



27 October 2017

Market Announcements Office  
Australian Securities Exchange

## **ELECTRONIC LODGEMENT**

Dear Sir or Madam

**Murray Goulburn Co-operative Co. Limited (Murray Goulburn) – Chairman, Chief Executive Officer and Supplier Director Annual General Meeting Addresses and Presentations**

In accordance with the Listing Rules, attached is a copy of the addresses and presentations to be delivered by the Chairman, Chief Executive Officer and Supplier Director at Murray Goulburn's 2017 Annual General Meeting in Melbourne today.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Amy Alston'.

**Amy Alston**  
Company Secretary



**Friday 27 October 2017**

## **2017 Annual General Meeting**

### **Chairman, CEO and Supplier Director Addresses**

#### **Ari Mervis, CEO**

Since joining MG in February this year, I have considered myself very privileged to have had the opportunity to lead this important Australian business.

From the outset, and having met with numerous suppliers and stakeholders, it was clear to me that there were significant challenges facing MG, both commercially and with regards to the relationship between MG and its supplier base.

It was patently clear that we needed to restore the trust of our suppliers, improve the uncompetitive milk price and address the very unpopular Milk Supply Support Package, as well as realign our processing footprint and cost base given the reduced milk intake.

To this end, on 2 May we announced the removal of the MSSP and the difficult yet necessary decision to close three plants.

The decision to close the three manufacturing facilities at Rochester, Edith Creek and Kiewa was particularly difficult for the Board to take, as not only did it directly impact on 360 employees, but also the regional communities in which they are located.

These decisions coupled with previously announced cost out initiatives required \$266 million of funding and are anticipated to generate in the order of \$100 million of annualised savings once fully implemented.

Subsequent to these decisions and on the announcement of our opening price in early June, much earlier than in previous years and in response to our suppliers request for an early seasonal price indication, it remained apparent that MG's cost base and revenue lines were compromised to the extent that we were still unable to pay a competitive farmgate milk price. We therefore decided to announce, along with the opening price, that MG would be undertaking a comprehensive Strategic Review covering all core aspects of the business.

The Strategic Review was broken into three discreet work streams: two of them were internally led and focused on commercial enhancement and business improvement opportunities. The third was an externally supported process aided by Deutsche Bank. The internal reviews have identified the opportunity to extract an additional \$117 million in benefits to MG stakeholders and are currently being pursued by management. The initiatives identified will require a further \$26 million in capital to implement but will however take several years to deliver the full benefits identified.

The primary objective of the third component of the Strategic Review focused on MG's corporate structure and strategy, specifically on MG's unit trust and Profit Sharing Mechanism, as well as access to capital from different sources, and ensuring that MG ultimately has the appropriate corporate structure.

The review confirmed that in the absence of sufficient capital to buy back the units, there was no viable alternative and that the Profit Sharing Mechanism and unit structure would endure and remain a feature of MG's future capital structure. Equally, given the reduced milk intake and requirements to support milk price through debt funding as well as maturing debt facilities of \$170 million in 2018 and US\$89 million of United States Private Placement notes in 2019, new sources of capital would be required to ensure the ongoing sustainability and viability of MG.

As a consequence of announcing the Strategic Review the Board received various confidential unsolicited inbound proposals. These proposals ranged from discrete asset sales, to equity injections to whole of business transactions. As it was now apparent that existing sources of capital were limited and an external source of capital was required, the board elected to narrow the focus of the Strategic Review and to consider and accelerate engagement with interested parties.

All proposals were considered on their respective merits, taking into account the interests of all stakeholders. Furthermore, the Federal and Victorian governments were consulted and were updated on developments of the Strategic Review and on MG's market position, as well as the possible consequences of MG's financial situation.

This leads to today's announcement but before I hand back to the Chairman to provide you with more details about the transaction, I would like to acknowledge the dissatisfaction for many of you in hearing this background to today's news, and the situation that MG is in. I recognise that many of you and your families have been involved with the Co-Op for generations. Many more of you have shown ongoing support for MG and its' co-operative principles, and have been enduring investors in MG.

