



1. Presentation / concept

Main business-related social/environmental issue(s) to address

The country is almost completely dependent on imports of all dairy commodities. Milk powders are largely used for reconstitution as ready-to-drink milk (either fresh or UHT). The major players in the market are multinationals like Alaska Milk Corporation (USA) and Nestle (Switzerland).

Segmentation of the market :

- **milk and dairy products that are processed in the Philippines from imported dairy ingredients or imported in retail packed form** => over **98% of total consumption**.
- **locally produced raw-milk by the Philippines dairy farming industry** => less than **2% of total consumption**.

Greatest obstacles to the development of the dairy farming industry :

- **shortage of productive dairy cattle** (limited financial support from the government over the last decades)
- **lack of support from the major dairy products manufacturers** (dairy farmers have to rely on the school milk feeding program to absorb their output)
- **limited farmer education** (poor farm management practices ; lack of technical expertise and experience)

Main features of the project

- Business case basically driven towards the empowerment of the rural communities, with developing a competitive national milk industry and with using the microfinance's best practices
- Strategic plan fully in line with the government policy for the dairy industry
- Vision developed and implemented by DV Fausto, a leading Filipino social entrepreneur with a long track-record

History of the project

"DVF Dairy Farms (DVFDF) began bringing small-hold farmers together with individual investors in the 1990s as a livelihood project for the rural poor. The investors would own the hybrid water buffalo dam (female) and the farmer would feed & care for it; they would share the milk income and offspring, but individual investor risk was not pooled. From 2000 onward the "Gatas ng Kalabaw" brand of DVF Dairy Farms began to sell in Manila stores and then supermarkets and developed a premium to cow's milk and imported UHT products & cheeses. DVFDF buys raw milk from the small-hold farmers, pasteurizes & homogenizes some for milk sales and processes most for cheese and yogurt sales in Manila (2 hrs away)". WBDH

With a 7-year-old niche brand firmly established in the Metro-Manila market, DVF Dairy Farm has experienced what was latent demand and quantified the dimensions of both current and evolving demand.

In 2010, a business-development plan has been launched, consisting in **raising capital with pooling the investor's risk**, with a view to becoming a nation-wide business by 2015 and ASEAN-wide thereafter.

The activities cover the breeding of high-capacity water buffalo and the sale of their raw milk to dairies. This involves the importation of Murrah, Nili-Ravi and Mediterranean water buffalo heifers and semen doses, and working to improve their milk productivity through selective breeding and improved feeding (*extract from the WBDH Business Plan*).

Mission-statement

"**Rebuild rural communities and reduce rural poverty, commercially.**

Milk is meant to be the catalyst for rural revival, but capacity building is equally important as the income DIP is injecting in these communities. It lowers the operating risk for DIP and increases local cohesion and buying power by building a network effect across the countryside". WBDH



Water buffalo dairy holdings (WBDH) – Philippines

Key-CONCEPT

“One distinctive feature of our approach to dairy operation, as pioneered by DVF Dairy Farms (DVDF), is the “*network dairy*”, as opposed to the more usual intensive dairy.

The organizing principal of this network is to build rural communities around the dairy chain that leads to wealthier urban and export markets. In the surrounding area this has already created a new income source that gives families a reason to stay and commit themselves to building a stronger community, instead of fleeing rural poverty, only to end up living in squatter camps in the cities or working as maids abroad”. WBDH

2. Business-model

Products & Services - WBDH	Intrinsic advantages	Intrinsic shortcomings	Quality perceived by customers ?	Added-value perceived by customers ?
Fresh milk & milk drinks	Higher fat content & more protein, vitamin & anti-oxidants than bovine milk	Relatively short shelf life (11 days) within the cold-chain; almost nil outside it	H	H (this product sells for 2 times as much as fresh cow's milk & 5 times UHT)
Cheeses	Richer than others; new types in market	None (long storage life; high acceptance)	H	2 times competing product
Yogurt	<i>Idem</i>	Relatively new	H	M

High (H); Medium (M); Poor (P)

Sales strategy

The ability of large foreign suppliers to “dump” powdered milk in Asian markets, occasionally with the help of their own government’s export or aid agency funds, means the low end of the market will always be risky to enter, because it is so price sensitive. Thus, WBH shall concentrate on premium-value products in which the flavour and nutritional advantages of buffalo milk stand out (*extract from the WBDH Business Plan*).

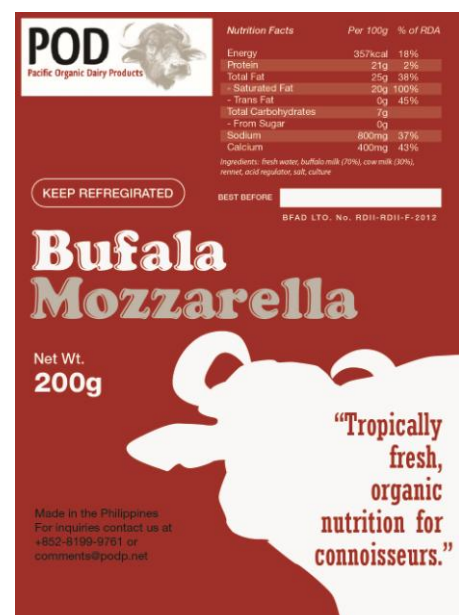
- 1) Boost supply capacity
- 2) Products diversification
- 3) Develop contracts with North-East Asian producers for export
- 4) Work with government and foreign donor agencies to improve nutrition education and milk-feeding programs

Operations

80 to 90 small-hold farmers have partnered with DVDF so far ... against +7.500 being engaged in the milk line all over the country.

