

# Australian Dairy Farms Group

28 November 2018

**ASX Code: AHF**

## Investor Presentation

Attached is a presentation which Peter Skene, Chief Executive Officer of Australian Dairy Farms Group (AHF) presented at the Monsoon Communications Twilight Investor Briefing at 4:30pm yesterday afternoon.

## AUSTRALIAN DAIRY FARMS GROUP

Ends.

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**AUSTRALIAN DAIRY FARMS TRUST**

ARSN 600 601 689

# Australian Dairy Farms Group (ASX:AHF)

Twilight Briefing  
27<sup>th</sup> November 2018

Presenter – Peter Skene  
CEO Australian Dairy Farms Group



Australian Dairy Farms Group

*Australian Dairy Farms, the new fresh future*

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This Presentation contains certain statements which may constitute forward-looking statements or information (“forward-looking statements”), including statements regarding the use of proceeds of any funds available to the Group. These forward-looking statements are based on certain key expectations and assumptions, including assumptions regarding the general economic conditions in Australia and globally, industry conditions in Australia and the intended operations of the Group. These factors and assumptions are based upon currently available information and the forward-looking statements contained herein speak only as of the date hereof. Although the expectations and assumptions reflected in the forward-looking statements are reasonable in the view of the Group’s directors and management, reliance should not be placed on such statements as there is no assurance that they will prove correct. This because forward-looking statements are subject to known and unknown risks, uncertainties and other factors that could influence actual results or events and cause actual results or events to differ materially from those stated, anticipated or implied in the forward-looking statements. These risks include, but are not limited to: uncertainties and other factors that are beyond the control of the Group ; global economic conditions; risks associated with the global dairy industry; commodity prices, exchange rate changes; operational and seasonal risks associated with farming; delays or changes in plans; specific risks associated with the ability to execute production contracts, ability to meet work commitments and capital expenditures; and risk associated with securities market volatility. The Group assumes no obligation to update any forward-looking statements or to update the reasons why actual results could differ from those reflected in the forward-looking statements, except as required by Australian securities laws and ASX Listing Rules.

<sup>1</sup>Associates of Australian Dairy Farms Group include any of its directors, employees, contractors, advisers, brokers, consultants and their respective employees and representatives. References to “Australian Dairy Farms”, the “Group” Australian Dairy Farms Limited, Australian Dairy Farms Trust and its trustee are references to Australian Dairy Farms Group and / or the following constituent entities. Australian Dairy Farms Limited ACN 057 046 607, Australian Dairy Farms Trust ASRN 600 601 689, Camperdown Dairy Company Pty Ltd ACN 140 640 606, SW Dairy Farms Pty Ltd ACN 600 103 553 and other subsidiary entities.

