



# Dairygold Results 2017

## Stakeholder Presentation April 2018





## Mission Statement

*"To nourish people across the globe with naturally sourced gold standard dairy ingredients."*

## Our Everyday Goal

*"To maximise our Member Suppliers' income from farming, in a sustainable manner, by maximising the value we add to current and future milk and grain supply and by minimising the cost of farm inputs, while sustainably growing the Net Asset Value of the business."*





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# Key Messages

## OPERATING PROFIT

€32.4 MILLION



UP  
85%

## MILK VOLUME

1.3 BILLION  
LITRES



UP 8.3% on 2016  
UP 55% on 2009

1. **Dairygold delivered strong financial results in 2017**, buoyed by a robust performance across its Dairy and Agri businesses.
2. **Dairy markets were significantly stronger than in 2016** driven by butter returns as dairy protein prices remained weak. The more frequent volatility in dairy markets was highlighted with significantly reduced returns from the market in Q4 2017 which continued in Q1 2018.
3. 2017 was a very good year for Dairygold's Milk Suppliers with:
  - ▶ **Milk volumes supplied at 1.3 billion litres**, up 8.3% on 2016.
  - ▶ **Dairygold's average milk price of 37.6 cent per litre (cpl)**, up 10.6 cpl on 2016 (27.0 cpl).
4. Key milestones:
  - ▶ The celebration of the official opening of its **Nutritionals Campus in Mallow** following an €86 million investment.
  - ▶ One of its commercial partners, **TINE SA**, ratified a **€77 million investment** for the Jarlsberg cheese manufacturing facility in Mogeely which is currently subject to a decision from An Bord Pleanála.



# Key Messages

NET ASSET VALUE

€335.5  
MILLION



INVESTMENT



€162.1  
MILLION

5. **Sustainability is a key priority** for both the Society and its Members (who are 100% SDAS compliant) to facilitate expansion, mitigate environmental challenges and to meet Customer requirements.
6. The **continued uncertainty around Brexit** is a key concern and Dairygold is focused on developing alternative routes to market and on product diversification as part of its risk mitigation and value-added strategies.
7. **Dairygold continues to work on its value-added strategy** focused on Cheese and Nutritional Powder delivered through organic growth and acquisition and by leveraging on its operational and commercial capability together with its financial strength.





## 2017 Financial Performance Summary

2017 was a successful year for Dairygold delivering a robust financial performance and strengthening its balance sheet while paying leading prices for milk and grain to its Members.

### Revenue

**€965.5m**

↑ UP €209.4m

### EBITDA

**€52.8m**

↑ UP €13.8m

### Operating Profit

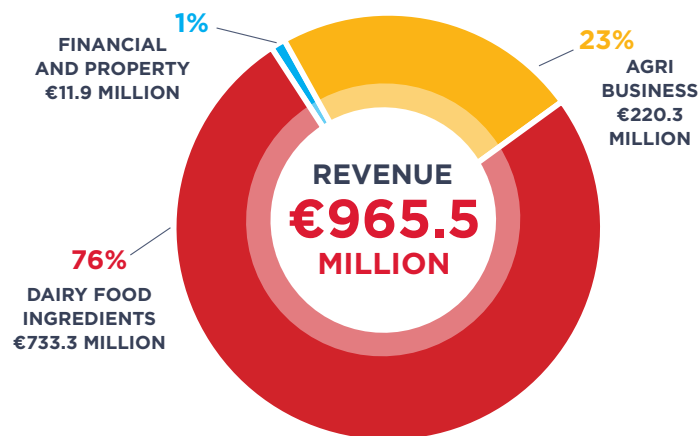
**€32.4m**

↑ UP €14.9m

### Net Asset Value

**€335.5m**

↑ UP €27.9m



Invested **€13.4 million** in the business, **€162.1 million** over the last five years

