (loss) of associates	(0.2)	(0.4)	(50.0%)
Normalised PBT	11.2	15.6	(28.2%)
Income Tax	(1.8)	(6.3)	(71.4%)
Normalised NPAT¹	9.4	10.0	(6.0%)

Commentary

- **Dairy Foods contribution \$54.5 million**

- Lower adult milk powder sales

- **Ingredients and Nutritionals (\$11.9) million contribution**

- Nutritionals improvement and lower milk cost

- **Corporate costs \$18.3 million**

- Reductions in unallocated corporate costs driven by cost out initiatives in corporate office

- **Finance costs steady at \$12.0 million**

- **Normalised Profit Before tax of \$11.2 million before one off PSM deviation costs**

Balance sheet

Balance sheet reflects seasonality of peak inventory and recent strategic investments



Balance sheet

(A\$ million)	1H17	1H16
Receivables	336.9	350.5
Inventories	606.0	683.1
Other current assets	69.9	46.1
Non-current assets	1,200.5	945.3
Total Assets	2,213.3	2,025.0
Total debt	698.4	426.3
Cash and cash equivalents	(21.1)	(33.8)
Net debt	677.3	392.5
Total Equity	1,112.6	1,141.9
<i>Gearing</i>	37.8%	25.6%

Comments

- **Significant reduction in inventories**
 - Sell down of excess adult milk powder on track
 - Partial offset as cheese holdings increased in advance of new contract
 - Finished Goods inventory down 16% in 1H17
- **Non-current assets and net debt** increase driven by
 - MSSP support in 2H16
 - Capex of \$130 million in the last twelve months
- **Refinance of \$265 million syndicated facility completed in December 2016**

Cash flow

MG remains focused on prudent levels of gearing and sustainably reducing levels of inventory



Cash flows

(A\$ million)	1H17	1H16
EBITDA	25.7	52.6
Changes in working capital	(128.0)	(173.7)
Other non-cash items in EBITDA	5.9	(4.3)
Operating cash flow before capital expenditure	(96.4)	(125.4)
Capital expenditure		
Strategic / project capital	(44.6)	(36.5)
Other capital expenditure	(26.2)	(36.3)
Other	1.6	(4.8)
Net cash flow before financing, tax and dividends	(165.6)	(203.0)

Comments

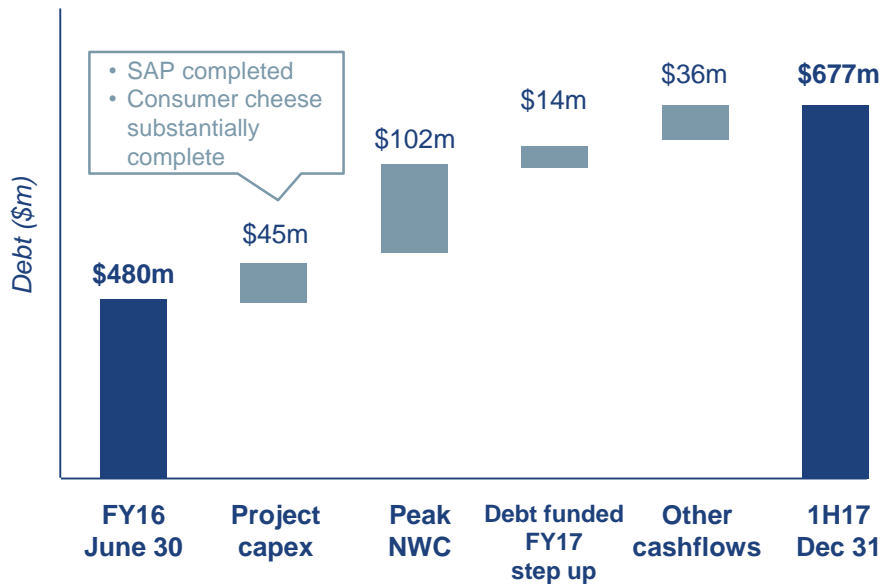
- **Working capital investment** reduced from prior half
 - Lower milk intake
 - Inventory focus
 - Partial offset as cheese holdings increased in advance of new contract
- **Strategic capex** including SAP and new consumer cheese plant
- **Expect 2H17 to be strongly cash flow positive**

