

Devondale Murray Goulburn secures \$150 million structured leasing arrangement to build milk processing plants.



Devondale Murray Goulburn (MG) clinched a \$150 million deal to build two state-of-the-art processing plants to supply chilled milk to the Australian domestic market, using a structured leasing arrangement that required no repayments during construction.

Background

Necessity, adversity and innovation were no strangers to the members of the Murray Valley Soldier Settlers' League. But when they founded the Murray Goulburn Co-operative in 1950 to help get better prices for their milk, few would have imagined what lay ahead. After operating for more than 60 years, the co-operative accounts for nearly 37% of Australia's milk and has signed one of the biggest retail supply deals in Australian history.

Devondale Murray Goulburn is Australia's largest dairy foods company, processing more than one-third of Australia's milk supply, and it's still 100% controlled by its farmers. Its success has been built on innovation, with new products, technologies and business partnerships, the cornerstones of its growth.

In April 2013, MG cemented its leadership in the Australian market by winning one of the nation's biggest dairy contracts.

The 10-year landmark partnership to supply Coles with daily pasteurised milk for its private label brands in Victoria and NSW from 1 July 2014, meant the co-operative needed to purpose-build two milk processing plants.

The challenge

Devondale Murray Goulburn wanted world's best processing facilities and needed to begin construction on the plants in Melbourne and Sydney within weeks of winning the contract, to start supplying milk in just over 12 months.

The co-operative knew it would need to undertake one of the most significant investments in Australian dairy processing since the industry's deregulation in 2000.

"It required capital investment in state-of-the-art manufacturing, the likes of which the country has never seen," says Managing Director, Gary Helou.

These supply contracts are typically negotiated for one or two years, notes Helou, but the long-term nature of the Coles contract meant it was an investment worth making.

Adding to the complexity, were MG's co-operative structure, which limits its options for raising capital, and its desire for all funding to free up capital for other investments.

The solution

Devondale Murray Goulburn had prior business relationships with several banks, but for this project, Commonwealth Bank left the co-operative feeling confident that all of its key requirements could be met.

"It was a complex deal that required a leasing structure, so we wanted a bank that could deal with complexities and execute within a reasonably tight time frame," says Helou.

The Bank's leasing experts, and their ability to structure leasing products, was particularly important for MG.

"CommBank had a great capacity to design and develop a lease structure that met our specific needs. It was timely and competitively priced," Helou adds.

One of Devondale Murray Goulburn's main requirements were that the financing be a leasing structure, outside of the existing debt obligations and require no cash outflow during construction.

The Bank structured the deal by setting up a special purpose vehicle (SPV) to borrow the \$150 million needed to build the dairy plants, enabling it to claim a tax deduction for the interest and pass on the benefit as a rent discount for Devondale Murray Goulburn.

The SPV engaged Devondale Murray Goulburn to project manage the construction, with the option to purchase the plants at a later date.

The structured lease needed to fit a complex set of conditions applied by Coles and the equipment suppliers, as well as meeting a critical deadline for the plants in both NSW and Victoria to be operational in time to fulfil MG's obligations to the supermarket.

“When we say it was a structured lease, we are talking about a multi-step, multi-variable arrangement that had to fit with our own balance sheet requirements,” says Helou, “as well as the technical, operational and commercial matters that are involved in these long-term deals.”

Helou says the Commonwealth Bank has always taken the time to understand Devondale Murray Goulburn’s specific needs.

“The dairy industry sector is not the easiest to understand,” he says. “If you get into the details of the co-operative structure, the strategic thinking of where we want to invest, to believe in it and support it the way they have, it puts your relationship with a bank like the Commonwealth Bank at a different level.”



Benefits

A deal winner

The Commonwealth Bank’s structured finance solution has allowed Devondale Murray Goulburn to build its new facilities and meet its obligations to Coles.

This means it will benefit from the certainty of supplying milk to one of Australia’s biggest retailers for the next decade, and Coles customers will enjoy access to high quality dairy products.

“The structured deal with CBA allowed them to get that capacity on time and in full,” says Helou, ensuring the deal’s success and providing a template for future arrangements.

Balance sheet flexibility

The co-operative is in the midst of a proposed capital restructure, is on the hunt for acquisitions and is expanding its manufacturing capability.

“To have structured financing deals like this helps with more flexibility and ... borrowing capacity at a time when we’re investing,” says Helou, adding that the deal means the \$150 million spent on the two processing plants can be spent elsewhere.

“It’s significant ... a big benefit for us,” he notes.

Farmer-owners benefit from higher farm gate pricing

The follow-on impact of the financing deal will be felt by both the farmer-owners who supply the milk, as well as the retail partners who will have access to the facilities.

“Farmers will benefit because the company can invest in growth for more profit (leading to) ultimately higher farmgate prices,” says Helou.

And the investment in facilities is part of a long-term strategy to further benefit the co-operative’s members: “More efficient manufacturing facilities mean that our farmers will benefit from the returns we are making on these investments.”

The future

Commonwealth Bank is a major partner for Devondale Murray Goulburn and Helou sees a bright future with the lender.

“I’m sure CommBank has gained a lot of insight into how we operate ... we understand more about their capabilities in this complex area of financing, so I think it’s been a boost to our confidence in each other,” says Helou.

The co-operative is looking at making up to \$500 million in investments to rejuvenate their manufacturing and supply chain infrastructure to meet the international growth opportunities, particularly in the key product areas of nutritional powders, consumer cheese and dairy beverages.

“We have a very ambitious plan ... we need the flexibility to structure the financing of these projects along the lines of this deal,” says Helou.

“The experience we’ve had with the Commonwealth Bank will put us both in a position to do more of these deals. It was game-changing at every level.”

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