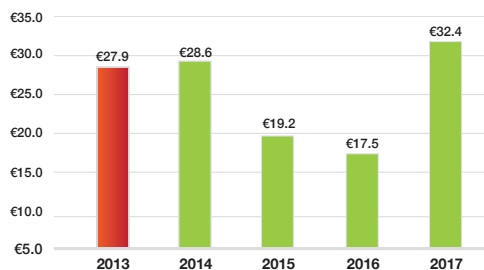
Net bank debt to EBITDA is **1.5 is to 1**

Net bank debt of **€79.6 million**, a reduction of **€9.1 million** on prior year

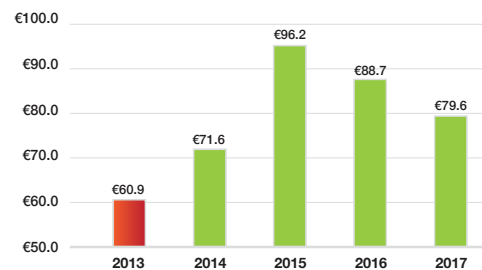


# 2017 Financial Performance Summary

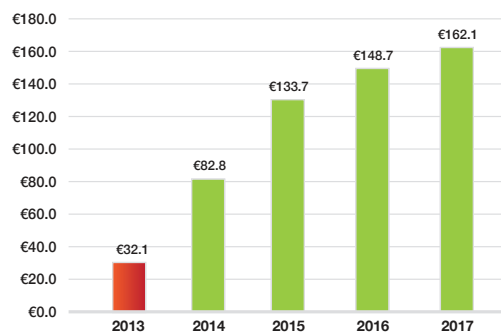
## Operating Profit €million



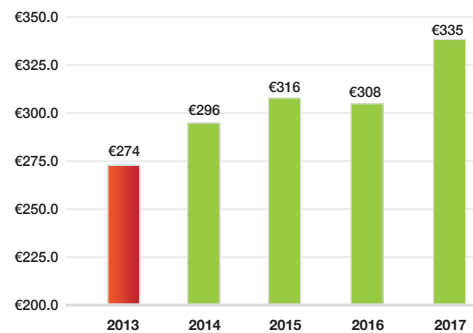
## Net Bank Debt €million



## Cumulative Investment €million over the last five years



## Net Asset Value €million



Prepared under: Old Irish GAAP

FRS 102



# Milk Price and Dairy Markets

- ▶ Dairy market returns in 2017 were significantly stronger than 2016 which was reflected in the Society's average quoted milk price of 33.3 cpl, an increase of 9.4 cpl on 2016 (23.9 cpl).
- ▶ Milk price increases were driven by butter returns, which reached unprecedented heights of circa €7,000 per tonne on the spot market in August. In contrast, dairy protein prices continued to fall against the backdrop of the overhang of EU powder stocks in intervention. Cheese returns improved due to increased demand.
- ▶ Market prices became increasingly volatile from Q4 2017, with the global market returning significantly less than the milk price paid to producers, a situation that has continued in Q1 2018.
- ▶ Despite market fluctuations and weakening returns towards the end of 2017, the Society held its milk price ensuring that milk prices did not drop at any time over 2017 - a welcome position particularly after the challenging market conditions that prevailed in 2015 and 2016.
- ▶ The dairy market in 2017 was certainly stronger but undoubtedly more volatile.

