



fi  compass
EAFRD

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Ireland Strategic Investment Fund

MilkFlex



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Financial Instruments



- Enable the development of innovative financial products to support growth and development of strategic sectors in a profitable and sustainable manner.
- Partnership approach with existing financial institutions and Industry delivers;
 - solutions that meet market requirements.
 - facilitates better understanding and management of risk.
- **Delivering Financial Instruments requires an innovative and dynamic approach from all parties.**



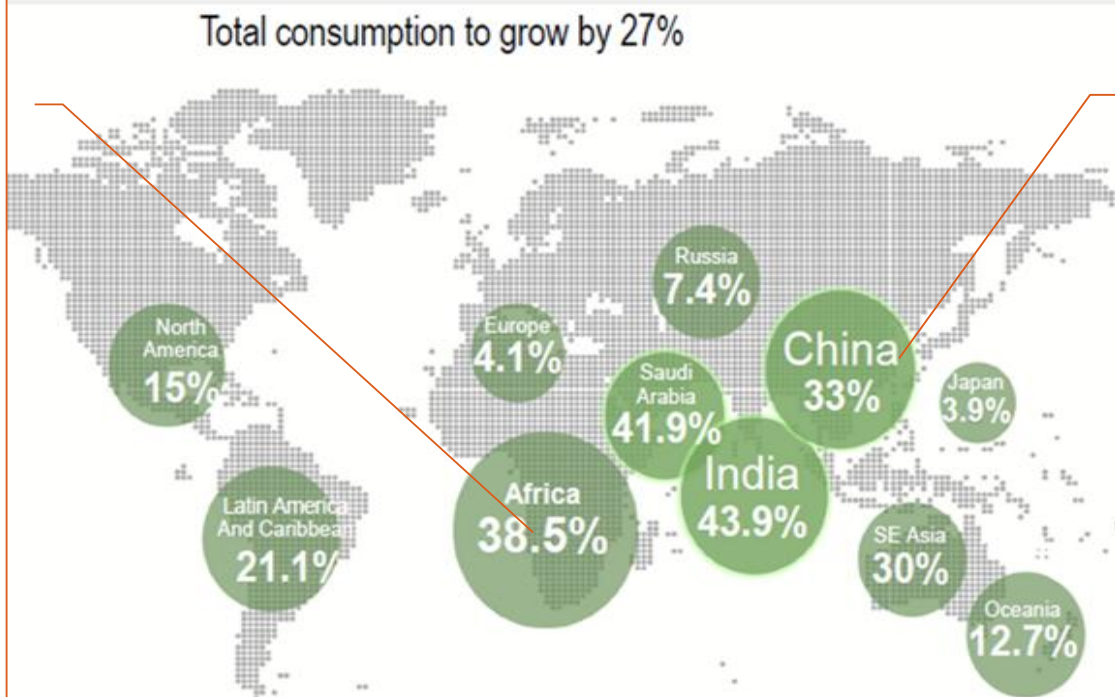
A growing population concentrated in cities underpins long term demand for Food



Global Dairy consumption likely to outstrip supply in the future



- Four in 10 of the world's people will be African by the end of the century
- Population to increase by 765mn in next 15 years – 64% growth
- 40% of the population survive on less than \$1.25 / day; 60% on \$2 / day



- China is the world's largest dairy importer
- Declining self-sufficiency
- Per capita consumption less than 1/3rd of world average
- Rising demand

● Total Increase 2013-2023

Source: OECD FAO

Irish Dairy Sector is dynamic



- Growth Orientated Industry
- 50% growth by 2020
- Ambitious farmers
- Co-op Dominated
- Investment Required at farm level €1.5bn
- Underpinned by Government Strategy Foodwise 2025



Low Cost Grass Based Production System



- Mild (but wet!) climate and highly fertile land
- Grass accounts for close to 90% of the cows diet
- Outdoor grazing: 300 days+ per year
- Purchased feeding stuffs – among lowest % in the world (12%)
- Facilitates a low input/risk model.



