

# Australian Dairy Farms Group (ASX:AHF)

ASX Small and Mid-Cap Conference

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Presenter – Peter Skene

CEO Australian Dairy Farms Group



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Overview

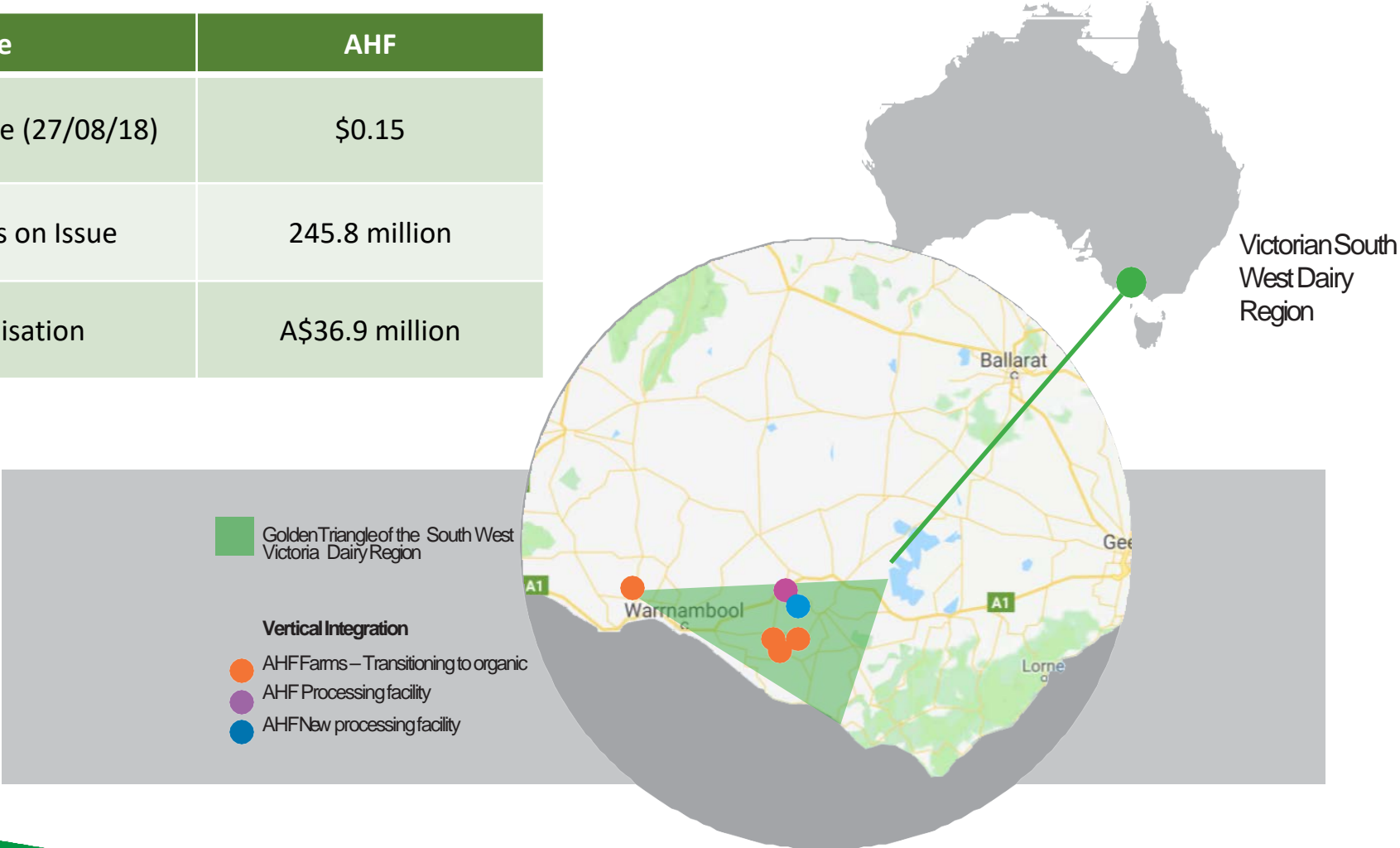


Australian Dairy Farms Group

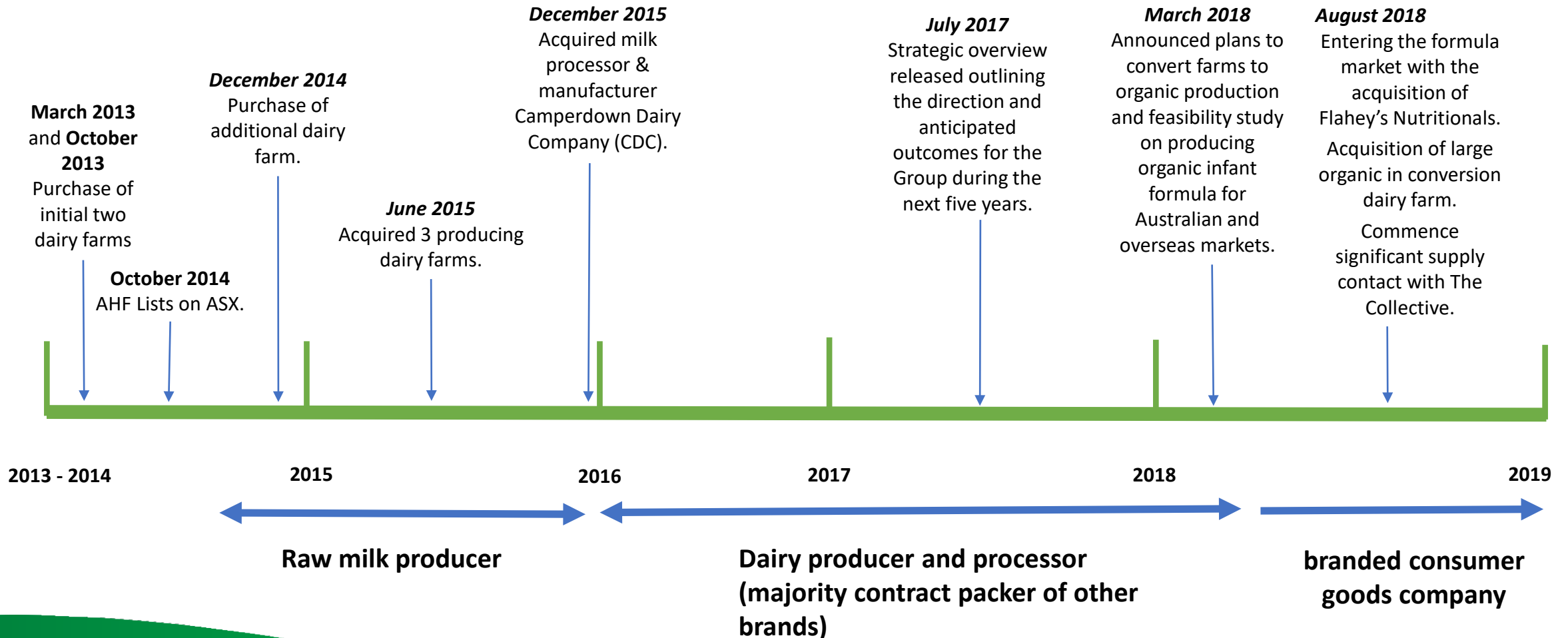
*Australian Dairy Farms, the new fresh future*

# Overview of Australian Dairy Farms

ASX Code	AHF
Stapled Security Price (27/08/18)	\$0.15
Stapled Securities on Issue	245.8 million
Market Capitalisation	A\$36.9 million



# History of Australian Dairy Farms



# Current Core Assets

## Our farms

- Australian Dairy Farms Group currently owns 6 farms producing 17 million litres of milk
- AHF owned farms are in the process of converting to Organic milk production
- This transition would enable AHF to become Australia's largest single farm entity for the production of organic milk

