Discussion Paper 06:
Murray Goulburn Financial Results 2016/17 and Outlook 2017/18

Milk Intake (million litres)	2016/17	2015/16	Change	%
	2015/16	3,500		
	2016/17	2,500	-1,000	
	2017/18	2,000	-500	
Total			-1,500	43%

- Lost 1,500 million litres (43%) to competitors since 2015/16, compared with Australia's production fall of 590 million litres
- Competitors gained an additional 910 million litres more than before during a time of falling Australian milk production
- 2017/18 revised forecast down to 2,000 million litres is inline with Fonterra's volume for the first time

Milk Price	2016/17	2015/16
A$/kg milk solids	4.92	4.76
A$ cents per litre	37.8	36.6

For the last 2 years:

- Paid the lowest milk prices and as a result lost over 25% of suppliers
- Milk price below the cost of production forced farmers to leave for higher prices offered by competitors

- Forecast 2017/18 only A$5.20/kg MS (39 cents per litre) and may need to access A$100 million finance to meet the final price
- Competitors forecast 2017/18 between A$5.90-A$6.20/kg MS (44.2 – 46.4 cents per litre)
- Farmers supplying 1.5 million litres gain an extra $78,000 - $111,000 moving to competitors

Sales Revenue (A$ million)	2016/17	%	2015/16	%	Change	%
Domestic	1,477.4	59.3	1,664.7	59.9	-187.3	-11.3
Other countries	1,013.6	40.7	1,113.0	40.1	-99.3	-8.9
Sales revenue	**2,491.1**	**100.0**	**2,777.7**	**100.0**	**-286.6**	**-10.3**

- Overall revenue is down 10.3% compared with milk intake down 22%
- Reduced stockholding and higher international prices account for some of the disparity
- Revenue to fall further 2017/18 based on lower milk intake
- Committed to long-term, low return supply contracts to the supermarket chains that impose heavy penalties for non-supply including cost of finding alternative supply
- Competitors prepared to take over contracts but only at higher prices knowing it will be charged back to MG
- Less milk and locked into low returning supermarket contracts restricts volume and any premium from higher return products on the domestic market

Dairy export prices (A$ per tonne)	28-Jul-17	29-Jul-16	Change	%
Butter	6,050	2,950	3,100	105.1
Skim Milk Powder	2,025	1,900	125	6.6
Whole Milk Powder	3,100	2,050	1,050	51.2
Cheddar Cheese	4,050	3,000	1,050	35.0

*Source AgriiHQ

Dairy export prices (A$ per tonne)	28-Jul-17	29-Jul-16	Change	%
Butter	7,593	3,937	3,656	92.9
Skim Milk Powder	2,573	2,536	37	1.5
Whole Milk Powder	3,890	2,736	1,154	42.2
Cheddar Cheese	5,083	4,005	1,078	26.9

* Conversion US$/A$
29-Jul-16 @ 1.2550
28-Jul-17 @ 1.3347

- Less milk and locked into low returning supermarket contracts also reduces export volume and premium returns
- Unable to take advantage of the significant recovery in international prices

- Competitors taking full advantage of stronger international prices from extra milk gained from MG and outpricing at the farmgate

Profit/loss (million)	2016/17	2015/16	Change
Before tax	-420.6	57.5	-478.1
Tax	49.8	-17.7	67.5
After tax	**-370.8**	**39.8**	**-410.6**

- Gone from a modest profit of $39.8 million to a loss of $370.8 million

Costs	2016/17	2015/16	Change	%
Distribution	166.4	193.6	-27.2	-14.0
Selling & marketing expenses	79.2	86.9	-7.7	-8.9
Administration expenses	124.1	60.4	63.7	105.5
Finance costs	24.9	23.4	1.4	6.1
Other	354.3	1.6	352.7	21,544.4
Total	**748.9**	**365.9**	**382.9**	**104.6**

- According to accounts statement:
  - Lower distribution expenses with reduced milk intake
  - Administration expenses increase 105.6% mainly due to IT licences and SAP depreciation?
  - Other expenses include legal and advisory?

