

FONTERRA  
SHAREHOLDERS'  
FUND.



# FONTERRA SHAREHOLDERS' FUND

ANNUAL MEETING  
12 NOVEMBER 2018



FONTERRA  
SHAREHOLDERS'  
FUND.



# JOHN SHEWAN

---

Chairman

FSF Management Company



# AGENDA

Welcome and introduction

John Shewan

FSF Management Company Chairman's address

John Shewan

Fonterra Chairman's and CEO's address

John Monaghan/  
Miles Hurrell

Questions

Resolution to re-elect John Shewan

Pip Dunphy

*Address by John Shewan*

General business

John Shewan



# 2018 - A VERY POOR YEAR

- Unacceptable performance
- Significant decline in unit price
- Dividend reduced to 10 cents per unit
- What caused this outcome?
- What is being done about it?
- What is the role of the board of the Manager of FSF?

# UNIT PRICE DECLINE REFLECTS EARNINGS DROP



# THE PERFORMANCE IN 2018 HAS RE-ENERGISED TWO KEY QUESTIONS



- Is the Farmgate Milk Price setting mechanism fair to unit holders?

*The Farmgate Milk Price is calculated in accordance with the Milk Price Manual. Both the Farmgate Milk Price and underlying methodology are subject to regulatory oversight.*

- Is the Fonterra Shareholders' Fund model achieving its objectives and is it sustainable?

*The model has achieved the objectives of eliminating redemption risk and providing investors with the opportunity to invest in dairy. Farmer shareholders and unit holders' interests are aligned in requiring an acceptable return on their invested capital.*

# KEY FUND STATISTICS



Units on Issue <sup>1</sup> :	101 million	↓
Fund Market Capitalisation <sup>1</sup> :	\$493 million	↓
Fonterra Market Capitalisation <sup>1</sup> :	\$7.4 billion	↓
Fund Size <sup>1</sup> :	6.3% of Fonterra shares on issue	↓
12-month High/Low <sup>2</sup> :	\$6.66 (11 Jan 18) / \$4.50 (10 Oct 18)	

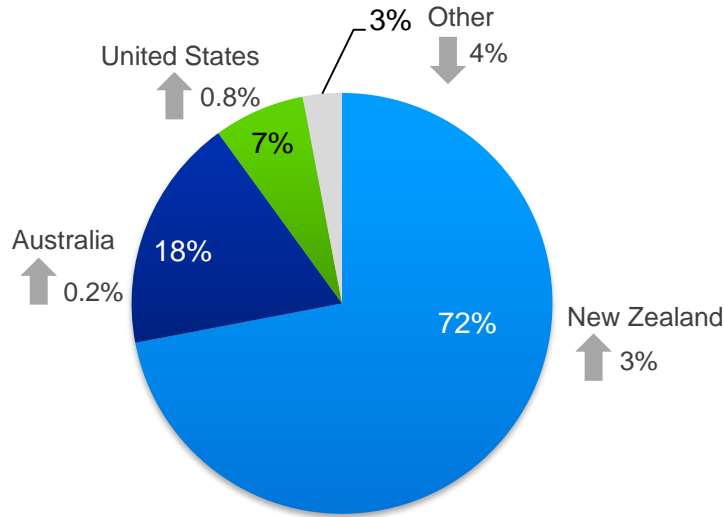
1. At 6 November 2018.

2. 28 September 2017 – 6 November 2018.

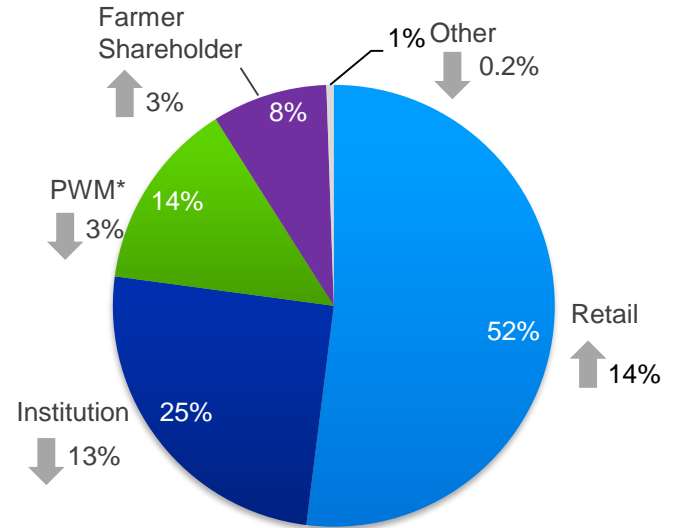
# UNIT REGISTER ANALYSIS

- Reduction in institution holdings picked up by retail investors
- The geographic split is largely unchanged with New Zealand dominating the register

