

# AUSTRALIAN DAIRY FARMS GROUP

*ASX's Only Listed Milk Producer*

ASX Code: AHF



**22 DECEMBER 2014**

**BRUCKNELL No.3 ACQUISITION PRESENTATION**

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AUSTRALIAN DAIRY FARMS

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Australian Dairy Farms Group acknowledges Dairy Australia, ABARES, Fonterra, Horizons 2020, Red Sky Agriculture, OECD, and Food and Agriculture Organisation (UN) , Fairfax Media in respect of information used herein.

# Australian Dairy Farms Group - Summary



AUSTRALIAN DAIRY FARMS

## **The only ASX listed owner and operator of Australian dairy farms**

Australian Dairy Farms Group (AHF or the Group) is actively implementing its stated strategy of corporate consolidation of dairy farms in Australia's fragmented dairy supply industry – initially focusing on South West Victoria's Golden Triangle of Dairy, near Warrnambool.

## **Rationale - the time is right to consolidate the Victorian dairy sector:**

- **Cyclical low in dairy farm prices** – opportunity for acquisition with increased interest in the sector
- **Strong milk supply/demand fundamentals** – continued demand from Asian nations
- **Growing milk price trend** – long term, high demand growth forecast – increasing return on equity
- **Economies of scale** – management, revenue and cost synergies risk diversification
- **New Free Trade Agreement (FTA)** with China favours Australian Dairy
- **AU\$ exchange** adjustment and low interest environment supports export competition.

## **Strategy - for aggregating existing dairy farms and milk production:**

- **Operational farms** with sound production and earnings metrics;
- **Identifiable and accessible productivity** gains plus cost efficiencies;
- **Benefit from economies of scale** – i.e. proximity to multiple Group owned / managed farms;
- **Use scale** to deliver revenue and price gains plus cost synergies;
- **Aggregate 50 million+** litres of production p.a. by FY 2017.

# Corporate Overview



AUSTRALIAN DAIRY FARMS

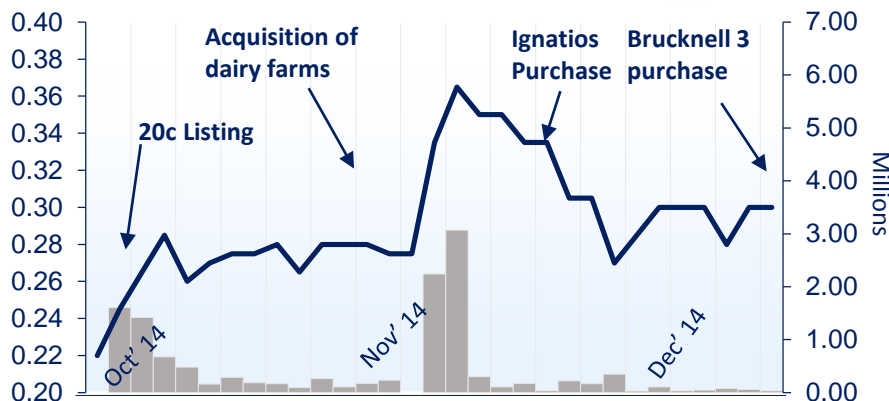
## Capital Structure - post placement

ASX Code	AHF
Share Price – at close 17/12/2014	27.5c
Shares on Issue	71.5m
Loyalty Options on issue	29.4m
Market Capitalisation - at \$0.275	\$19.7m

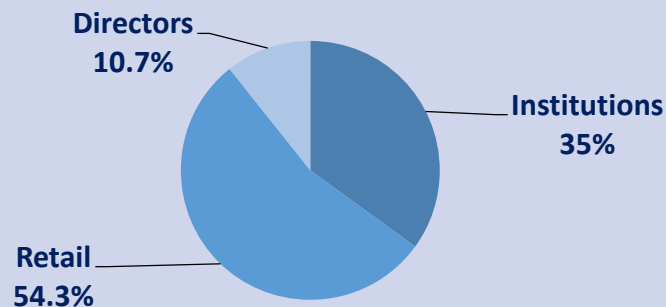
## Substantial Shareholders (pre-placement)