## Quoted Milk Price\*

# 33.3cpl

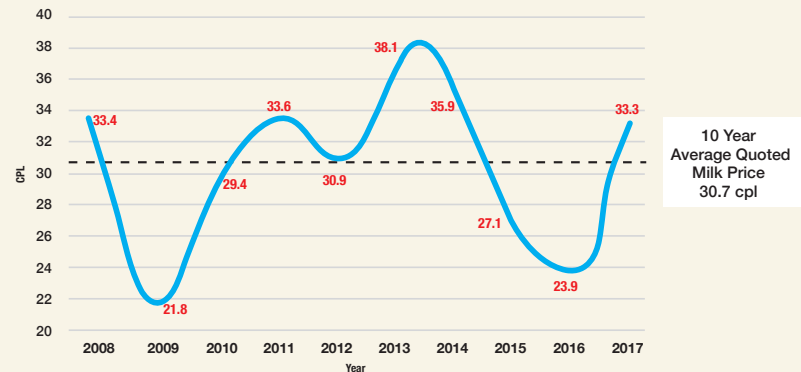
*Based on standard constituents  
of 3.3% Protein and 3.6%  
Butterfat incl. VAT.*

## Paid Milk Price

# 37.6cpl

*Based on the average constituents  
received of 3.53% Protein and 4.13%  
Butterfat incl. VAT plus Bonuses.*

## Dairygold's Market Returns/Milk Price Tracker 2008 to 2017



*\*Dairygold Quoted Weighted Average Milk Price incl. VAT @ 3.3% Protein and 3.6% Butterfat*



# Sustainability

Sustainability and taking a proactive approach to the environmental impacts of expansion is a key priority for Dairygold.



SDAS – **100% of milk** collected in 2018 will be from **SDAS certified farms**



Waste to landfill from cheddar production reduced by **2.4%**



**Carbon Intensity** from Dairygold farms has improved by **7%**



**Wrap it Pink** has raised **€50,000** for the Irish Cancer Society since 2015



**Energy efficiency** in Powder Processing improved by **3.4%**



**98** people received **Leadership and Management Development Training** in 2017



Dairygold is Ireland's first dairy processor to successfully pioneer the widespread application of lean techniques at farm level.

Leanform is a knowledge-sharing programme available to all Dairygold Members which can help them to improve on-farm safety, quality and resource efficiency, as well as an enhanced quality of life through time-saving, reduced stress and less physical labour.



# Dairygold Food Ingredients Ireland

## Turnover

€580m

## Milk Supplies

1.3 Billion litres



UP 8.3%



## Route to Market



Dairygold operates 2 primary Routes to Market, to maximise the commercial return:

**Route 1** – Ornua, focusing primarily on the supply of branded product in the B2C channel, leveraging on their world renowned brands.

**Route 2** – Dairygold Direct, focusing on key strategic B2B relationships, leveraging its technical competency and developing innovative customer specific products.

## Milk Processing

- ▶ 2017 was a milestone year for Dairygold as its milk supplies exceeded 1.3 billion litres (an increase of 8.3% on 2016), three years ahead of the National Strategic Plan (Harvest 2020) target.
- ▶ 55% increase in volume and an increase of 64% in actual milk solids supplied, compared to 2009.
- ▶ Dairygold processed 41.6 million litres during peak week, an increase of 11.6 million litres on 2011. It delivered an efficient and strong performance with increased capacity following significant investment in recent years.

## Commercial and Innovation

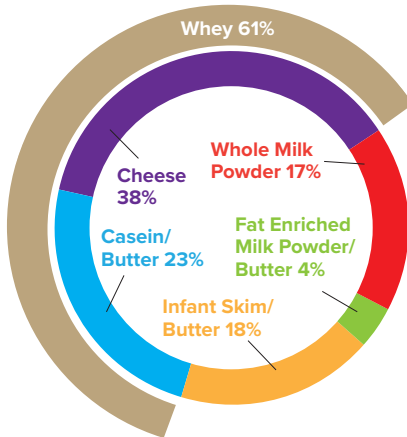
- ▶ Increased ingredient sales volumes by 10% as dairy expansion continued.
- ▶ Maximised the commercial return from its flexible product mix.
- ▶ Continued to build its presence in the global market with the opening of an office in China to service its Chinese Customers and the broader Asian markets.



