Information Sessions June 2018
The **biggest impact for the organic dairy industry** is the completion of the nutritional dryer deal with Wattle Health Australia Ltd.

A major milestone for the Cooperative and its members, will create a **quantum leap** in Organic Dairy in Australia.

The **first dedicated organic milk nutritional powder production plant** for Australia & NZ.

A home for **every litre** of organic milk.
Award winning cheese & butter
Award winning MILK & CREAM

Our Milk & Cream also helped our customers achieve awards;

GOLD MEDALS TO:

- **Highest scoring Feta cheese** – Lemnos Foods Organic Fetta
- **Highest scoring Yoghurt** – 5AM Organic Greek Style Yoghurt
- **5AM Organic Natural Yoghurt**
- **5AM Organic Vanilla Bean Yoghurt**
- **Organic Fresh bottled Milk for Export** - Kyvalley Dairy Group

NEW PRODUCT DEVELOPMENT

- **5AM Organic Smoothie YOGHURT Dairy Beverage**
A successful 12 months

- Exporting fresh organic bottled milk to SE Asia
- Retail Butter sales growing at 23%
- Cheese production has doubled
- Butter back into the Majors
  - Coles going National in August
  - Aldi to commence in July
  - Woolworths - in negotiations
- Pepe Saya supply relationship
The members are the real heroes:

- for the courage and foresight to make the initial step from purely trading milk to invest into the Geelong facility, which was fully funded by members equity
- Sacrifice to build the platform for the future
- for the ongoing dedication over the past 3 years to the strategy during a time when the dairy industry has been severally impacted around them.
- for their patience, loyalty and understanding during this long transition process.
- Continuing to act as one, and staying loyal to one another, over the journey.
  - We are not a processor!
Information Sessions June 2018

Presentation by Terry Hehir
Inaugural Chairman - Organic Dairy Farmer 16 yrs
Farms at Wyuna North Victoria 700 cows
Successful farmer operating across the entire industry for over 40 Years
Chair of Countdown Down Under, Dairy Australia’s flagship program
Inaugural Chairman Water pool Co-Operative

For his continued service was awarded the Medal of Order of Australia
The Organic Dairy Farmers Co-operative has never wavered from the ultimate goal – farmers controlling their destiny.
Controlling destiny – what it means

• Be relevant
  Not to be a small part of another company supplying conventional milk

• Spring surplus value creation – not to be exploited

• **Not** be a price taker – participate in value created beyond the farmgate.

• Own a **range** of products

• To have the best possible people **work for us**
  - NOT farmers working to enrich corporate and opportunist brokers.

• Skilled directors and uncompromised Governance.
Challenges

- Not taken seriously
- Impossible dreams!
- No money
- Located all over Victoria
- Spring milk
- No employees
- Board skills/succession
- Supermarkets want cheap organic dairy
- **Surprises/Events** – UDP, drought, GFC
  
  *Plus 3 years preparing for the infant formula/Dryer*
WE DO ACHIEVE OUR GOALS

Progress has been incredible.

- Membership trebled
- Range of customers
- Our own products – True Organic brand
- We own Organic Dairy Centre at Geelong - milk factory
- We own a speciality cheese factory
- We own butter manufacturing equipment
- Fantastic and skilled staff work FOR US
- A milk price premium always well above conventional.
**THE FUTURE** (Through Terry’s eyes)

**A Quantum leap**

- Members’ Milk price beyond competitor comprehension
  - our farmers can be truly sustainable in their production method
- Membership growth aligned with markets
  - Consumers want our healthy product
  - no growth for growth’s sake.
  - our farms have higher sale value.
- Members farming with dignity
- Young farmers proudly dairying organically
  - growing soil
- Always aligned with co-operative values.
- Unique
ORGANIC DAIRY FARMERS OF AUSTRALIA
Certified Organic Milk accounts for globally.

Less than 0.5% of milk production in Australia is Organic.