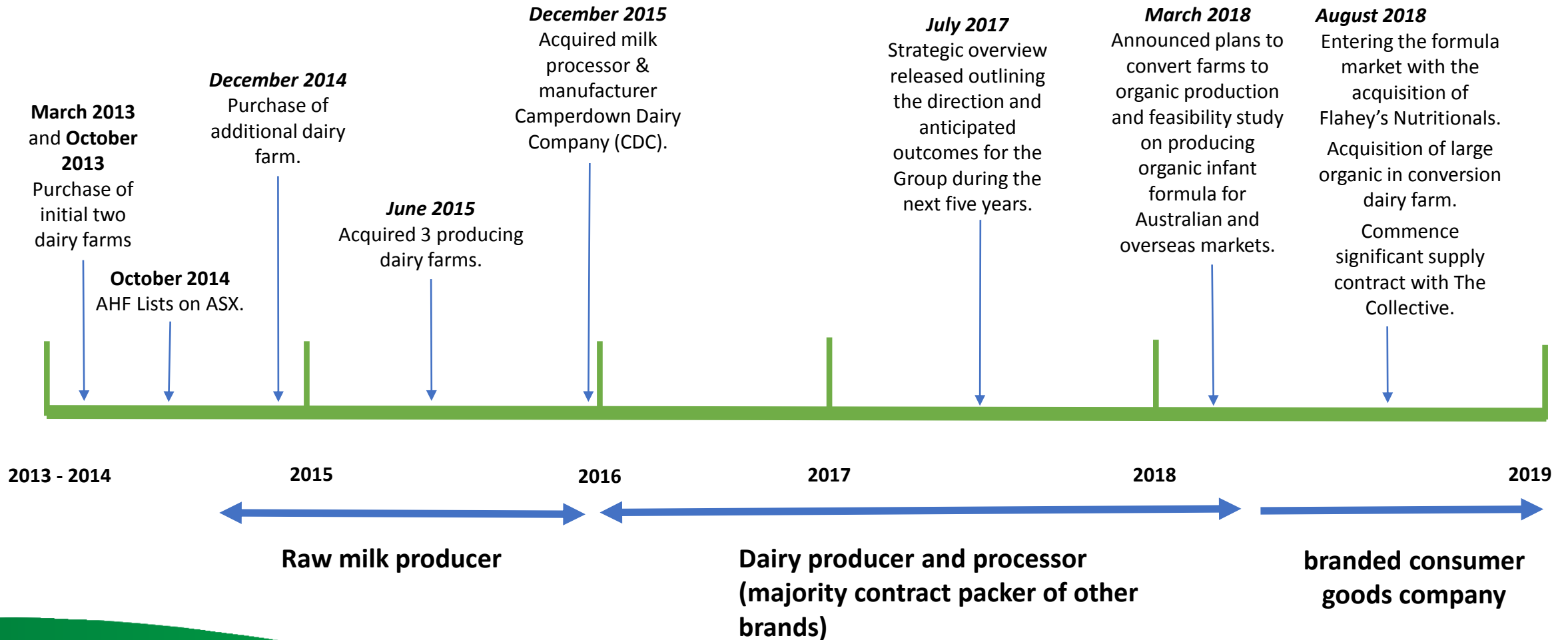








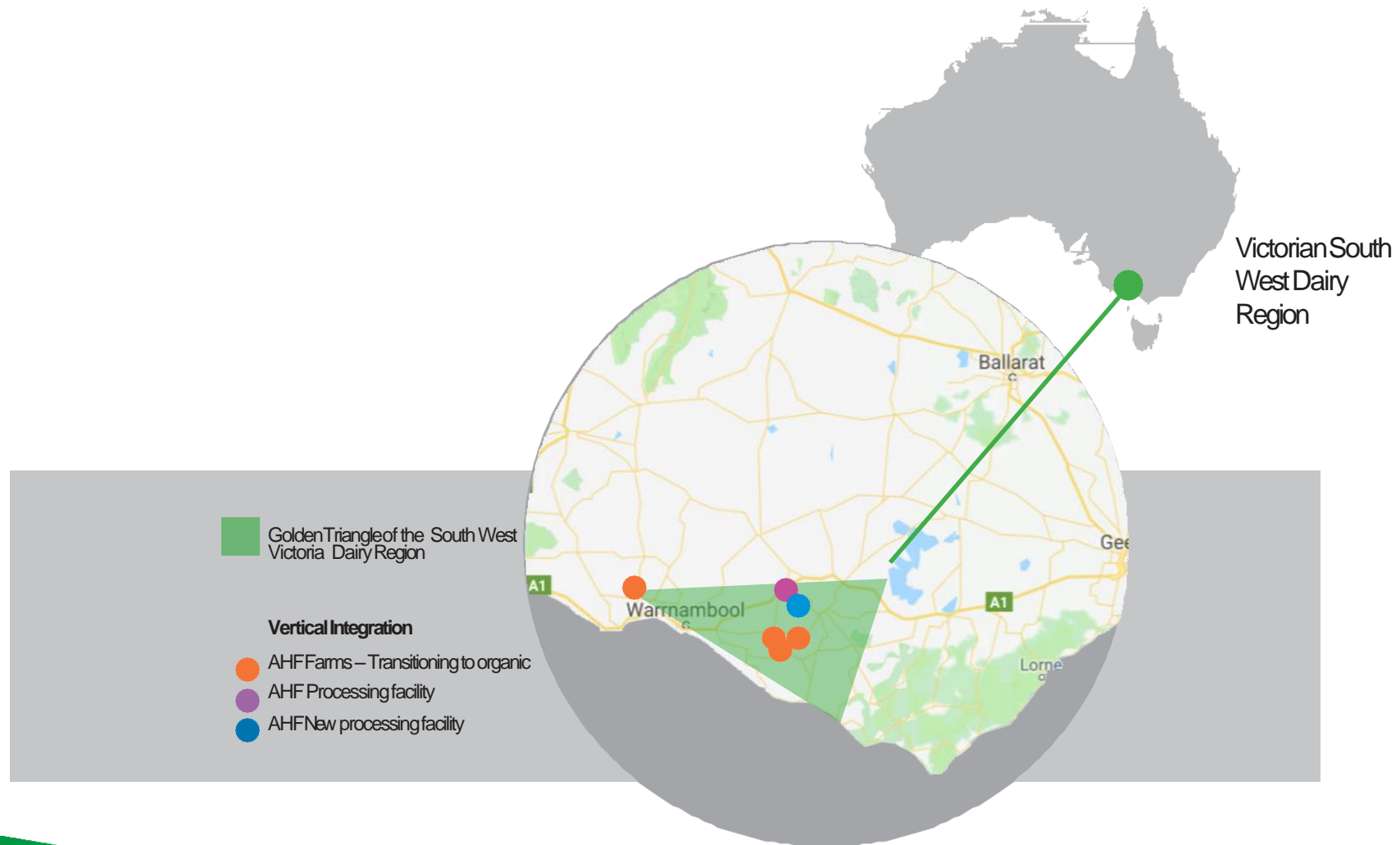
# History of Australian Dairy Farms



Australian Dairy Farms Group

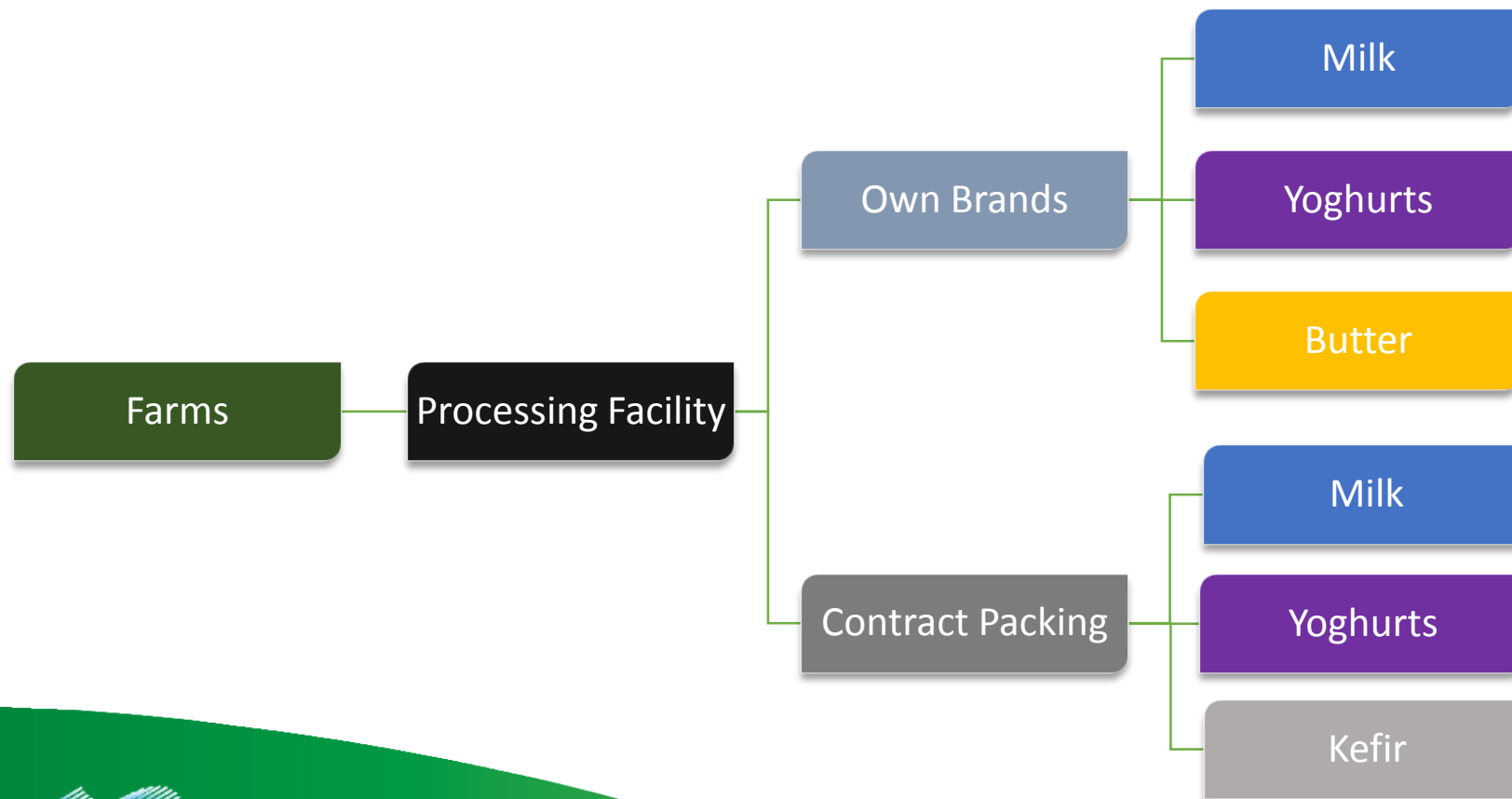
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# Overview of Australian Dairy Farms



# Current Business Structure

Australian Dairy Farms Group are currently a vertically integrated producer and processor of own brand and contract manufactured dairy products.



# Current Core Assets

## Our farms

- Australian Dairy Farms Group currently owns 6 farms producing 17 million litres of milk per year
- AHF owned farms are in the process of converting to organic milk production
- Once complete this transition will enable AHF to become Australia's largest single farm entity for the production of organic milk

