



# Chairing high-performing Synlait

By Iain McCormick

Graeme Milne, chair of recently listed Synlait Milk tells Iain McCormick about the company's successful growth strategy and the lead up to its listing. Milne is also a director of FMG (Farmers Mutual Group). His impressive credentials in the development of private sector companies extend also to health sector leadership.



**G**raeme Milne, chair of the recently listed Canterbury dairy company Synlait Milk Limited (SML), is a passionate believer in New Zealand Inc. He argues that the way to build a better and healthier society is to focus on growing a profitable high-value private

sector, thereby enabling the spending of more public money on vital infrastructure, in particular health and education.

Milne, the former CEO of Bay Milk Products, became CEO of the New Zealand Dairy Group prior to the formation of Fonterra. He then became CEO of Richmond, during the hostile takeover by PPCS (now Silver Fern Farms) and subsequently CEO of Bonlac in Australia.

The name 'Synlait' is derived from 'synergy' and 'milk'. The company's roots date from 2000 when the founders purchased the Robindale farm and grew it into a 3000 cow unit. By 2006 the company owned eight farms and a substantial enough milk supply to kick start its own manufacturing site.

It now has an impressive international customer base and considerable capability in spray drying and milk powder technology.

Synlait's strategy is to move beyond ingredients to become a global supplier of infant nutritional and other high value products.

Synlait debuted on the NZX on 23 July this year at a price of \$2.20 and shortly after jumped to \$2.80. The Initial Public Offering (IPO) raised \$75m, which will fund growth in infant formula and nutritional exports. The success of the IPO will boost confidence in the local capital markets.

Milne commented that without the IPO, Synlait would have generated good cash flows that could have funded expansions, but this growth rate would have been suboptimal. The company did not want to increase debt but wished to maintain a strong balance sheet. "So the decision was – shall we grow slowly and watch others move forward or shall we list and move faster.

In the end it was an easy decision,” said Milne. “The IPO also gave an external valuation and liquidity to our shareholders,” he maintained. “It attracted support from institutions in New Zealand, Australia, Singapore and Hong Kong, plus retail investors and the company’s employees and suppliers.”

The IPO had some interesting issues. In 2010 the Chinese firm, Bright Dairy, had become a significant shareholder in the company. The IPO saw its stake in Synlait reduce from 50.1 percent to approximately 39 percent. This represented an issue for Bright as with less than a 50 percent holding, it was potentially no longer able to consolidate the Synlait revenue into its own accounts.

So as part of the IPO preparation, Milne and CEO John Penno talked to Bright’s Chinese auditors and the NZX. An agreement was reached that half the directors, four in total of which one must be a New Zealander, would represent Bright in order to maintain the required degree of control to enable Bright to continue to consolidate the Synlait revenue into their accounts.

“The bookbuild we used to set the share price was an exciting process,” Milne said. “It is a delicate balancing act between price, quantity and getting the right investors. We were very pleased to get a new strategic shareholder in the form of Dutch dairy giant Royal Friesland Campina.” This company is one of the largest dairy co-operatives in the world and also an existing customer of Synlait. So after the IPO, Royal Friesland Campina holds approximately 7.5 percent, Bright Dairy approximately 39 percent, and Mitsui & Co approximately 8.4 percent.

All this may seem like a major achievement until you discover Milne is also among other things, the Chairman of the Waikato District Health Board. The board covers almost eight percent of New Zealand, from northern Coromandel to Mt Ruapehu and from Raglan to Waihi. In 2012/13 the DHB population was 371,540 and it employs more than 6000 people.

Milne explained that whilst there are many similarities at a governance level between private and public organisations

there are also significant differences. The Health Board is a crown entity with some board members elected from the local communities and some appointed by government while, for Synlait, it is the shareholders who appoint the initial group of directors post-IPO.

This means that District Health Boards often have to rely on the appointed directors for finance and governance oversight. When

Milne started on the District Health Board he was initially the only one available to chair the audit committee, for an organisation with a total annual revenue of over one billion dollars! 



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## Synlait – Aiming to be world’s best

In 2012, Synlait was the first ever corporate farming operation to win Lincoln University Foundation’s South Island Farmer of the Year title.

The theme of the award was excellence, leadership and innovation in farming. While a lot bigger than the average family farm, Synlait Farms operates 14 farms on nearly 4000ha on the same principles. The key components of successful family farms – values, rules and behaviour that all members agree to abide by – apply.

In recent years Synlait Farms changed its focus from just getting the basics right to using good data and monitoring systems to ensure excellence in everything it does. More emphasis was placed on innovation. To be really innovative systems had to be repeatable, robust and deliver great results.

Award chief judge Bob Simpson said Synlait Farms’ blend of family-based traditional farming practices with the best of modern corporate innovation and management systems stood out. “Synlait Farms’ approach to its people, its stock and its land can be held up as an example of what can be achieved when good leadership and good people go hand in hand.”

Chief executive Juliet Maclean said Synlait Farms was good at collecting data, but concentrated on worthwhile data and ensuring the data was used. Being nimble and minimising bureaucracy was also essential, especially in a multi-farm business.

Synlait Farms received a \$15,000 travel award which enabled staff to study farming practices overseas and the hosting of a field day on a company property.

*Straight Furrow* reported in April of this year that Synlait aimed to be the best multi-farm dairy business in the world.