# Dairygold Food Ingredients Ireland



## 2017 Product Portfolio (milk utilisation)



## Strategic Investments

- ▶ Official opening of Nutritionals Campus in Mallow in September 2017 following an €86 million investment, pivotal to Dairygold's strategy to increase its presence in international markets with a diverse value-added product portfolio.
  - Dairygold will make further significant investments in the Nutritionals Campus to enable more advanced processing capabilities to produce higher value-added products.
- ▶ One of its commercial partners, TINE SA, Norway's largest dairy Co-Operative, ratified €77 million in funding for a proposal to build an extensive cheese development facility in Mogeely.
  - The production facility will have the capacity to produce up to 20,000 tonnes annually of the popular cheese brand Jarlsberg®.
  - Cork County Council granted planning permission for the proposal. A decision is currently awaited from An Bord Pleanála.



# Dairygold Food Ingredients Overseas

Turnover

**€153m**

**The businesses based in the UK and Germany are focused on B2B activity and provide routes to market for Irish product.**

- ▶ The overseas businesses performed ahead of expectations despite the challenges of recovering increasing raw material prices.
- ▶ Turnover was up 25% reflecting increased sales volumes and increased selling prices.
- ▶ Both businesses provide key routes to market for cheese manufactured at Dairygold's Mitchelstown and Mogeely facilities.
- ▶ The businesses continue to enhance the strong relationships they have developed with key players in the industrial and food service sectors, by providing innovative cheese and ingredient solutions combined with excellent service.





# Dairygold Agri Business



Turnover  
**€220m**

- ▶ The business delivered a strong performance ahead of expectations across feed, fertiliser and retail.
- ▶ Turnover was up by 4% reflecting;
  - Increased sales volumes in ruminant feed and fertiliser driven by the strong product offering and the strong milk price in 2017, partially offset by lower selling prices of ruminant feed and fertiliser.
  - Increased retail sales driven by strong demand in product categories such as builders' and farm hardware.
- ▶ 2017 was another very challenging year for cereal and grain growers. However, in line with its ethos, Dairygold demonstrated its support for and commitment to its cereal growers by paying leading prices for 119,000 tonnes of their grain supplied during the 2017 harvest.
- ▶ Dairygold launched a major Store Investment Plan in 2017, which will see an investment of €11.5 million to enhance the retail store network from 2018 to 2020. The plan includes three major store enhancements, five new Agri store builds, the refurbishment of 18 stores and the integration of 13 stores.



# Supporting Members

**In line with its ethos and goals, the Society continues to support Members through a wide range of activities and initiatives.**

To help offset the impact of milk price volatility, **Voluntary Fixed Milk Price Schemes** continue to give participating Suppliers the opportunity to manage milk price fluctuations and deliver price certainty on a fixed volume of their milk supply;

- ▶ Fixed Milk Price Scheme II was introduced in 2017 and runs from 2017 to 2019.
- ▶ Dairygold's third and new Fixed Milk Price Scheme III will run over a three-year period from 1 March 2018 to 30 November 2020. It offers a fixed price of 31.25 cpl, including VAT, set at reference milk constituents of 3.60% Butterfat and 3.30% Protein, including bonuses. Under this new scheme, a Milk Supplier delivering the 2017 average Dairygold milk constituents will receive an average price of 34.77 cpl VAT inclusive.

## **Loyalty Reward Scheme**

The second year of the Scheme generated cash payments of €1 million with a further €1 million allocated for the issue of bonus shares to Members in 2018.

## **'Buying For' Brochure**

Dairygold offers preferential rates for its Members on home and vehicle insurance, farm and home fuels and feed bins.

## **Grain Suppliers**

The Board supported Grain Suppliers through paying a leading price against the impact of the ongoing depressed international grain market after a very difficult harvest.

## **Up-Skilling Programme**

Together with the Plunkett Institute, Dairygold provides Members with training support that will increase their understanding of the Society and the dairy industry.