I can assure you that your Board and my management team have been working tirelessly to arrive at a suitable outcome. While perhaps not a universally popular outcome, it is certainly one that, given the current circumstances, is in the best interest of all MG stakeholders. Finally, I would like to thank the Executive Leadership team, management and all employees at MG for their ongoing resilience, support and increased workload during what continues to be a challenging time.

I'll now hand back to the Chairman.

### **John Spark, Chairman**

Thankyou Ari for providing this background.

The Board undertook extensive examination of each of the external proposals received – in their own right and against the outlook for MG that Ari has spoken of. After detailed and robust consideration and debate, the Board has entered into a binding agreement, subject to customary conditions including shareholder, FIRB and ACCC approval, with Saputo for them to acquire the operating assets and liabilities of MG for an aggregate total of \$1,310 million.

This transaction provides certainty for the future of our suppliers and a far better outcome than anything we can achieve by remaining a stand-alone entity. Importantly it will deliver a valuable package of benefits for both suppliers shareholders and unitholders.

The key components of the proposal are summarised on the screen:

- Saputo to acquire all of the operating assets and operating liabilities of MG for approximately A\$1,310 million<sup>1</sup>

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<sup>1</sup> Subject to completion adjustments including for movements in working capital in the business.

- Transaction includes MG milk supply commitments for Active MG Suppliers<sup>2</sup> totalling approximately \$114 million enabling:
  - A step up of \$0.40 per kilogram milk solids (kgMS) to \$5.60 per kgMS for the FY18 FMP<sup>3</sup> for milk supplied from 1 November 2017 and, on completion of the Transaction, for milk supplied from July to October 2017; and
  - An additional \$0.40 per kgMS loyalty payment in FY18 for Active MG Suppliers
- Active MG suppliers will also benefit from a series of commitments from Saputo ensuring milk collection and market pricing into the future
- Estimated net value per share/unit of \$1.10 to 1.15<sup>4</sup> after working capital adjustment and other costs, representing a 76– 84% premium to the undisturbed unit price<sup>5</sup>
- Estimated initial distribution of approximately \$0.75 per share/ unit to be paid shortly after completion (expected to be in the first half of calendar 2018)
- MG to retain all assets and liabilities associated with the MG Unit Trust and any liability in relation to the current ACCC proceedings, ASIC investigation and unit holder class action (and any similar such actions). For this reason, MG will retain part of the proceeds of the Transaction until the conclusion of these matters. Further cash distributions will be made following such conclusion, or earlier if appropriate
- The Transaction is subject to approval by an ordinary resolution of MG's voting shareholders<sup>6</sup> and other customary conditions including ACCC and FIRB approvals.

We are pleased to have secured an agreement with Saputo, one of the top 10 dairy processors in the world, the largest cheese manufacturer and leading fluid milk and cream processor in Canada. We believe they have demonstrated themselves as a credible and trusted partner for Australian dairy farmers through their investment in Warrnambool Cheese & Butter. Most importantly, this transaction will crystallise real value for MG's equity, while rewarding our loyal suppliers in the form of additional milk payments.

This decision has been made after an unrelenting review of all options considering the following factors:

- the value proposition offered;
- transaction certainty / conditionality;
- timing;
- the suitability of the party as an ongoing partner to MG suppliers.

The Board's unanimous opinion is that the Saputo transaction represents an outcome which is in the best interests of shareholders and suppliers and one which is superior to alternatives, particularly given the continuing constraints. This is particularly significant endorsement, given the majority of our Board Directors are suppliers. This offer represents compelling value for MG shareholders and unitholders and provides ongoing security, guaranteed milk collection and an attractive financial proposition for suppliers.

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<sup>2</sup> An Active MG Supplier is a supplier who is supplying milk to MG as at the date of MG's 2017 annual general meeting, as at the completion of the Transaction and, if required, as at 15 August 2018.

<sup>3</sup> All references to FMP refer to Available weighted average FarmgateMilk Price.

