

Murray Goulburn 2018 half year results

7 February 2018

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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.

1H18 half year in review



First Half performance

- Milk intake of 1.1 billion litres, down 29.9%
- Revenue of \$1.1 billion, down 5.1%
 - Dairy Foods revenue up 10.6%
 - Ingredients weighted average selling prices up 11% per tonne
- Normalised NPAT¹ of \$14.4 million
- Statutory net loss after tax of (\$27.5) million includes \$62.7 million non-cash tax adjustments to comply with accounting standards relating to the announced Saputo transaction²
- In order to maintain underlying Farmgate Milk Price (FMP)³ of \$5.20 per kilogram of milk solids (kgms), \$41.9 million of approved deviation has been utilised⁴
- Net debt of \$474 million, gearing ratio of 38.8%
- Dividend remains suspended

Key messages

- Milk intake has stabilised since FMP step-up resulting from the announced Saputo transaction
- Saputo transaction has enabled FMP of \$5.60 per kgms, underlying FMP of \$5.20 per kgms remains uncompetitive
- Commercial and Business Improvement programs progressing as anticipated
- Improved commodity prices and product mix favourably impacting revenue
- Reduced milk intake, working capital focus and capital investment discipline favourably impacting net debt
- \$240 million of banking facilities will expire within 12 months

1. Normalised result excludes deviations from the Profit Sharing Mechanism.

2. As announced on 27 October 2017

3. All references to FMP refer to Available weighted average Southern Milk Region Farmgate Milk Price. For the purposes of the Profit Sharing Mechanism the Actual Weighted Average Southern Milk Region FMP for 1H18 of \$4.92 per kgms is used.

4. As announced on 22 August 2017

Saputo transaction



Overview

- On 27 October 2017 MG announced an agreement to sell all operating assets and operating liabilities to Saputo for \$1,310 million¹
- The transaction is subject to an ordinary resolution of MG's voting shareholders² and other customary conditions including ACCC and FIRB approvals
- Transaction supports effective FY18 milk price of \$6.00 per kgms:
 - Immediate step up from 1 November
 - Backpay (1 July to 31 October), paid on completion
 - \$0.40 per kgms retention payment, paid following completion

Expected timetable

- ACCC provisional announcement date revised to 1 March 2018
- FIRB decision expected following ACCC
- Explanatory Memorandum and Notice of Meeting (EM) to be issued to Shareholders once there is clarity on both the above processes
- Shareholders will be given at least 21 days notice before the Extraordinary General Meeting to vote on the transaction
- At this stage, the EM is expected to be distributed in March/April 2018 with completion of the transaction expected by 30 June 2018

1. Subject to completion adjustments including for movements in working capital in the business.

2. For an ordinary resolution to be passed, it requires more than 50% of the votes cast to be in favour of the resolution.

Outlook



- Subject to the successful completion of the Saputo transaction, MG maintains forecast Full Year Southern Milk Region FMP of \$5.60 per kgms in FY18 (including a \$0.40 per kgms step up payable for the period from 1 July to 31 October). This includes utilisation of \$41.9 million of approved deviation from the PSM¹
- In the absence of a transaction, MG's uncompetitive milk price may lead to further milk loss. This may trigger impairments, leading to covenant breaches and potential loss of creditors' support
- Expected milk intake of approximately 1.91 billion litres equating to 143 million kgms
- This forecast is subject to:
 - Successful completion of the Saputo transaction before 30 June 2018
 - Continued implementation of the commercial review and business improvement initiatives
 - No further material decrease in milk intake
 - No material deterioration to current dairy commodity prices and AUD:USD exchange rate
 - No adverse change in trading conditions or regulatory environments in key markets

1. \$41.9 million post tax relates to tax adjustments for de-recognition of deferred tax assets and liabilities and as result of the pending Saputo transaction. See note 3 in MG's interim financial report for the half year ended 31 December 2017 for further detail.

Financials



1H18 results summary



(\$ million)	1H18	1H17	%
Available Southern Milk Region FMP (\$/kgms)	4.95	4.15	
Milk Intake (Million Litres)	1,129.0	1,611.0	(29.9%)
Revenue (\$m)	1,115.6	1,175.8	(5.1%)
Distributable Milk Pool (\$m)	411.4	480.5	(14.4%)
Applicable NPAT allocation per profit sharing mechanism	3.50%	3.50%	0bp
Normalised NPAT ¹ (\$m)	14.4	9.4	53.2%
Net impact of deviations ² (\$m)	(41.9)	(41.3)	(1.4%)
Statutory Profit (Loss) for the period (\$m)	(27.5)	(31.9)	13.5%
Cash flow before financing (\$m)	(32)	(165)	80.8%
Net Debt (\$m)	474	677	30.1%
Equity (\$m)	747	1,113	(32.9%)
<i>Gearing ratio (%)</i>	<i>38.8%</i>	<i>37.8%</i>	<i>(1pp)</i>
Dividend (cents per share/unit)	0.00	1.70	Nm

1. Normalised NPAT excludes deviations from the Profit Sharing Mechanism. See note 3 in MG's interim financial report for the half year ended 31 December 2017 for further detail.

