

**Discussion Paper 07: MG is past the point of no return. Failure to accept Saputo's offer will see MG inevitably heading towards bankruptcy in 2018/19 rendering farmers' and ASX investors' shareholding potentially worthless**

Management has achieved a profit for July-December 17 but with an uncompetitive milk price. MG would be financially strong and viable farmer co-op, paying a competitive milk price, had the previous chairman and board chosen the current management team.

Unfortunately they chose and blindly supported Gary Helou and his strategy that directly led to MG's very predictable demise. The details were always in MG's accounts and the questionable PDS for the IPO (see previous discussion papers).

Joe Ashton of the Financial Review was the only newspaper analyst who consistently questioned MG's strategy and raised valid issues on the financial accounts. (See the man who destroyed Murray Goulburn [www.afr.com/brand/rear-window/how-joe-ashton-covered-coles-murray-goulburn-milk-debacle-20160523-gp20oh](http://www.afr.com/brand/rear-window/how-joe-ashton-covered-coles-murray-goulburn-milk-debacle-20160523-gp20oh))

Murray Goulburn result summary				
(\$,000)	Jul-Dec 17	Jul-Dec 16	Variation	%
Sales revenue	1,115,579	1,175,842	(60,263)	-5.1
Cost of sales	(917,795)	(1,009,044)	91,249	-9.0
Gross profit	197,784	166,798	30,986	18.6
Distribution	(71,618)	(71,872)	254	-0.4
Selling and marketing expenses	(30,425)	(42,411)	11,986	-28.3
Administration expenses	(49,784)	(44,680)	(5,104)	11.4
Finance costs	(12,563)	(12,034)	(529)	4.4
Other	1,731	(43,612)	45,343	
Profit (loss) before tax	35,125	(47,811)	82,936	
Income tax	(62,660)	15,944	(78,604)	
Profit (loss) for the period	(27,535)	(31,857)	4,322	-13.6
<b>Total assets</b>				
	1,628,432	2,213,261	(584,829)	-26.4
<b>Borrowings</b>				
	509,034	698,388	(189,354)	-27.1
<b>Total Liabilities</b>	<b>881,644</b>	<b>1,100,590</b>	<b>(218,946)</b>	<b>-19.9</b>
<b>Net assets</b>	<b>746,788</b>	<b>1,112,571</b>	<b>(365,783)</b>	<b>-32.9</b>
<b>Net debt</b>	<b>474,000</b>	<b>677,000</b>	<b>(203,000)</b>	<b>-30.0</b>
Inventories	482,855	605,981	(123,126)	-20.3
Total equity (net assets)	746,788	1,112,571	(365,783)	-32.9
Gearing	38.8%	37.8%	1.0%	
Dividend (cents per share)	0	1.7		
<b>Milk</b>				
	Jul-Dec 17	Jul-Dec 16	Variation	%
Milk intake (million litres)	1,129	1,611	-482	-29.9
Milk Price (per kg/ms)	4.95	4.15	0.80	19.3
Milk Price (cents per litre)	37.2	31.2	6.00	19.3

- Sales revenue down \$60.3 million (5.1%) versus milk intake down 482 million litres (-29.9%).
- Sales supported by a combination of a strengthening in world prices and \$123.1 million (-20.3%) reduction in inventories, generating much needed cash flow during July-December 2017.
- Costs controlled (reduced) except administration up \$5.1 million (11.4%).
- Borrowings down \$189.4 million (-27.1%) but still high at \$509.0 million.
- Net assets value fell \$365.8 million (-32.9%) to only \$746.8 million.
- Total liabilities reduced \$219 million (19.9%) but still high at \$881.6 million.
- Net debt reduced \$203 million (-30.0%) but still high at \$474 million
- Gearing marginally up to 38.8%
- After tax loss reduced \$4.3 million (-13.6%) to \$27.5 million
- Normalised after tax profit (after taking out one off costs) lifted \$5.0 million (53.2%) to \$14.4 million.

**Saputo's October 2017 offer:**

- Lifts the 2017/18 milk price to a competitive level for the first time since 2016.
- Stabilised milk supply by stopping farmers leaving the co-op.
- Suppliers for the complete season receive an additional \$0.40/kg/ms bonus, increasing the price to \$6.00/kg/ms.
- Shareholders receive a minimum of 75 cents per share.

**The Weekly Times article February 14, 2018 "Co-ops finances cast doubt on its need to sell out" is misinformed:**

- MG without Saputo must access borrowings to pay a forecast uncompetitive \$5.20/kg/ms.
- MG chief executive Ari Mervis is correct warning "if the Saputo transaction does not proceed and in the absence of an alternative transaction, the group may not be able to pay a competitive milk price".
- Unfortunately, MG is past the point of no return.
- **Failure to accept Saputo's offer will see MG heading towards bankruptcy in 2018/19 rendering farmers' and ASX investors' shareholding potentially worthless**