



# Australian Dairy Farms Group

ASX Code: AHF

26 January 2016

## Commentary on Appendix 4C to 31 December 2015

**AHF maintains strong cash and available bank facilities through period**

**Proposed Acquisition of Camperdown Dairy Company**

**Loyalty Options to provide \$6.2 million new capital in Q3 to 31 March 2016**

**Past Decisions about Planning for the Future**

**Australian Dairy Farms Group** (AHF or the Group) provides this Commentary on the attached Appendix 4C regarding the Quarterly Cash Flows, Period-end Position and Commitments of AHF.

### Overview of the Six months to 31 December 2015

The December 2015 Quarter and Half Year period has seen significant positive growth in the assets and the prospects of the Group with:

- the completion of the acquisitions in July and September 2015 of two additional dairy farms in the South West Victoria region;
- extensive farm pasture renovation and drainage development to maximise on farm fodder growth and water security and growing farm security and values; and
- the negotiation of binding agreements for the \$11 million acquisition of the shares in Camperdown Dairy Company Pty Ltd (CDC), a boutique, highly flexible and expandable milk processing and manufacturing facility located within the same region less than 30 minutes by milk tanker from the main farms.

Directors believe that the combination of these activities will allow the Group to develop and grow much faster and with far greater business safety and diversity. It places AHF in the strategically powerful position of being the only fully integrated dairy company listed on ASX – incorporating:

- dairy farming on six farms in the highly recognised South West Victoria dairy region; - one of Australia's most established and strongest milk producing regions,
- with the capacity to process its own milk and other suppliers' milk, including organic and other specialty milks and
- an already well-established domestic and export trade in fresh milk and value added milk products such as butter, cream and yoghurt with significant expansion capacity.

**AUSTRALIAN DAIRY FARMS LIMITED**

ACN 057 046 607

Level 1, 41 Edward Street, Brisbane QLD 4000 | GPO Box 6, Brisbane Qld 4001  
Phone: +61 07 3020 3020 | Fax: +61 07 3020 3080 | Email: [shareholders@adfl.com.au](mailto:shareholders@adfl.com.au)

**AUSTRALIAN DAIRY FARMS TRUST**

ARSN 600 601 689

## **Cash Position and Commitments**

The Group has finished the half year with a strong cash balance plus an approved and mostly undrawn bank funding capacity, which will position the Group well for strong growth in the years ahead. *(Refer to Appendix 4C for details).*

### **Loyalty Options to raise \$6.2 million**

Post the 31 December 2015 half year balance date and following the announcement of the proposed CDC acquisition, many holders of Loyalty Options, allotted after the AHF re-float in October 2014, have chosen to exercise the Loyalty Options at 25 cents per option to obtain fully paid securities.

As the Loyalty Options expire on 31 March 2016, if not exercised, Directors anticipate that approximately \$6.2 million of new capital will be received by that date.

Of this, more than \$1.55 million was received post balance date to 14 January 2016 as announced to ASX.

Additionally, approaches have been received from several parties interested in participating in sub-underwriting any shortfall. The Directors anticipate and are confident that the balance of the unexercised Loyalty Options will be underwritten and placed with identified longer term investors.

### **Camperdown Dairy Company Completion**

The CDC acquisition is expected to complete within the next two weeks as conditions precedent are progressively satisfied. The acquisition and handover preparations have been very professionally undertaken with vendor and purchaser in full cooperation and understanding.

A part payment of \$1 million was paid in December 2015 and the balance of the acquisition cost will be funded by existing cash reserves and bank facilities which will place total gearing at approximately 26% after exercise and underwriting of Loyalty Options

### **Past Decisions about Planning for the Future**

During the September quarter, the directors of AHF adopted a considered strategy of retaining a relatively high liquidity position through the retention of cash and undrawn bank facilities. This decision was made to not acquire a further farm identified for potential acquisition at the time a capital raising was undertaken in June 2015 taking into account the following factors:

- Evaluation of defensive management tactics for the developing El Nino weather pattern that strengthened rapidly in July and August 2015 and has been more recently classified by the Australian Bureau of Meteorology as one of the strongest on record.

Recent updates of the El Nino effect as it relates to South West Victoria, has subsided and indications are that the region and many parts of Australia are likely to receive

better than average rainfall through the winter and spring seasons of 2016, which are the primary grass growth and milk production periods.

*“A strong E Niño persists, but ocean temperatures in the tropical Pacific are showing a gradual cooling signal. Climate models suggest El Niño will decay over the coming months, with a likely return to neutral conditions in the second quarter of 2016.... Historically, the breakdown of strong El Niño events brings above average rainfall to parts of Australia in the first half of the year.” (Australian Bureau of Meteorology – Jan 2016.)*

The practical prospects for this scenario at or about September 2015, was that it was likely that by December 2015, there would be little or no meaningful pasture available for cows to eat and all fodder would be required to be trucked in at high cost - assuming that it was available for purchase. Having fewer livestock to maintain was part of the response recommended and adopted.

- Understanding that continuing farm improvements scheduled over a three year period are critical to the achievement of progressive milk production improvement and relative farm security and sustainability. It was essential to ensure that sufficient capital was available to meet farm development expenditure planned for the current summer period.

Currently, on the Brucknell 1 and 2 farms and Drumborg (Heywood) farm, an extensive paddock drainage and water storage construction program is underway. Earthworks can only be successfully undertaken in the dryer period from November through March. The outcomes from this development will be materially higher usable fodder and silage production on farm in the key winter and spring seasons (and lower volumes of purchased summer fodder) for years to come.

- Ensuring strong management focus on the efficient takeover and “bedding-down” of newly acquired farms and farm management processes, herd development practices as part of the process on building a solid base for further acquisitions of farms.

A strong improvement and development of a solid base in farm results and reporting on important farm management practices and accountability have been the very positive outcome of this decision and will provide a strong foundation for the future.

The Directors believe that these pragmatic decisions are essential to preserve the assets of the Group and the interests of the security-holders as well as to progressively build a strong and nimble company which can be recognised as a leader in the Australian dairy industry and in both the domestic and export markets.

**Ends**

For additional company information or media matters please contact:

**James Moses**

Managing Director

**Mandate Corporate**

Bus: +61 2 8211 0612  
Mob: +61 420 991 574  
Email: james@mandatecorporate.com.au

**Adrian Rowley**

Director

**Australian Dairy Farms Limited**

Bus: +61 3 9629-9900  
Mob: +61 4 4880-3768  
Email: adrianrowley@adfl.com.au

**About Australian Dairy Farms Group**

**Australian Dairy Farms Group (ADFG)** is Australia's first ASX listed dairy farmer. Its focus is on aggregating high quality dairy farms in Victoria, initially in the South Western region with particular emphasis on the famous Golden Triangle region between Warrnambool and Colac south of the Princes Highway to the coast around Port Campbell.

On 23 December 2015, ADFG announced to ASX that it had entered into a contract to acquire Camperdown Dairy Company Pty Ltd – see announcement on <http://www.adfl.com.au/announcements>

**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.