<sup>4</sup> This amount takes account of the repayment of MG's bank debt and USPP Note program (including any make whole fees) at completion of the Transaction, transaction costs, outstanding tax or other liabilities and the expected costs of continuing to operate MG while the regulatory actions and class action continue. This does not include the payment of any amount which may ultimately arise as a result of the regulatory actions or class action, which would reduce proceeds available for distribution to shareholders and unitholders.

<sup>5</sup> As at close on 21 August 2017, the day before MG announced in its business update that a number of confidential, non-binding and indicative proposals had been received from third parties.

<sup>6</sup> For an ordinary resolution to be passed, it requires more than 50% of the votes cast to be in favour of the resolution.

I appreciate the last two years have been an immensely challenging period for the Co-operative and our loyal suppliers, and am aware that some believe the Co-operative should remain a standalone business. However, the fact is that tangible, certain benefits will be delivered from the transaction with Saputo and are far above what can be achieved should MG remain in its current form without access to additional capital.

I'd now like to invite Supplier Director, Craig Dwyer to address the meeting.

### **Craig Dwyer, Supplier Director**

For those of you that don't know me, my name is Craig Dwyer and I'm a Farmer Director from Cobden in South West Victoria.

To reiterate what the Chairman has said, the Board unanimously supports where we have landed with this conditional sale agreement. Some may see it as far from ideal, but make no mistake, at no point when I first took this job on, did I ever expect to be in the position to be selling MG. I signed up to fix it, not sell it, however reality has prevailed and forced our hand.

I know it was a huge blow to suppliers to hear about the ASX announcement this morning about the agreement to sell MG. I understand this isn't where we wanted to be but it is where we are. As a consequence, we as a Board have looked at every possible option, from standalone through to equity partnership through to a full share sale.

Believe me when I say, that no stone has been left unturned by the Board and management in exhausting all avenues before arriving at this agreement.

This included tough conversations with Federal Government in which I was involved with, having personally met with the Deputy Prime Minister along with Ari in Canberra two weeks ago. The outcomes of that conversation were that it is not an industry problem but an MG one, so it was suggested that we needed to find a commercial resolution. I asked the Deputy Prime Minister directly whether he wanted MG to stay in the current industry. The option of short-term loans for MG to buy itself some time to trade out of the situation was flagged but it was clearly understood firstly that it would be challenging to secure government agreement, and secondly, any loans would still have to be repaid in full at a point in the future.

I have three sons who may or may not choose to become dairy farmers in the future and I hopefully believe I have 20 years left in the dairy industry myself. The outcome that we have secured today gives some certainty into the short and medium term for MG's wet suppliers.

When I stood before you 12 months ago to be endorsed, never did I think we'd be in this position. However, given the cards on the table and in the cold light of the day – this is where we find ourselves. I believe there is no point in looking in the rear-view mirror – at this point we need to maximise stakeholder value and farmer security for the future.

Some of you in this room have spoken to me and said that as soon as the suits arrived, the sole purpose was to sell MG. Believe me, I can tell you that wasn't the case – we are where we are as a collective.

I and the other Farmer Directors still have to live and work in a dairy farming community and we have been part of this decision – a decision that wasn't taken lightly. This proposal is the best that was put before us. I hope today has mapped out a future for you and given some clarity about the situation we find ourselves in, to help us secure value for stakeholders and a future for MG farmers going forward.

I'll now pass back to the Chairman.

## **John Spark, Chairman**

This transaction is subject to the approval of shareholders at an MG shareholders' meeting, ACCC and FIRB approval and other customary conditions.

Our intention is to distribute net proceeds to shareholders and unitholders as soon as practicable post the Transaction closing, subject to a variety of retention amounts that are considered necessary. Further details of the retentions and the value implication of the transaction for MG shareholders and unitholders are set out in the supplier letter and ASX release, on our website.

So, what are the next steps? For now, there is no action required by our shareholders.

We will commence a comprehensive roadshow with Saputo to provide an opportunity for you to come and hear more about the transaction and ask any questions you may have. This will start on 8 November.