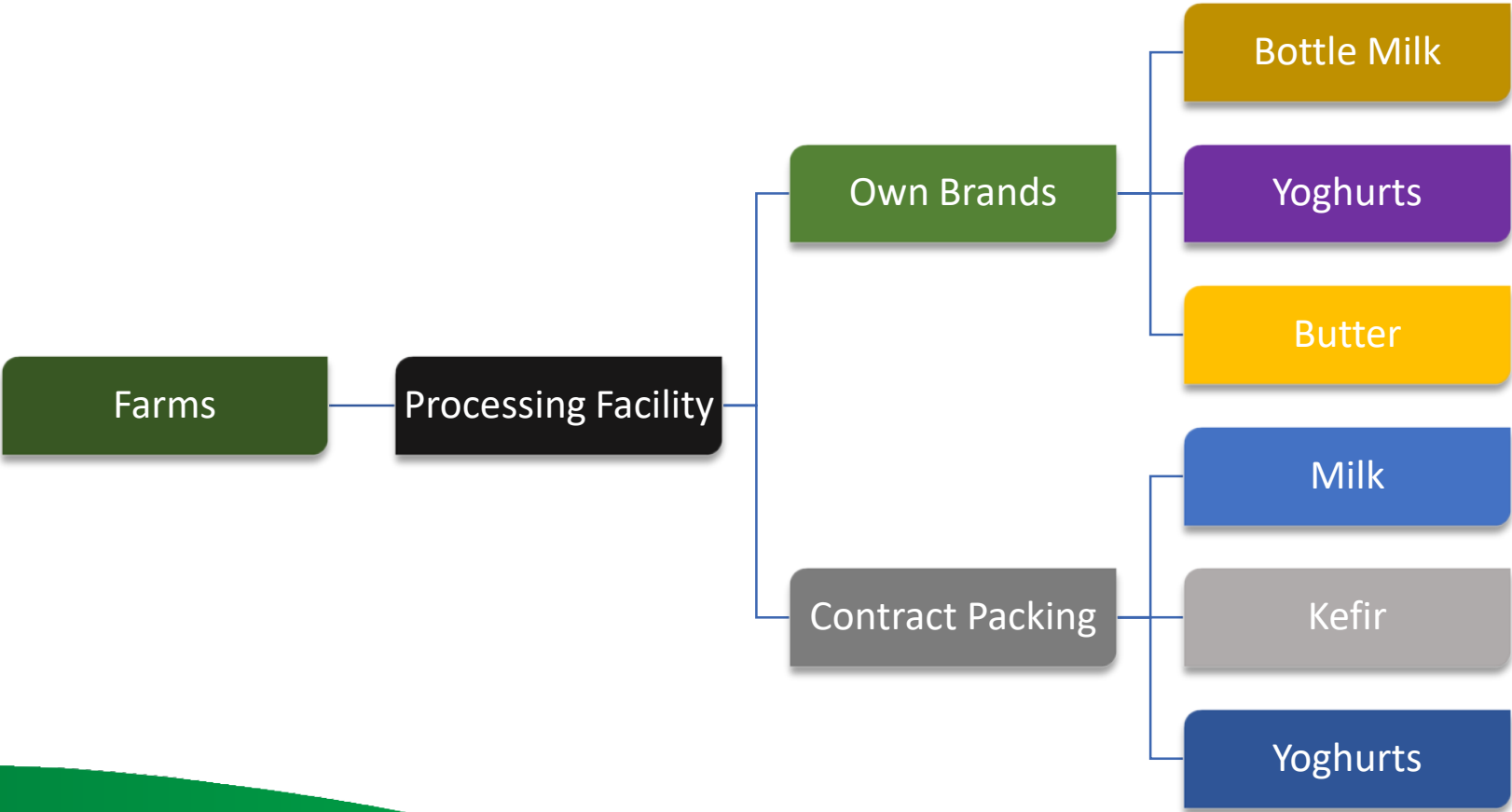
## Our processing facility

- Camperdown Dairy has been a fully certified organic dairy manufacturer for the last 5 years.
- Recently Camperdown Dairy has expanded the organic certification to include yoghurts, milks as well as butter
- The company has, in the main, been using its organic certification to support contract manufacturing for other businesses



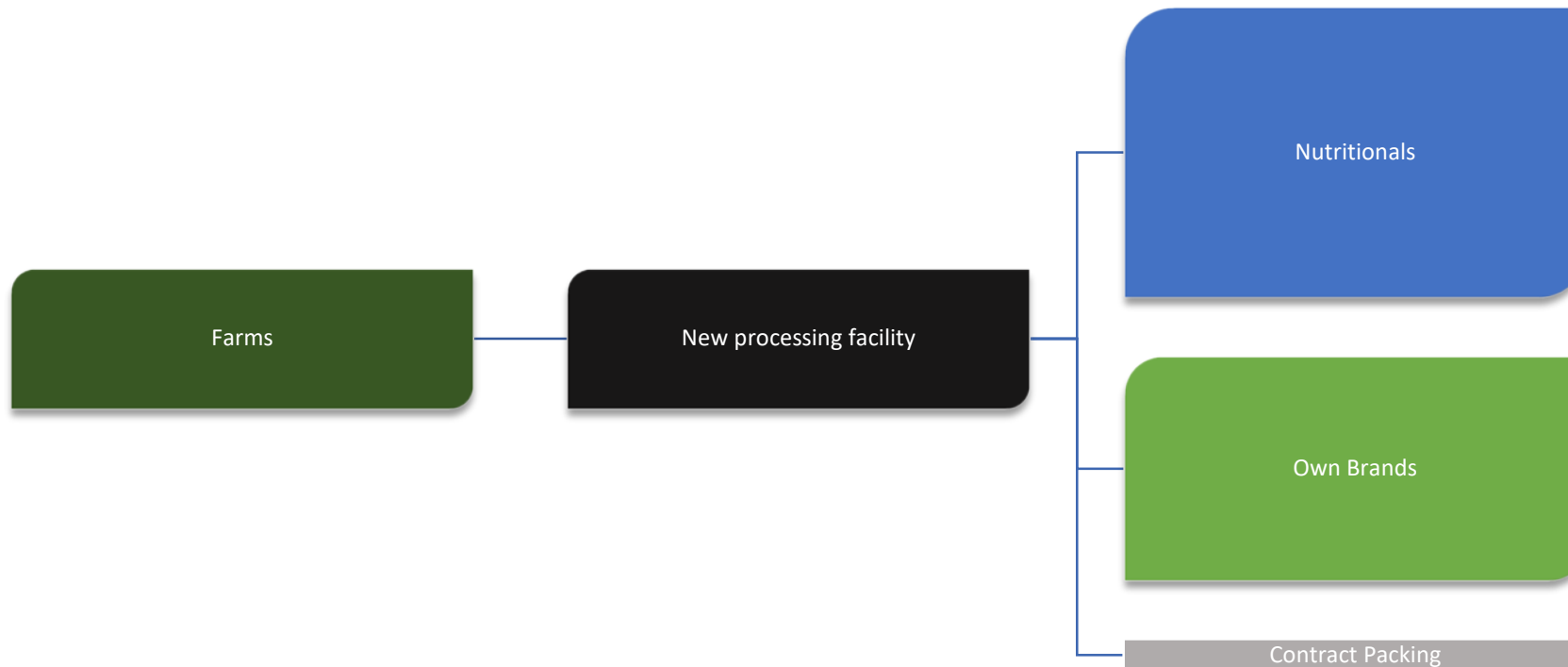
# Current Business Structure

Australian Dairy Farms Group are currently a vertically integrated producer and processor of own brand and contract manufactured dairy products.



