Discussion Paper 02:
Why does MG need to raise $500 million?
When:

- MG no longer requires additional funding to buy WCB (MG offered over $500 million).
- MG sold the WCB shares to Saputo generating $ 93 million cash to spend.
- MG sold their supply chain infrastructure distribution centre generating A$97 million cash to spend.
- MG has generated $61 million after tax profit July – December 2013.
- MG can access cheap bank loans.

What specific MG projects require $500 million?

- MG has not submitted to farmers any specific proposal to justify the need for the extra capital.
- MG has only issued a general statement saying MG has "identified capital investments with a total value between A$400 to A$500 million over the next three to five years to rejuvenate our manufacturing and supply chain infrastructure in key product areas such as to nutritional powers, cheese and liquid milk."
- There is no specific proposal for the money and farmers are being asked to trust MG management's need for capital see "The Milk Maid Marion" blog Our co-op gallops towards the wide blue yonder blindfolded
- MG already has one mothballed factory at Leitchville and is no longer able to keep year round production at Rochester with some suggestion of trouble keeping Maffra at full capacity.
- Focus should be on paying a higher milk price to grow milk supply to full existing capacity rather than big spending on more spare capacity.
- How does MG plan to grow milk supply? There is no clear proposal.
- MG needs to grow milk supply then spend money on expanding business not the current "cart before the horse" proposal expand business then we will somehow find the milk. (It makes no commercial sense.)

Why should farmers be required to buy MG units?

- Around 50% of MG farmers will be required to contribute more capital to reach the "share standard". This is similar to the Fonterra model.
- There is a big difference between Fonterra NZ and MG Australia.
- Fonterra totally dominates milk intake in NZ with limited competition for a growing pool of milk.
- MG does not have the same dominating position and competes with Fonterra, Lion, Parmalat, Saputo and Bega Cheese for a reducing pool of milk caused by an extended drought period.
- MG's major competitors have invested in extra capacity and are under pressure to increase milk intake guaranteeing competitive milk prices to farmers.
- Why would new farmers commit to increased debt to buy into MG's "share standard" when they can achieve a competitive milk price from MG's competitors without having to buy shares and increase debt?
- Farmers should spend the money on farm improvements or use the money to pay down debt after suffering from a prolong drought and past low milk prices.
- The unit and share standard model requires farmers to have too much equity in a co-operative

Does the new proposal lock farms into long term supply to MG?

- Yes by locking farmers in with loans to buy units they require if they don't have enough shares.
- Farmers locked in with loans will be unable consider higher milk prices offered by competitors.

How will MG pay dividends in increased equity?

- Investors seek a dividend above bank interest rates that can only come from lower milk prices.

How will MG establish future farmgate milk price?

- MG is following the Fonterra model so where is MG's farmgate milk price formula?
- Fonterra's model at least offers NZ farmers some form of transparent milk pricing formula.
- How does MG realistically measure "the target of increasing the underlying farmgate milk price by A$1.00 per kg milk solids by Financial Year 2017/18"?
- MG's farmgate milk price is driven by the international market and is subject to fluctuations in international prices and currency, factors totally outside of MG's control.

Why the rush and pressure on farmers to agree on the $500 capital raising?

- It took Fonterra five years of discussion with farmers before asking farmers to change their share structure so why the rush to restructure MG's shares within six months?
- Farmers need more time to fully understand the long-term consequences of the proposed major change to MG's share structure.
- MG is following the same road as Bonlac raising capital from farmers and investors (just before Bonlac collapsed).
- Bonlac's management left with big payouts congratulating themselves on saving Bonlac by selling to Fonterra NZ but Bonlac farmer shareholders lost control of their co-operative.

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