Seasonal peak drives balance sheet

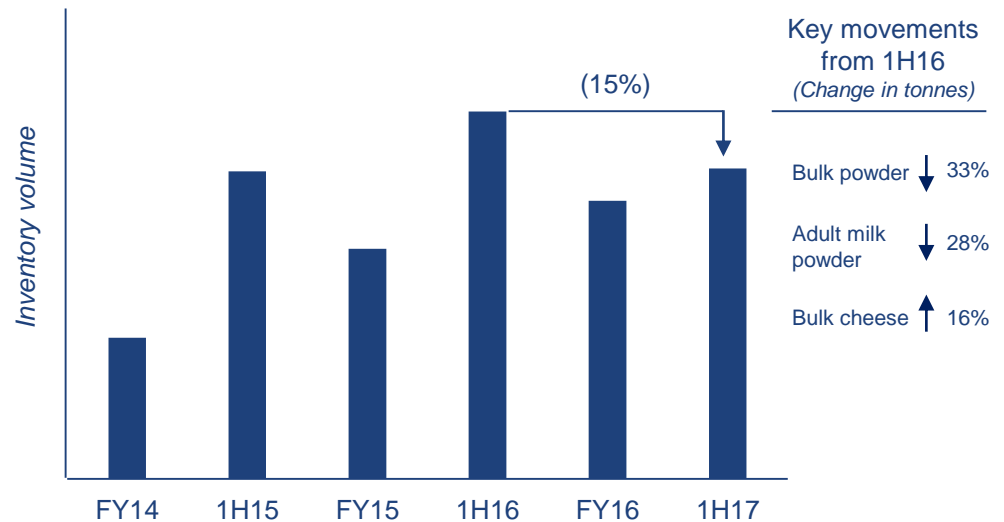


1H17 peak net debt of \$677 million reflects seasonality of business and capex for SAP and consumer cheese – substantial opportunity remains in inventory

Bridge to 1H17 'peak' debt position



Substantial opportunity remains in inventory



- Growth capex to reduce in 2H17 with consumer cheese and SAP delivered
- Tight focus on SIB capex
- Strongly positive operating cash flow expected in 2H17

- Working capital levels high in FY16
- Peak inventory tonnes down 15% at 1H17
- Includes cheese inventory build in advance of new contract
- Significant ongoing focus on inventory sell down

Expect closing FY17 net debt to be broadly inline with closing FY16 position

Outlook



MG maintains its FY17 FMP forecast of \$4.95¹ per kgms

- Reduced intake has impacted overhead recovery and ability to take full advantage of higher commodity prices
- MG maintains forecast Full Year Available Average Southern Milk Region (SMR) FMP of \$4.95¹ per kgms in FY17 based on SMR milk intake of approximately 190 million kgms
 - As disclosed in October 2016, this includes additional step-ups debt funded by the co-operative
 - Prior to debt funded step-ups, MG is expected to generate FY17 Available Weighted Average SMR FMP of \$4.70² per kgms
 - As a result of changed supplier milk flows, the current Available Weighted Average SMR FMP has risen from \$4.86 per kgms to \$4.92 per kgms. The remaining potential step-up is therefore \$0.03 per kgms
- This forecast is subject to there being:
 - No further material deterioration in milk intake;
 - Dairy commodity prices and AUD:USD exchange rate remaining broadly in-line with current spot;
 - No adverse change in trading conditions or regulatory environments in key markets
- Factors providing MG with confidence of improved milk prices in FY18 include: improved seasonal conditions, current commodity pricing and realisation of planned cost reduction initiatives

1. Including debt funded step ups as announced 27 October 2016.

2. For the purposes of the Profit Sharing Mechanism the Actual Weighted Average Southern Milk Region FMP is used. 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.

Questions



Glossary



Term	Definition
Actual Weighted Average Southern Milk Region FMP	total Milk Payments to Suppliers in the Southern Milk Region in a given financial year divided by the Southern Milk Region milk intake (milk solids) for the same period
Available Southern Milk Region FMP	the Actual Weighted Average Southern Milk Region FMP plus the add-back of quality adjustments accrued from the supply of non-premium milk
Dairy Foods	an operating segment of MG which manufactures and supplies dairy products such as fresh milk, UHT milk, cheese, butter, creams and milk powders in markets throughout Australia, China, South East Asia, the Middle East and the Pacific
FCMP	full cream milk powder
FMP	the farmgate milk price paid to a supplier for their raw milk
GDT	Global Dairy Trade, an auction platform for internationally traded dairy commodities
Ingredients and Nutritionals	an operating segment of MG which manufactures and supplies customised dairy ingredients and nutritional milk powders, primarily to the key markets of North Asia, South East Asia, Australia, Sri Lanka and USA
NWC	net working capital
Other	Includes MG Trading and Milk Broking
pcp	prior corresponding period (e.g. 1H15 as the prior corresponding period for 1H16)
SIB	stay in business
SMP	skim milk powders
Southern Milk Region	includes the following regions: eastern South Australia and western dairy region in Victoria (West); the Gippsland dairy region in Victoria (Gippsland); and the Murray dairy region in central and northern Victoria and southern NSW (North)
WMP	whole milk powders

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