Name	Holding
Och Ziff Holdings Group	8.41%
Basapa P/L <Kehoe Family A/C>	7.15%
Trustees Australia <sup>1</sup> <small>1 – Excludes Convertible Notes interest</small>	7.65%
<b>Combined Directors Holdings<sup>1</sup></b> <small>1 – Excludes Convertible Notes Interest</small>	<b>10.72%</b>

## Share Price Chart Since Listing



## Shareholder Split



# Farm Acquisition Summary



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- Since listing in October 2014 with two farms, AHF has acquired two additional farms – Ignatios & Brucknell No. 3
- Potential annual milk production targeted to expand from approximately 7.7m litres to over 10.0m litres
- AHF focussed on milk price increments as annual milk production volumes expand
- Management evaluating other potential acquisitions – each is EPS accretive to current operations
- AHF will continue to maintain acquisition price discipline to deliver strong security-holder returns

	ASX Listing (28 Oct 2014)	Ignatios & Brucknell No.3 Acquisitions	Total (Dec 2014)	% Change Since IPO
Hectares	536	139+245	920	+71.6%
Acres	1,319	344+603	2,266	+71.6%
Target Annual Production (litres p.a.)	7.7m	2.5m	10.2m	+32.5%
Market Capitalisation	\$11.9m	-	\$19.7m	+65.6%
Share Price	\$0.20	-	\$0.275	+37.5%



# AHF — Brucknell No.3 Farm Acquisition



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## BRUCKNELL NO.3 KEY STATS

Hectares	139
Acres	344
Current milking herd	200
Milking herd capacity	300+
Target annual production	2.5m litres p.a.
Purchase price including Herd	\$2.85m



- Secured conditional purchase of “Brucknell No. 3” dairy farm
- Farm adjoins existing Brucknell Farms in South West Victoria’s “Golden Triangle” of dairy
- Purchase price of A\$2.25m for property and A\$0.6m for herd
- Land size of 139 hectares (344 acres)
- Acquisition in line with strategy of acquiring high quality farms at reasonable prices that have strong synergies with existing operations - i.e. proximity to multiple AHF owned / managed dairy farms
- Current milking herd to be increased utilising the Ignatios support farm for non-milking livestock
- Significant cost synergies likely due to AHF’s existing Brucknell farm management to run “Brucknell No. 3”
- EPS accretive on a full 12 month basis at current milk prices

# AHF – Ignatios Farm Acquisition



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## IGNATIOS KEY STATS

Hectares	244
Acres	603
Purchase price	\$1.86m
Settlement Date	16 January 2015

- On 12 Nov 2014 AHF contracted to acquire the “Ignatios” support farm at mortgagee auction for \$1.86m
- Ignatios is closely located (10-15 minutes drive) to AHF’S three producing farms at Brucknell
- Will accommodate AHF’s non-milking livestock / calves
- Allows producing farms to focus solely on milking herd - maximising production capability
- Existing and future farm acquisitions should be able to hold up to a 10% larger milking herd – increasing production of existing farms and making acquisitions more accretive
- Will provide hay and silage support to other farms
- Existing dairy can be renovated at modest capex to convert to a full milking farm
- Ignatios to support 4-5 producing farms and will support AHF's future acquisition strategy



# Capital Raising



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- AHF has completed a **\$3.0m Placement** to professional and sophisticated investors at \$0.25 per stapled security
- **Strongly supported by institutional investors** – particularly out of Asia
- Completed at a **modest 9% discount** to the last closing price
- Proceeds used to settle the purchase of the Brucknell No.3 farm and to provide headroom for contracting negotiations on future farm acquisitions





# AHF Recent Milestones – Pre Listing



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**20/08/2014** - Lodged Australian Dairy Farms Capital Raising Prospectus and PDS at ASIC



**20/09/2014** - Secured forward contracts for summer hay and fodder at keen prices



**25/09/2014** - Raised **\$9.3m** in new capital with strong professional investor register



**23 /10 / 2014** - Completed initial **two** farm and livestock acquisitions



**28/10/2014** - Listed on ASX **above** issue price

# AHF Recent Milestones — Post Listing



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**Oct – Dec** - Traded consistently above issue and up to **85%** premium