# Future Business Structure

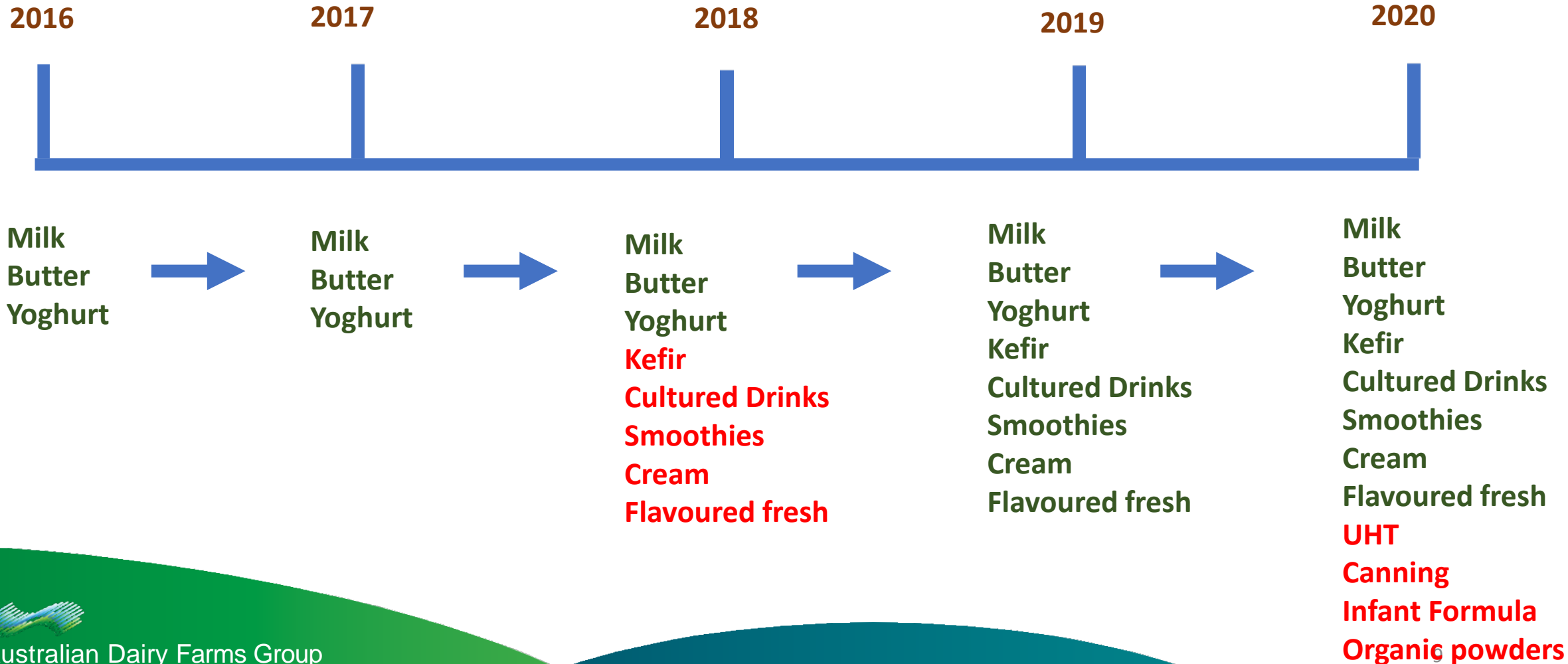
Future business structure will include a broad suite of differentiated nutritional products including a “Tummy Health” and organic infant formula range





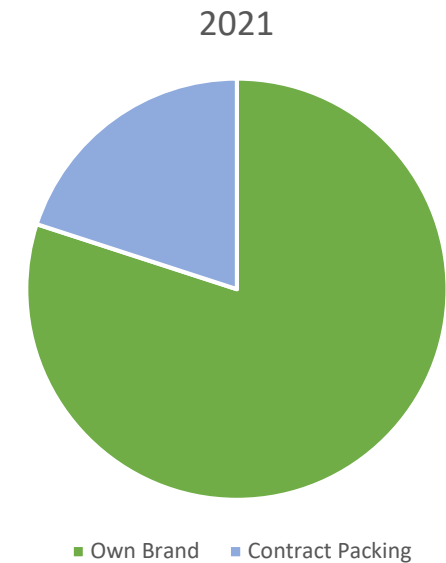
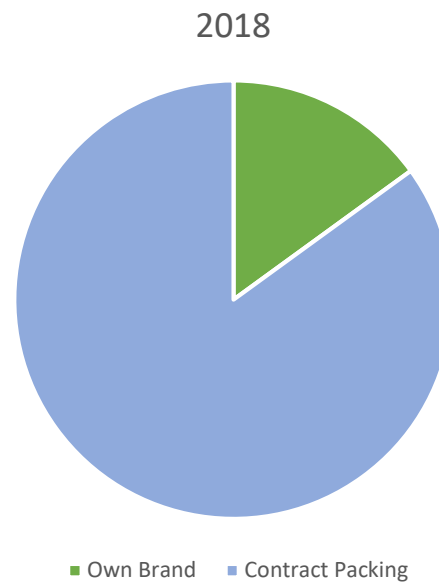
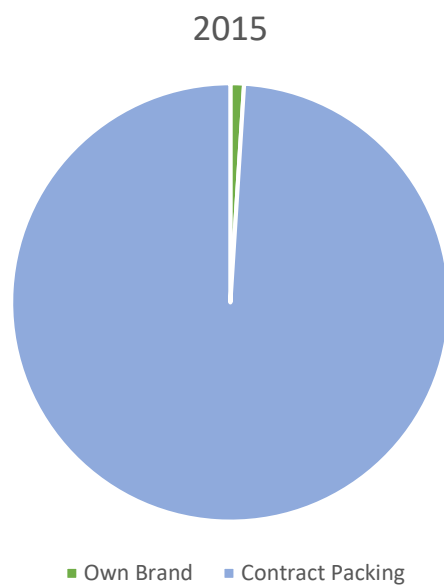
# Diversifying and Introducing Higher Margin Products

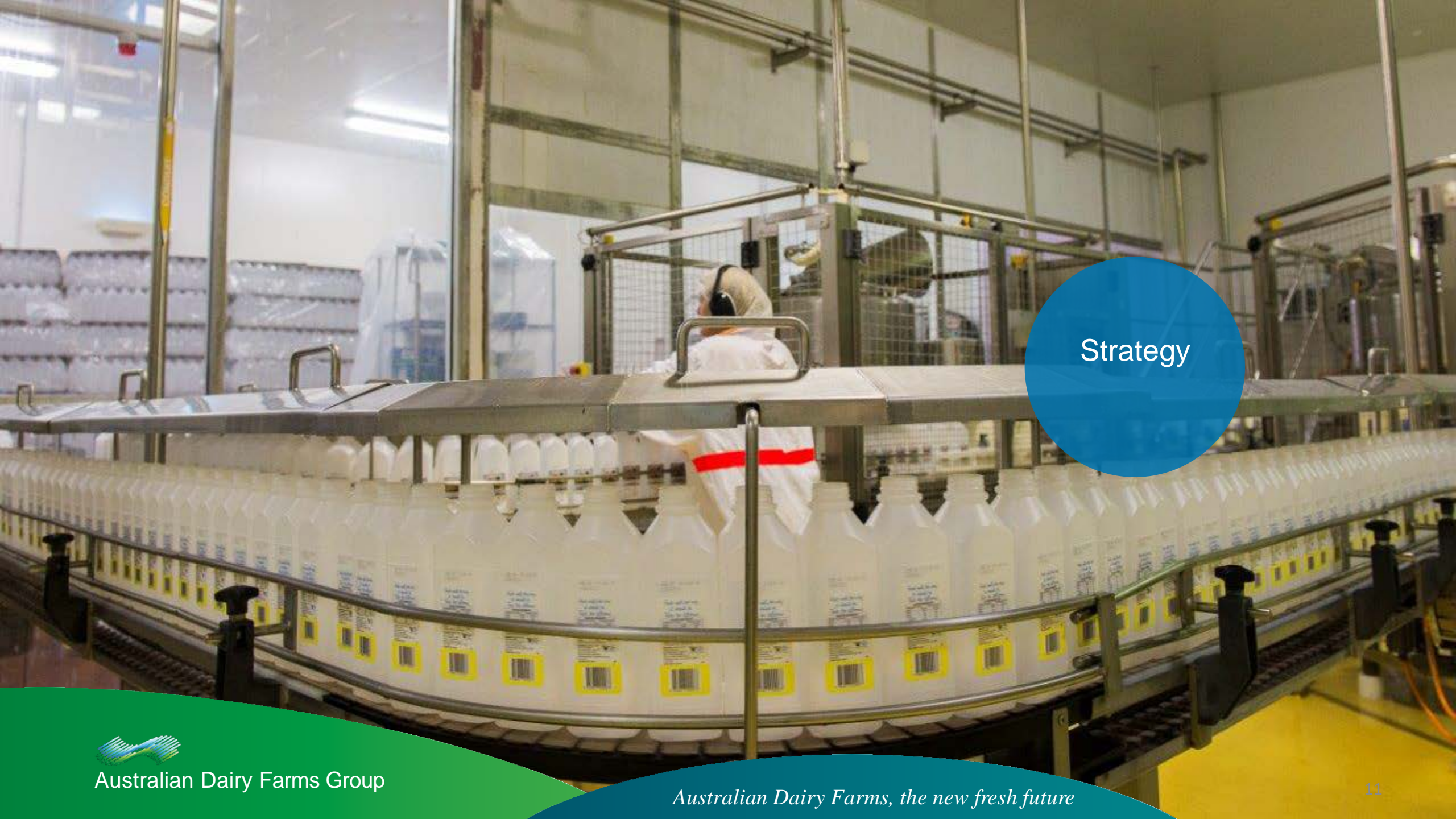
Processing capabilities now and aspirational