**Holding by country<sup>1</sup>**



**Holding by investor type<sup>1</sup>**



<sup>1</sup> As at 28 September 2018 – comparison 25 August 2017

\* PWM = Private Wealth Management



# FSF MANAGEMENT COMPANY DIRECTORS



## Independent directors

- John Shewan – retires by rotation, offers himself for re-election

## Fonterra directors

- Nicola Shadbolt – retiring from the Fonterra and FSF Management Company Boards
- Farmer Director Donna Smit joins the FSF Management Company Board

# OUTLOOK FOR THE FUND FOR 2019 AND BEYOND



- Investors require an appropriate dividend and positive outlook for Fonterra's earnings to drive the unit price
- The Fund's performance is tied inextricably to Fonterra's performance
- There are clear challenges but also much to be positive about
- Fonterra's new Chairman and CEO have recently set out the roadmap, including what will be done differently
- Today provides unit holders the opportunity to hear directly from them and to ask questions



Dairy for life

# JOHN MONAGHAN

Chairman



It starts here...

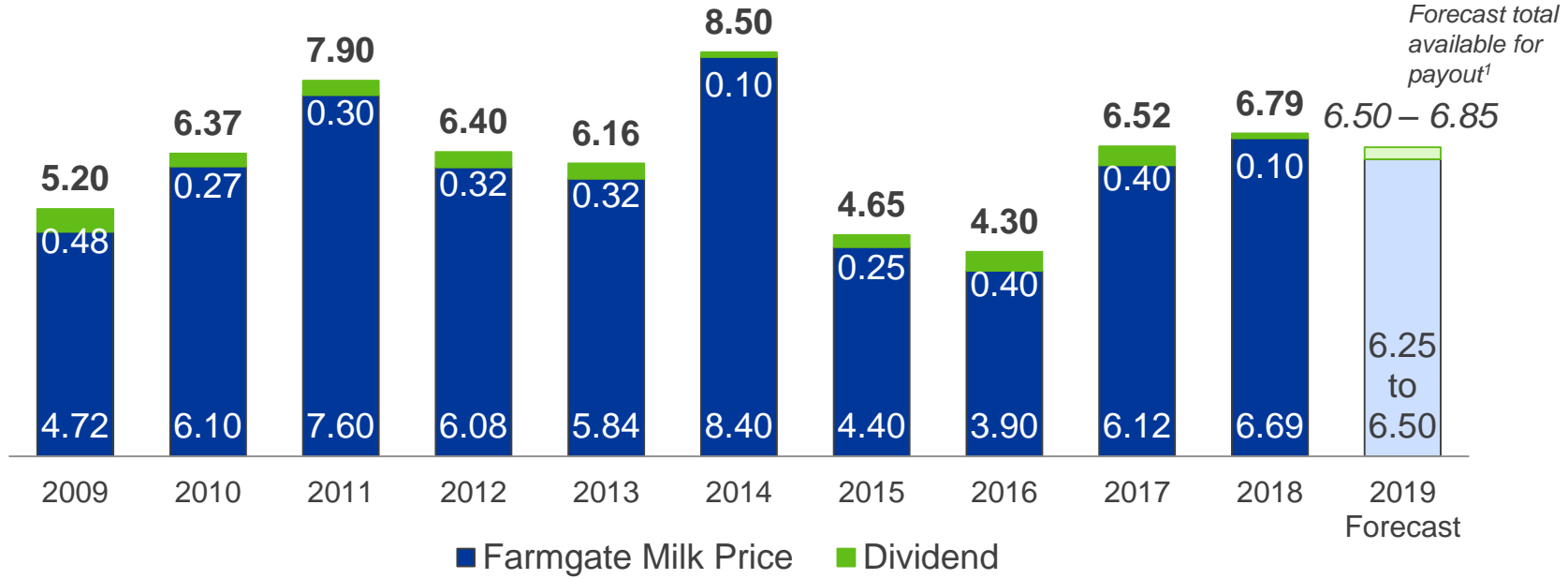
37211



Dairy for life



# STRONG FARMGATE MILK PRICE RANGE



1. Total available for pay-out = Forecast Farmgate Milk Price range of \$6.25 - \$6.50 + Forecast Earnings Per Share (EPS) of 25-35 cents. For farm budgeting purposes the likely dividend will be calculated in accordance with Fonterra policy of paying out 65-75 per cent of adjusted net profit after tax over time.  
 Note: Farmgate Milk Price: \$ per kgMS; Dividend: \$ per share