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Relatively Lower Cost of Production



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Irish Dairy Farms Have one of the best welfare standards Worldwide

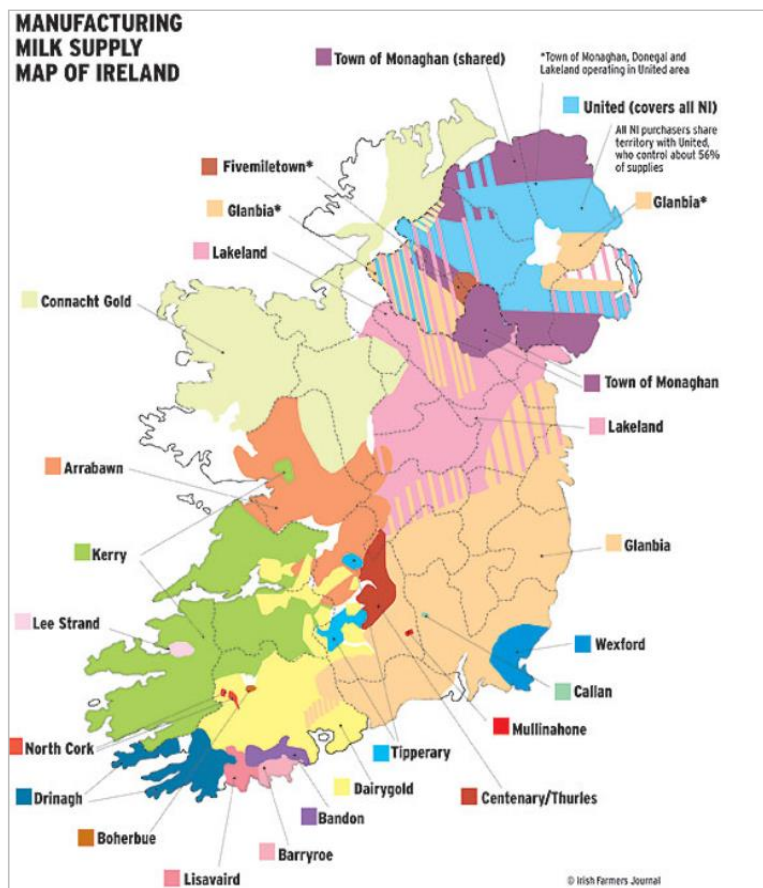


Contributing factors

- ✓ Family run farms / ancient tradition / financial dependence
- ✓ Small herd size
- ✓ Outdoor management / temperate climate
- ✓ Minimal housing period / high standards (grant aided)
- ✓ No hormone usage
- ✓ Strong Co-op support on Herd Health
- ✓ Strong regulatory control