# Growing Branded Products

Australian Dairy Farm Group is transitioning from a conventional basic producer of low value products, to a premium differentiated branded business





Strategy



# Strategy - Overview

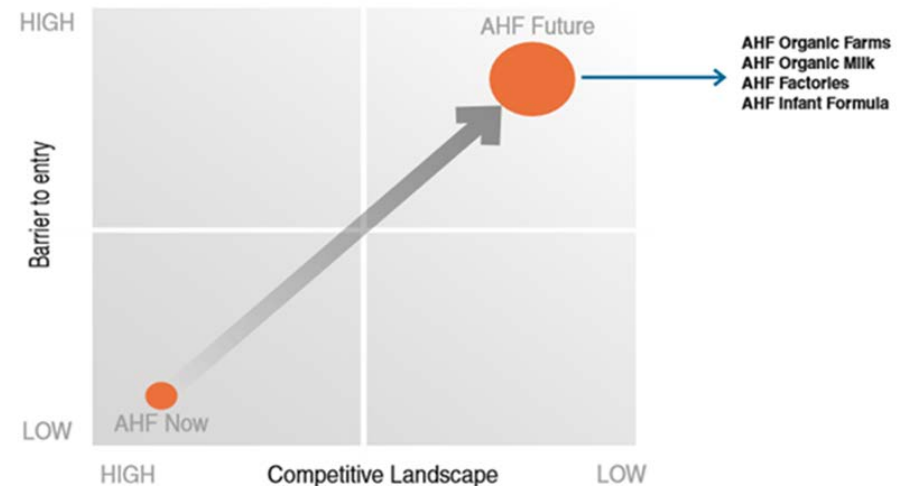
- Transitioning from contract packer to **brand owner**.
- Converting farm assets from 6 of over 5,000 conventional dairy farms into **Australia's largest single entity ORGANIC in conversion dairy enterprise**.
- Moving from highly competitive low value products to **high value, high growth markets**
- **Entering the Formula / Nutritionals market** with the purchase of Flahey's Nutritionals (**A key first step into the organic formula and infant formula markets**)
- Future plans for **fully vertically integrated infant formula brands and supply chain (refer to 26<sup>th</sup> March announcement)**
- **Ultimate control and security of supply with company owned cows, farms, Factory, Tinning and brands**



# Strategy – Repositioning the Company

Transformational shift from farms and raw milk processing to highly differentiated dairy products including nutritionals led by “tummy health” and organic infant formula.

- Higher barriers to entry
- Fewer competitors
- Higher growth
- Attractive margins
- More branded product
- Less contract manufacturing
- Increase brand equity
- Stronger shareholder outcomes



Growing from bottled conventional milk, yoghurt and butter markets to **Australian Organic Infant Formula** – high value, high growth rates and high barriers to entry



# Strategy – Entering the Formula Market (August 2018)

- **Acquisition of Flahey's Nutritionals is our most recent step**
- Flahey's Nutritionals recently launched into the Australian Certified Organic market via a specialised ultra premium product currently ranged in major branded retailers within the Pharmacy market in Australia
- Flahey's Nutritionals has a comprehensive range of premium infant formula products under development with a “cradle to grave” market position
- The Flahey's Nutritional acquisition fits nicely with Australian Dairy Farms Group's overall strategy of transitioning from a conventional basic producer of commodity products to a full premium differentiated branded business





Nutritionals



# Current and Future Revenue

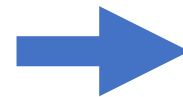
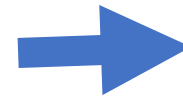
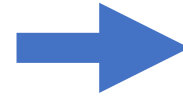
## Current Revenue Source

### Farms

- 6 farms producing 17 million litres of milk per annum
- Segregated herds, comprising Holstein / Fresian and Jersey Herds

### Processing Facility

- Independently certified organic milk processor
- Contract packer of brands including Woolworths Farmers Own
- Own brands: bottle milk, yogurt, butter



## Future Revenue Source

### Farms

- **7 Organic** farms producing 20 million litres of milk per annum
- Segregated herds, comprising Holstein / Fresian and Jersey Herds

### Processing Facility

- Independently certified organic milk processor producing organic milks, butters and yoghurts
- Contract packer of brands including The Collective
- Own brands: bottle milk, yogurt, butter
- New branded fresh branded range

### Nutrition

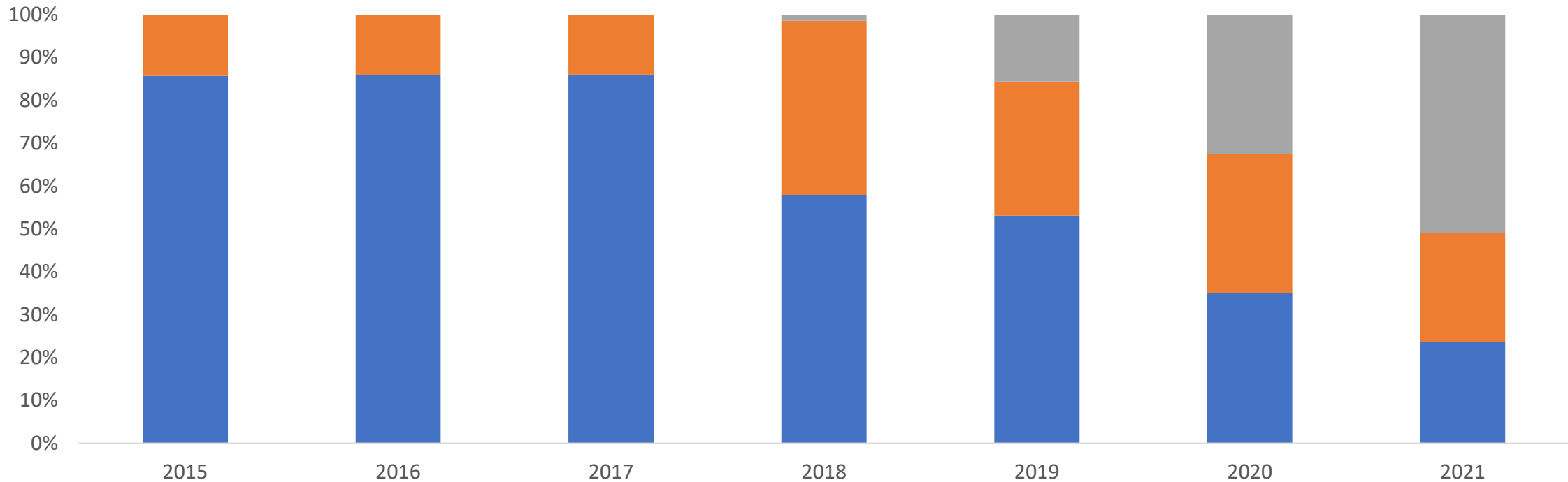
- Flahey's Future is being rolled out nationwide through the Australian pharmacy market
- 3 further products launched by 2020





# Shift to Nutritional

Australian Dairy Farms are moving up the value chain to be a manufacturer of high value speciality products