## Our processing facility – Camperdown Dairy

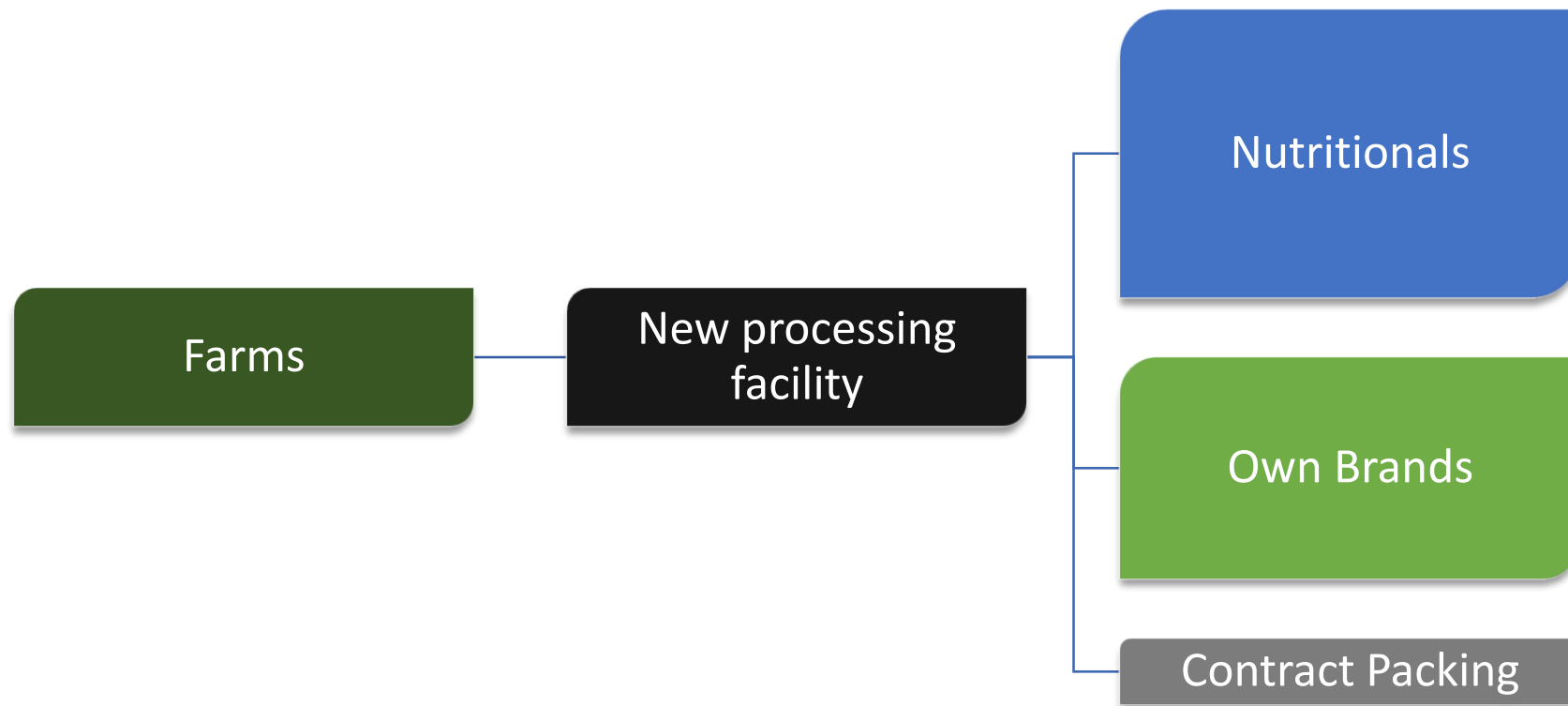
- Camperdown Dairy has been a fully certified organic dairy manufacturer for the last 5 years
- Recently Camperdown Dairy has expanded the organic certification to include yoghurts, milks as well as butter
- The company has, in the main, been using its organic certification to support contract manufacturing for other businesses





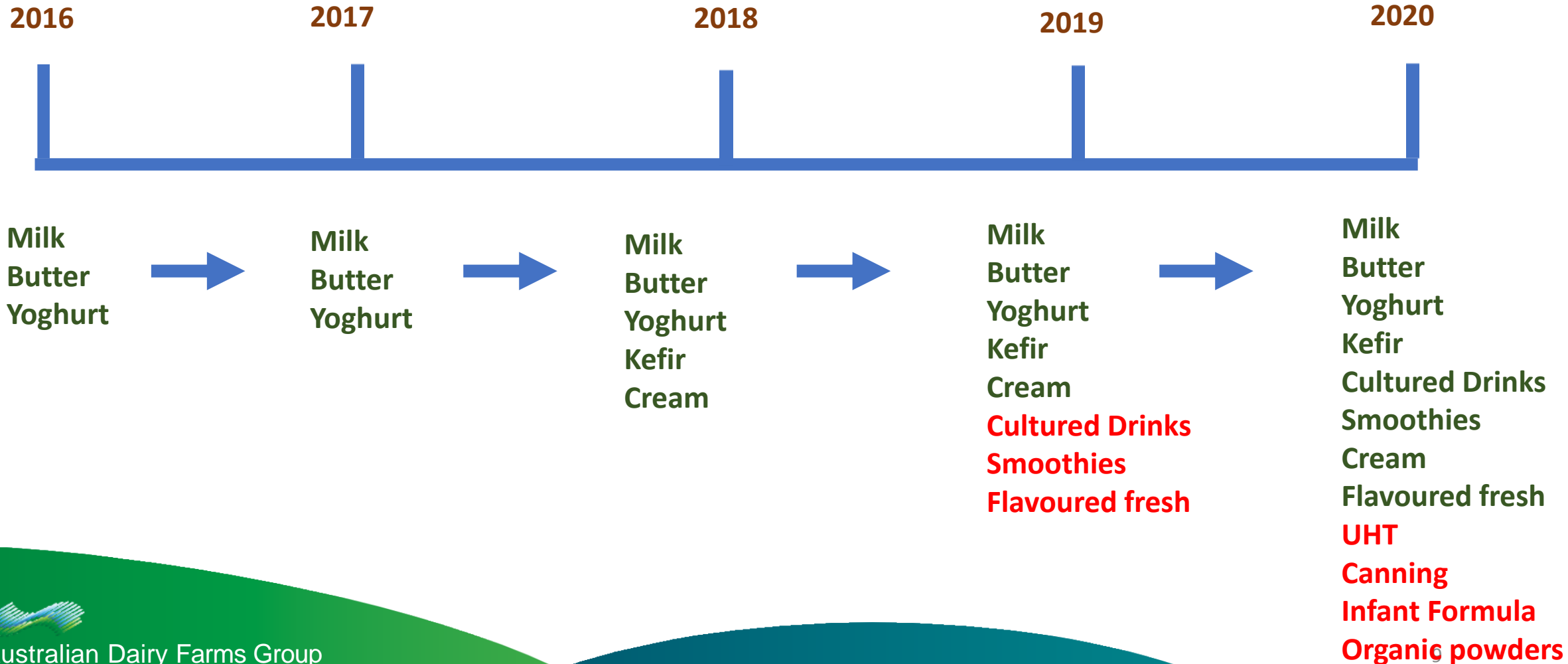
# Future Business Structure

Future business structure will include a broad suite of differentiated nutritional products including a “tummy health” and organic infant formula range