Inventories (A$ million)	2016/17	2015/16	Change	%
	464.5	**568.7**	**-104.1**	**-18.3**

- Inventories down 18.3% compared with milk intake milk intake down 22%
- Inventories still high considering loss of milk supply

Borrowings	2016/17	2015/16	Change	%
Current liabilities		90.2	-90.2	-100.0
Non-current liabilities	463.9	417.4	46.5	11.1
Total	**463.9**	**507.7**	**-43.7**	**-8.6**

- Borrowing reduced 43.2 million (-8.6%)

Leasing (million)	2016/17	2015/16	Change	%
Due within 1 year	**67.0**	73.9	-6.9	-9.3
Due within 1-5 years	**133.1**	167.1	-33.9	-20.3
Due longer than 5 years	154.7	153.0	1.7	1.1
Total	**354.8**	**393.9**	**-39.2**	**-9.9**

- Leasing commitments (off balance sheet debt) reduced $39.2 million (-9.9%)

Gearing (A$ million)	2016/17	2015/16	Change	%
Total equity	735.0	1,176.0	-441.0	-37.5
Total debt	464.0	508.0	-44.0	-8.7
Cash and cash equivalent	19.0	27.0	-8.0	-29.6
Net debt	445.0	480.0	-35.0	-7.3
Gearing (debt/(debt+equity)	**37.7%**	**29.0%**		**8.7%**

- Gearing increased 8.7%
- Net debt is down $35 million (-7.3%)

Equity (A$ million)	2016/17	2015/16
Issued Capital (dividends cannot be paid from issued capital)	730.1	730.1
Reserves	139.6	178.0
Retained earnings	134.3	267.5
Shareholders' equity as a business after deducting retained earnings from reserves	**5.3**	**-89.5**

- Unable to pay dividend 2016/17
- Should never paid dividend 2015/16
- Unlikely to pay franked dividend for many year to come (will not have a taxable income for some years due to the large loss in 2016/17)
- Total non-contributed shareholders equity as a business only $5.3 million, after nearly 60 years as a co-operative

Assets	2016/17	2015/16	Change	%
Property, plant & equipment (million)	759.1	932.2	-173.1	-18.6
Other	916.5	1,245.7	-329.1	-26.4
Total	**1,675.6**	**2,177.8**	**-502.2**	**-23.1**

- Asset value down $502.2 million (-23.1%)
- Received some "unsolicited inquires by undisclosed interested parties" to purchase part or the whole of the co-operative
- Interest in factories will focus on the value of the "property, plant & equipment

2016/17 Executive Pay (A$)	Income	Bonus	Total
Ari Mervis Chief Executive	789,004	**550,000**	**1,339,004**
David Mallinson Chief Financial Officer	1,428,563	**116,139**	**1,544,702**
Fiona Smith Company Governance	896,044		**896,044**
2015/16 Executive Pay (A$)	**Income**	**Bonus**	**Total**
Gary Helou Managing Director	1,872,439	**130,732**	**2,003,171**
Brad Hingle Chief Financial Officer	529,297		**529,297**
David Mallinson Chief Acting CFO	754,175		**754,175**
Fiona Smith Company Governance	655,750		**655,750**

*Ari Mervis commenced as CEO on 13 February 2017
*Fiona Smith in charge of company governance ended on 26 February 2017

- Ari Mervis is paid a substantial salary to turn MG around and received an extra $550,000 bonus after only 4 months is outrageous when MG is in such financial trouble
- David Mallinson closely associated with supporting Gary Helou is still working at MG. Received $116,000 bonus only rubs salt in the wound
- Gary Helou responsible for financially ruining MG walked away with $2,003,732
- Fiona Smith failed in her position of looking after governance and the architect behind the failed MSSP (loan to farmers) that included an incentive to leave MG, left in February with $656,000

Auditors Remuneration (000')	2016/17	2015/16	Change	%
	1,932.5	**743.0**	**1,189.5**	**160.1**

- A massive $1.2 million increase in auditing fees (+160%)

Conclusion:

- MG in serious financial trouble
- New management team has made small inroads in reducing costs/debt but moved to an overall $370.8 million loss with some suggestion they may need an additional $100 million 2017/18 to meet $5.20/kg MS (39 cents per litre)
- Where did the $500 million capital raised on the stock exchange disappear?
- The loss of 1,500 million litres and over 25% of farmers over 3 years adds considerably to the fixed costs from under utilised factories that processed 3,500 million litres in 2015/16
- Losing milk volume and increasing cost of operating factories is comparable with a snowball down a mountain
- Starts small gaining size and speed as it accelerates uncontrollably down a step decline
- Survival depends on returning to paying farmers a competitive milk price, which is extremely unlikely in the foreseeable future
- Competitors actively increasing milk supply to maximise capacity to take advantage of higher international prices and weaken MG
- The forecast 2,000 million litres 2016/17 is highly optimistic as competitors continue to take supply away
- Farmers left supplying MG will have no option but accept the milk price offered or leave the dairy industry
- Leaving farmers would have a further negative impact on MG's intake
- There is considerable domestic and international interest in buying part or total business
- To buy total business would require 90% of farmers to agree making it difficult for any takeover with the possible exception of Bega Cheese, the only major Australian listed dairy company

Selling or breaking up MG is the worst thing that could happen to farmers. They would be selling their future to pay for the mistakes of the past management under Gary Helou