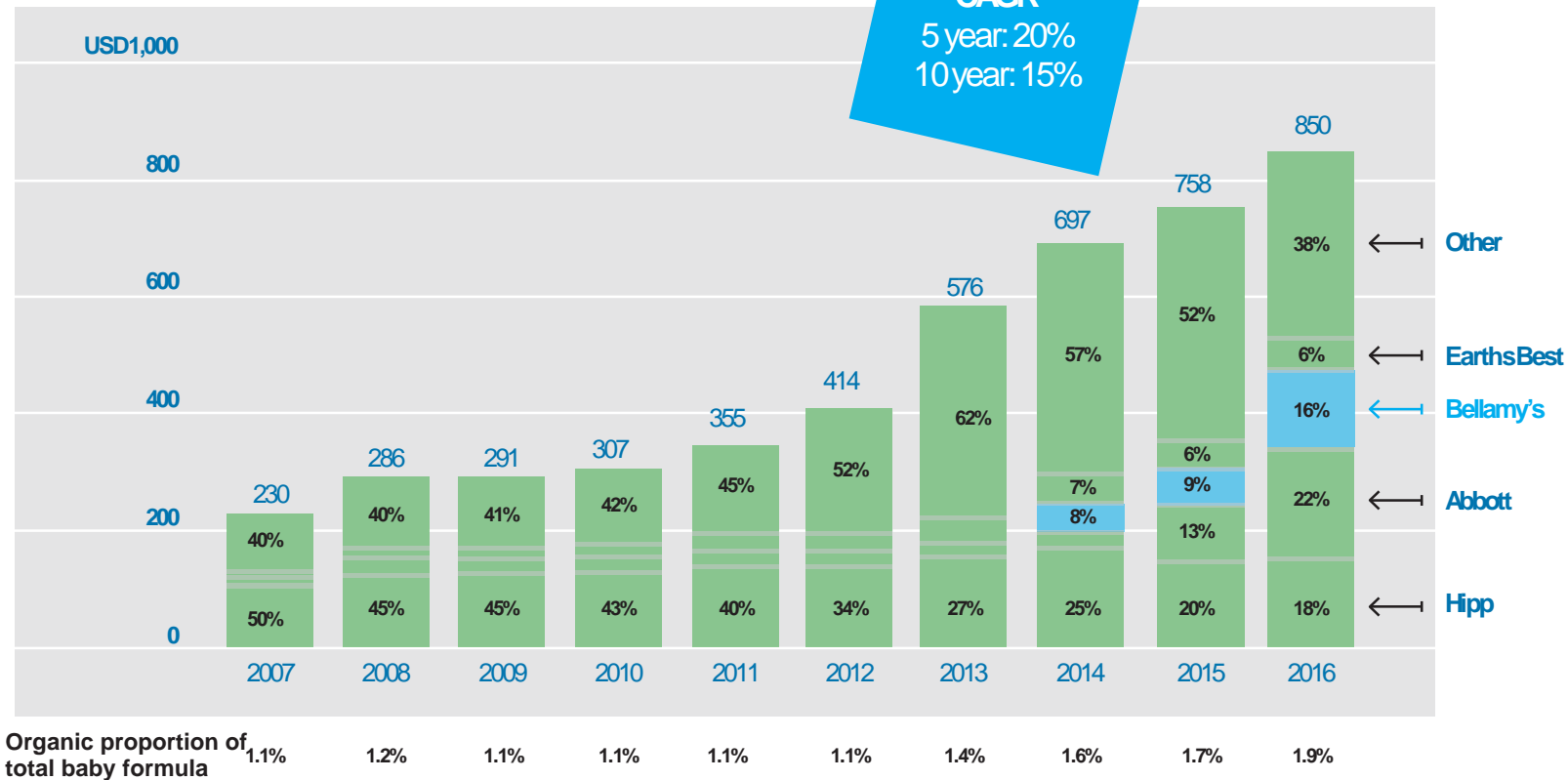
## Projected category value splits

■ Bottle Milk ■ Yoghurts ■ Formula



# The last 10 years - Organic Baby Formula Market Sales – (Growing at 20% per year in last 5 years)

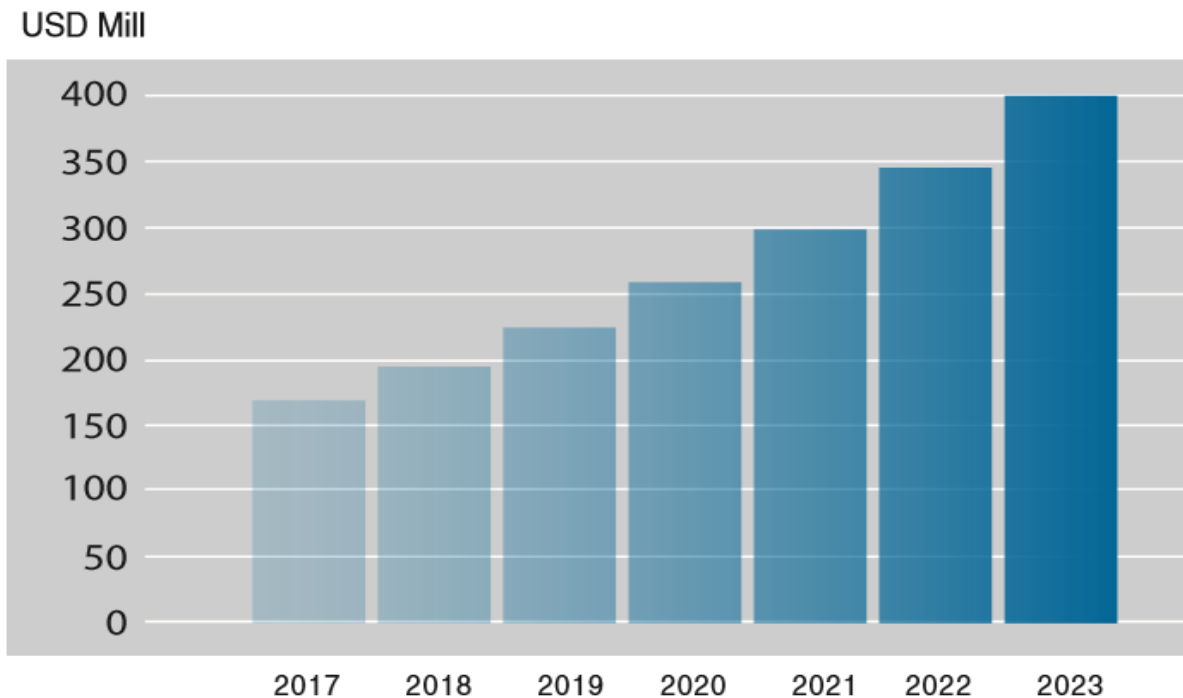
Global organic baby formula retail sales value (constant price) in millions



Source: Ballamys FY17 AGM Presentation

# Australian /NZ Organic Infant formula – next 5 years From USD \$169 Mill in 2017 to USD \$400 Mill

Australian and New Zealand Organic Infant Formula Market Value (2017-2023)



Source: 'Market Research Future' - Global Organic Infant Formula Report

# Infant formula sales in China are growing at 9% PA

*ORGANIC infant formula sales in China are growing at 46% PA*

## Certified organic IMF having a field day in China

Figure 13. CNCA-certified organic label



Source: CNCA


In order for infant formula to be labeled as "organic" in China it must be certified by the CNCA (Figure 13) from 1 January 2018. The criterion is at least 95% of a product's weight must be comprised of ingredients included in the CNCA's "List of Certified Organic Products". Currently, there are only 17 registered organic infant formulae in China; primarily Chinese brands. Bellamy's is not one of these.

According to a Nielsen survey of Chinese supermarkets and mother and baby stores, organic infant formula accounted for only 4% of the Chinese infant formula market in 2017. **The organic category saw growth of +46% in 2017 (2016: +47%),** significantly outpacing the market growth rate of 9%.

Recent surveys of Chinese consumers have indicated the most important factors behind choosing organic formula (in order) are i) nutritional content, ii) food safety, iii) brand, and iv) country of origin. The primary and most influential sales channel is the mother and baby stores, making CFDA registration critical for organic formula. The top three organic brands by consumer awareness are Abbott, Wyeth and, most notably, Bellamy's (which does not have CFDA registration or organic certification) (Figure 14).