Early in the new year we expect to distribute a Notice of Meeting and Explanatory Memorandum which will contain information relating to the shareholder vote and the Independent Expert's report on whether the transaction is in the best interests of MG shareholders and reasons for the Board's recommendation. Given the nature of this transaction, although a 90% vote is not required, the Board have agreed to bring the offer to shareholders to gain a majority consent. This correspondence will also provide details of the shareholder meeting and proposed transaction closing date.

As Craig mentioned, your Board unanimously recommends that MG shareholders vote in favour of the Transaction and intend to vote MG shares in their control in favour of the Transaction. This is the best proposal and subject to an Independent Expert concluding that the Transaction is in the best interests of MG shareholders.

I appreciate this is a lot to take in, particularly set against a backdrop of an incredibly difficult 18 months for many of you. Unfortunately, we cannot reverse the impact of the events that led to this situation, however I am confident that this proposal provides security for our stakeholders.



# 2017 Annual General Meeting

Friday, 27 October 2017





## Strategic review





Ari Mervis  
Chief Executive Officer

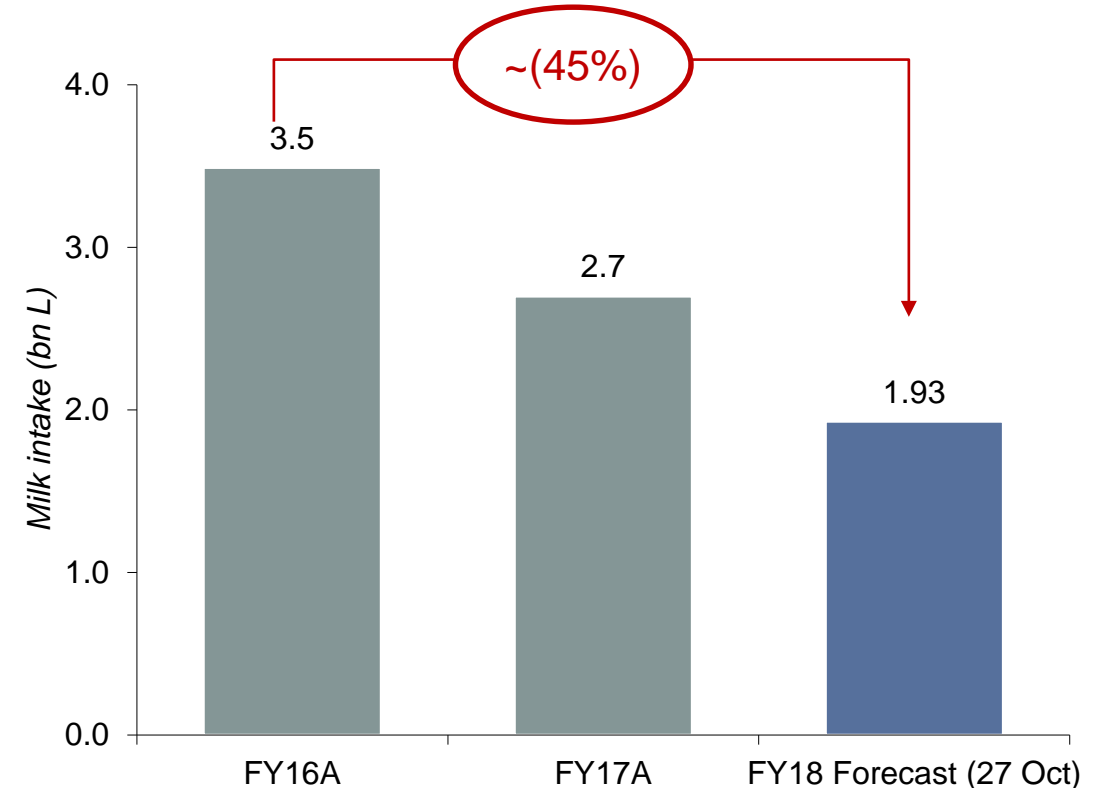
# Challenges facing Murray Goulburn



## Key issues

- 1 Uncompetitive MG FMP
- 2 Milk Supply Support Package
- 3 Footprint and cost rationalisation requirement
- 4 Supplier trust

