

FINANCIAL REVIEW

Companies and Markets

Murray Goulburn listing seems worth the journey

Inside the deal Jared Lynch and Joyce Moullakis

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It was shaping as the winter of Murray Goulburn's discontent when it started a book-build for its \$500 million partial float.

On the second-last day of June, the dairy co-operative's managing director, Gary Helou, and chief financial officer, Brad Hingle, bunkered down in the offices of their capital markets investment bank, Macquarie Group.

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... which had committed to Murray Goulburn's initial public offering, had withdrawn their support, citing the volatility. And earlier in the month, insurance reseller Greenstone, and printer and marketing company IVE Group, abandoned their respective \$900 million and \$100 million initial public offerings.

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But by the end of the week, after tens of hours of phone calls, Murray Goulburn listed on the ASX. It secured \$437.7 million from non-farmer investors, and another \$62.3 million from two supplier share offers, meeting its \$500 million target.

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So how did the partial listing of Australia's biggest milk processor succeed?

Even when the market was shaky, Murray Goulburn's board remained confident the capital raising to fund sweeping upgrades across the co-operative factories, to focus more on high-value dairy goods - such as infant formula and consumer beverages and cheeses - would succeed.

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Helou had maintained Murray Goulburn would get support from international investors, particularly in Asia, saying there was "pent-up demand" for agriculture stocks. In the Murray Goulburn camp, company secretary and general counsel Fiona Smith was the project leader.

The transaction was dubbed Project Two Rivers, drawing on the company's name and the Murray and Goulburn rivers.

Two weeks before the book-build, Helou flew to Hong Kong, then to Europe and New Zealand to sell the float. The pitch was simple. Helou and Hingle took their trusty sachets of milk powder and some of their UHT milk as a great example of the strategy.

One investor who was impressed was Chinese billionaire Richard Liu, who is the chief executive of internet retailing giant JD.com.

JD, which sells Murray Goulburn's Devondale-branded products for more than double the price to China's wealthy middle class, spent \$20 million on a 4.6 per cent stake in the trust, becoming its sixth-biggest unit holder.

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... wasn't the main agenda item. Lazard, which had conducted an earlier scoping study, was announced as a joint adviser alongside Macquarie, and Herbert Smith Freehills was the law **firm** appointed. Lazard's Charles Whiting was the advisory **firm's** point person.

Farmers understood the co-operative's strategy, particularly how focusing more on value-add products and less on bulk **dairy** goods would insulate them against volatility on commodity markets and deliver a more stable farm gate **milk** price.

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Instead of farmers buying 500 shares at \$1 each, it was proposed that a new farmer must hold one share for every kilogram of **milk** solids it supplied to Murray Goulburn, potentially saddling young farmers with more debt.

After more farmer workshops, Murray Goulburn's management agreed to keep the 500 share **buy**-in, except they would be valued at the market price instead of the static \$1.

It also won over farmers with tying the dividend yield to the **milk** price. If the **milk** price is high, so is the dividend. Under the Fonterra model, it's the opposite, with expectations from farmers and investors at times colliding.

...McEwen and James Crowe of Freehills, said its plan to flip the New Zealand structure ensures the interests of both unitholders and farmer shareholders were aligned, with each benefiting from **milk** price rises.

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