Source: Citi Infant formula report

# Brands (illustrative only - we don't wish to share with competitors at this point)



*Whey dominant*  
**Infant Formula**  
*step 1*  
0-6 months  
900g NET

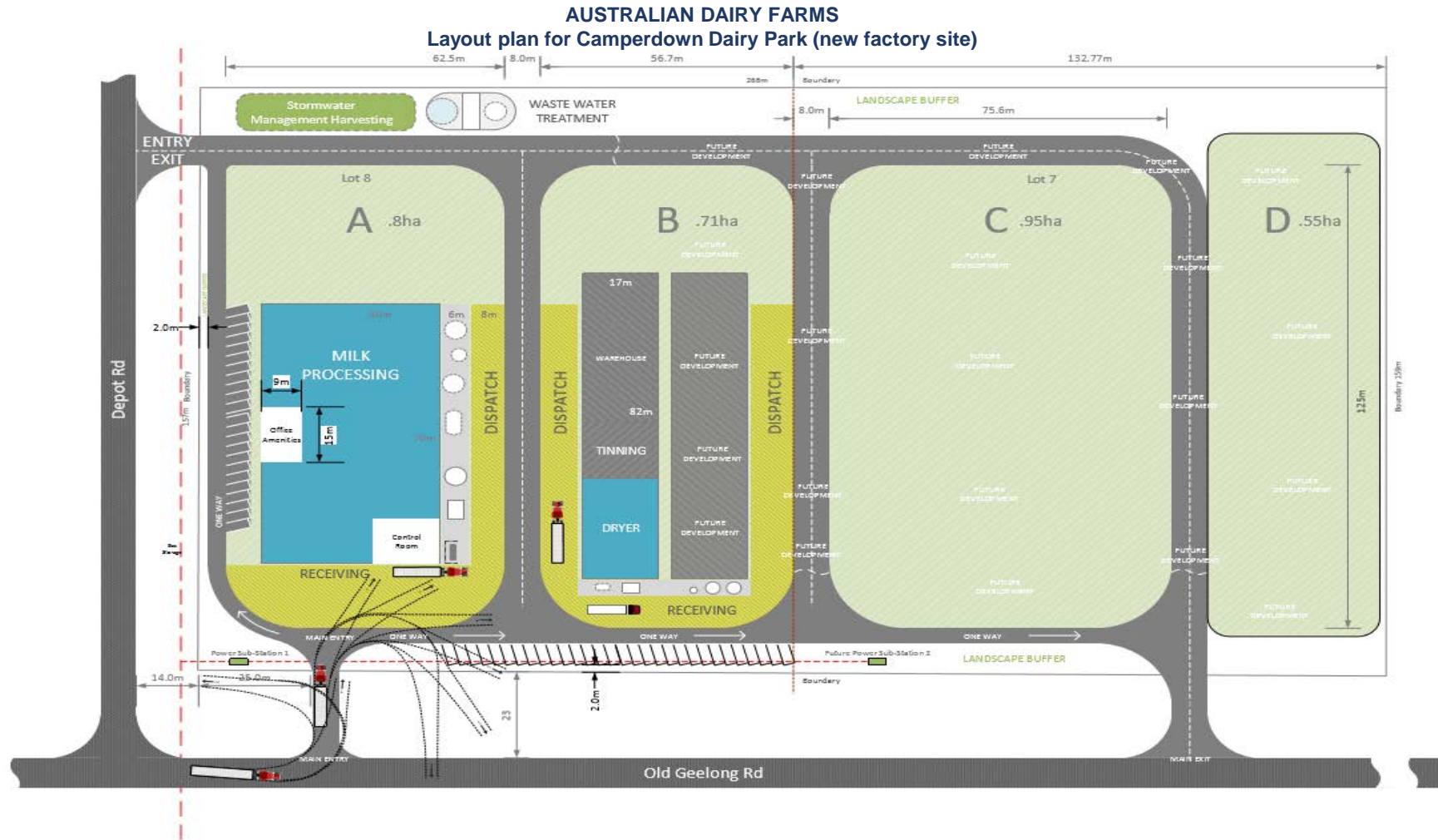


*Casein dominant*  
**Follow on Formula**  
*step 2*  
6-12 months



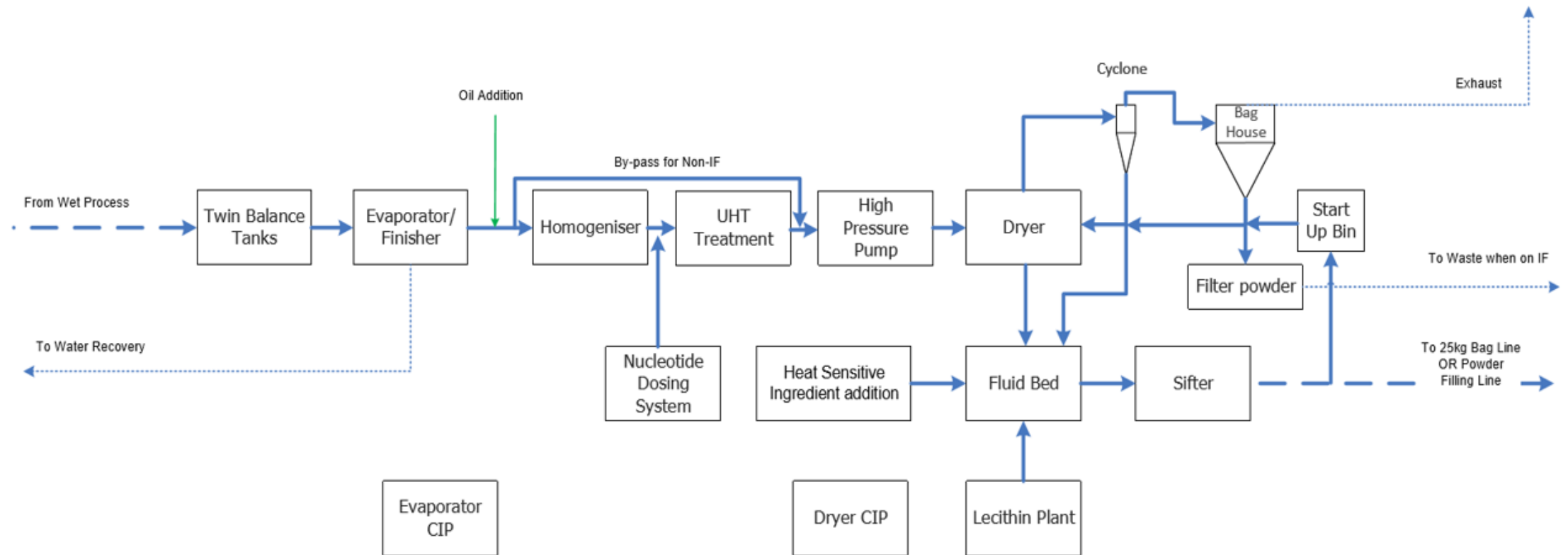
*Prebiotic fibre, Iron, Calcium & Zinc*  
**Toddler Milk**  
*step 3*  
12+ months

