

Murray Goulburn FY17 full year results

22 August 2017

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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.

FY17 year in review



Financial results reflect a difficult year

- FY17 farmgate milk price (FMP) of \$4.95¹ per kilogram of milk solids (/kg MS)
- Underlying FY17 FMP² of \$4.60/kg MS
- Milk intake of 2.7 billion litres, down 22%
- Revenue of \$2.5 billion, down 10%
- Underlying NPAT² of \$34.7 million, down 15%
 - Excludes post tax one-off costs of \$405 million associated with Milk Supply Support Package (MSSP) and footprint rationalisation
- Net debt of \$445 million, 8% reduction

Business initiatives

- Delivered targeted cost savings
- Consumer cheese plant in commercial production
- New SAP system implemented
- Other major capital projects cancelled
- MSSP de-recognised
- Footprint review finalised
- New management structure in place
- Strategic review commenced

FY17 results summary



	FY17	FY16	(%)
Available Southern Milk Region FMP (\$/kg MS)¹	4.95	4.80	
Actual Southern Milk Region FMP (\$/kg MS)	4.92	4.76	
Sales (\$m)	2,491	2,778	-10.3%
Distributable Milk Pool (\$m)	991	1,157	-14.3%
Applicable NPAT allocation per profit sharing mechanism	3.50%	3.50%	0bp
Underlying NPAT ² (\$m)	34.7	40.6	-14.5%
Net impact of deviations ³ (\$m)	(405.5)	-	<i>nm</i>
Profit (Loss) for the year (\$m)	(370.8)	39.8	<i>nm</i>
Cash flow before financing ⁴ (\$m)	52.2	(269)	<i>nm</i>
Net debt (\$m)	445	480	-7.3%
Equity (\$m)	735	1,176	-37.5%
<i>Gearing (%)</i>	<i>38%</i>	<i>29%</i>	
Final dividend/distribution (cents per share/unit)	0.00	3.91	<i>nm</i>

1. Including balance sheet supported step-ups announced on 27 October 2016 and one-off adjustments announced on 2 May 2017.

2. Underlying NPAT excludes deviations from the Profit Sharing Mechanism. See note 3 in MG's financial report for the year ended 30 June 2017 for further detail.

3. On 27 October 2016 MG announced a deviation from the Profit Sharing Mechanism of \$81.8 million pre-tax comprising an impairment of the MSSP and balance sheet supported step-up payments to suppliers. On 2 May 2017, MG announced further deviations from the Profit Sharing Mechanism of up to \$410 million pre-tax associated with the de-recognition of the MSSP, rationalisation of manufacturing footprint, asset write-downs and the exclusion of one-off costs.