Conditions of the partnership with small-hold farmers (6-year contract) :

- each new small-hold farmer-partner is given 2 heifers in trust to graze & care for. A tripartite agreement is signed with the cooperative, its members and WBDH
- the SH farmers receive an income from milk sales and 50:50 sharing of off-spring with WBDH





Water buffalo dairy holdings (WBDH) – Philippines

“Small-hold farmer performance has exceeded expectations, as a whole (...). The nature of our intervention is to train-in skills and attitudes where they are lacking. Our failure **to continually train would raise the operational risk** and reduce the potential return on capital”. WBDH

Organisation

Training sessions to : **Staff & Sales / SH farmers**

- Dairy hygiene, etc - New product development & production - Supply-chain management	Duration to each :	Frequency :	- Animal husbandry - Feed management - Milk management	Duration to each :	Frequency :
	1-2 hrs	twice a month		½ day	Recurring monthly

“The dairy products are only released after extensive testing and market research. However poorly educated farmers must be trained in groups and individually; their output is variable at first and needs regular reinforcement to narrow that variance and raise the standard. **That improved capacity and better social cohesion are actually the major “products” of this project**”. WBDH

Main investment needs & estimated IRR (Internal Rate of Return)

- 2012 is still in a start-up phase, with – as a main objective – to **increase the number of small-hold farmers engaged in the milk production**. It means **acquiring further buffalos from fresh capital raised**.

The herd acquisition plan includes 400 to 600 buffalos by the end of 2013.

- as from 2015, the sales revenues are expected to grow dramatically as a result of the 1st generation of offsprings entering in their lactation period, with the 2nd generation coming soon ... (it takes roughly 35 months between 2 generations)

- the generated profits should allow a second round of herd acquisition as from 2015 – with +/- 700 buffalos purchased in 2016 ... and possibly +/-1000 in 2016 (?)

The herd acquisition plan would require to raise 2,2 million USD over 2013. In this scenario **the break-even is reached in 2014, with sharp increase of the profit as from 2017**.

“The reason we and our initial investors **choose to go for large-scale investment is the expanded social outcome**. The geometric progression of offspring propagation, with a new generation starting lactation after 3 years, ensures a steady profit’s growth over time ... At each of these intervals the return on capital rises, so long as mortality rates hold steady and market demand is strong enough not to reduce prices (hence our aim to develop a strong East Asia export brand. Of course, we hope to spread this "gospel" through franchises across South-East Asia by 2018 too. Maybe Africa will follow our lead and franchise our model by 2020 too”. WBDH

Cashflow Sheet (US\$ 000s)	2011	2012	2013	2014	2015	2016	2017
Net Income	44	-49	-124	495	1 060	1 357	1 522
+ Depreciation accrued	-76	24	-32	-298	-363	-298	-159
+ Decreases (increases) in working capital	-49	39	-123	-329	-342	-236	-237
Cashflow from operations	-81	14	111	-131	355	823	1126
Herd acquisition (buffalos)	-216		-882	-10	-11	-12	-13
Capital expenditures	-21	-12	-835	-11	-236	-362	-12
Cashflow to investments	-237	-12	-1717	-21	-247	-374	-25
= Cashflow balance	-318	2	-1606	-152	108	449	1101

Increase (decrease) in Equity outstanding 349 2205

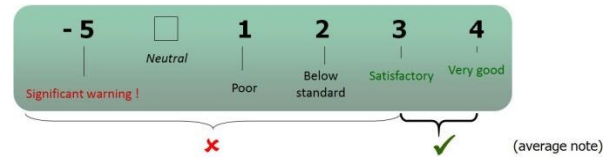
	2011	2012	2013	2014	2015	2016	2017
Total livestock controlled	160	230	700	1 500	2 500	4 000	6 000
SH farmers in program	90	100	180	300	600	1 100	1 500
Livestock in buffer farms	48	60	150	300	500	800	1 200

Projected financial returns over a 5-year period are 2,5x investment cost, or about a 17% IRR, based on dividends and projected exit values



Water buffalo dairy holdings (WBDH) – Philippines

3. Assessment summary (scoring)



Score : 3,11 / 4

		major NEGATIVE weighting	major POSITIVE weighting
LEGAL	Corp. management		Strong management / business skills
	Mission statement		Clear written mission statement
	Stakeholders relation		Strong relations with local actors
	Stakeholders adherence	Slow process of knowledge acquisition with the small-hold farmers	
OPERATING MODEL	Production capacity		Flexible, scalable
	Organisational structure		Proven procedures manual, monitoring tools, MIS
	Innovation & Dvlpt		Good command of technology
	HR management		Jobs creation (SH farmers) an assistance Training, internal communication, incentives ...
MARKET & COMPETITION	Customers		Customers diversification Clear payment policy
	Quality / Reputation		Good products quality and diversification Strong products & services advantages and few shortcomings
	Market and climate	Unsecured breeding during monsoon season (?)	Large-sized market with steady growth
	Competition	Promotion and advertisement to intensify (?)	Weak competition so far (not concentrated market)
FINANCE	Financial statements		Sound financial projections
	Insurance	Livestock not insured so far (no competitive offer vs. mortality rate)	
SOCIAL & ENVIRONMENTAL INITIATIVES			
	Local development		Good to high social / environmental impact along the supply-chain
	Lobbying and awards		Local dialogue, intense networking Unofficial recognition

The beneficiaries of this expansion will not only be the investors and consumers. The design of the network dairy aims to rebuild rural communities. In improving the livelihood of poor farmers who qualify, it creates the means to build a community. By reinvesting part of its proceeds into local social infrastructure, it forms the bonds of community (*extract from the WBDH Business Plan*)

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