Global milk production has grown at a compound annual growth rate of 1.9% over the past 5 years, whereas Organic has grown at a rate of 15% over the same period.

USD 4.3 billion
The global value of organic milk production

AT FARM GATE, the premium price that organic milk earns compared to conventional milk varies from 27% - 44%.

AT RETAIL, the premium price that organic milk earns compared to conventional milk varies from 9% - 53%.
Overview of the Co-operative

ODFA is an inter-generational co-operative that is **owned and operated** by the farmers who produce ODFA organic milk.

ODFA currently has **in excess of 50** organic and In-conversion farm members

Current regional supply is sourced across the State – with Head Office and Organic Dairy processing Centre based in North Geelong

ODFA is the **largest supplier of organic milk in Australia**, greater than 70%
Introduction to the Co-operative

The ODFA Co-operative is wholly Australian owned and is a true alliance of organic dairy farmers

The members own the Co-operative and there is no external ownership

There is a retained earnings policy of 0.5% (ie. 99.5% of Earnings are redistributed back to members)
Organic milk value

• The demand for our organic milk is strong

• We are not dependent on any one market, customer or dairy category, our strength is in our diversity over 18 years of commercial arrangements

• Long term rolling contracts renewed exclusivity supply arrangements with our key relationship partners

• Our alliance partners carry the “True Organic” mark.
Pure Organic

Pure Organic is the original, No.1 selling Australian organic milk, which we’ve been supplying exclusively for over 15 years, and has now introduced,

Farmhouse Gold Organic to the range
Alliance partners

5:am

Is the largest & No.1 selling Australian organic yoghurt, which we have been supplying exclusively for over 8 years.
Alliance partners

Lemnos

Lemnos have been producing Mediterranean style cheeses since 1969. When they wanted to create an organic version of their leading fetta and ricotta cheeses back in 2007, they asked us to supply their milk requirements.
ODFA Strategy

Our Vision

Organic Dairy Farmers of Australia is an inter-generational co-operative that shares knowledge, maintains a sustainable farming system and creates value for our farming families.

ODFA has four main objectives:

- Maximize the milk price paid to farmer members;
- Process and market the milk collected everyday from member farms;
- Maintain farmer control and;
- Allow our members to grow their farm business profitably and thereby create real wealth in the long term.
Strategy

Objectives:

1. The primary objective is to **fully utilise Spring milk peak** volumes as organic products.

2. The secondary requirement is to **manage skim milk surplus** in unison of cream separation production during peak milk supply.

3. The opportunity to consolidate manufacturing capability at North Geelong will go a long way to achieve this while **obtaining synergies**.

4. Developing co-operative support services to enhance **loyalty and benefits** for members;
Evolution to Manufacturing

- **2013**
  - Butter JV – Helped obtain value add

- **2015/16**
  - Geelong facility

- **2018**
  - Red Room Phase 1
  - Butter making & packing
  - Cream filling
  - Bulk export

- **2019**
  - Dryer

- **2019**
  - Red Room Phase 2
  - Fresh milk lines
  - Cream bottling
  - Butter spreads line

**Camperdown Cheese and Butter Factory (CCBF)**

- milk separation (cream) – 5AM & butter
- LÁrtisan Cheese

**milk powder plant – Spring 2019**
Unlocking Opportunities

Seeking growth in milk supply

New PROCESSING capability

Organic milk for Alliances

Organic cream for Bulk Cream, Retail Cream & Butter

Organic Skim Milk Powder production

Export milk – fresh, ESL & UHT

Consistent supply for larger contracts with Alliance customers
Corio Bay Dairy Group Pty Ltd

Only dedicated organic Powder plant in Australia & NZ, designed for a minimum of 1.5mt (skim) or 1mt (infant formula) per hr:
Australian Organic Dairy Processing Centre

Approximately 7,000 sqm acquired
Dryer Project – Corio Bay Dairy Group

- Timing target for completion- Spring 2019

- ODFA - No members funding required, and remains independent and 100% farm member owned

- $70m capital from Wattle Health Australia – gives no access or control over the Cooperative.