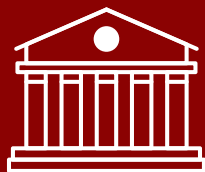
## **Teagasc Joint Programme**

The farm assistance programme helped Members realise their expansion goals in a profitable and sustainable manner with circa 8,000 people attending events during the Sustainable and Profitable Expansion Programme 2014-2017.





# Financing



## Net Bank Debt

**€79.6m**



**DOWN €9.1m**

## Member Funding

**€16.9m**



**UP €5.7m**

Net bank debt at the year end of €79.6 million decreased by €9.1 million compared to the previous year end (2016: €88.7 million) and remains at a conservative level given the scale of the organisation and the levels of profitability being generated.

- ▶ Net bank debt to EBITDA ratio is 1.5 to 1.
- ▶ In 2017 the Society extended the loan agreements with its Banking Syndicate, which provides the Society with support for its growth strategy and cheaper cost of financing.

Member funding at the year end was €16.9 million which was an increase of €5.7 million compared to the prior year end (2016: €11.2 million).

- ▶ Due to the increase in milk prices, the collection of revolving fund contributions recommenced in 2017 having been suspended for part of 2015 and all of 2016.
- ▶ In March 2018, the Society repaid circa €1.7 million in loan notes which were invested in 2013. Further repayments of these will be made in the next two years.



# Brexit

**Brexit is an on-going challenge which is at the forefront of our agenda and will be for the foreseeable future.**



- ▶ The outcome of the Brexit referendum in 2016 left the Irish economy and the dairy industry in a period of uncertainty and turmoil.
- ▶ Ireland will potentially be one of the biggest economic losers across all sectors given our high dependency on the UK, with 35% of Irish food and drink exports going to the UK, including nearly 60% of cheese and 30% of butter exports.
- ▶ The UK currently imports circa 85,000 tonnes of its cheddar requirement from Ireland. For Dairygold, circa 30,000 tonnes of cheddar, equivalent to circa 300 million litres of its milk pool is utilised in the production of cheese for the UK market.
- ▶ Dairygold is planning for a 'Hard Brexit' while we hope for a better outcome.
- ▶ The Society is working with all industry stakeholders and Government at the highest level to ensure the challenges of the Irish dairy industry are understood and addressed as part of negotiations.
- ▶ Dairygold is focused on developing alternative routes to market and on product diversification to reduce its exposure to the UK market.



# Strategic Direction to 2025

*Journey to value-added growth both organically and through acquisition with a specific focus on Cheese and Nutritional Powders.*



- ▶ The **Cheese Strategy** will take advantage of the growing global demand for cheese, while recognising the potential future market challenges in the UK, as a result of Brexit.
- ▶ The **Nutritional Powder Strategy** recognises the significant global trend in the consumption of dairy protein as a key ingredient to support a healthy and active lifestyle at all life stages. The Society recognises the growing market need for advanced dairy proteins with their wide range of applications.
- ▶ Dairygold continues to invest:
  - in its operational and commercial capability and infrastructure to meet the growing market requirement, particularly in the developing world.
  - to accelerate its journey and create more functional and complex products to meet the growing market demand.
- ▶ The **Society's strategy is ambitious** and recognises both the strengths of the organisation and its potential for the future. Dairygold's presence in key markets is critical to the success of the strategy and this will be achieved by a combination of Dairygold resources and strong in-market partnerships.
- ▶ **Dairygold needs to be flexible with its plans as external factors change.** The combination of high quality raw materials and the continued investment in operational and commercial capability leaves Dairygold well positioned for the future.



## Summary

- ▶ The Society delivered a very robust financial performance in 2017.
- ▶ A strong Balance Sheet positions Dairygold to deliver its strategic objectives through organic and acquisition investment.
- ▶ Key milestones in 2017 included the completion of the Nutritionals Campus, Mallow and the progression of the commercial arrangements with TINE SA.
- ▶ Sustainability is a key priority for the Society, its Members and its Customers.
- ▶ Dairygold is focused on developing alternative routes to market and product diversification, to mitigate the risks associated with Brexit.
- ▶ Dairygold continues to work on the delivery of its value-added strategy focused on Cheese and Nutritional Powders, leveraging its commercial and operational capabilities.