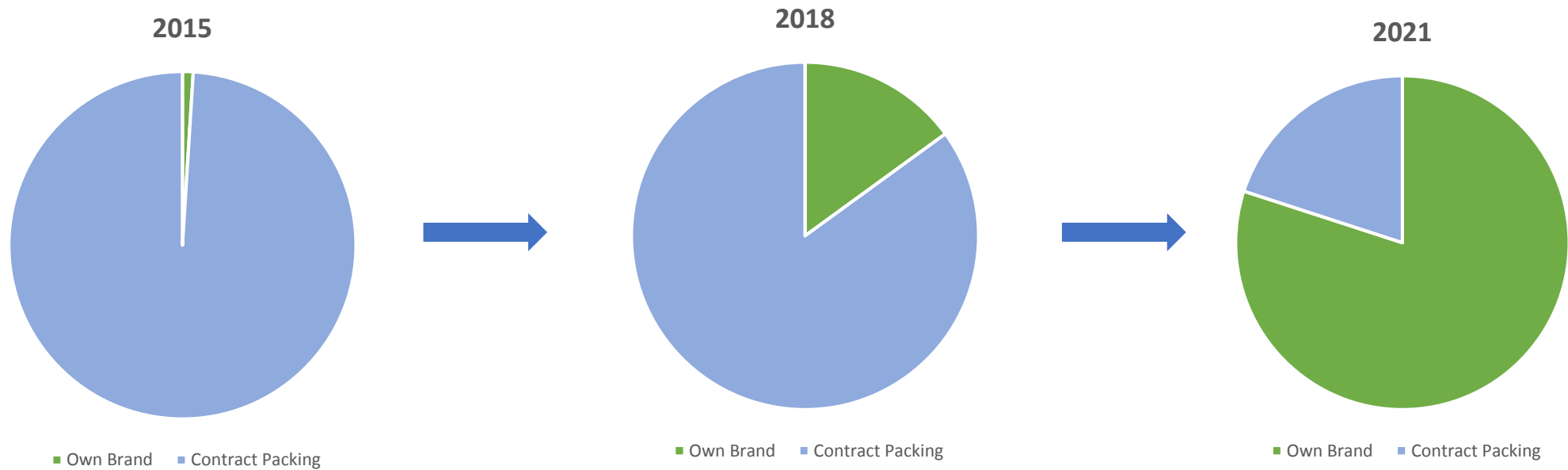
# Diversifying and Introducing Higher Margin Products

Processing capabilities existing and aspirational



# Growing Branded Products

Australian Dairy Farm Group is transitioning from a conventional basic producer of low value products, to a premium differentiated branded business





A photograph of a dairy processing plant. In the foreground, a curved conveyor belt carries numerous white plastic milk jugs, each with a yellow label. A worker in a white protective suit and a black cap is visible in the background, working within a cleanroom environment. The scene is brightly lit with industrial lights. A blue circular graphic is overlaid on the right side of the image.

Strategy



Australian Dairy Farms Group

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# Strategic Overview

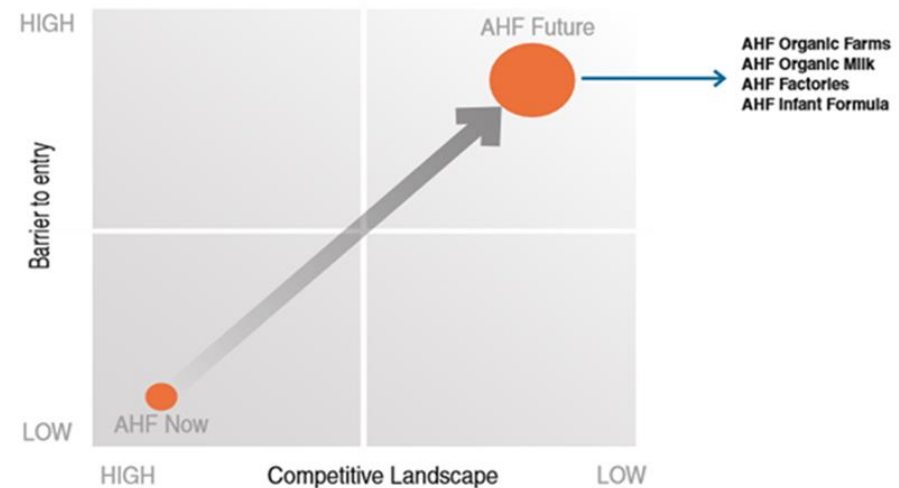
- Transitioning from a contract manufacturer and packer to **brand owner**
- Converting farm assets from 6 of over 5,000 conventional dairy farms into **Australia's largest single entity ORGANIC in conversion dairy enterprise**
- Moving from highly competitive low value products to **high value, high growth markets**
- **Entering the Formula / Nutritionals market** with the purchase of Flahey's Nutritionals (**A key first step into the organic formula and infant formula markets**)
- Future plans for **fully vertically integrated infant formula brands and supply chain** (refer to 26<sup>th</sup> March announcement)
- Ultimate **control and security of supply** with company owned farms, cows, processing facility, tinning and brands



# Strategy – Repositioning the Company

Transformational shift from farms and raw milk processing to highly differentiated dairy and nutritional products focussing on “tummy health” ranges and organic infant formulas

- Higher barriers to entry
- Fewer competitors
- Higher growth
- Attractive margins
- More branded product
- Less contract manufacturing
- Increase brand equity
- Stronger shareholder outcomes



Growing from bottled conventional milk, yoghurt and butter markets to **Australian Organic Infant Formula** – high value, high growth rates and high barriers to entry





# Strategy – Entering the Nutritionals/Formula Market

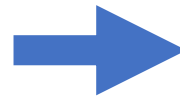
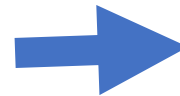
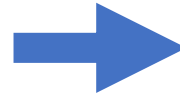
- **Acquisition of Flahey's Nutritionals is our most recent step (purchase completes December 2018)**
- Flahey's Nutritionals recently launched into the Australian Certified Organic market via a specialised ultra premium product currently ranged in major branded retailers within the Pharmacy market in Australia
- Flahey's Nutritionals has a comprehensive range of premium formula products under development with a “cradle to grave” market position
- The Flahey's Nutritional acquisition fits nicely with Australian Dairy Farms Group's overall strategy of transitioning from a conventional basic producer of commodity products to a full premium differentiated branded business



# Current and Future Revenue

## Current Revenue Sources

<b>Farms</b>	<ul style="list-style-type: none"> <li>6 farms producing 17 million litres of milk per annum</li> <li>Segregated herds, comprising Holstein / Fresian and Jersey Herds</li> </ul>
<b>Processing Facility</b>	<ul style="list-style-type: none"> <li>Independently certified organic milk processor</li> <li>Contract packer of fresh dairy products for brands including The Collective, Green Pastures</li> <li>Manufacture our Own brands in bottle milk and butter</li> </ul>



## Future Revenue Sources

<b>Farms</b>	<ul style="list-style-type: none"> <li><b>Organic</b> dairy farms</li> <li>Segregated herds, comprising Holstein / Fresian and Jersey Herds</li> </ul>
<b>Processing Facility</b>	<ul style="list-style-type: none"> <li>Independently certified organic milk processor producing organic fresh products, powders and formulas</li> <li>Introduction of new Own brands in fresh ranges including milks, yoghurts, butter</li> <li>Contract packing of premium brands including The Collective</li> </ul>
<b>Nutritionals</b>	<ul style="list-style-type: none"> <li>Production of certified organic powders and infant formula under Own brands</li> <li>Flahey's Future organic formula rolled out Australia wide to pharmacy market</li> <li>3 new products launched by 2020</li> </ul>