Ireland Has a well developed Dairy processing infrastructure

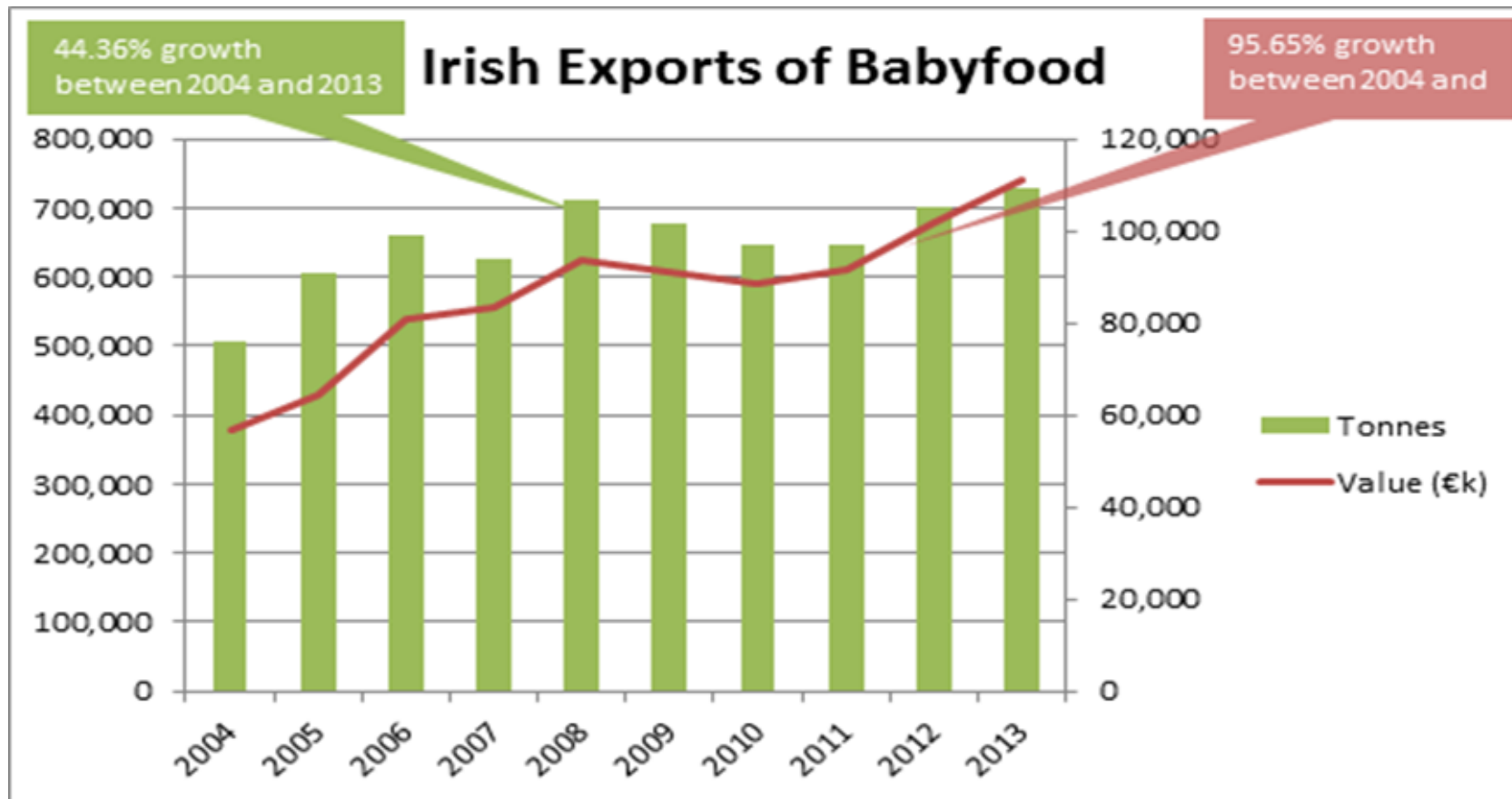


REVENUE €900m	EBIT €35m	REVENUE €5,756m	EBIT €608m
MILK POOL 2BN Ltrs	NET ASSET €175m	MILK POOL 1BN Ltrs	NET ASSET €2,236m

REVENUE €848m	EBIT €30m	REVENUE €626m	EBIT €11m
MILK POOL 1.06BN Ltrs	NET ASSET €280m	MILK POOL 0.5BN Ltrs	NET ASSET €90m



Irish Dairy Processing sector moving up the value chain.



Irish Agri-Funding Landscape



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Irish Farms carry low leverage