# Strategy – Planning for the future



# Strategy – From milk to Infant Formula (all in Western Vic)

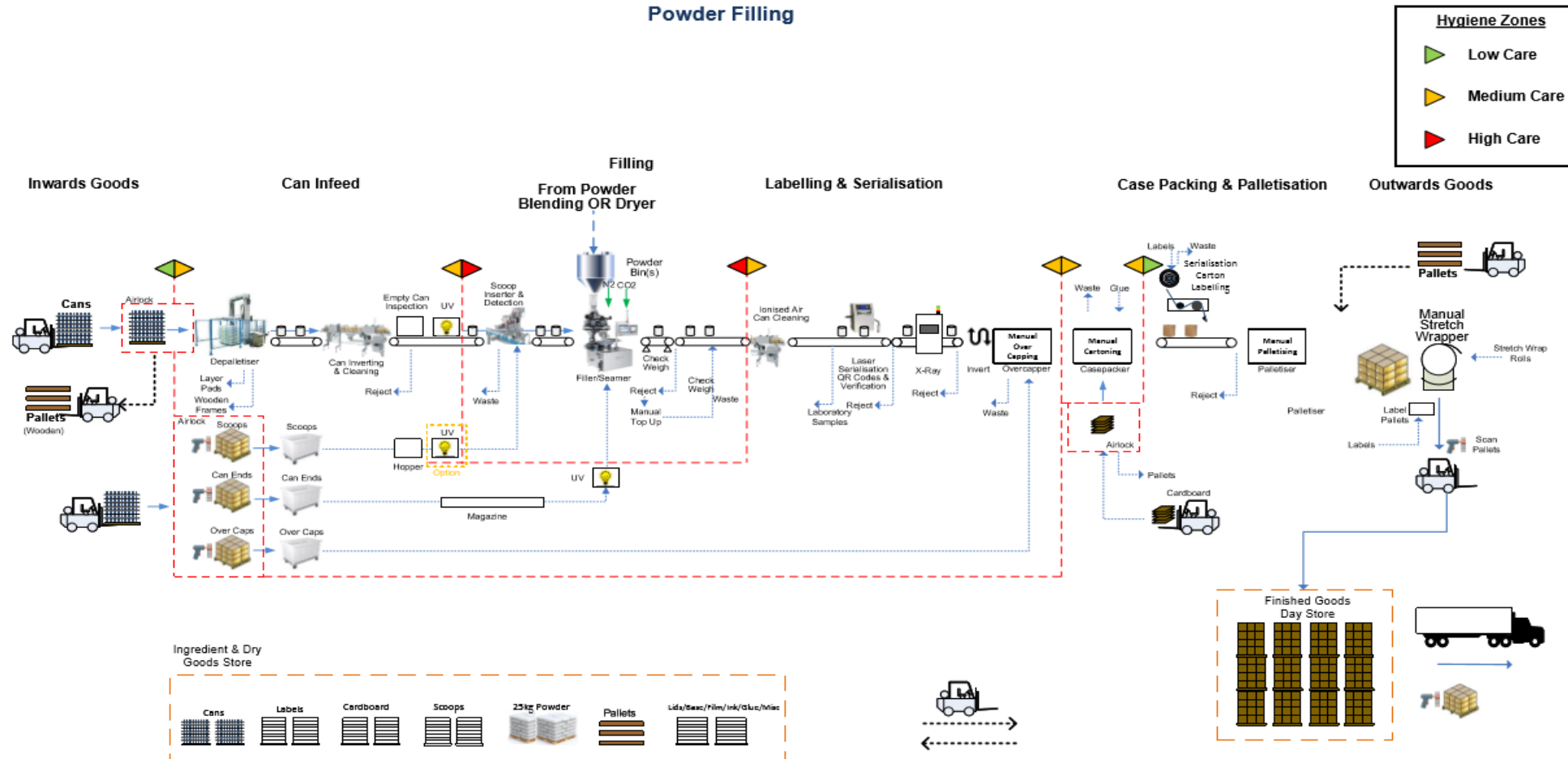
AUSTRALIAN DAIRY FARMS  
Typical powder drying process line



Option 2 – Skim Milk Powder, Whole Milk Powder and Full Range Infant Formula from Wet Blend

# Strategy – Infant formula / Nutritionals plant

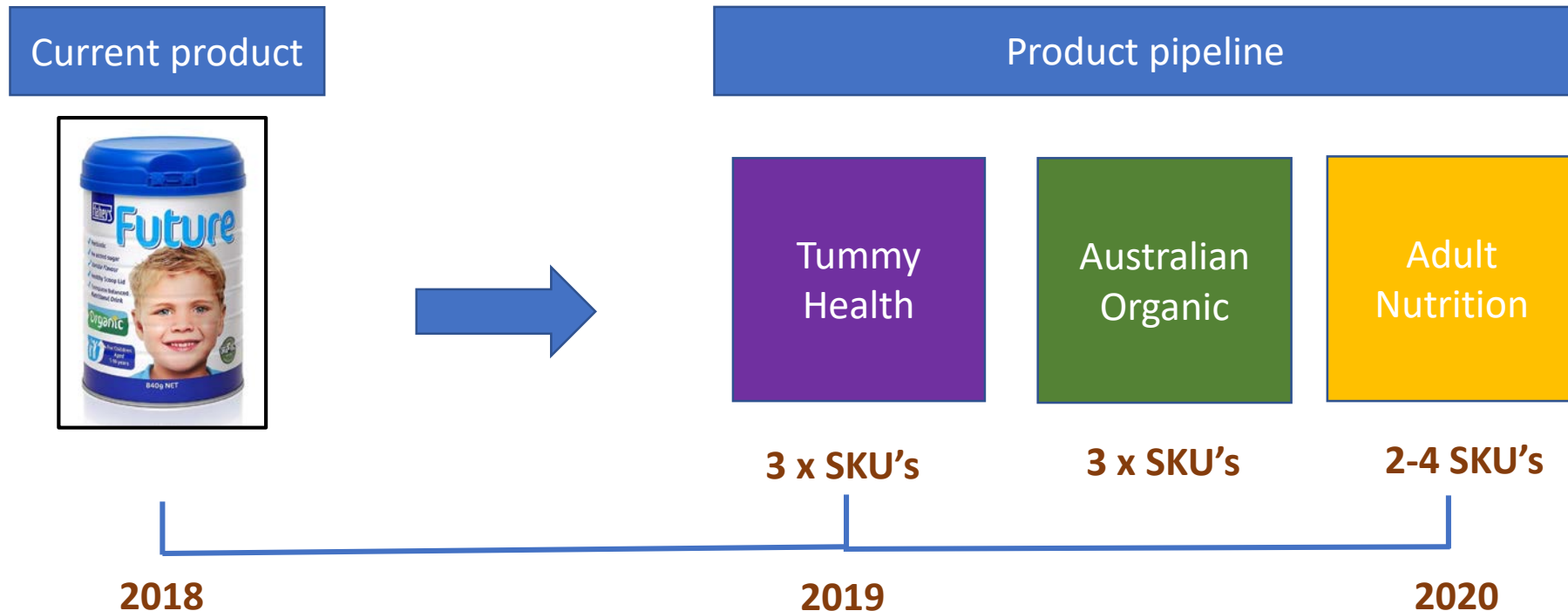
## AUSTRALIAN DAIRY FARMS Powder Filling





# Nutritionals Pipeline

Entered the nutritionals segment through the acquisition of Flahey's Nutritionals and have plans to expand into Tummy Health, Adult Nutrition and Australian Organic by 2020.



# “Tummy Health” and Organic Markets

Focus on differentiated products

Launch	Product	Description	Product Range
1	Differentiated product	The first product to be launched will be new to market, differentiated position focusing on “Tummy health”	3 SKU’s in total: <ul style="list-style-type: none"> <li>• 0-6 months</li> <li>• 6-12 months</li> <li>• Toddler</li> </ul>
2	Organic product	The second launch will be a full organic product grown on corporate farms, produced in corporate factory, canned in corporate factory	3 SKU’s in total: <ul style="list-style-type: none"> <li>• 0-6 months, step 2</li> <li>• 6-12 months</li> <li>• Toddler</li> </ul>
3	Organic adult nutritional Products	The third launch will be an organic adult nutritional products. New to market / world.	2-4 SKU’s: <ul style="list-style-type: none"> <li>• Segmented</li> <li>• Adult male and female</li> </ul>



# Fully Integrated

	Organic	Branded	Infant Formula	Vertical Integration	Market Cap (A\$m)	Turnover FY18e (A\$m)	Market Cap / Turnover
Bellamy's Australia	✓	✓	✓	✗	1,168.3	353.8	3.3x
The A2 Milk Company	✗	✓	✓	✗	8,142.1	1266.3	6.4x
Wattle health	✓	✓	✓	✗	258.7	0.9*	278.6x
Bubs Australia	✓	✓	✓	✓	326.7	16.3	20.0x
<b>Australian Dairy Farms</b>	✓	✓	✓	✓	36.9	23.6*	1.6x

\*FY17 Revenue  
Source: CapitalIQ 28 August 2018

**“AHF is a vertically integrated, producer of dairy products and diverse nutritionals and will include organic infant formula from 100% Australian Organic Milk”**



Appendix



# Organic Dairy Market

## Market

The domestic dairy industry revenue is expected to grow at an annualised rate of 8.5% to reach a market value of \$2.6 Billion.