*Pictured at the official opening of the Nutritionals Campus in Mallow in September 2017 are; Minister for Agriculture, Food and the Marine, Michael Creed TD, European Commissioner for Agriculture and Rural Development, Phil Hogan, Dairygold CEO, Jim Woulfe, Dairygold Chairman, James Lynch and the Tánaiste and Minister for Business, Enterprise and Innovation, Frances Fitzgerald TD.*



# Appendix

## Key Financial Information

The following is based on a management summarised presentation

### Consolidated Income Statement

	2017 €'000	2016 €'000
<b>TURNOVER</b>	<b>965,525</b>	<b>756,065</b>
<b>OPERATING PROFIT</b>	<b>32,402</b>	<b>17,456</b>
Share of joint ventures	341	293
Share of associates	25	11
Restructuring costs	(957)	(1,213)
Net gains/(net losses) in financial assets at fair value through profit and loss	492	(3,642)
Net interest payable	(5,876)	(6,051)
<b>PROFIT before taxation</b>	<b>26,427</b>	<b>6,854</b>
Taxation	(4,933)	(921)
<b>PROFIT after taxation</b>	<b>21,494</b>	<b>5,933</b>
Non-controlling interests	(490)	(311)
<b>PROFIT for the financial year</b>	<b>21,004</b>	<b>5,622</b>



**Consolidated Statement of Financial Position**

	2017 €'000	2016 €'000
Fixed assets		
- Intangible assets	4,254	5,990
- Tangible assets	223,799	233,300
- Investment properties	38,577	32,628
- Financial assets	46,279	45,792
	312,909	317,710
Stocks	144,317	132,389
Debtors	110,304	94,187
Creditors	(139,000)	(128,408)
Net bank debt	(79,648)	(88,731)
Capital grants	(7,950)	(9,746)
Deferred taxation liability	(5,935)	(3,434)
Pension asset/(liability)	473	(6,346)
<b>NET ASSETS</b>	<b>335,470</b>	<b>307,621</b>
Financed by:		
- Share Capital	90,663	88,980
- Bonus Reserve	2,000	1,000
- Profit and loss account	238,848	214,087
Shareholders' funds	331,511	304,067
Non-controlling interests	3,959	3,554
<b>CAPITAL EMPLOYED</b>	<b>335,470</b>	<b>307,621</b>