**17 Nov 2014** - Announced **acquisition** of Ignatios Farm

**22 Dec 2014** – Announced **acquisition** of Brucknell No. 3 Farm



**8/12/2014** - Loyalty Options issued on 1 for 2 basis

**December 2014** – successful \$3.0m capital raising at 25% premium to original issue price



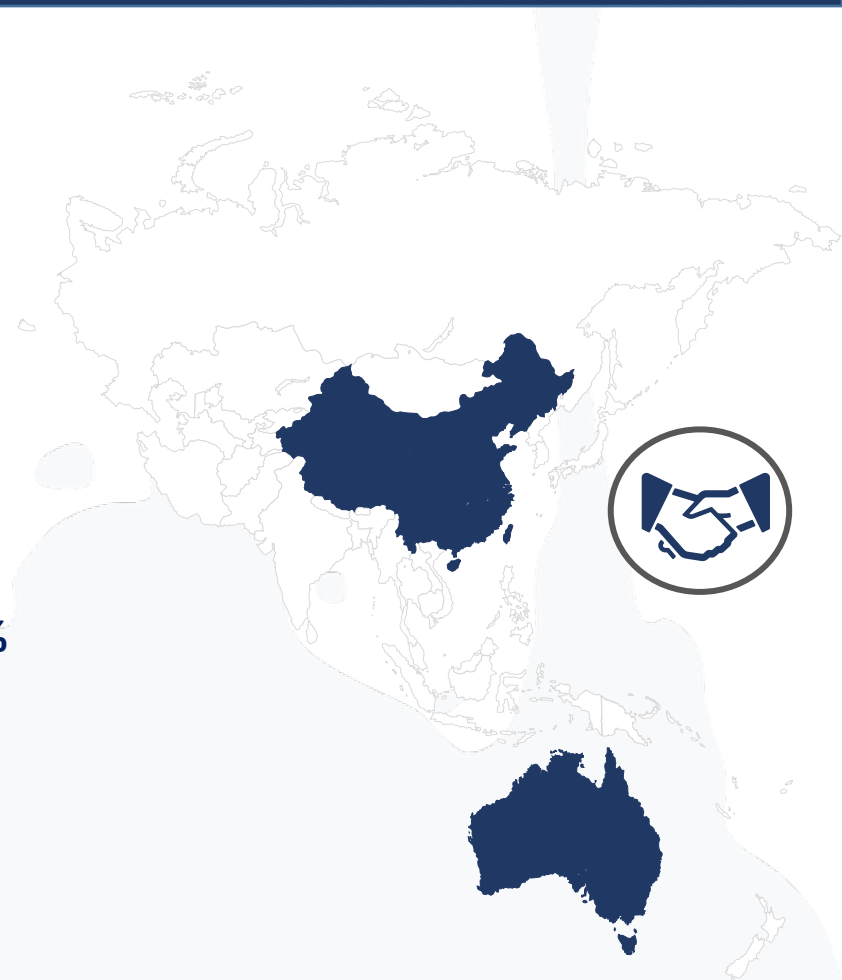
**Ongoing due diligence on farms that fit acquisition strategy**

# China & Australia Free Trade Agreement



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- Dairy Farmers set to become the **main beneficiaries** of the FTA
- All Tariffs to be phased out by 2025 – New Zealand benefited from a similar agreement with its exports growing by **\$2.2Bn** since **2007**
- Australian exports of liquid milk grown at **~11%** average annual rate since **2008**
- Industry forecast to experience **consistent strong export growth through 2025** based on increased consumption in Asian and Middle Eastern nations