The market for organic infant formula in Australia and New Zealand is expected to grow from \$230m in 2017, to \$546m by 2023. (source: AAP)

## Price

Domestic prices for non-organic milk have been falling steadily since the industry deregulated in 2000. The organic market is less inclined to be affected by commodity pricing.

## Volume

The Australian organic milk pool is estimated to be 40 million litres per year, Australian Dairy Farm Group will add significantly to this volume given that their annual milk volume is planned to be 17 million litres.

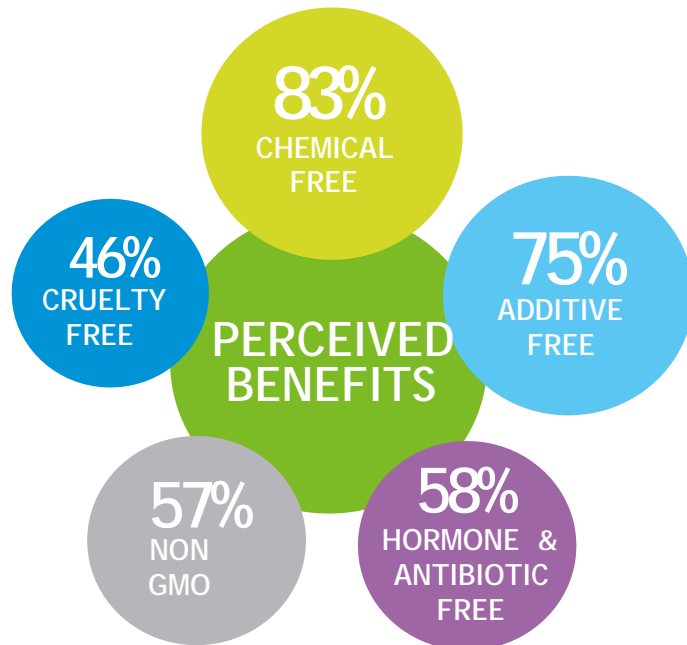


Source: austorganic.com



# Organic Dairy Market Opportunity

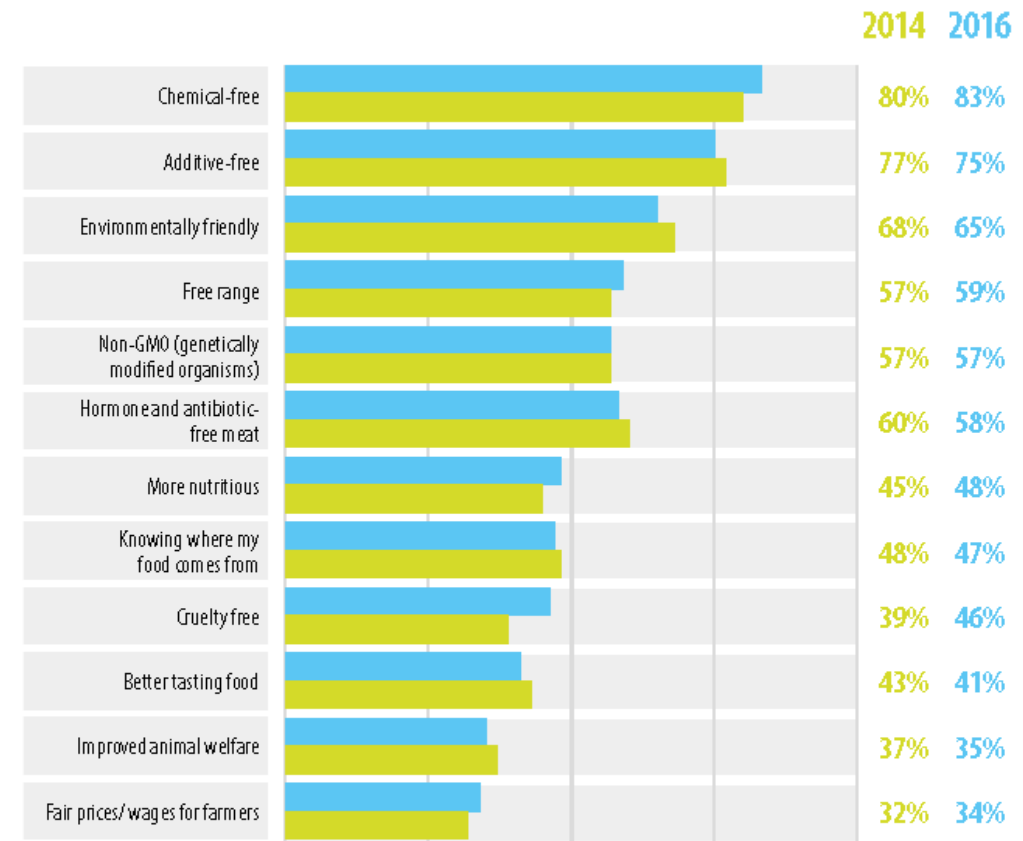
## Top Perceived 'Free From' Benefits of Organic Food\*



### THE TOP PERCEIVED BENEFITS OF ORGANIC FOOD

1. Chemical free	6. Hormone and antibiotic free meat
2. Additive free	7. More nutritious
3. Environmentally friendly	8. Knowing where my food comes from
4. Free range	9. Cruelty free
5. Non-GMO (genetically modified organisms)	10. Better tasting food

## Australia's Top 12 Perceived Benefits\* of Organic Food



\* Source: Australian Organic Market Report 2017

# Organic Dairy Market (Cont)

## Challenges

Numerous challenges have developed in the domestic dairy market, including supermarket milk price wars and falling domestic milk prices due to plummeting global dairy trade prices.

## Market Opportunities:

- Retailers and restaurants are stocking an increasing number of organic products;
- Capitalise on the demand for organic premium and ultra premium differentiated foods.
- Domestic demand for organic food and produce is projected to continue growing strongly with the population becoming increasingly aware of clean, safe food.
- The consumer demand for “free from” claims.



Source: Unique Health Products



## Further Details

For additional company information or media enquiry matters please contact:

### **Peter Skene**

Group CEO/ Director Australian Dairy Farms Limited

Email: [shareholders@adfl.com.au](mailto:shareholders@adfl.com.au)

### **About Australian Dairy Farms Group**

*Australian Dairy Farms Group (AHF) was Australia's first ASX listed dairy farmer. Its initial focus was on aggregating high quality dairy farms in Victoria, initially in the South Western region with particular emphasis initially, on the famous Dairy Golden Triangle region of South West*

*Victoria between Warrnambool and Colac south of the Princes Highway to the coast around Port Campbell.*

*In April 2016 the Group completed the acquisition of Camperdown Dairy Company Pty Ltd, ACN 140 640 606 (Camperdown Dairy) – see announcement on <http://www.adfl.com.au/> announcements .*

*Camperdown Dairy is a wholly owned subsidiary of AHF. The Group is now avertically integrated milk producer, processor and product distributor in Australia. Refer to the Group's Strategy Overview release to market on 11 July 2017 for additional information about AHF's immediate and longer term strategic planning. See the above link to ASX announcements or the Group's website for a copy of the Group's Strategy Overview.*

***Australian Dairy Farms Group** is listed as a stapled security comprising one fully paid share in **Australian Dairy Farms Limited (the Company)** and one fully paid unit in **Australian Dairy Farms Trust (the Trust)**. Within the structure, the Company is the operator and manager of the dairy farm properties, which are leased from the Trust as the registered owner.*

### **Disclaimer – Forward Looking Statements**

*This announcement may include “forward looking statements” within the meaning of securities laws of applicable jurisdictions. These forward-looking statements are not historical facts but are based on AHF's current expectation, estimates and projections about the industry, in which it operates, and beliefs and assumptions. Forward looking statements may include indications of, and guidance on, future earnings or distributions and financial position and performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of AHF, and its officers, employees, agents, or associates, that may cause actual results to differ materially from any projections and forward-looking statements and the assumptions on which those statements are based. Readers are cautioned not to place undue reliance on forward looking statements and AHF assumes no obligation to update such information.*