Liabilities / Asset Ratio

Liabilities value per Farm

Figure 3.3 Average liabilities-to-assets ratio per farm by FADN region in 2012

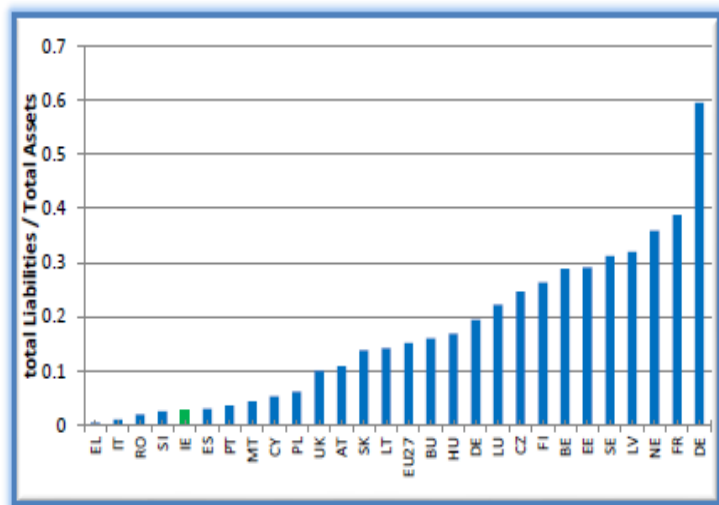
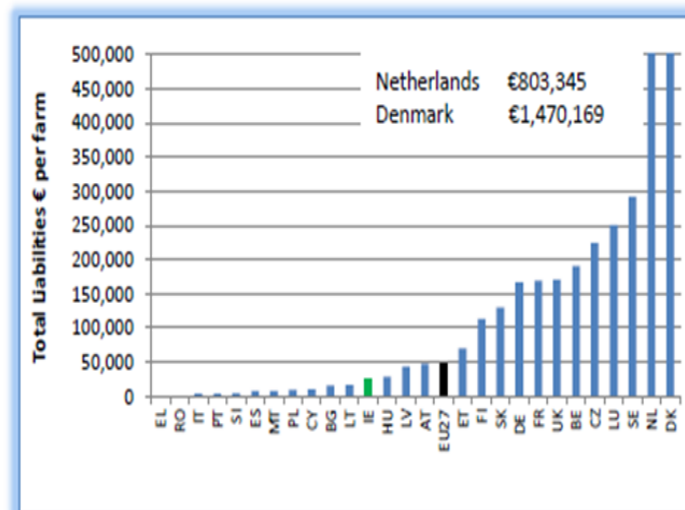


Figure 3.2: Average total liability value € per farm by MS in 2012



Source: DG AGRI EU-FADN.

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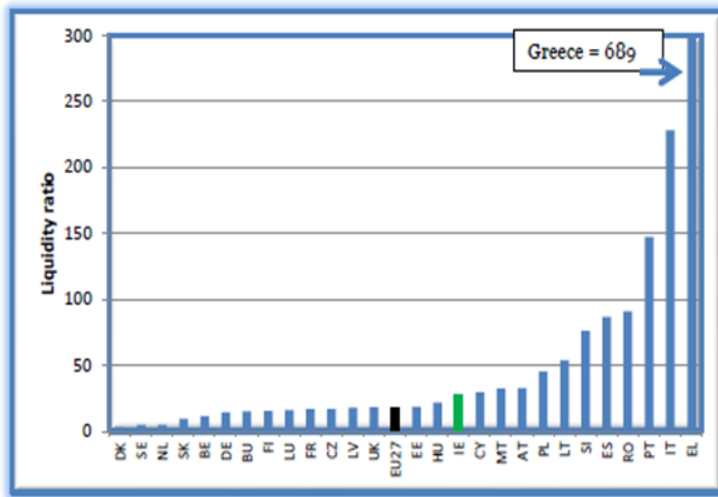
Despite low leverage, Interest rate differentials widening



Liquidity Ratio

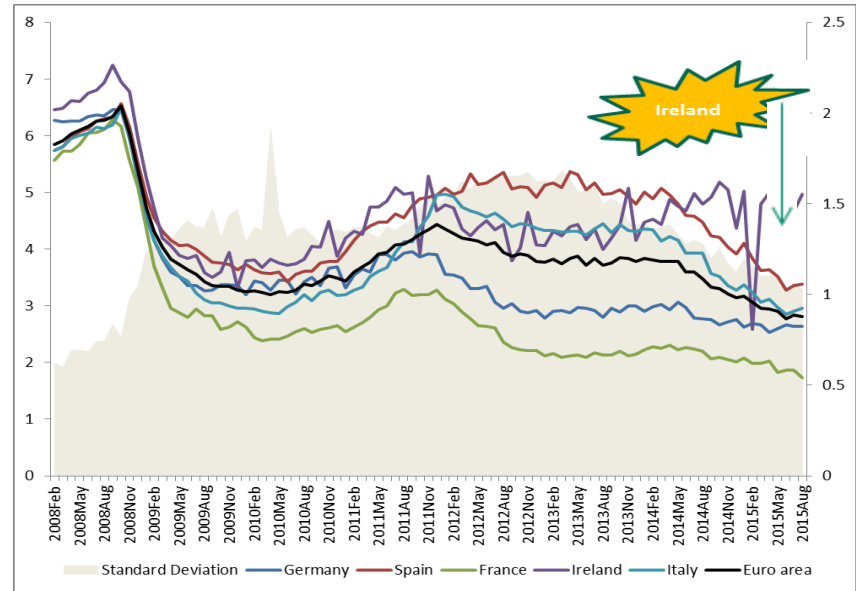
Figure 3.4 Liquidity (Times Interest ratio) per farm by FADN region in

2012



Source: DG AGRI EU-FADN.