4. See page 20 of MG's financial report for the year ended 30 June 2017 for further detail.

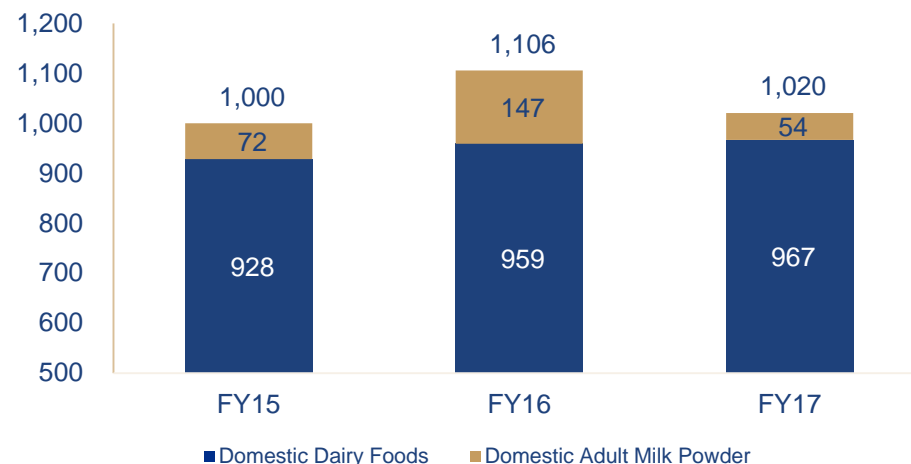
Dairy Foods

Total Dairy Foods revenue of \$1.2 billion, down 8.0%

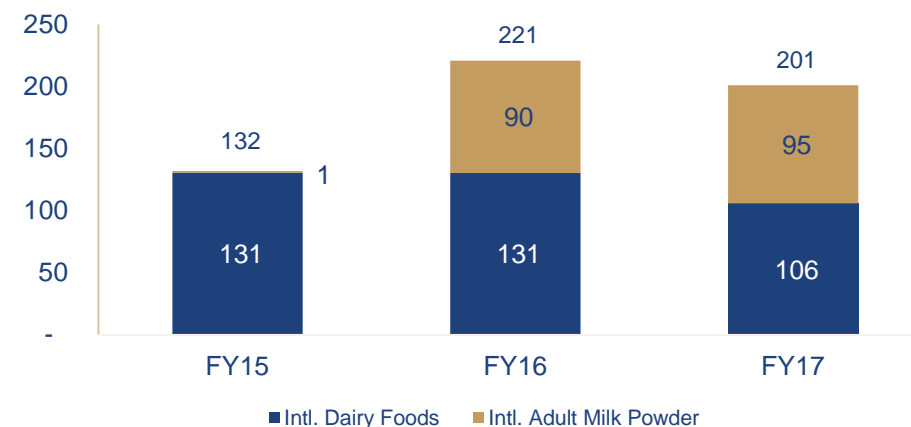


- Devondale brand revenue of \$502 million down 14% primarily due to lower adult milk powder (AMP) sales
- Domestic sales (excluding AMP) up 0.8% to \$967 million
 - Performance excluding AMP sales remains stable
 - AMP sales decreased by \$93 million as a result of lower cross border sales
- International sales down 9.1% to \$201 million
 - Butter volumes allocated away from international to domestic contracts
 - AMP sales grew across South East Asia while China remained in line with FY16

Domestic Dairy Foods revenue (AUD\$m)



International Dairy Foods revenue (AUD\$m)



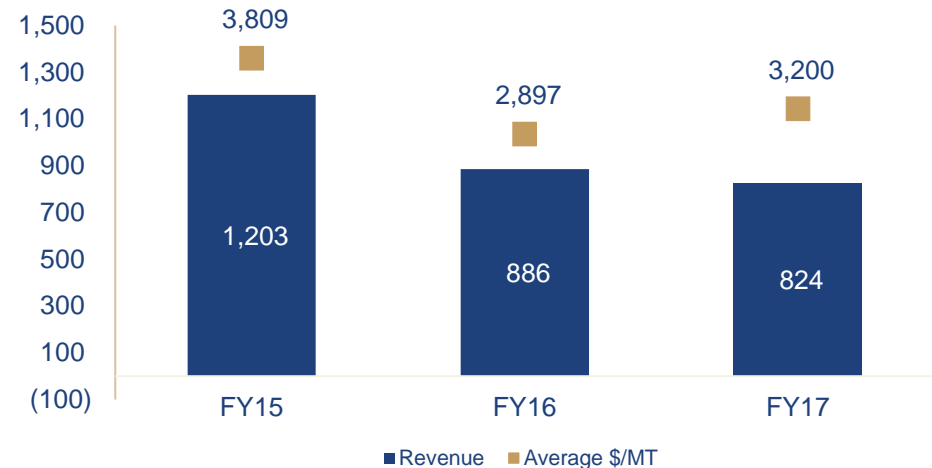
Ingredients and Nutritionals



Ingredients revenue down through lower milk allocation, mitigated by improved commodity prices

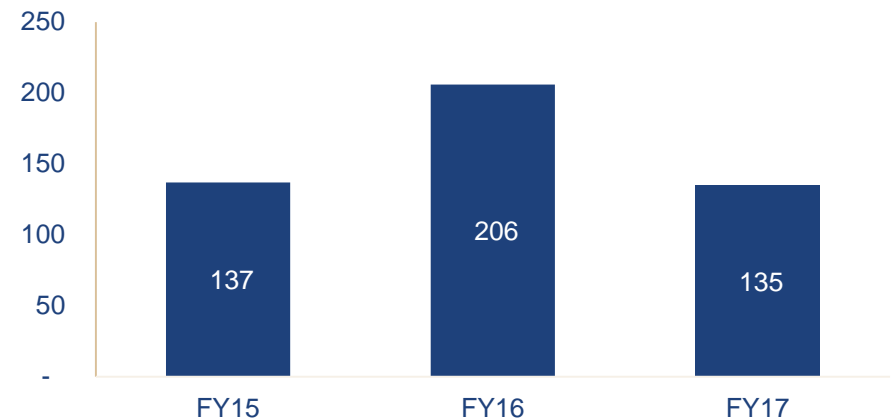
- Ingredients revenue down 7% to \$824 million
 - Decrease in Ingredients revenue driven by lower milk intake volume
 - Average \$/MT increased 12% to \$3,200 driven by higher commodity prices

Ingredients revenue (AUD\$m)



- Nutritionals revenue down 34.6% to \$135 million
 - Major customer increasingly self-sufficient
 - Market remains cautious given future regulatory changes in China

Nutritionals revenue (AUD\$m)