## Significant reduction in milk intake



**Continuing decline in milk supply has decreased competitiveness of Murray Goulburn**

# Business initiatives



## Actions

## Outcomes

1 Removal of MSSP

\$183m asset de-recognition

2 Plant rationalisation

360 positions removed

3 Cost out initiatives

\$100m anticipated total benefit

4 Strategic review

Whole of business review

# Overview of the Strategic Review







John Spark  
Chairman



# Overview of Agreement with Saputo – Transaction overview



## Transaction overview

- The sale to Saputo of all MG's operating assets and operating liabilities for total value of \$1,310 million<sup>(a)</sup>
- Transaction includes MG milk supply commitments by MG for Active MG Suppliers<sup>(b)</sup> totalling approximately \$114 million

(a) Subject to completion adjustments including for movements in the working capital in the business

(b) An Active MG Supplier is a supplier who is supplying milk to MG as at the date of MG's 2017 annual general meeting, as at the completion of the Transaction and, if required, as at 15 August 2018

# Overview of Agreement with Saputo – Milk Supply Commitment



## MG's milk supply commitment

- Step up of \$0.40 per kg MS to \$5.60 per kg MS for milk supplied from 1 November 2017 and, on completion of the Transaction, for milk supplied from 1 July to 31 October 2017
- Additional \$0.40 per kg MS loyalty payment for FY18 to Active MG suppliers on transaction completion

## Saputo's milk supply commitment

- Active MG suppliers will also benefit from commitments from Saputo ensuring milk collection and market pricing into the future
- Saputo will also establish a Supplier Relations and Pricing Policy Committee

# Overview of Agreement with Saputo – Transaction Value



## Transaction value to shareholders and unitholders

- Estimated net value per share / unit of \$1.10 – 1.15<sup>(a)</sup>
  - Represents 76 – 84% premium to the last uninterrupted price<sup>(b)</sup>
- Estimated initial distribution of the net Transaction proceeds of approximately \$0.75 to be paid shortly after completion
- Further cash distributions expected upon conclusion of the regulatory actions and class action, or earlier if appropriate

(a) After working capital adjustment other costs, including the repayment of MG's bank debt and USPP Note program (including make whole fees) at completion of the Transaction, transaction costs, outstanding tax or other liabilities and the expected costs of continuing to operate MG while the regulatory actions and class action continue. This does not include the payment of any amount which may ultimately arise as a result of the regulatory actions or class action, which would reduce proceeds available for distribution to shareholders and unitholders

(b) Closing price as of 21 August 2017



# Overview of Agreement with Saputo – Other items



## Other

- MG to retain all assets and liabilities associated with the MG Unit Trust and any liabilities in relation to the current ACCC proceedings, ASIC investigation and unitholder class action (and any similar such actions)
- After conclusion of these matters, it is expected that MG will be wound up
- Transaction is subject to approval by an ordinary resolution of MG's voting shareholders, ACCC and FIRB approvals and other customary conditions

# The Board assessed external proposals using the following criteria



1

## Value of proposition

- What value is proposed to share / unit holders under the proposition?

2

## FMP impact

- How does the proposal assist in the ability to pay Suppliers a competitive FMP over the long term?

3

## Supplier representation

- How much control and representation will Suppliers have post transaction?

4

## Certainty and speed

- What is the timing and execution risk of the proposal?
- Can a proposal be executed on a timetable that will support MG now?

# Board recommendation



- The Directors of MG unanimously recommend that shareholders vote in favour of the Transaction with Saputo
- Each Director intends to vote their MG shares in favour of the Transaction, in the absence of a superior proposal and subject to an Independent Expert concluding that the Transaction is in the best interests of MG shareholders
- No action required by shareholders at this time





Craig Dwyer  
Supplier Director





Conclusion

# Next steps and timetable







Questions



Meeting Close