Nutritionals



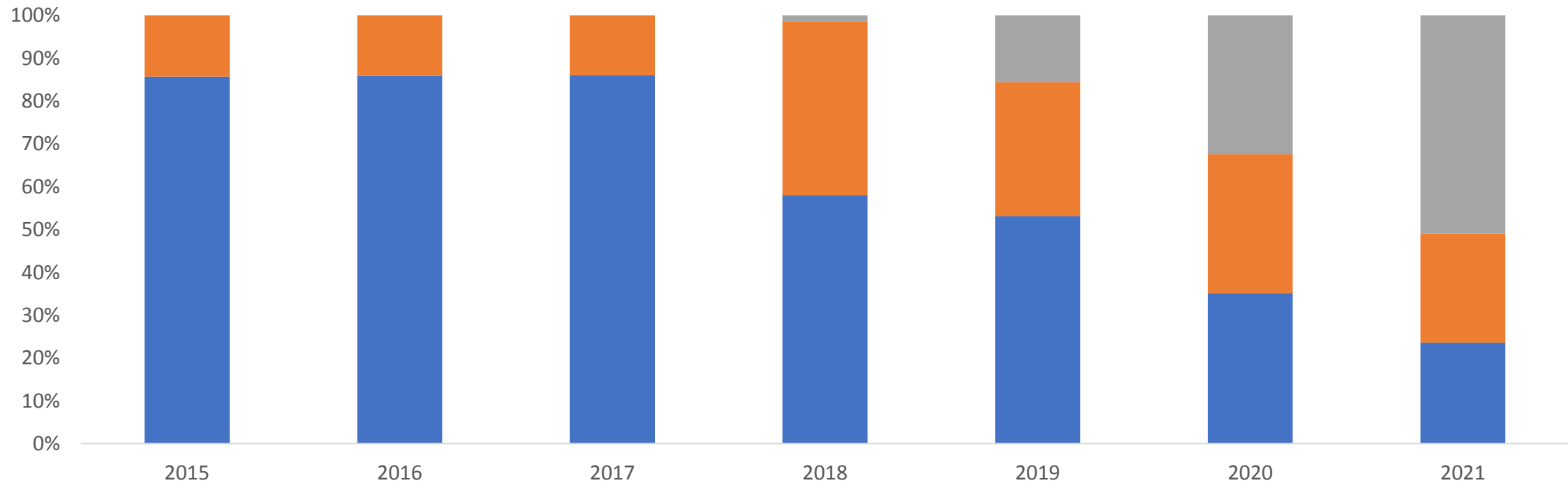
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# Shift to Nutritionals (indicative)

Australian Dairy Farms are moving up the value chain to be a manufacturer of high value speciality products



## Projected category value splits

■ Bottle Milk ■ Yoghurts ■ Formula

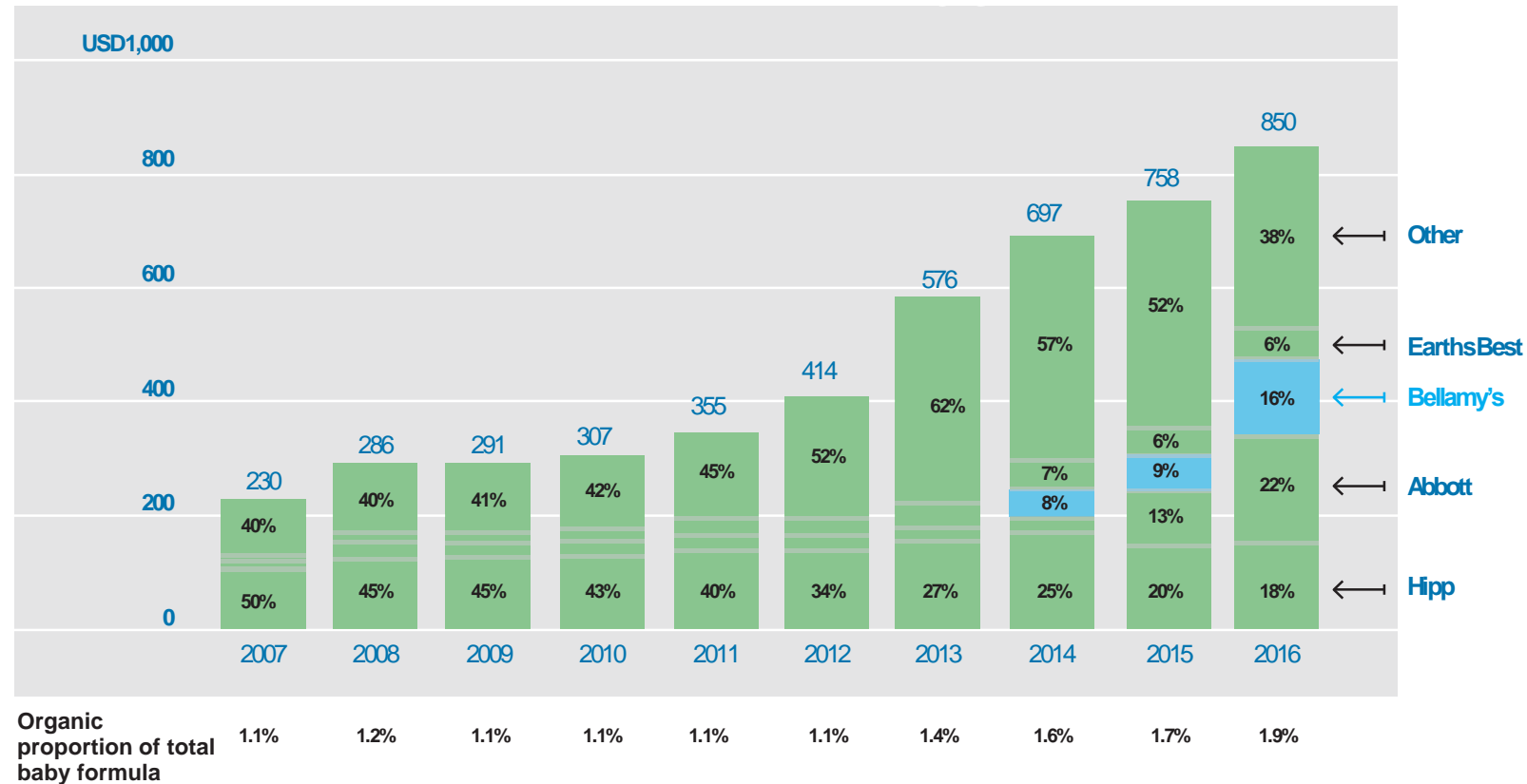


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# Organic Baby Formula Sales Growth

Global organic baby formula retail sales value (constant price) in millions



20% growth per annum over last 5 years

Source: Ballamys FY17 AGM Presentation



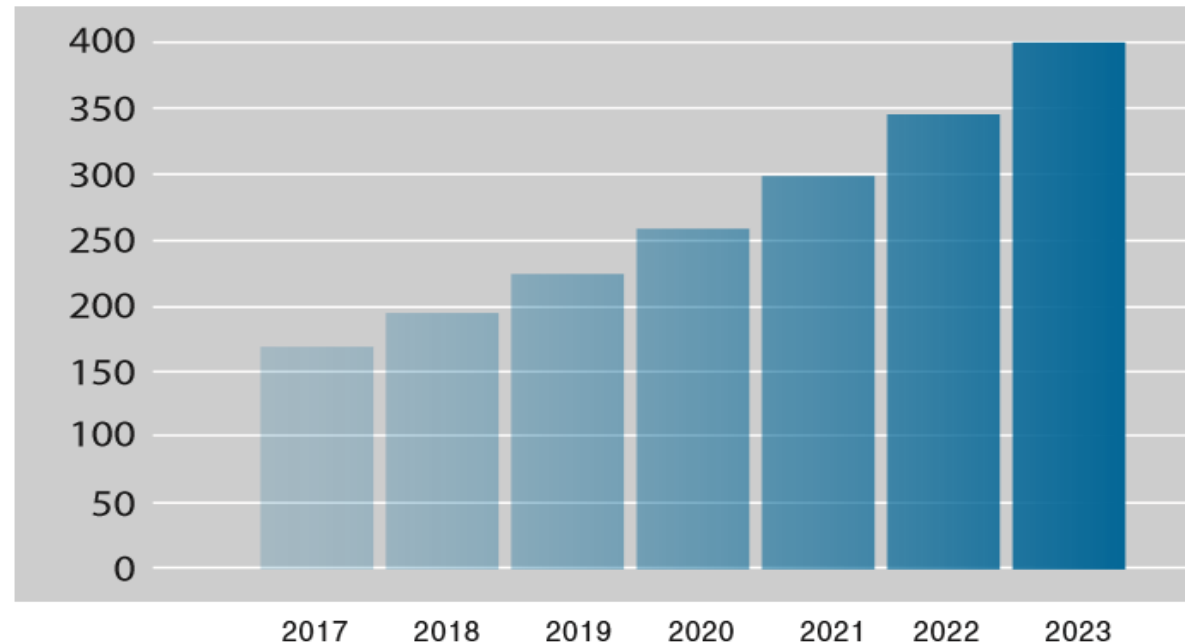
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# Value of ANZ Organic Infant formula market: 2017 -2023