Strategic review

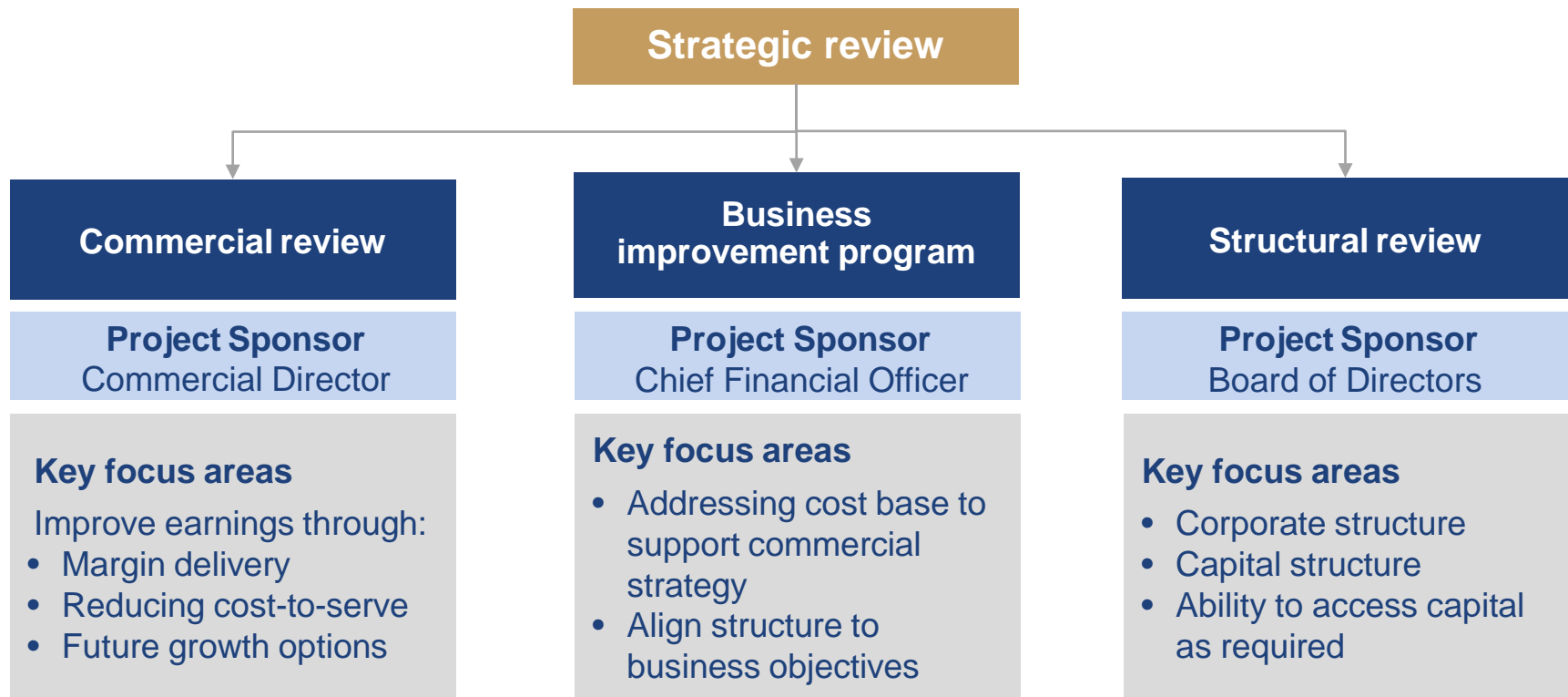


Strategic review: Current status and strategic direction



Current status	Strategic direction
<ul style="list-style-type: none">• Commercial challenges• Structurally compromised• Capital discipline	<ul style="list-style-type: none">• Immediate focus on FY18 FMP• Restore the long-term competitive profile of the business• Future funding alternatives
<ul style="list-style-type: none">• Unfocused growth agenda	<ul style="list-style-type: none">• Clearly define areas for investment and milk allocation• Instil disciplined commercial approach to decisions• Clear understanding of end-to-end value chain
<ul style="list-style-type: none">• Operating model misaligned to milk intake	<ul style="list-style-type: none">• Ensure appropriate capability across the business<ul style="list-style-type: none">◦ Processes, people and systems• Leverage skills and talent

Strategic review has commenced across three workflows



Update to be provided at MG's Annual General Meeting

Focus areas for commercial review and business improvement program



Immediate actions		Commercial review	Business improvement
Discretionary spend	Freeze all spending	Product profitability Ensure milk is allocated to highest returning streams	Supply chain <ul style="list-style-type: none"> Inbound logistics expenditure Warehousing optimisation Procurement Inventory and planning
Advisory fees and consultants	30% reduction	Brand return Optimise brand returns through revenue management	
Travel	20% reduction	Channel profitability <ul style="list-style-type: none"> Improve channel profitability Focus on cost to serve 	Production <ul style="list-style-type: none"> Manufacturing structure Manufacturing footprint Engineering and product testing costs
General office expenses	10% reduction	SKU rationalisation Eliminate large tail of sub-scale products	Corporate <ul style="list-style-type: none"> Reduce IT spend Broad based head office cost review
Immediate constraint on spending		Improved sales returns and margins	Cost base efficiency through lower cost to manufacture and deliver

Broad based structural review



Profit Sharing Mechanism

- Limits commercial flexibility
- Unintended consequences becoming apparent (one-off items, non-cash expenses, etc.)

Future capital requirements

- Refresh asset base
- Technology enhancements
- Growth objectives

Access to capital

- Breadth of sources
- Flexibility
- Certainty

Corporate structure

- Durable and sustainable
- Broad array of options
- Unsolicited inbound interest – Deutsche Bank engaging