# Rationale for Consolidation of Milk Sector



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<b>Scale (Revenue Synergies)</b>	<ul style="list-style-type: none"> <li>✓ Processors have excess capacity and actively seek security of milk supply</li> <li>✓ Will pay significant premiums / incentives for high volume and reliability of production</li> <li>✓ e.g. 1 owner producing 37.5 million litres p.a. receive 13% more per litre than 10 separate owners each producing 3.75 million litres p.a. (based on \$6.00/kgMS base price) Source: WCB Milk Supply Handbook – 2013</li> </ul>
<b>Scale (Cost Synergies)</b>	<ul style="list-style-type: none"> <li>✓ Bulk purchasing power - grain/fodder, trade services etc.</li> <li>✓ Installation of automated feeding and production facilities Manage calf rearing and dry cow grazing on specialist facilities by specific staff</li> <li>✓ Share seasonal / capital equipment across farms</li> <li>✓ Share management / administration costs and expertise across farms</li> </ul>
<b>Inefficiencies</b>	<ul style="list-style-type: none"> <li>✓ Average Australian dairy farms are producing well below their production potential</li> <li>✓ Older generation farmers not using modern farming techniques</li> <li>✓ Existing farmers have limited access to capital – have not reinvested</li> </ul>
<b>Farm Prices / Timing</b>	<ul style="list-style-type: none"> <li>✓ Farm prices are at cyclical lows in premier dairy regions of Australia, while milk prices remain relatively high</li> <li>✓ Older generation farmers looking for an exit – with younger generations not choosing to take over family farms</li> </ul>
<b>Processor / Farmer Dynamic</b>	<ul style="list-style-type: none"> <li>✓ Processors have had all the power in dealing with individual farmers – who are price takers</li> <li>✓ Consolidating farms to produce larger volumes enable those suppliers to negotiate higher prices and other incentives from competing processors.</li> </ul>



# Corporatisation Strategy Rationale



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- Previous aggregations of farming operations have had mixed success in Australia – listed and unlisted.
- AHF recognises key mistakes other aggregation entities have made:

Mistake	Australian Dairy Farms Response
<b>Acquisition Pricing</b> <i>Aggregation done at the top of the land price cycle when commodity is in favour</i>	<ul style="list-style-type: none"> <li>✓ Purchasing dairy farms in prime locations at cyclical low prices</li> <li>✓ Buying into a likely upward trend in dairy farm prices i.e. farm prices follow milk prices</li> </ul>
<b>Commodity Choice</b> <i>Some soft commodities less likely to be successful in a corporate model, or carry more risk</i>	<ul style="list-style-type: none"> <li>✓ No annual crop / herd growth cycle – milk produced daily – paid monthly</li> <li>✓ Ready market –, multiple local competitive buyers</li> <li>✓ Minor storage / transport costs – milk sold daily, major processors within 30km radius</li> <li>✓ No major annual upfront capital investment as with grains</li> </ul>
<b>Cost Base</b> <i>Cost base too high, farms generate good revenue but returns don't flow back to shareholders</i>	<ul style="list-style-type: none"> <li>✓ No large management team or “Collins Street” office</li> <li>✓ Genuine synergies between farms – no scale for the sake of scale</li> <li>✓ Management scalable with increasing farm numbers</li> </ul>
<b>Water Dependency / Intensity</b> <i>Profitability heavily influenced by annual rainfall, or farming in high rainfall risk regions (i.e. NT, Cent QLD)</i>	<ul style="list-style-type: none"> <li>✓ Consistent rainfall region – refer slides 9 and 10</li> <li>✓ Dependable water rights under all scenarios</li> <li>✓ Stock irrigation licences in place</li> </ul>

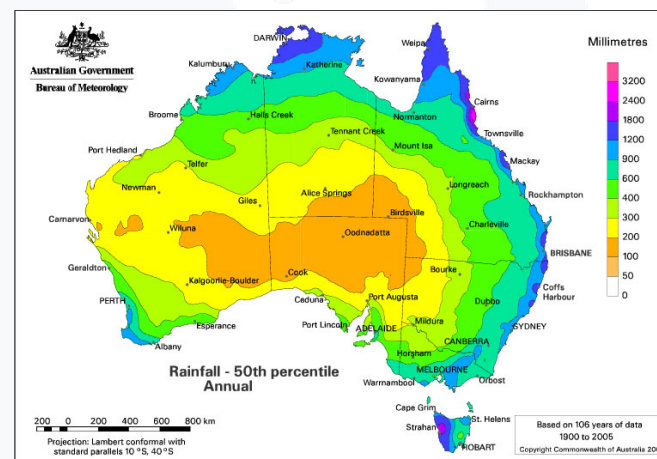
# Farm Selection Criteria



## AUSTRALIAN DAIRY FARMS

AHF has a strict selection criteria for dairy farm acquisitions:

- ✓ **Existing production** - with immediate cashflow benefits
- ✓ **Location** – Proximity to regional centres and existing processing facilities
- ✓ **Premier Regions** – Invest only in regions known for strong production
- ✓ **Synergy Potential** - Proximity to existing AHF farms to realise cost synergies and provide support farms
- ✓ **Scale** - Targets 500 cow capacity, no sub-scale farms
- ✓ **Rainfall** - historically consistent and strong rainfall areas
- ✓ **Production Improvements** – potential for increased production via:
  - Pasture Renovation
  - Paddock Layout
  - Dairy Technology
  - Feeding Intensification
  - Adjoining Land Options



# Initial Focus — South West Victoria



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**AHF's first dairy farms are located “The Golden Triangle” is Australia’s premier dairy producing region in South West Victoria near Warrnambool.**

- ✓ Largest Australian producing state by volume
- ✓ Consistent and favourable rainfall
- ✓ Close to major processors – Fonterra, Murray Goulbourn, Warrnambool Cheese & Butter, Bega
- ✓ Close to significant regional centres for suppliers contractors and social interaction
- ✓ Melbourne CBD 3 hours driving time away
- ✓ Quality infrastructure – excellent laneways, dairy sheds, good water, access etc

**AHF's initial focus for future acquisitions will be the Golden Triangle:**

- Aim to acquire up to 16 farms in close proximity
- Drive production improvements and economies of scale
- Build production volumes to a scale that is material to both processors and strategic investors



# Implementation of Strategy



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## Step 1 – Acquisition

- ✓ Establish initial production foothold in one of Australia's premier dairy regions
- ✓ Retain existing experienced operational and farm management and consultants
- ✓ Raise capital and list on ASX

## Step 2 – Productivity

- ✓ Improve existing production and livestock intensification
- ✓ Drive cost efficiencies with scale – Lock in forward contracts for hay and fodder
- ✓ Deliver earnings to shareholders

## Step 3 – Scale

- ✓ Purchase additional farms in same region
- ✓ Use scale to drive both revenue and cost synergies
- ✓ Achieve critical mass (circa 16 farms, aim for 50m litres p.a. within 2 years)

## Step 4 – Replicate / Expand

- ✓ Potential to replicate in other Australian dairy regions (Gippsland, Northern Tasmania)
- ✓ Become Australia's leading independent producer of milk
- ✓ Drive stronger "price maker" supply contracts with processors

## Longer Term Possibilities

- ✓ JV on dairy processing plants; Repurchase agreements for processed product
- ✓ Export opportunities in higher margin end products
- ✓ Joint ventures to take model overseas

# APPENDIX

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# Corporate Structure



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## Australian Dairy Farms Limited (Operating Company)

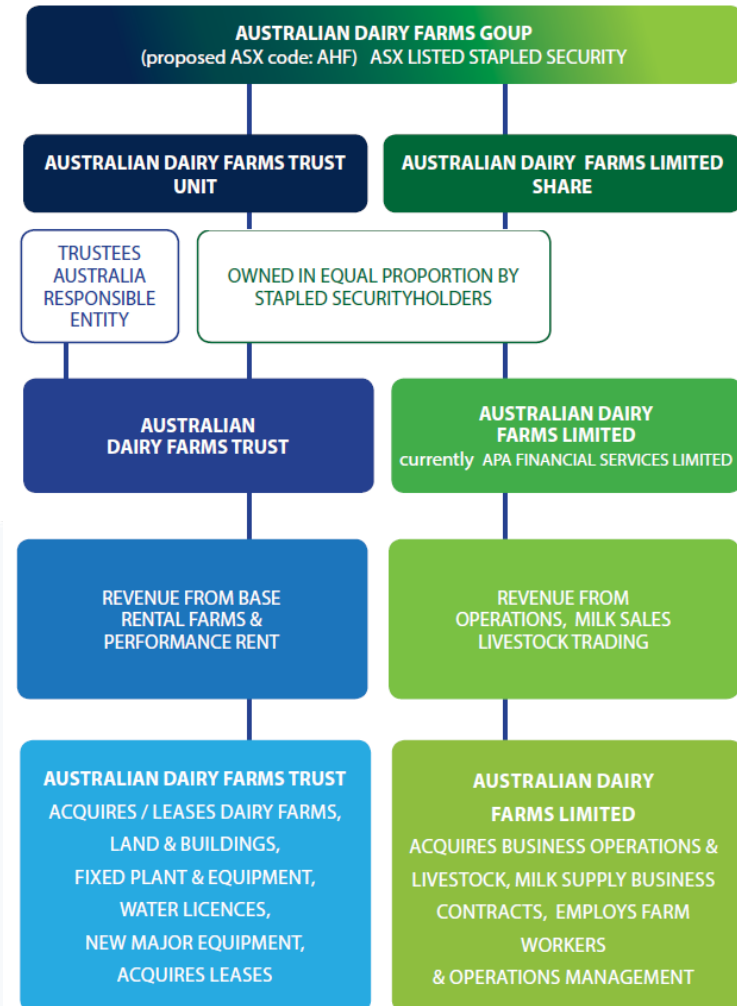
- Operates the farms – owns the livestock
- Revenue from milk sales and livestock trading
- Leases farms from the stapled property trust
- Potential participation in surplus live heifer exports

