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April 21 2018 - 10:30AM

Freedom's healthy agenda adding value to farm and food business



[Andrew Marshall](#)

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Already a big producer of plant-based beverages such as almond "milk", Freedom Foods Group pushes its growth agenda further next month when it launches long life dairy products to the domestic market under its Australia's Own label.

Cereals, snacks and beverage maker Freedom Foods is proving to be a new era growth story for Australia's food sector – an industry where the past 20 years' headlines have often been about factory closures and foreign takeovers.

The 33-year-old UHT products packer, turned health food brand leader has built a "disrupter" reputation in the grocery segment with a product suite spanning allergen-free snack bars and breakfast cereals; almond, rice and soy "milks", and lately, sports supplements.

Also, our biggest processor and exporter of ultra-high temperature (UHT) treated beverages, Freedom hits domestic milk markets next month with its own A2 and reduced fat range under the Australia's Own label.

It also plans a move into yoghurt.

Freedom's dairy connections extend to its cornerstone shareholder, Leppington Pastoral Company's Perich family, which has supplied milk to the processor for almost 20 years and owns about 54 per cent of the business.

Growing at pace

In the past decade Freedom has built cereal processing plants at Leeton and Darlington Point in South West NSW and bought another at Dandenong in Victoria.

Freedom Foods is in a prime position to disrupt larger FMGC competitors weighed down by less healthy legacy products

Citigroup Research

It has also recently built efficient new beverage factories in Sydney and Shepparton, Victoria.

Since 2013 Freedom Foods Group's share price has risen from below \$1 to this week breaking \$6.

Investment bank, Citigroup, says the company's expanding focus on higher margin branded products and export growth is worth a target price closer to \$6.70/share.

As global consumer habits shift towards healthier eating, a Citi research study noted Freedom's attention to healthy food and beverages put it "in a prime position to disrupt larger fast moving consumer goods competitors which are arguably weighed down by less healthy legacy products".

"We expect Freedom to achieve shelf space gains from about 40 new branded products launched from May," the report said.

Much of its growth to date was built on contract packing UHT (long life) milk and plant-based beverages for other brands, including an extensive Chinese export program.

Freedom Foods is challenging Devondale's strength in the long life dairy products category in Australia.

Challenging tradition

Its new domestic-focused UHT product push looks to target the troubled Devondale (Murray Goulburn) business, a leading Australian long life milk brand for decades.

Soon to be acquired by Canada's Saputo Inc for \$1.3 billion, Murray Goulburn has a depleted milk pool to stretch across a busy product range from cheese to high value nutritional formulas.

UHT production is likely to be restricted until MG's milk receivals improve.

"We've had a lot of demand come our way in the UHT market," conceded Freedom managing director Rory Macleod.

"Priorities have changed for many in the dairy sector.

"Ultimately we will see more competition from Devondale, but I don't see Saputo breathing new life into the UHT market for a while."

Freedom Foods tips its total sales will lift at least 40pc this financial year to about \$380 million and potentially towards \$600m in 2018-19.

We've used private label work to build our business capacity

Rory Macleod, Freedom Foods

Its brands include Australia's Own, So Natural, Blue Diamond, Arnold's Farm and the Freedom cereal and snack labels.

Bolstered by a \$200m shareholder capital raising finalised last week, the company wants to accelerate its production and acquisition activities, including increasing UHT capacity at its Shepparton plant in Victoria to 500m litres a year and commence bottled and functional milk and drinking yoghurt lines at its new Sydney site.

"We've used private label work to build our business capacity - now we're building on that with our own branded lines," Mr Macleod said.

The UHT future

While UHT has not previously enjoyed the premium market status of fresh dairy, Mr Macleod noted it was the popular packing choice for milk globally, saving retailers and distributors shelf space and refrigeration costs.

Freedom Foods managing director, Rory Macleod.

“The taste issues of the past are no longer, and in general I think we’ll see a lot more of UHT as a mainstream product of the future,” he said.

The Australia’s Own brand is at the forefront of Freedom’s UHT product innovation and marketing push in Australia and overseas.

It already has a footprint in China, South East Asia, while Freedom’s health-focused cereals and snacks are sales leaders on e-commerce site Tmall and have sold well in North America since 2015.

In a sector littered with remnants of former big name brands and factories unable to compete in today’s globalised economy, Freedom’s business tactics have proven refreshingly successful.

There wasn’t much pro-investment psychology in the Australian food industry.

Rory Macleod, Freedom Foods

“Today’s export market dynamics have certainly helped our case, but Australian food processors tended to suffer from insufficient investment for a long time,” Mr Macleod said.

“There wasn’t much pro-investment psychology in the Australian food industry.

"The 1980s and '90s saw a lot of cost saving consolidation as big groups moved in, acquiring more scale and market share.

"But plants were still expensive to run ... and supermarkets grew more demanding on price and product innovation.

Part of Freedom Foods' diverse breakfast cereal portfolio.

"Now, however, there's a whole new global market demanding Australian food – we don't need to sell to Coles and Woolies.

New market focus

"And why send agricultural commodities overseas when we can add value to Australia's unique grain and dairy supply base here, and reap the reward here."

Consumers had changed, too, hungry for the specialty attributes in Freedom's "free from" foods.

"So many healthy eating preferences and population growth dynamics are at play – the opportunities are very exciting," he said.

"But to be part of that growing world market, you must invest and develop an efficient conversion base.

"You also need supportive stakeholders behind you."

As a family we've always believed in the food and dairy industry's strengths and saw potential in what Freedom was doing

Michael Perich, Leppington pastoral Company

While Australia's food and agribusiness sector had attracted more investor attention of late, Freedom was "extremely fortunate" to have had support from long-term key investors who were also farmers.

"The Perich family's interest has been pivotal in stabilising our business and guiding us in our partnerships with farmer suppliers," he said.

Freedom Foods Group's four-year-old Shepparton dairy processing plant receives milk from farm in surrounding in northern Victoria and southern NSW.

The rewards cut both ways according to family member, dairy farmer and Freedom director, Michael Perich.

"Our connection began as milk suppliers, but as a family we've always believed in the food and dairy industry's strengths and saw potential in what Freedom was doing," he said.

"As we got to understand the business we grew more involved in backing its progress.

"That includes offering a grassroots view on how farmers think and what they expect from a relationship with buyers."

Now majority shareholders, the Perich's supply a portion of the processor's milk needs from their 8000-cow dairy ventures also own Freedom's \$75m Ingleburn factory and its Sydney headquarters at Taren Point.

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