Australian and New Zealand Organic Infant Formula  
Market Value (2017-2023)

USD Mill



Market value expected  
to double in next 5  
years to USD\$400  
million

Source: 'Market Research Future' - Global Organic Infant Formula Report





# Chinese Infant formula sales

## Certified organic IMF having a field day in China

In order for infant formula to be labeled as "organic" in China it must be certified by the CNCA (Figure 13) from 1 January 2018. The criterion is at least 95% of a product's weight must be comprised of ingredients included in the CNCA's "List of Certified Organic Products". Currently, there are only 17 registered organic infant formulae in China; primarily Chinese brands. Bellamy's is not one of these.

According to a Nielsen survey of Chinese supermarkets and mother and baby stores, organic infant formula accounted for only 4% of the Chinese infant formula market in 2017. **The organic category saw growth of +46% in 2017 (2016: +47%), significantly outpacing the market growth rate of 9%.**

Recent surveys of Chinese consumers have indicated the most important factors behind choosing organic formula (in order) are i) nutritional content, ii) food safety, iii) brand, and iv) country of origin. The primary and most influential sales channel is the mother and baby stores, making CFDA registration critical for organic formula. The top three organic brands by consumer awareness are Abbott, Wyeth and, most notably, Bellamy's (which does not have CFDA registration or organic certification) (Figure 14).

Chinese infant formula sales growing at 9% pa

ORGANIC Chinese infant formula sales growing at 46% pa

Figure 13. CNCA-certified organic label



Source: CNCA

Source: Citi Infant formula report



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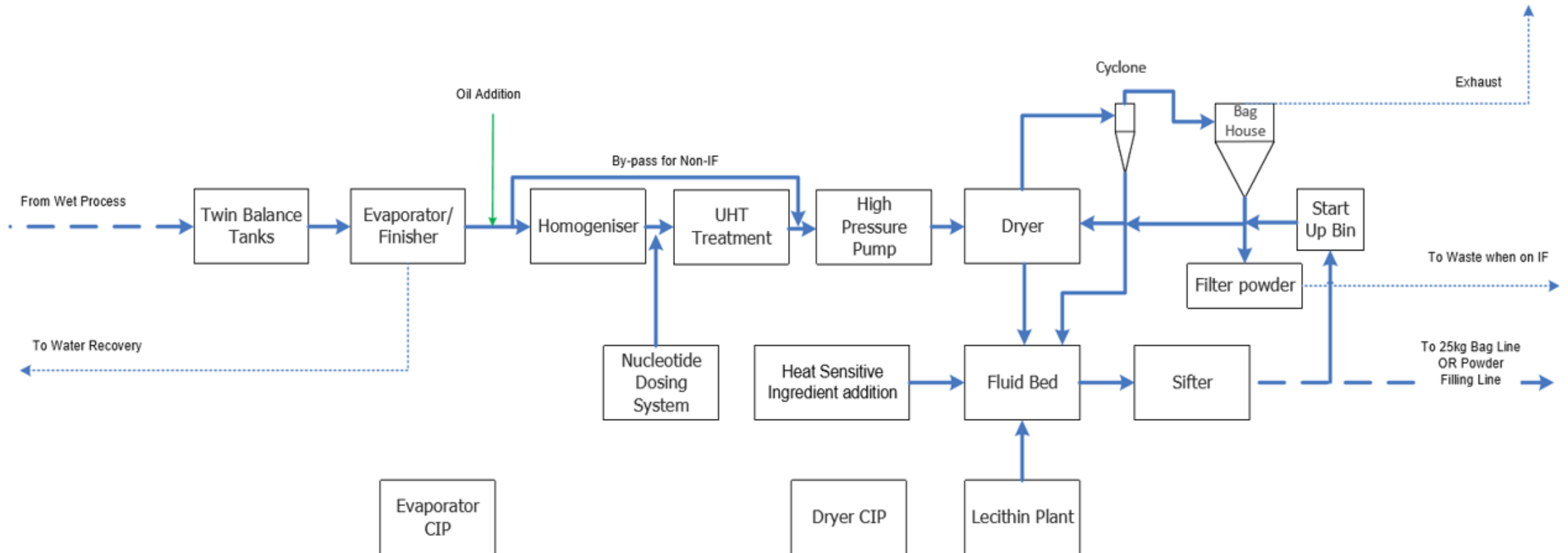
## Strategy – Planning for the future