- Provides a Spring surplus solution to ODFA;

- A home for **all our milk** at organic rates.
Corio Bay Dairy Group Pty Ltd

- Access to Organic infant formula market, ie China – new category for ODFA
- ODFA guaranteed sale of Minimum Organic Milk Supply amount;
- ODFA - arms length commercial exclusive contract to CBDG
- ODFA retains the cream from milk separation for value add products.
Existing Geelong Site

Butter strategy

- Build new butter plant in Geelong;
- Increases efficiencies in butter manufacture;
- Results in:
  - Decrease milk and cream cartage costs;
  - Decrease cream handing costs;
  - Increase in capacity (CCBF fully utilised 300mt pa);
  - Run operationally in tandem with Dryer to process cream;
  - Ramp up retail butter volumes.
Existing Geelong Site

Bulk export milk

- Develop capability to process and pack bulk containers of pasteurised milk for export:
  - Agreement with KyValley Dairy Group
  - Extra capacity for Geelong – improves utilisation and efficiencies of operating;
  - Commences in August ‘18.
Milk Pricing

Milk Price – Organic V Conventional Weighted Average (FY14 – to fully utilised dryer) $/kg MS

- ODFA
- ODFA 5Yr Ave
- Dairy Australia (Vic) Factory Paid Price $/kg MS
- ODFA actual opening milk price $6.80kg MS.
- Forecasted FY19 weighted average milk price $7.81kg MS on Premium pricing.
- Fully utilised dryer to achieve milk payments in excess of $10+ kg MS

FY14 FY15 FY16 FY17 FY18F FY19F

$/kg MS

4.00 4.50 5.00 5.50 6.00 6.50 7.00 7.50 8.00 8.50 9.00 9.50 10.00 10.50
Milk Pricing

Milk Price – 5Yr average, FY18, FY19F, Fully utilised dryer (GST excluded)

Platform built so when fully utilised to achieve milk payments in excess of this amount for members

5Yr average (weighted ave)
Range $7.33 - $8.41kg MS
$7.81kg MS
71% of members achieved higher than weighted average prices.

FY18 (weighted ave)
Range $7.10 - $8.00kg MS
$7.50kg MS
83% of members achieved higher than weighted average prices in the last two seasons.

FY19 Targeted price (weighted ave)
$7.81kg MS
Premium

3+Yrs Projected (weighted ave)
$10+kg MS
Premium

*Indicative
Single Payment System

- Every member gets paid the same rate, no matter the size of their supply
- There is a spring differential appropriate for the milk curve
- We don’t incentivise flattening of the milk curve, to allow farmers to manage spring flush without pushing into the shoulder months, where it is dearer to produce milk
- We have the ability now to embrace the curve
- We have independent months, no seasonal incentives
- No incentives at all
  - NO sign on bonuses
  - **NO productivity bonuses**
- We don’t encourage farmers to take risks under the promise of a bonus. That is stop chasing increased milk supply in tough seasonal conditions with higher costs which leaves the farmer exposed to the environment, climate & market, and ultimately the Cooperative.

  The farmer & the Cooperative are— joined at the hip
Recruitment Process

- Audit fees paid
- Mentoring program - One on One advise specific for your region & farm
- Existing farmers 20 plus years of experience to lean on, ask questions,
- Assistance with audits
- Assistance with certification process
- Support framework
- Workshop series and Regional Focus Groups
  - Soils, Fertilisers & Landcare
  - Certification
  - Animal health
Reasons to join our co-operative

- We have a growing market
- We offer a stable and attractive milk price at a long term premium
- We are a true farmer co-operative
- We own our co-operative and our members participate with equal voting rights
- We offer support services to help with organic certification
- We operate sound in the knowledge that we benefit our environment and community
- We create a sustainable farming system for our future generations
Questions?