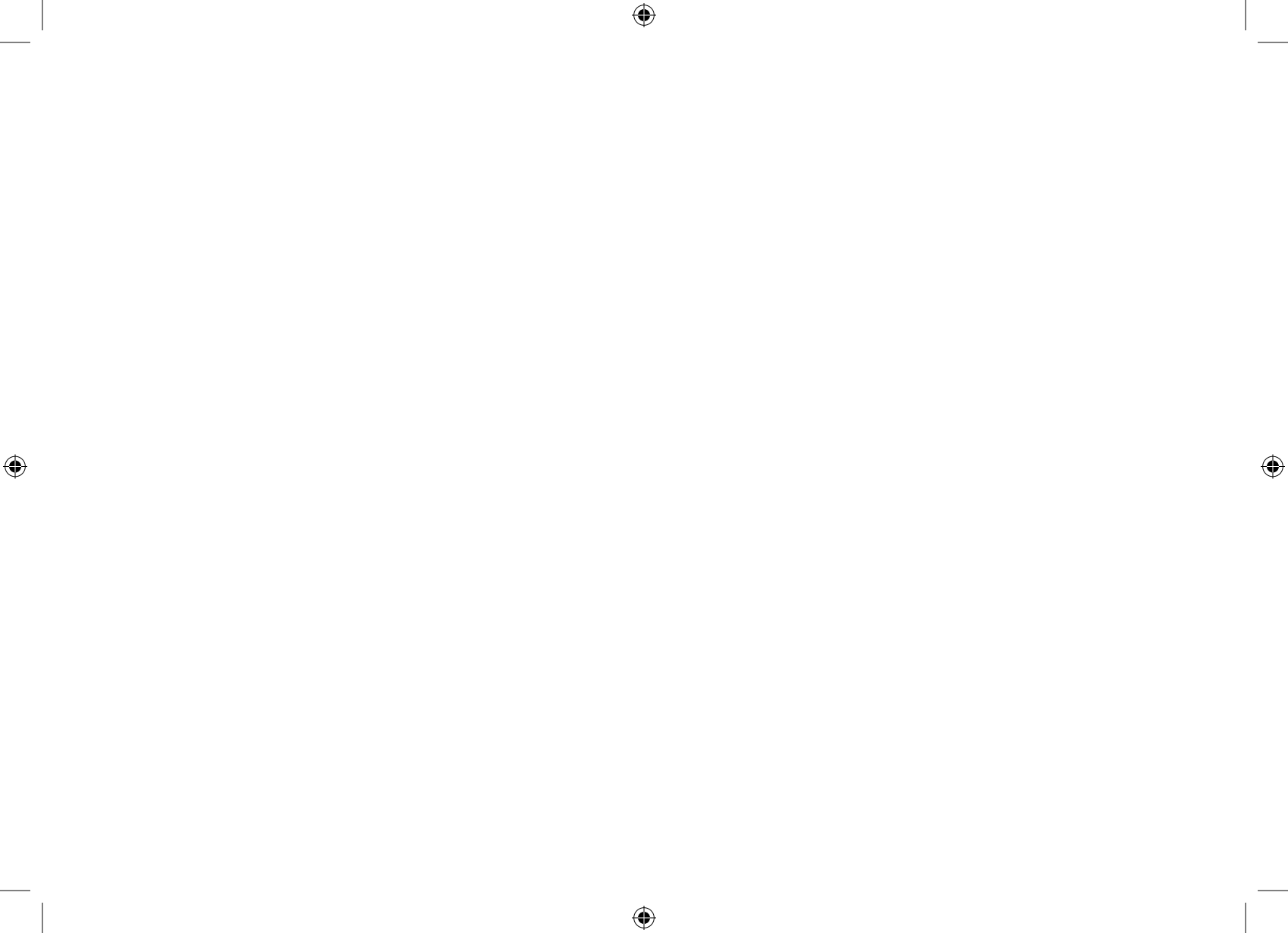
## Consolidated Cash Flows

	2017	2016
	€'000	€'000
Operating profit	<b>32,402</b>	17,456
Amortisation of intangible assets	<b>2,104</b>	3,085
Depreciation	<b>19,920</b>	20,082
Impairment of tangible fixed assets	<b>150</b>	-
Grants	<b>(1,796)</b>	(1,614)
<b>EBITDA</b>	<b>52,780</b>	39,009
Investments	<b>(13,355)</b>	(15,015)
Working capital	<b>(26,117)</b>	1,608
Finance costs	<b>(5,382)</b>	(5,951)
Equity share interest paid	<b>(1,182)</b>	(1,386)
Equity financing	<b>2,133</b>	(2,285)
Member funding	<b>5,292</b>	-
Taxation paid	<b>(314)</b>	(1,296)
Other	<b>(3,959)</b>	(3,247)
Increase in cash in the year	<b>9,896</b>	11,437
Non cash movements	<b>(813)</b>	(4,008)
Movement in net bank debt	<b>9,083</b>	7,429
Net bank debt at 1 January	<b>(88,731)</b>	(96,160)
<b>NET BANK DEBT AT 31 DECEMBER</b>	<b>(79,648)</b>	(88,731)













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