Interest Rate Differential Ireland V European Neighbours Increasing



Dairy Expansion Funding Challenge



In order to deliver on the growth capacity of the Irish Dairy Industry, funding providers need to provide:

- An appropriate amount of funds is available to expanding dairy farmers ✓
- The duration of the fund should match the underlying investment or capital infrastructure ✗
- The interest rate should allow for an economic proposition at farm level ✗
- The repayment schedule should respond to dairy price volatility ✗
- There should be an inbuilt protection for the dairy farmer in the event that milk prices dropped below an economically sustainable price point ✗
- The application and administration process should reflect an efficient best in class approach ✗



Innovation Through Partnership



The Ireland Strategic Investment Fund (€8 billion) has a statutory mandate to invest on a commercial basis in a manner designed to support economic activity and employment in the State. It is controlled and managed by the National Treasury Management Agency (NTMA).

Rabobank is the world's leading global food and agri-bank. It is a cooperative bank based in the Netherlands, with 8.8 million clients in 40 countries and €670 billion in total assets. Rabobank's offices in Ireland are in Charlemont Place, Dublin 2.

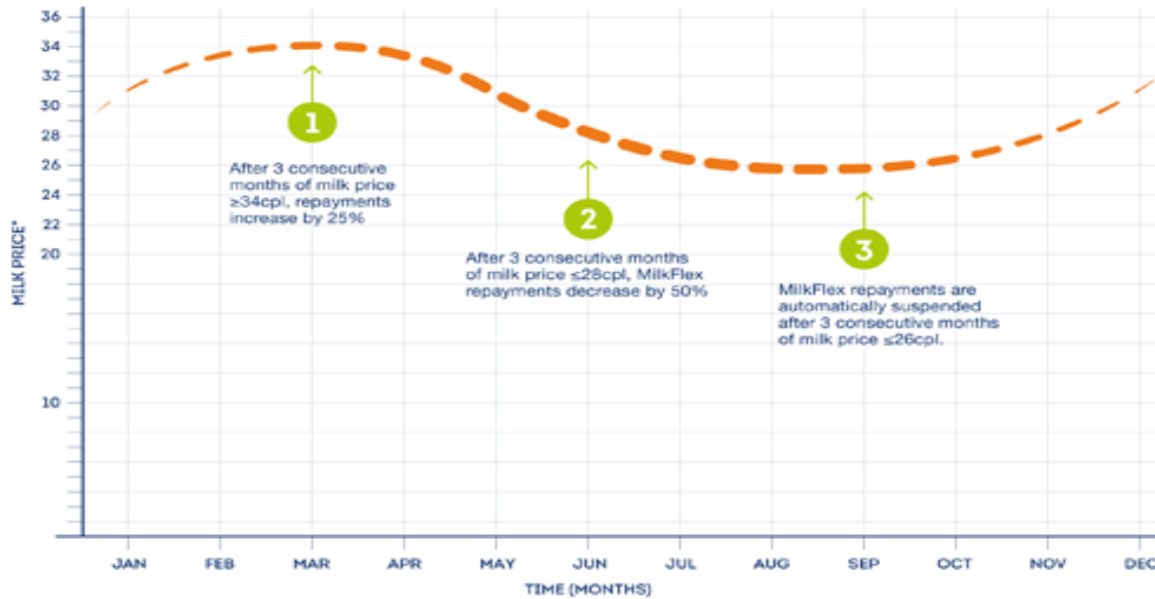
Finance Ireland is a privately owned diversified financial services Group based in Dublin. It has a team of experienced agri-finance professionals.

Glanbia Ingredients Ireland is Ireland's leading dairy processor with one third of the Irish milk pool (2bn litres) exporting to 60 countries worldwide and partnering with some of the world's leading dairy companies. It is the third largest indigenous exporter. It is 40% owned by Glanbia plc the number 1 branded performance nutrition company in the world and largest producer of US cheese with a market Capitalisation of €5bn and 6000 employees across 32 countries.