Unit Trust

- Significant stakeholder
- Disclosure and compliance requirements

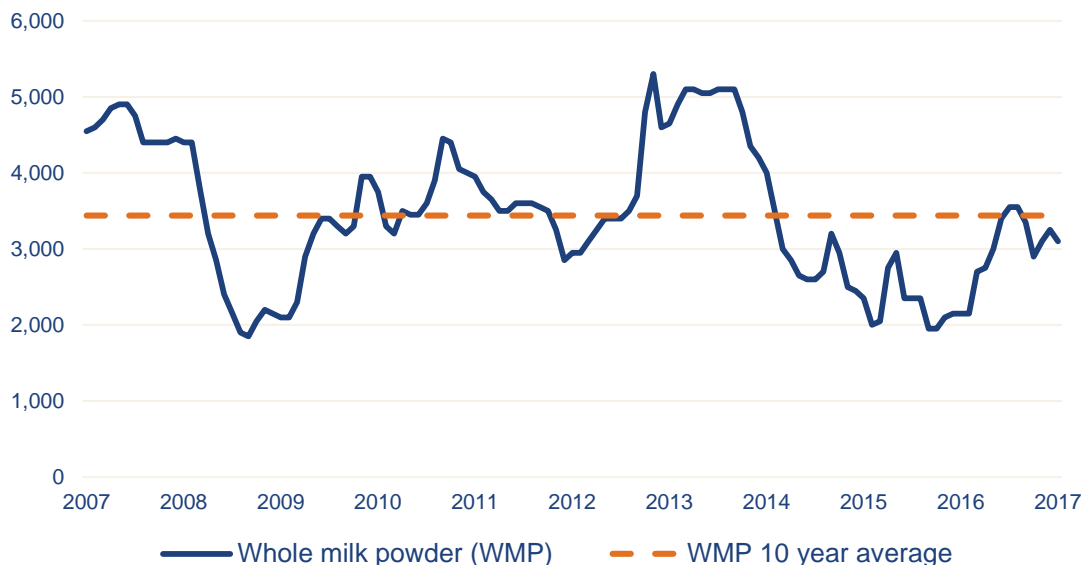
Financials



Improvement in global dairy commodity markets



Full cream milk powder¹



- Full cream milk powder (FCMP) prices recovered to 10 year average during FY17
- Average market prices across key commodities rose
- Record high butter prices offset by skim milk powder (SMP) remaining below long-term average
- European intervention levels remained high