2. Deviation from the Profit Sharing Mechanism of \$41.9 million post tax relates to tax adjustments for derecognition of deferred tax assets and liabilities and as a result of the pending sale transaction to Saputo

Consolidated Profit and Loss



Normalised¹ Consolidated Statement of Profit and Loss

	1H18	1H17
Sales (\$m)	1,115.6	1,176.0
Cost of Sales (\$m)	(917.7)	(982.0)
Gross Profit (\$m)	197.8	194.0
Other Income (\$m)	2.4	5.5
Share of Profit (Loss) of Associates (\$m)	0.1	(0.2)
Distribution Expenses (\$m)	(71.6)	(71.9)
<i>Includes Restructuring costs of \$2.5m</i>		
Selling & Marketing Expenses (\$m)	(30.4)	(42.4)
Administration Expenses (\$m)	(49.8)	(44.7)
<i>Includes Restructuring costs of \$12.6m</i>		
Finance Costs (\$m)	(12.6)	(12.0)
Other Expenses (\$m)	(0.8)	(17.1)
Normalised Profit before Income Tax¹ (\$m)	35.1	11.2
Income Tax (\$m)	(20.7)	(1.8)
Normalised Net Profit After Tax¹ (\$m)	14.4	9.4
One off items after tax (deviated) ¹ (\$m)	(41.9)	(41.3)
Statutory Net Profit After Tax (\$m)	(27.5)	(31.9)

- Revenue down 5.1%
 - Decline correlated with reduced milk intake, offset by improved dairy commodity pricing and inventory sell-down
- Cost of sales includes lower cost base from manufacturing footprint rationalisation
- Decreased operating expenses
 - Sales and Marketing expenses have decreased due to successful realisation of savings from Commercial Review
 - Other expenses include legal and advisory costs offset by Edith Creek sale. 1H17 included the MSSP impairments
 - Finance costs include \$4.6m FX revaluation

Segment contributions



(A\$ million)	1H18	1H17	%
Revenue			
Dairy Foods	617.0	557.6	10.7%
Ingredients and Nutritionals	356.6	481.4	(25.9%)
Other	146.9	141.1	4.2%
Inter segment revenue	(5.0)	(4.3)	(15.7%)
Total Revenue	1,115.6	1,175.8	(5.1%)

Segment Contribution			
Dairy Foods	56.0	40.9	36.8%
Ingredients and Nutritionals	9.8	(25.5)	nm
Other	3.3	2.1	52.8%
Total segment contribution	69.1	17.6	292.5%

Corporate costs	(21.5)	(18.4)	(16.8%)
Finance costs	(12.6)	(12.0)	(4.4%)
Share of profit/(loss) of associates	0.1	(0.2)	nm
PBT before one off items	35.1	(13.0)	nm
MSSP Impairment ¹	-	(34.8)	nm
PBT	35.1	(47.8)	nm

- Dairy Foods contribution of \$56.0 million
 - Domestic contribution increase attributed to improved pricing and increase in retail cheese volumes
 - International contribution increase attributed to growth in adult milk powder and UHT sales in China
- Ingredients and Nutritionals contribution of \$9.8 million
 - Significant improvement in contribution from 1H17 as a result of commodity price increases and improved product mix
- Other Segment contribution of \$3.3 million
 - Improved performance of MG Trading

1. Impairment of the MSSP was treated as an one off item in prior year.

Balance sheet and cash flow



Balance sheet

(A\$ million)	1H18	1H17
Receivables (\$m)	225	337
Inventories (\$m)	483	606
Other current assets (\$m)	75	70
Non-current assets (\$m)	846	1,200
Total assets (\$m)	1,628	2,213
Total equity (\$m)	747	1,113
Total debt (\$m)	509	698
Cash and cash equivalents (\$m)	35	21
Net Debt (\$m)	474	677
Gearing (debt/(debt+ equity))	38.8%	37.8%
Net Working Capital	412	637

Cash Flow

(A\$ million)	1H18	1H17
EBITDA	76	(5)
Non cash items	(39)	14
Net interest paid	(11)	(11)
Cash changes in working capital	(40)	(94)
Operating cash flow	(14)	(96)
Capital expenditure		
Strategic / project capital	(3)	(45)
Other capital expenditure	(15)	(26)
Other	-	2
Investing cash flow	(18)	(69)
Net cash flow before financing, tax, div	(32)	(165)
Net cash flow from financing, tax, div	40	158
Net increase (decrease) in cash	8	(8)

- Net \$225 million improvement in working capital from 1H17
 - Lower inventory holdings in FY18
 - Lower receivables driven by strong collections
- Net debt of \$474 million ensured gearing remains broadly inline with 1H17
 - Gearing at 38.8%, and should reduce in 2H18
- \$240 million of banking facilities expire during 2018, of which \$181 million is undrawn

Improvement in operating cash flow performance reflects:

- Improvement in cash flow from working capital driven by lower inventory holdings and a reduction in debtors
- 1H18 capital expenditure \$53 million below prior year
- 1H17 Strategic capital expenditure included SAP implementation and new Cobram cheese facility