Dairy for life

# MILES HURRELL

Chief Executive Officer



# EARNINGS PERFORMANCE

Margin pressure, higher costs and one-offs



VOLUME	REVENUE	GROSS MARGIN <sup>1</sup>	OPEX <sup>1</sup>
<b>22.2B LME</b>	<b>\$20.4B</b>	<b>\$3,152M</b>	<b>\$2,496M</b>
↓ 3%	↑ 6%	↓ 3%	↑ 7%

NORMALISED EBIT <sup>2</sup>	NORMALISED NPAT <sup>2</sup>	NET PROFIT AFTER TAX	ANNUAL DIVIDEND
<b>\$902M</b>	<b>\$382M</b>	<b>\$(196)M</b>	<b>10CPS</b>
↓ 22%	↓ 51%, EPS <sup>1</sup> 24c	↓ 126%, EPS (14)c	↓ 75% YIELD 1.7% <sup>3</sup>

Ingredients	
Volume (LME) <sup>4</sup>	↓ 20.5B
Gross Margin (%) <sup>1</sup>	↓ 9.0%
Normalised EBIT	↓ \$879M
Return on Capital <sup>6</sup>	↓ 8.3%

Consumer and Foodservice	
Volume (LME) <sup>4</sup>	↑ 5.6B
Gross Margin (%) <sup>1</sup>	↓ 23.6%
Normalised EBIT	↓ \$525M
Return on Capital <sup>6</sup>	↓ 8.3%

China Farms	
Volume (LME) <sup>5</sup>	↓ 0.3B
Gross Margin (%) <sup>1</sup>	↓ 2.1%
Normalised EBIT	↓ \$(9)M

1. Reflect normalisation adjustments.
2. Attributable to equity holders.
3. FY18 divided over volume weighted average FCG price of \$5.84 across the year.
4. Includes inter-company sales.

5. Prior year volumes include 26m LME of milk powders not included this year.
6. Return on Capital (ROC) includes goodwill, brands and equity accounted investments. Excluding goodwill, brands and equity accounted investments ROC was 8.2% in Ingredients and 35.1% in Consumer and Foodservice.

# VALUE CREATION

Requires improved performance and better use of capital

RETURN ON CAPITAL<sup>1,2</sup>

**6.3%**

↓ Down from 8.3%

GROSS MARGIN<sup>2</sup>

**15.4%**

↓ Down from 16.9%

OPEX<sup>2</sup>

**\$2,496M**

↑ 7%

NORMALISED EBIT<sup>2</sup>

**\$902M**

↓ 22%

Return

CAPEX

**\$861M**

↑ 1%

WORKING CAPITAL

**83 DAYS**

↑ 8 days

NET DEBT<sup>3</sup>

**\$6.2B**

↑ Up 11%

Capital

1. Return on Capital (ROC) includes goodwill, brands and equity accounted investments. Excluding goodwill, brands and equity accounted investments ROC was 8.0% in FY18 and 11.1% in FY17.
2. Reflect normalisation adjustments.
3. Economic net interest-bearing debt.



# COMMITTED TO REDUCING DEBT

A strong balance sheet provides options



GEARING<sup>1</sup>

48.4%

↑ Up 4.1%

NET DEBT<sup>2</sup>

\$6.2B

↑ Up 11%

DEBT/EARNINGS<sup>3</sup>

4.5x

↑ Up from 3.5x

TOTAL EQUITY

\$6.3B

↓ 12%

CREDIT RATING

A<sub>STABLE</sub>

Fitch

A<sub>-</sub> STABLE

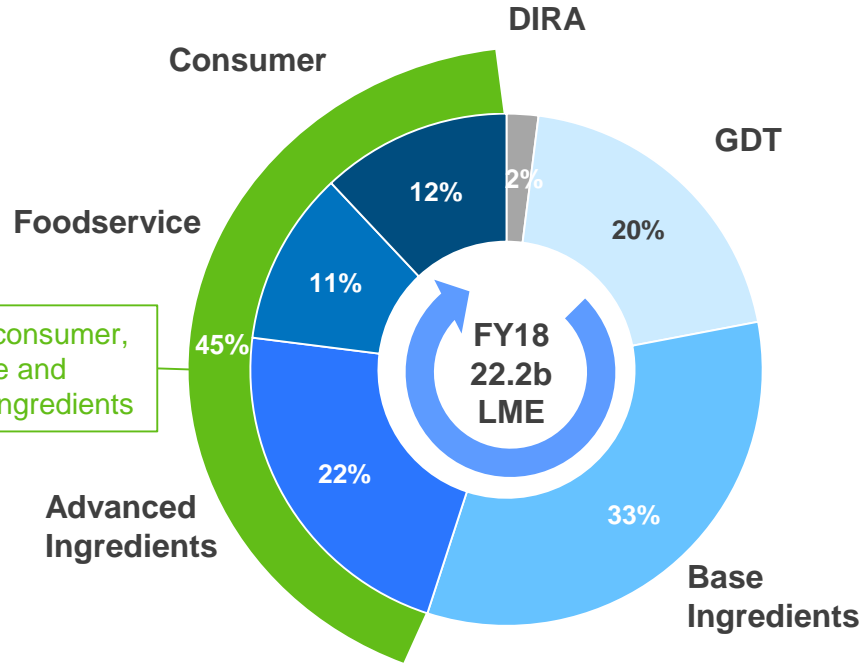
S&P

1. Gearing ratio is economic net interest-bearing debt divided by economic net interest-bearing debt plus total equity excluding hedge reserves.
2. Economic net interest-bearing debt.