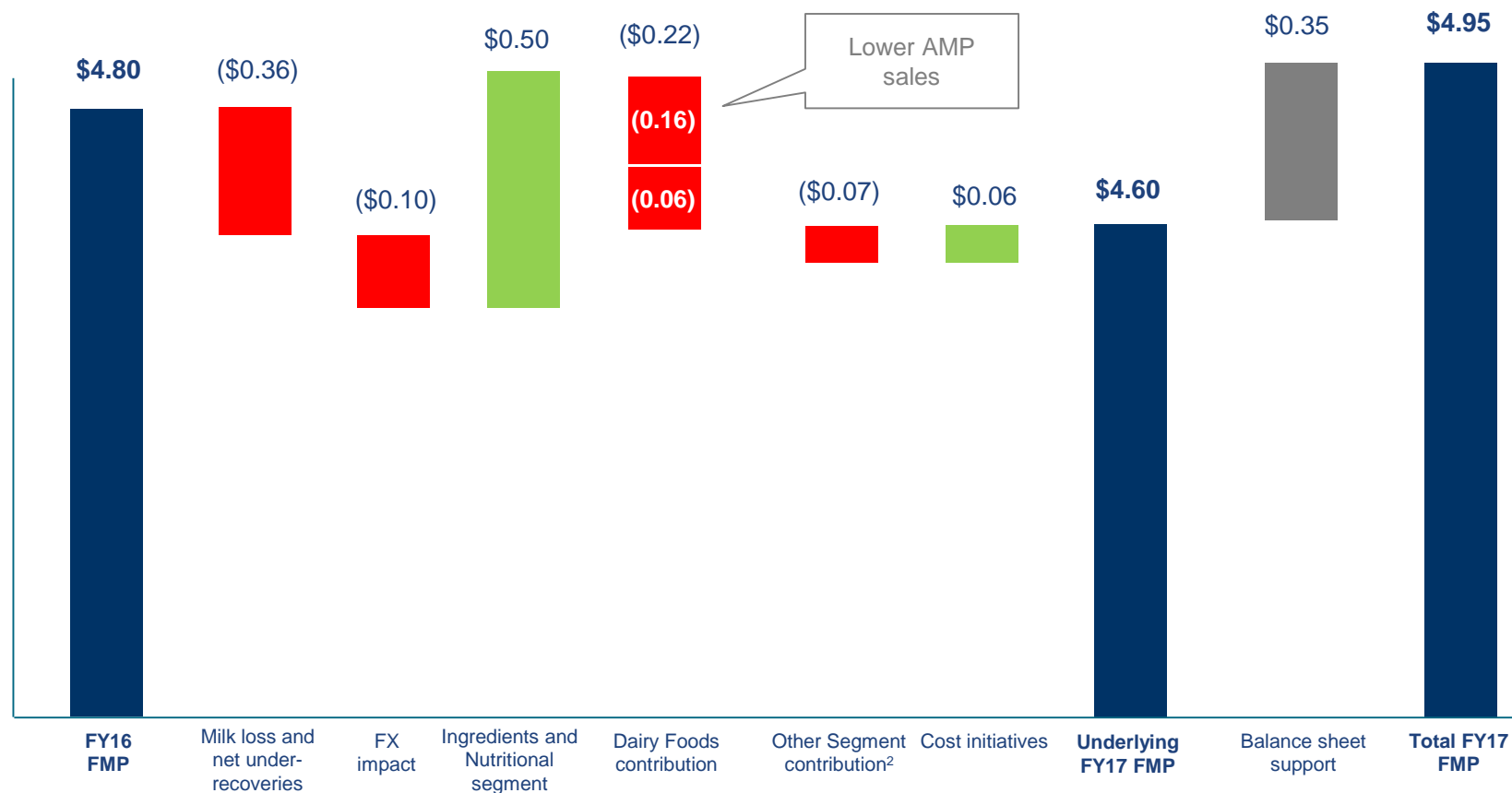
Average prices across key commodities²

Commodity	USD\$m			AUD\$m		
	FY16	FY17	Variance	FY16	FY17	Variance
FCMP	2,258	3,067	35.8%	3,107	4,070	31.0%
SMP	1,971	2,308	17.1%	2,710	3,063	13.0%
Butter	3,150	4,471	41.9%	4,329	5,933	37.0%
Cheddar	3,213	3,729	16.1%	4,415	4,948	12.1%

FY17 DMP impacted by under recovery of fixed costs due to reduced milk intake



FMP¹ per kg MS – FY17 vs FY16



Note: See appendix for FY16 and FY17 SMR milk solids, Distributable Milk Pool, Segment price movements include milk revaluation expense. One-off costs included in the deviation from the Profit Sharing Mechanism have been allocated across the operating segments.

1. Available weighted average Southern Milk Region (SMR)

2. Contains contribution from MG Trading and Milk Broking

Consolidated Profit and Loss



	Statutory FY17	Deviations FY17	Underlying FY17	FY16
Available Southern Milk Region FMP (\$/kg MS)	4.95	-	4.60	4.80
Sales (\$m)	2,491.1	-	2,491.1	2,777.7
Cost of Sales (\$m)	(2,169.2)	70.4	(2,098.8)	(2,366.6)
Gross Profit (\$m)	321.8	70.4	392.3	411.0
Other Income (\$m)	9.4	-	9.4	23.6
Share of Profit (Loss) of Associates (\$m)	(0.6)	-	(0.6)	(1.6)
Distribution Expenses (\$m)	(167.4)	-	(167.4)	(194.3)
Selling & Marketing Expenses (\$m)	(83.8)	0.2	(83.6)	(93.1)
Administration Expenses (\$m)	(119.3)	50.6	(68.7)	(59.7)
Finance Costs (\$m)	(24.9)	-	(24.9)	(23.4)
Other Expenses (\$m)	(355.8)	344.3	(11.5)	(4.9)
Post Tax Deviations (\$m)	-	78.0	78.0	-
Income Tax (\$m)	49.8	(138.1)	(88.3)	(17.7)
Net Profit (Loss) After Tax (\$m)	(370.8)	405.5	34.7	39.8
Non-controlling interest (\$m)	-	-	-	(0.7)
NPAT attributable to Shareholders and Unitholders (\$m)	(370.8)	405.5	34.7	40.6

- Group revenue down 10.3%
 - Revenue decline correlated with reduced milk intake in FY17
 - FY16 other income includes \$17.3 million profit from asset disposal
- Underlying cost of sales reflects \$4.60/kg MS FMP which excludes debt-funded milk payments and one-off costs
- Underlying operating expenses have increased
 - Administration expenses increase driven by IT licences and SAP depreciation
 - Lower distribution expenses in line with reduced milk intake
 - Other expenses includes legal and advisory
- NPAT reflects lower allocation under Profit Sharing Mechanism (at 3.5% of distributable milk pool)

Segment contributions

Reduced revenue across all segments as a result of lower milk intake



	FY17 ¹ (\$m)	FY16 (\$m)	Change %
Available Southern Milk Region FMP (\$/kg MS)	4.95	4.80	3.1%

Revenue

Dairy Foods (\$m)	1,221.4	1,326.5	(7.9%)
Ingredients and Nutritionals	958.3	1,092.5	(12.3%)
Other	320.8	448.3	(28.4%)
Inter segment revenue	(9.4)	(89.6)	(89.5%)
Total revenue	2,491.1	2,777.7	(10.3%)

Segment Contribution

Dairy Foods	84.2	164.5	(48.8%)
Ingredients and Nutritionals	(32.5)	(81.5)	(60.2%)
Other	6.1	20.6	(70.3%)
Total segment contribution	57.8	103.5	(44.1%)

Corporate costs	(37.3)	(38.2)	(2.2%)
Finance costs	(24.9)	(23.4)	6.1%
Share of profit/(loss) of associates	(0.6)	(1.6)	(61.0%)
PBT before one-off items	(5.0)	40.2	(112.5%)
One-off items	(415.6)	17.3	nm
PBT	(420.6)	57.5	nm

Dairy Foods contribution of \$84.2 million

- Decreased contribution driven by:
 - AMP sales decline in domestic Dairy Foods from peak in FY16
 - Lower volumes through marginal channels

Ingredients and Nutritionals loss of \$32.5 million

- Improvement driven by recovery in global milk powder and butter commodity prices