**AUSTRALIAN DAIRY FARMS**  
**Layout plan for Camperdown Dairy Park (new factory site)**



# Strategy – From milk to Infant Formula (all in Western Vic)

AUSTRALIAN DAIRY FARMS  
Typical powder drying process line

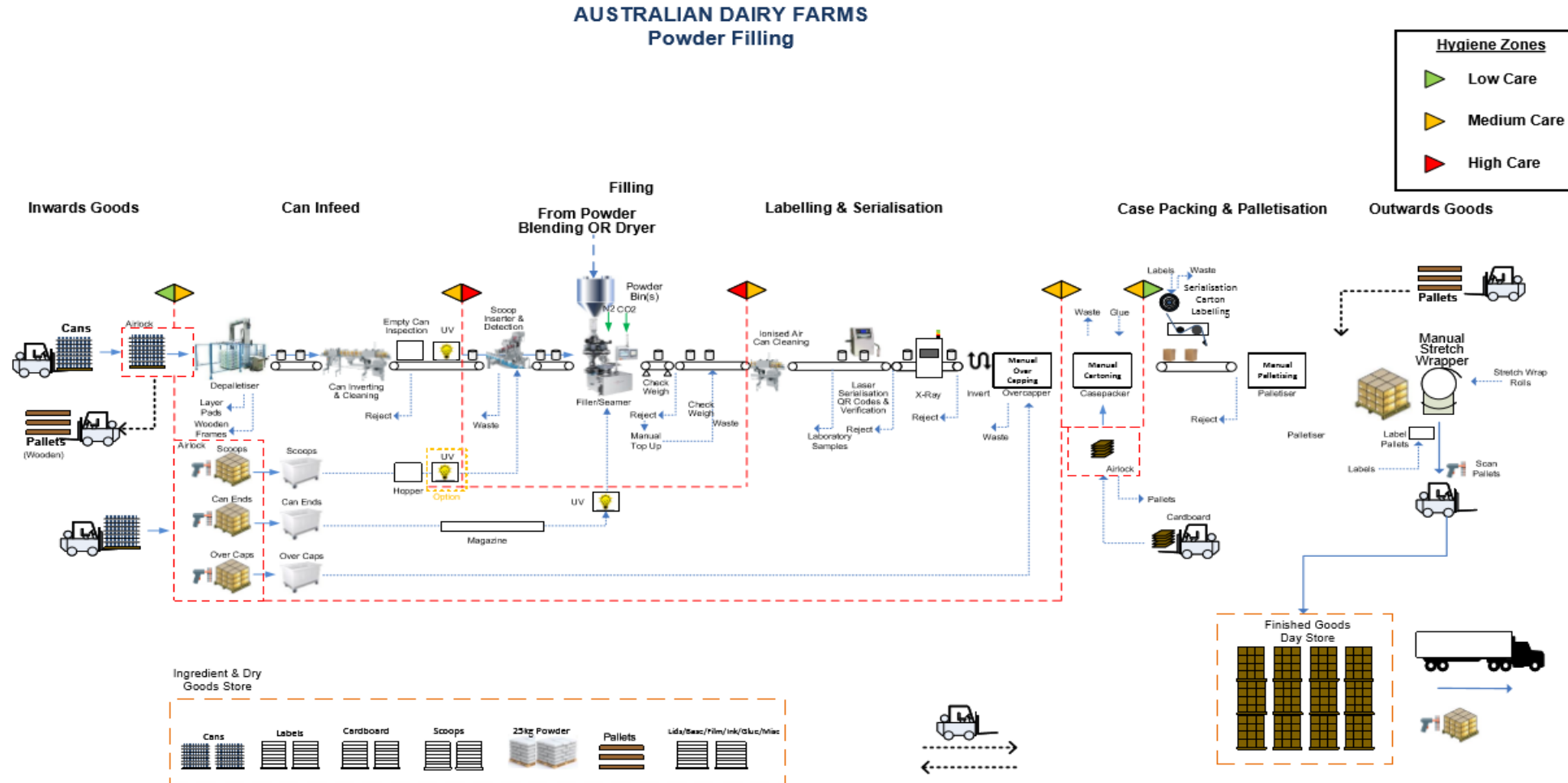


Option 2 – Skim Milk Powder, Whole Milk Powder and Full Range Infant Formula from Wet Blend



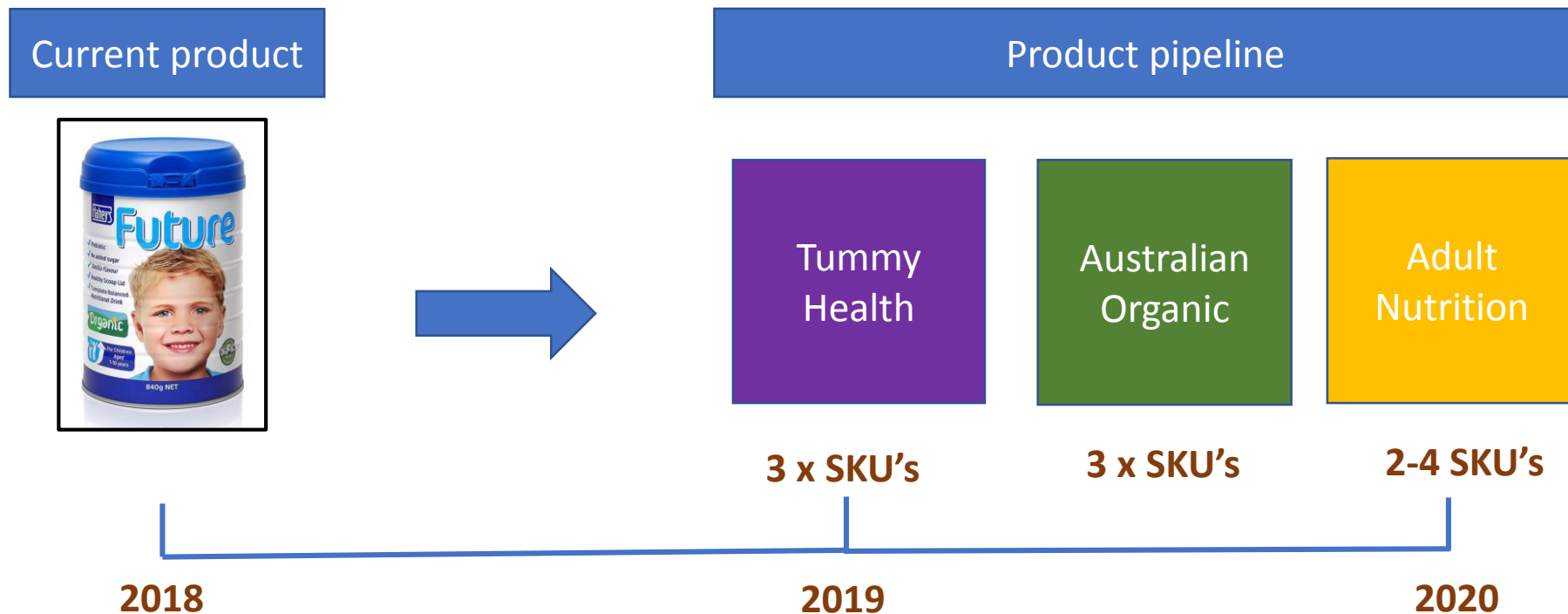


# Strategy – Infant formula / Nutritionals plant



# Nutritionals Indicative Pipeline

- Entered the nutritionals segment through the acquisition of Flahey's Nutritionals (to complete Dec 2018)
- Plans to expand the range to Tummy Health, Australian Organic and Adult Nutrition by 2020
- Focus on differentiated products



# Focus on full integration

	Organic	Branded	Infant Formula	Vertical Integration	Market Cap (A\$m)	Turnover FY18e (A\$m)	Market Cap / Turnover
Bellamy's Australia	✓	✓	✓	✗	1,168.3	353.8	3.3x
The A2 Milk Company	✗	✓	✓	✗	8,142.1	1266.3	6.4x
Wattle health	✓	✓	✓	✗	258.7	0.9*	278.6x
Bubs Australia	✓	✓	✓	✓	326.7	16.3	20.0x
<b>Australian Dairy Farms</b>	✓	✓	✓	✓	36.9	23.6*	1.6x

\*FY17 Revenue  
Source: CapitalIQ 28 August 2018

**“ AHF is a vertically integrated, producer of dairy products and diverse nutritionals and will include organic infant formula from 100% Australian Organic Milk ”**



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## Appendix



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# Organic Dairy Market

## Market

The domestic dairy industry revenue is expected to grow at an annualised rate of 8.5% to reach a market value of \$2.6 Billion

The market for organic infant formula in Australia and New Zealand is expected to grow from \$230m in 2017, to \$546m by 2023. (source: AAP)

## Price

Domestic prices for non-organic milk have been falling steadily since the industry deregulated in 2000. The organic market is less inclined to be affected by commodity pricing

## Volume

The Australian organic milk pool is estimated to be 40 million litres per year, Australian Dairy Farm Group will add significantly to this volume given their farms produce approximately 17 million litres annually



Source: austorganic.com



# Organic Dairy Market

## Challenges

Numerous challenges have developed in the domestic dairy market, including supermarket milk price wars and falling domestic milk prices due to declining global dairy trade prices

## Market Opportunities

- Retailers and restaurants are stocking an increasing number of organic products
- Capitalise on the demand for organic premium and ultra premium differentiated foods
- Domestic demand for organic food and produce is projected to continue growing strongly with the population becoming increasingly aware of clean, safe food
- Growing consumer demand for “free from” claims