## Australian Dairy Farms Trust (Property Trust)

- Owns the farms - land/buildings/equipment
- Leases farms to the stapled operating company
- Turnover rent to participate in farm operations
- Capital gains for increased farm values

## Rationale for stapled security structure:

- Flexibility for low cost restructure in future
- Potentially more attractive to strategic buyers
- Medium term benefit from combined operation
- As scale is achieved, opportunity for trust spin-off
- Potentially facilitates management of unrelated farms.





- AHF has assembled an experienced board with ASX and NZX experience
- Initially all roles are non-executive, with board members overseeing all management responsibilities in order to keep costs down and maximise shareholder returns
- Intention is to install a full time CEO within 12 months once adequate scale has been achieved

## Board & Management

<b><i>Michael Hackett</i></b> Non-Executive Chairman	<ul style="list-style-type: none"><li>• Long term hands-on ASX listed Chairman and CEO; FCA qualified</li><li>• Specialist financial, corporate, M&amp;A and administration over 25 years in diverse industries</li></ul>
<b><i>Keith Jackson</i></b> Non-Executive Director	<ul style="list-style-type: none"><li>• Experienced NZ corporate CEO and Chairman level</li><li>• Specialist skills and success in operation and M&amp;A activities at several listed NZ food production / processing companies</li><li>• Experienced Director of dairy farming equity partnerships and fresh milk production company</li></ul>
<b><i>Adrian Rowley</i></b> Non-Executive Director	<ul style="list-style-type: none"><li>• Accomplished financial and investment market analyst, investment advisor. BSc and CFP qualified</li><li>• Experienced in analytical portfolio management, marketing and investor communications</li></ul>
<b><i>Jerome Jones</i></b> Non-Executive CFO	<ul style="list-style-type: none"><li>• Highly experienced financial and management accounting analyst in Australia and UK. CPA qualified</li><li>• Specialist skills and experience in detailed management accounting and procedure implementation in several private and ASX listed businesses</li></ul>





- Manager/family living on site – overseeing day to day operations and milking
- On-site management have clear KPI's and are incentivised on production levels and costs
- AHF has assembled a “best of breed” team of consultants to ensure maximum productivity and cost efficiencies
- Focus is on improvements in agronomy (grass/soil quality), animal welfare/nutrition, stock/pasture rotation
- Initial role as consultants to keep costs down, but with a view to moving closer to more part and full time roles once adequate scale has been achieved

### Consultants

<b><i>Robby Zeissig</i></b> Agronomist - Farm Operations Supervision	<ul style="list-style-type: none"><li>• Internationally experienced Agronomist</li><li>• Specialist hands-on knowledge of Australian dairy production, grass nutrition management, pasture planning</li><li>• Extensive farm operations management experience at significant dairy aggregations in Australia and internationally</li></ul>
<b><i>Nathan Leman</i></b> Project Management – Farm Development	<ul style="list-style-type: none"><li>• Experienced project manager and registered builder, town planning and development</li><li>• Strong organisational, financial budgeting and project / consultant coordination skills</li><li>• Implementation of farm development strategies and oversight in farm selection assessment</li></ul>



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