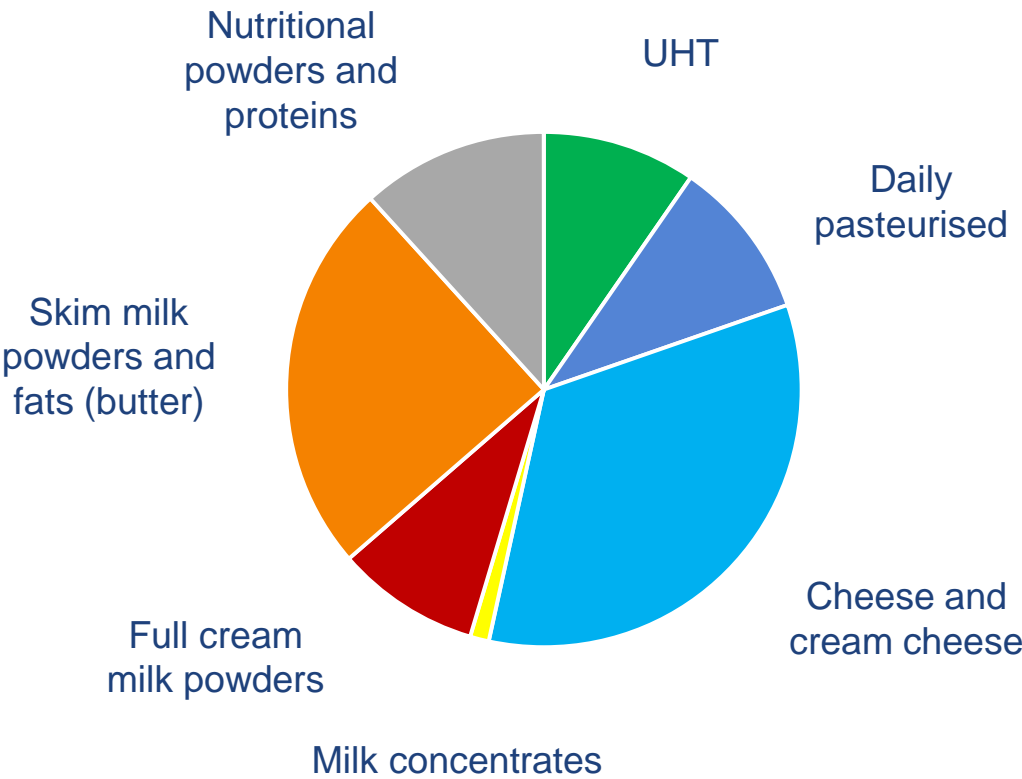
Other Segment contribution of \$6.1 million