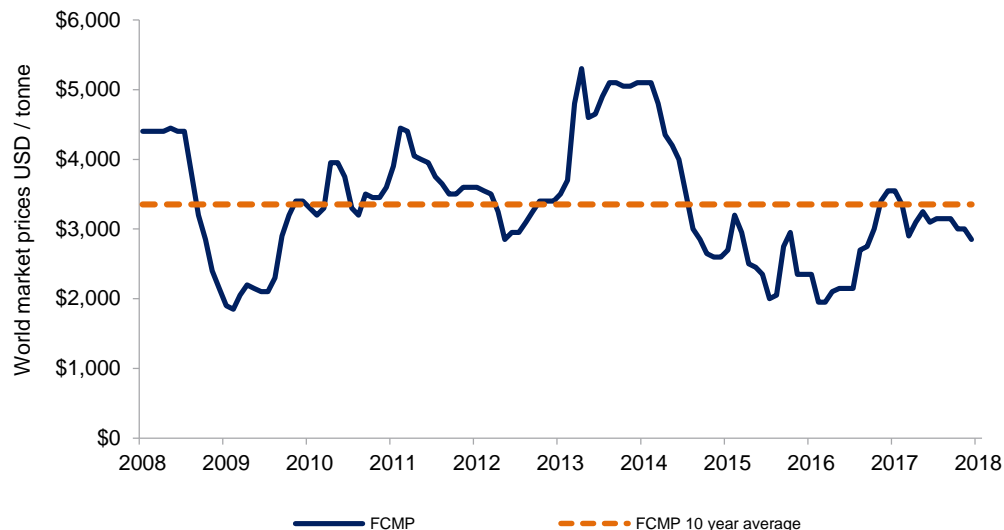
Appendix



Global dairy commodity price trends



Full cream milk powder¹



- Full cream milk powder (FCMP) prices falling below 10 year average during 1H18
- Record high butter prices peaked during September 2017 with prices now experiencing a gradual decline
- Skim milk powder prices remain soft and global market remains in oversupply with minimal change in European intervention levels

Average prices across key commodities²

Commodity	USD\$			AUD\$		
	1H17	1H18	Variance	1H17	1H18	Variance
FCMP	2,925	3,050	4.3%	3,886	3,917	0.8%
SMP	2,358	1,908	-19.1%	3,132	2,450	-21.8%
Butter	3,917	5,917	51.1%	5,203	7,599	46.1%
Cheddar	3,558	4,092	15.0%	4,725	5,258	11.3%

FX ³	0.7236	0.7800	7.8%
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1. Source: Dairy Australia: FOB USD/MT – 10 years to December 2017

2. Source: Dairy Australia. Prices are observed, not MG's achieved prices

3. Source: RBA

Key operating and financial metrics



	1H18	1H17
Total milk intake (million litres)	1,129	1,611
Southern Milk Region milk intake (million litres)	1,033	1,507
Southern Milk Region milk intake (million kgms)	76	111
Available Southern Milk Region FMP (per kgms)	4.95	4.15
Weighted Average Southern Milk Region based on Profit Sharing Mechanism (\$/ kgms)	4.92	4.12
Ingredients and Nutritionals sales volume ('000 metric tonnes)	103	148
Dairy Foods sales volume ('000 metric tonnes)	298	308
Average revenue per metric tonne - Ingredients and Nutritionals (\$)	3,453	3,256
Average revenue per metric tonne - Dairy Foods (\$)	2,074	1,808
Revenue mix ¹ – Ingredients and Nutritionals (%)	32%	41%
Revenue mix ¹ – Dairy Foods (%)	55%	47%
Revenue mix ¹ – Other (%)	13%	12%
Total milk payments as a % of revenue	34%	39%
Operating expenses as a % of revenue	13%	17%
Gross profit margin (%)	18%	14%

1. Revenue mix excludes adjustment for intersegment revenue

Reconciliation of Statutory NPAT and Normalised NPAT



	Statutory Result	Sale Related Tax Adjustments			Normalised Result
		DTA Elim	PSM Impact	DTL ARR Elim	
Sales revenue	1,115.6				1,115.6
Cost of sales	(917.8)		(20.7)		(938.5)
Gross profit	197.8				177.1
Other income	2.4				2.4
Share of profit (loss) of associates	0.1				0.1
Distribution expenses	(71.6)				(71.6)
Selling and marketing expenses	(30.4)				(30.4)
Administration expenses	(49.8)				(49.8)
Finance costs	(12.6)				(12.6)
Other expenses	(0.8)				(0.8)
Profit (loss) before income tax	35.1				14.4
Post Tax Deviations					
Income tax benefit/(expense)	(62.7)	21.5	(0.8)	41.9	0.0
Net Profit (Loss) After Tax	(27.5)	21.5	(21.5)	41.9	14.4

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
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 various dairy and agricultural businesses
PSM	Profit Sharing Mechanism
SMR	Southern Milk Region (SMR) 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)

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