3. Debt payback ratio is economic net interest-bearing debt divided by EBITDA. Both debt and EBITDA are adjusted for the impact of operating leases.

# MORE VOLUME TO HIGHER VALUE

465 million more LMEs shifted to higher value



- Total volumes declined 3% due to lower collections
- More volume into higher value, up from 42% to 45%
- 334m<sup>1</sup> LMEs shifted to higher- margin Advanced Ingredients
- Added 131m<sup>1</sup> more LMEs

Note: Wheel shows category percentage of total FY18 external sales (LME)  
1. Additional LME volumes include inter-company sales.

# PLAN TO LIFT BUSINESS PERFORMANCE

1

## TAKING STOCK OF THE BUSINESS

We have dropped our volume-based ambition

We are maximising New Zealand milk

2

## GETTING THE BASICS RIGHT

We are living within our means

Reducing financial year-end debt by at least \$800m

Capital expenditure set at \$650m, down from \$861m

We are working to reduce our operational expenses back to FY17 levels over the next two years

3

## ENSURING MORE REALISTIC FORECASTING

We are working to reduce subjectivity in our forecasting

Over time this will include increased use of technology



# INGREDIENTS

Three new divisions established in FY18 to capture market growth



Fonterra  
Dairy for life



**PAEDIATRIC  
INGREDIENTS**



**MEDICAL  
NUTRITION**



**SPORTS AND  
ACTIVE LIFESTYLES**

# GLOBAL CONSUMER AND FOODSERVICE



Launched Red Cow in Sri Lanka



Anchor brand breaks even in China - two years ahead of seven year target

47 Anchor products now available in more than 13,000 stores across China



# SUSTAINABILITY

A photograph of an industrial facility, likely a power plant or refinery, featuring several large silver cylindrical storage tanks, a tall spiral-patterned chimney, and a large white building with a corrugated metal roof. The scene is set against a clear blue sky.

Net zero  
emissions  
across our  
manufacturing  
sites by 2050

Converting  
to co-fired wood  
biomass at our  
Brightwater site

Replacing  
coal with  
electricity at our  
Stirling site



Dairy for life

# JOHN MONAGHAN

Chairman







**Fonterra**Future  
DAIRY™

# PORTFOLIO REVIEW PHASES

1

## IMMEDIATE ACTIONS IN FY18

- Debt reduction focus

2

## STRATEGIC REVIEW OF PORTFOLIO

- Strategic alignment
- Value creation potential
- Agree where to exit /  
optimise / invest

3

## DELIVERY OF STRATEGIC REVIEW ACTIONS

- Exit / optimise and  
reallocate capital
- Invest
- Reduce debt / return  
capital



FONTERRA  
SHAREHOLDERS'  
FUND.



# QUESTIONS

---





# FONTERRA SHAREHOLDERS' FUND



FONTERRA  
SHAREHOLDERS'  
FUND.



# RESOLUTION 1

---

That John Shewan, who retires by rotation and, being eligible, offers himself for re-election, be re-elected as Director of the Manager of the Fund



FONTERRA  
SHAREHOLDERS'  
FUND.



# JOHN SHEWAN

---

Director

FSF Management Company



FONTERRA  
SHAREHOLDERS'  
FUND.



# RESOLUTION 1

---

That John Shewan, who retires by rotation and, being eligible, offers himself for re-election, be re-elected as Director of the Manager of the Fund





# VOTING

- In respect of each resolution, please tick the “for”, “against” or “abstain” box.
- Once you have completed your voting, please place your vote in a ballot box.
- Please raise your hand if you require a pen.
- Results will be announced to the NZX and ASX as soon as they are available.

FONTERRA  
SHAREHOLDERS'  
FUND.



# FONTERRA SHAREHOLDERS' FUND

ANNUAL MEETING  
12 NOVEMBER 2018



FONTERRA  
SHAREHOLDERS'  
FUND.



# GENERAL BUSINESS

---



FONTERRA  
SHAREHOLDERS'  
FUND.



# THANK YOU MEETING CLOSED.

---