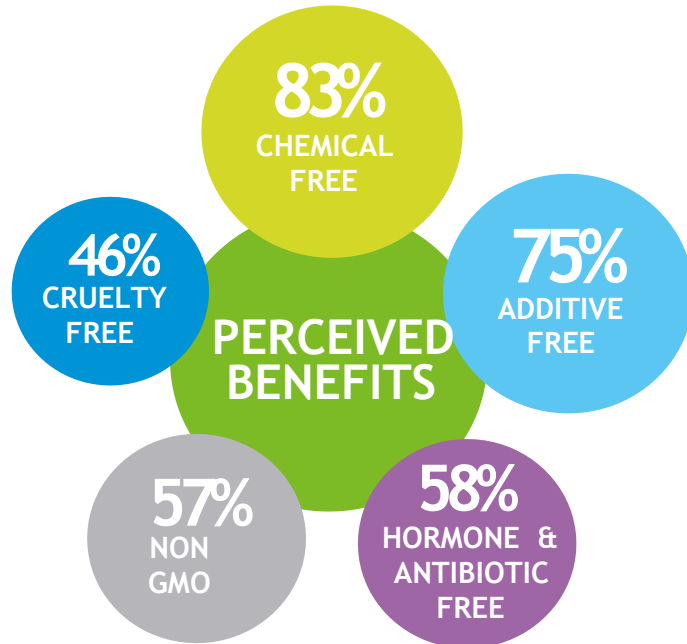
Source: Unique Health Products





# Organic Dairy Market Opportunity

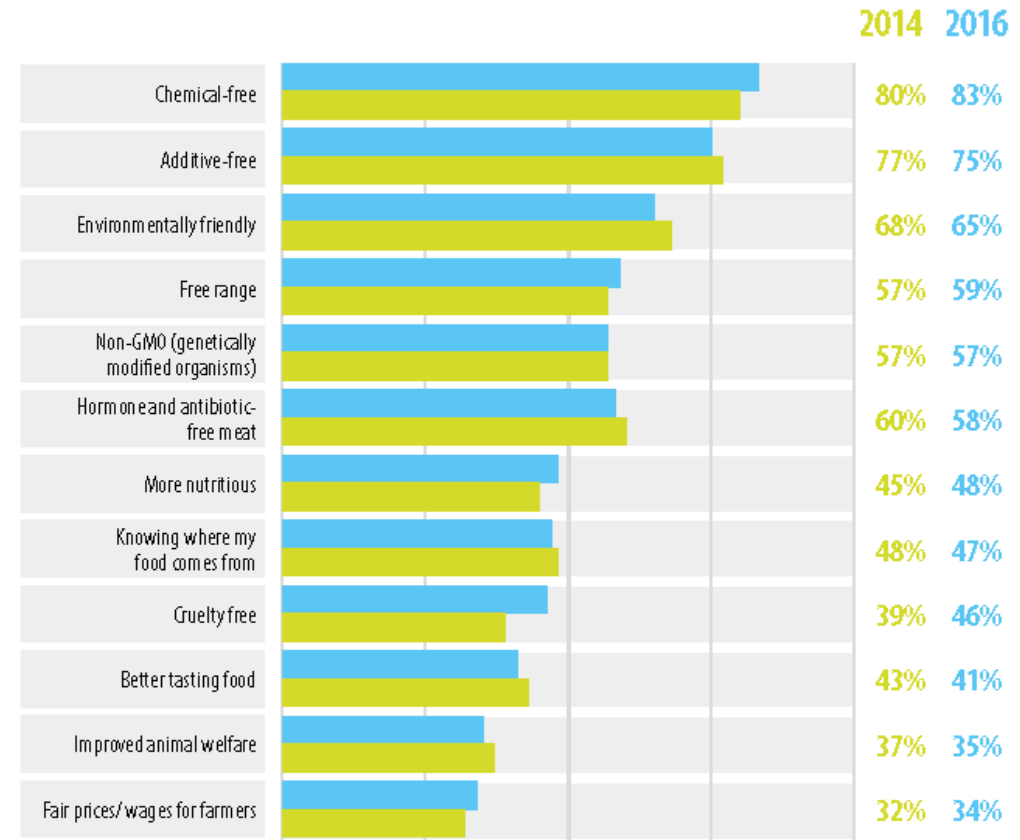
## Top **Perceived** 'Free From' Benefits of Organic Food\*



### THE TOP PERCEIVED BENEFITS OF ORGANIC FOOD

1. Chemical free	6. Hormone and antibiotic free meat
2. Additive free	7. More nutritious
3. Environmentally friendly	8. Knowing where my food comes from
4. Free range	9. Cruelty free
5. Non-GMO (genetically modified organisms)	10. Better tasting food

## Australia's Top 12 Perceived Benefits\* of Organic Food



\* Source: Australian Organic Market Report 2017

## Further Details

For additional company information or media enquiry matters please contact:

### Peter Skene

Group CEO/ Director Australian Dairy Farms Limited

Email: [shareholders@adfl.com.au](mailto:shareholders@adfl.com.au)

### About Australian Dairy Farms Group

*Australian Dairy Farms Group (AHF) was Australia's first ASX listed dairy farmer. Its initial focus was on aggregating high quality dairy farms in Victoria, initially in the South Western region with particular emphasis initially, on the famous Dairy Golden Triangle region of South West*

*Victoria between Warrnambool and Colac south of the Princes Highway to the coast around Port Campbell.*

*In April 2016 the Group completed the acquisition of Camperdown Dairy Company Pty Ltd, ACN 140 640 606 (Camperdown Dairy) – see announcement on <http://www.adfl.com.au/> announcements .*

*Camperdown Dairy is a wholly owned subsidiary of AHF. The Group is now avertically integrated milk producer, processor and product distributor in Australia. Refer to the Group's Strategy Overview release to market on 11 July 2017 for additional information about AHF's immediate and longer term strategic planning. See the above link to ASX announcements or the Group's website for a copy of the Group's Strategy Overview.*

***Australian Dairy Farms Group** is listed as a stapled security comprising one fully paid share in **Australian Dairy Farms Limited (the Company)** and one fully paid unit in **Australian Dairy Farms Trust (the Trust)**. Within the structure, the Company is the operator and manager of the dairy farm properties, which are leased from the Trust as the registered owner.*

### Disclaimer – Forward Looking Statements

*This announcement may include “forward looking statements” within the meaning of securities laws of applicable jurisdictions. These forward-looking statements are not historical facts but are based on AHF's current expectation, estimates and projections about the industry, in which it operates, and beliefs and assumptions. Forward looking statements may include indications of, and guidance on, future earnings or distributions and financial position and performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of AHF, and its officers, employees, agents, or associates, that may cause actual results to differ materially from many projections and forward-looking statements and the assumptions on which those statements are based. Readers are cautioned not to place undue reliance on forward looking statements and AHF assumes no obligation to update such information.*



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For additional company information or media enquiries, please contact:

### Australian Dairy Farms Limited

Phone: +61 7 3020 3060

Email: [shareholders@adfl.com.au](mailto:shareholders@adfl.com.au) (emails are forwarded to the relevant person)

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## About Australian Dairy Farms Group

**Australian Dairy Farms Group (AHF)** is an Australian Dairy Company based in South West Victoria with is often referred to as the "Golden Triangle" of the Australian Dairy Industry with 23% of Australia's milk supply on the its door step.

Camperdown Dairy Company is a wholly owned subsidiary of the Group and is a trusted source for premium branded dairy products fit for the world stage; produced from fresh milk from both the Group's own farms.

AHF was the first ASX listed vertically integrated dairy company and owns its whole supply chain from high quality livestock and farms to processing facilities, factory and its own premium quality, award winning brands.

The Group's initial focus in 2013/14 was on aggregating high-quality dairy farms in Victoria, initially in the South Western region with particular emphasis on the famous Dairy Golden Triangle region of South West Victoria between Warrnambool and Colac south of the Princes Highway to the coast around Port Campbell.

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