MILKFLEX – KEY FEATURES



* = Glanbia Ingredients Ireland (GII) base manufacturing milk price at 3.6% butterfat & 3.3% protein (cpl, including VAT)



- Loan repayments will be automatically deducted from the supplier’s milk receipts by GII.
- The profile of repayments will reflect the seasonal milk supply curve, with no loan repayments – interest or principal – during the low milk production months from November to February inclusive;
- Loans will be available for amounts of between €25,000 and €300,000;
- Loans will be unsecured however repayments will be made by as a priority deduction from milk payments;
- Loans can be drawn down for investment in on-farm productive assets to support an existing or growing dairy farm enterprise (including livestock, milking platform infrastructure and land improvement);
- Lending decisions will be based on the merit of a farmer’s business plan as opposed to the asset value of their farm, subject to meeting eligibility and underwriting criteria;
- A loan set-up cost of 1.25% will be deducted from the approved loan.
- There will be an amount set aside within the Fund for new entrants to dairy farming;
- In order to qualify for access to the Glanbia MilkFlex Fund, a supplier must maintain a valid Milk Supply Agreement (MSA) with GII for the term of the loan.



Understanding and addressing risk





- Milkflex is recognised as the leading product to fund dairy expansion.
- Other Market players have responded on some aspects but can not match all the features.
- The plan is to make Milkflex product available to the entire Irish Dairy sector.

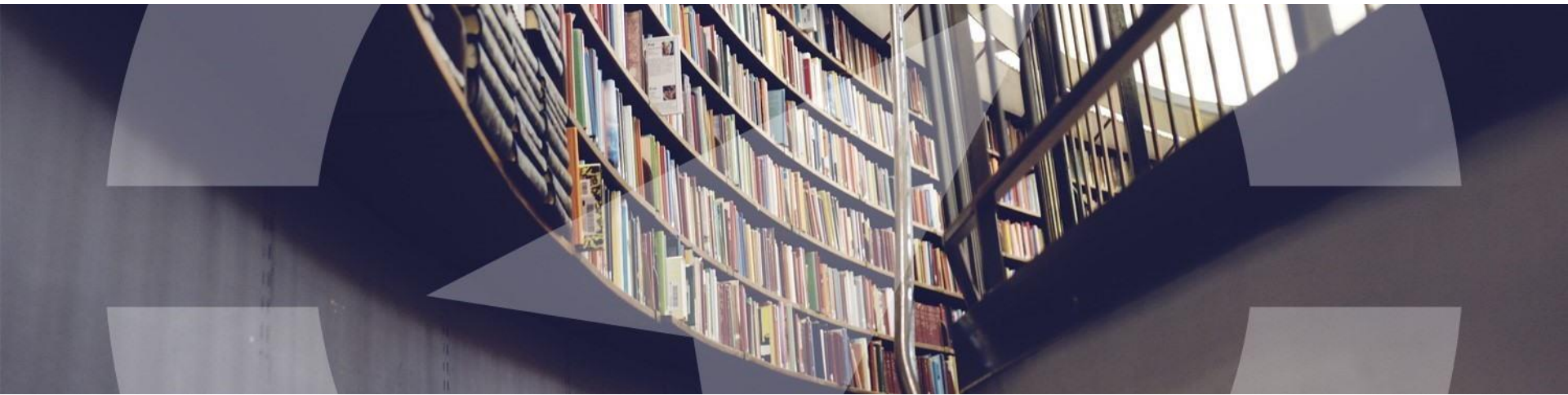


Future Innovation pipeline



- Farmer receivables structure providing incremental non recourse funding to Agri sector.
- Tailored funding model to facilitate scaling and modernisation of Poultry sector.
- Commodity hedging structure to protect farmers from market volatility.
- Developing debt and equity food investment platform that will support Irish food companies ambitions to scale to International standards.
- Forestry





Appendix

Risk Analysis Detail

Understanding and addressing the risks



Farmers inability to service loan

- As long as the farmer or farm is involved in milk production, Glanbia are obligated to deduct the loan repayment prior to paying the farmer for his milk.
- The volatility proofing elements of the loan ensure that the farmer's repayments flex with his repayment ability.
- The underwriting / qualifying criteria will ensure the loans are based on the farmers ability to service the repayments.