- Lower volumes of milk traded
- Less feed sold through MG Trading stores

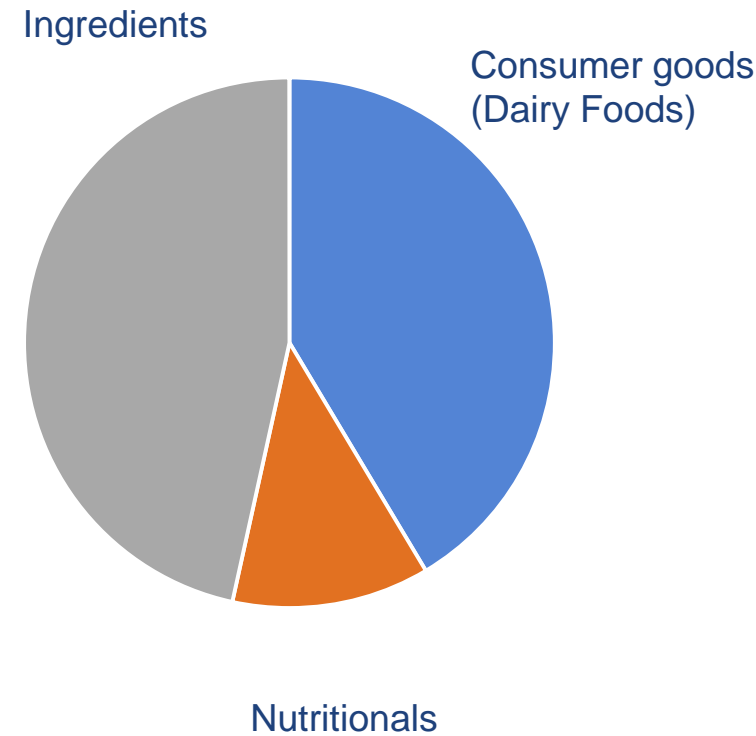
Milk allocation by product and segment



Milk use by product



Milk use by segment



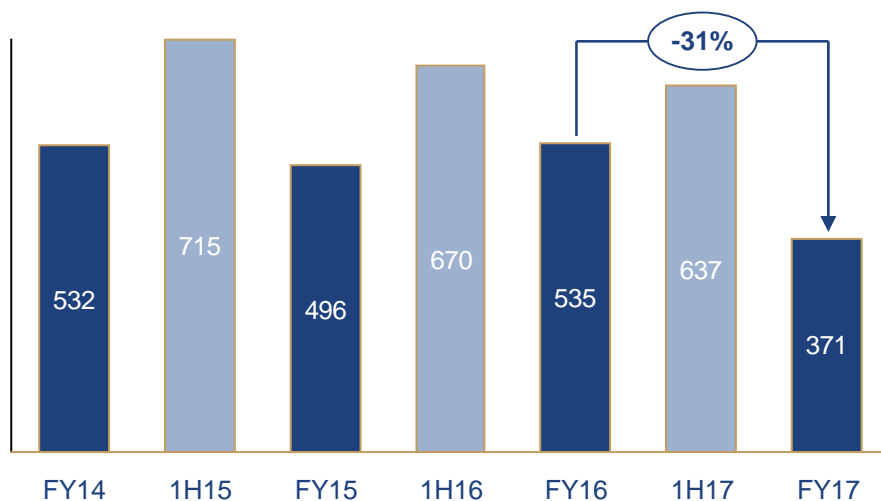
Significant focus on debt reduction



Balance sheet

	FY17	FY16
Receivables (\$m)	282	353
Inventories (\$m)	465	569
Other current assets (\$m)	36	91
Non-current assets (\$m)	893	1,166
Total assets (\$m)	1,676	2,178
Total equity (\$m)	735	1,176
Total debt (\$m)	464	508
Cash and cash equivalents (\$m)	19	27
Net debt (\$m)	445	480
Gearing (debt/(debt+ equity))	37.7%	29.0%

Net working capital improvements



- Net \$164 million improvement in working capital
 - Lower inventory holdings in FY17 115,000 MT versus 153,200 MT in FY16
 - Lower receivables driven by strong collections
- Reduced net debt was driven by improved working capital, offset by capital investment of \$108 million including consumer cheese plant and SAP implementation
- Equity reduced as a result of asset write-downs relating to business review and footprint rationalisation

Cash flow

Improved working capital drove growth in operating cash flow



	FY17 (\$m)	FY16 (\$m)
Reported EBITDA	(336)	138
Other non-cash items in EBITDA	343	(30)
Net cash EBITDA	7	108
Cash changes in working capital	152	(22)
Operating cash flow before capital expenditure	159	86
Capital expenditure		
Strategic/project capital	(65)	(136)
Other capital expenditure	(43)	(56)
Other	1	21
MSSP	0	(183)
Cash flow before financing	52	(269)

Strong operating performance reflects:

- \$152 million cash input from working capital improvements driven by lower inventory holdings and strong collections in trade receivables
- Non-cash items includes MSSP de-recognition of \$179.8 million and asset write-downs included in the Profit Sharing Mechanism deviation
- Strategic capital expenditure included the consumer cheese plant, SAP implementation and an upgrade to powder capability
- Other capital expenditure related to maintenance capital expenditure on existing asset base

Conclusion



FY18 FMP drivers



MG maintains opening FY18 FMP of \$5.20/kg MS. Final FMP above \$5.20/kg MS is subject to factors including favourable movements in exchange rates and dairy commodity prices and retaining appropriate milk intake.

Early indications
for FY18 FMP

Milk intake	<ul style="list-style-type: none"> Current intake expectations approximately 2 billion litres 	↓
Commodity prices	<ul style="list-style-type: none"> Butterfat product prices have continued to increase 	↑
Australian dollar	<ul style="list-style-type: none"> AUD:USD exchange rate higher 	↓
Efficiencies	<ul style="list-style-type: none"> Immediate focus of commercial review for FY18 Footprint rationalisation on track to deliver \$10 million to \$15 million Further cost savings realised 	↑
PSM deviation	<ul style="list-style-type: none"> Access of up to \$100 million, if required, to pay FMP of \$5.20/kg MS 	—

Summary



FY17

- Difficult and challenging year
- New management structure in place
- Significant decisions taken and implemented
- Further substantive initiatives progressing
- Strategic review accelerating
- Strength of MG's future remains focused on stability in milk intake

FY18

- Protect milk intake
- Communicate with suppliers and unitholders
- Strategic review to provide capital and structure outcome
- Continued business improvement to support FMP

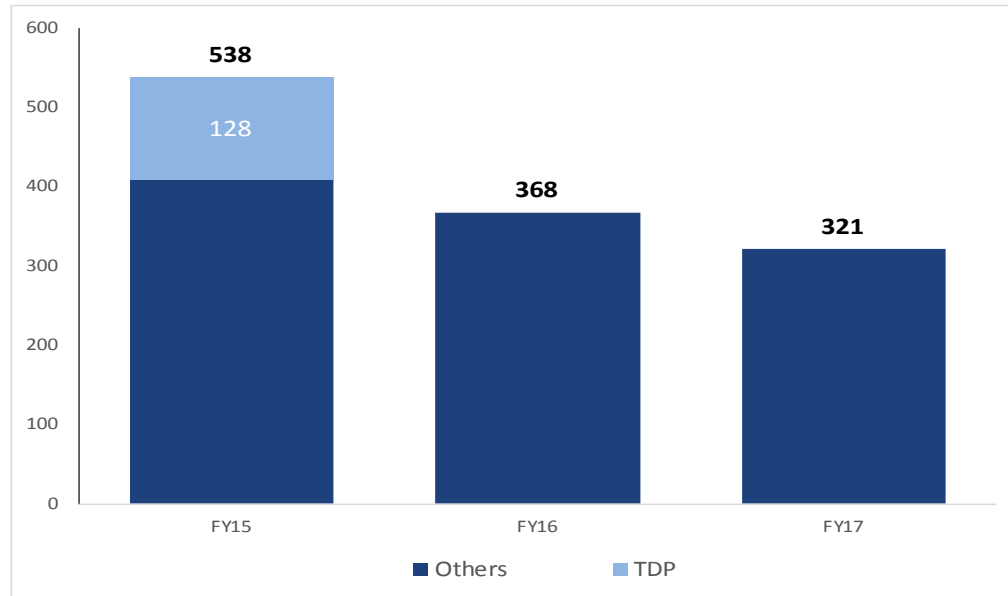
Appendix



Other segment



Revenue (\$m)