Understanding and addressing the risks



Security
against the
loan

- Glanbia and its Milk Suppliers have signed 5 year Milk Supply Agreement (MSA) which contractually obliges the farmer and Glanbia to both supply and process the milk for a five year duration.
- All loan applicants will be obliged to sign an MSA to cover the duration of loan.
- In the event that the farmers ceases milk production the loan will become payable immediately.

Understanding and addressing the risks



Fund
concentration
on dairy

- The pilot trial will be initially limited to Glanbia Dairy Farmers.
- Dairy Farmers are consistently the most profitable sector of farming in Ireland.
- The underwriting criteria will ensure that only efficient and profitable farmers will qualify for the loan.
- The volatility proofed mechanism will ensure the economic sustainability of farmers due to the reduction or suspension of loan repayments if dairy markets collapse.



Understanding and addressing the risks



Governance
and fund
manager

- The reputation and the credibility of the institutions involved in the funding proposal are very strong.
- The Fund Manager will have both the technical and operational experience required to interface with Irish Farmers.
- The scale of the organisations involved allows them understand the requirements for an uncompromising approach to best in class corporate governance.



Understanding and addressing the risks



Innovative
funding
model

- The proposed funding model is a paradigm shift in funding dairy farmers.
- It requires the participation of the Dairy Co-operatives to collect loan repayments.
- It requires a farmer audience that will have trust in the process and the individuals that endorse it.
- Glanbia have a proven track record of implementing innovative programmes that have disrupted the systems.

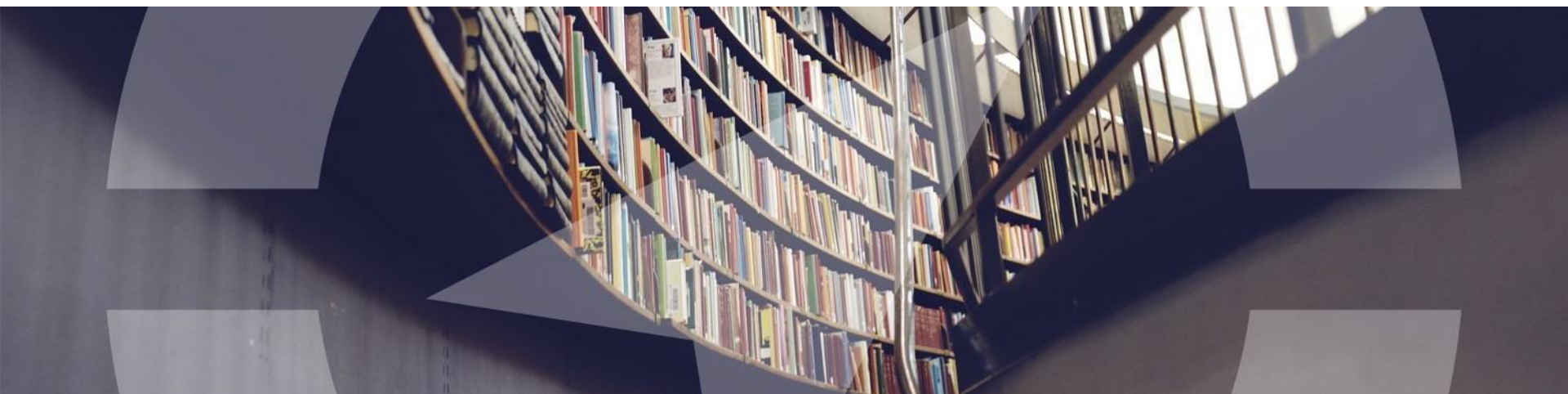


Understanding and addressing the risks



Dairy markets
collapse

- The loan package allows for a collapse in dairy markets and either reduces or suspends loan repayments in this scenario.
- Ireland is best place amongst European Dairy Farmers to sustain long period of depressed pricing;
 - Due to grass based, low cost production model of milk production
 - Diverse product range servicing value added nutritional and infant formula sector.
- Co-operative dominated milk processing structure in Ireland will subsidise milk prices to sustain supplier base.



Thank You



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