Total Other revenue of \$321 million

- Milk Broking revenue declined \$83.8 million due to reduced milk intake
- MG Trading revenue declined 16.6% due to lower feed requirement and impact of April 2016 reduction in opening FMP
- Tasmanian Dairy Products was consolidated into the Ingredients and Nutritionals segment in FY16 when it became a fully-owned subsidiary

Profit Sharing Mechanism reconciliation



	FY17	FY16
Full year Available Southern Milk Region FMP (\$/kg MS)	4.95	4.80
NPAT allocation percentage under the Profit Sharing Mechanism	3.5%	3.5%
Allocation of Distributable Milk Pool:		
Distributable Milk Pool (\$m)	991.2	1,156.6
Milk Payments (Southern Milk Region) (\$m)	(946.2)	(1,098.4)
Non-controlling interests (\$m)	-	(0.7)
Profit Before Tax - Profit Sharing Mechanism (\$m)	45.0	57.5
Income Tax (\$m)	(10.3)	(17.7)
Add back: Non-controlling interests (\$m)	-	0.7
NPAT - Shareholders and Unitholders – PSM (\$m)	34.7	40.6
Post Tax Adjustments (\$m):		
MSSP de-recognised	(125.9)	-
Rationalisation of manufacturing facilities	(91.5)	-
Write-down of other assets	(46.2)	-
Write-down of working capital assets	(10.4)	-
Non-recurring costs	(18.5)	-
Additional milk payment	(35.0)	-
Write-down of tax assets	(78.0)	-
NPAT attributable to equity holders of the parent (\$m)	(370.8)	40.6

Key operating and financial metrics



	FY17	FY16
Total milk intake (million litres)	2,732	3,491
Southern Milk Region milk intake (million litres) ¹	2,541	3,077
Southern Milk Region milk intake (million kg MS) ¹	192	231
Full year Available Southern Milk Region FMP (\$/kg MS)	4.95	4.80
Weighted Average Southern Milk Region based on Profit Sharing Mechanism (\$/kg MS)	4.92	4.76
Ingredients and Nutritionals sales volume ('000 metric tonnes)	286	342
Dairy Foods sales volume ('000 metric tonnes)	604	674
Average revenue per metric tonne - Ingredients and Nutritionals (\$)	3,351	3,197
Average revenue per metric tonne - Dairy Foods (\$)	2,022	1,968
Revenue mix ² – Ingredients and Nutritionals (%)	38%	38%
Revenue mix ² – Dairy Foods (%)	49%	46%
Revenue mix ² – Other (%)	13%	16%
Total milk payments as a % of revenue	38%	40%
Operating expenses as a % of revenue	29%	12%
Gross profit margin (%)	13%	15%

Reconciliation of reported NPAT and underlying NPAT



Deviations

\$m	2017 Statutory Result	MSSP de-recognised	Rationalisation of manufacturing facilities	Write-down of other assets	Working capital write-downs	One-off costs	Debt funded step-up	2017 Underlying Result
Sales revenue	2,491.1	-	-	-	-	-	-	2,491.1
Cost of sales	(2,169.2)	-	0.3	-	14.9	5.2	50.0	(2,098.8)
Gross profit	321.8	-	0.3	-	14.9	5.2	50.0	392.3
Other income	9.4	-	-	-	-	-	-	9.4
Share of associates losses	(0.6)	-	-	-	-	-	-	(0.6)
Distribution expenses	(167.4)	-	-	-	-	-	-	(167.4)
Selling and marketing expenses	(83.8)	-	-	0.2	-	-	-	(83.6)
Administration expenses	(119.3)	-	39.3	-	-	11.3	-	(68.7)
Finance costs	(24.9)	-	-	-	-	-	-	(24.9)
Other expenses	(355.8)	179.8	91.1	63.5	-	9.9	-	(11.5)
Profit/(Loss) before income tax	(420.6)	179.8	130.7	63.7	14.9	26.5	50.0	45.0
Post Tax Deviations	-	-	-	78.0	-	-	-	78.0
Income tax expense/(benefit)	49.8	(53.9)	(39.2)	(17.5)	(4.5)	(7.9)	(15.0)	(88.3)
Profit/(Loss) for the year	(370.8)	125.9	91.5	124.2	10.4	18.5	35.0	34.7

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
AMP	adult milk powder
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
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
NPAT	Net profit after tax
Other	an operating segment of MG which includes MG Trading and Milk Broking
PSM	Profit Sharing Mechanism
SMP	skim milk powders
SMR	Southern Milk Region (SMR) includes the following regions: eastern South Australia and western dairy region in Victoria and Tasmania (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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