FY18 Annual Results

A transformative year | 22 August 2018

Contents

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Full cream
The milk that's ALL A2
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Results highlights

FY18 highlights

- Total revenue of $922.7 million[1] +68% over the prior corresponding period (pcp)
- EBITDA of $283.0 million +101% on pcp
- Net profit after tax of $195.7 million +116% on pcp
- Strong cash conversion - operating cash flow of $231.1 million +131% on pcp
- EBITDA to sales margin of 31% up from 26% in the pcp
- Basic earnings per share (EPS) of 27.0 cents up from 12.7 cents in the pcp
- Infant formula share strengthening to 5.1% in China[2] and 32% in Australia[3]
- Substantial physical distribution growth to ~10,000 stores in China and ~6,000 stores in the US
- Enhanced strategic partnerships with Synlait and Fonterra

[1] *All figures in NZ$*
[2] *Kantar Infant Formula market tracking of Tier 1 and Key A cities for 12 months ending June 2018 by value (Kantar track a substantial proportion of the total market)*
[3] *Aztec Australian Grocery and Pharmacy Scan value share 12 months ending 30/06/18*

Financial summary

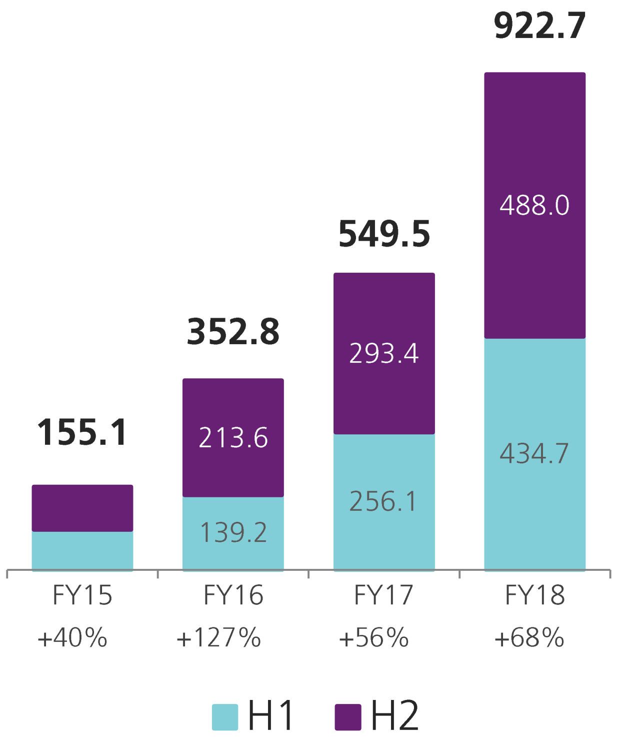
NZ$ million	FY18	FY17	% change	
Revenue	922.7	549.5	+68%	• Reflects strong growth across all regions
Gross margin	464.3	263.5	+76%	• GM of 50.3% reflects higher infant formula sales and favourable currency movements
Distribution	(26.8)	(20.2)	+33%	• Lower relative distribution costs reflects product mix and scale efficiencies
Marketing[1]	(73.6)	(42.0)	+75%	• Increased marketing investment primarily to support growth in China and the US
Employee costs	(34.8)	(23.0)	+51%	• Employee cost increases reflect capability build in core markets and corporate
Administration & other	(46.1)	(37.2)	+24%	• Reflects costs to support business expansion and increased scale
EBITDA	283.0	141.2	+101%	
EBIT	280.9	138.5	+103%	
NPAT	195.7	90.6	+116%	• Improved effective tax rate to 30.9% reflecting lower ratio of tax losses (not tax effected) and non-deductible expenses

NZ$ million	Jun-18	Jun-17	% change	
Cash on hand	340.5	121.0	+181%	• Cash on hand reflects strong NPAT contribution and efficient working capital
Inventory	64.1	28.4	+125%	• Infant formula build to more sustainable levels

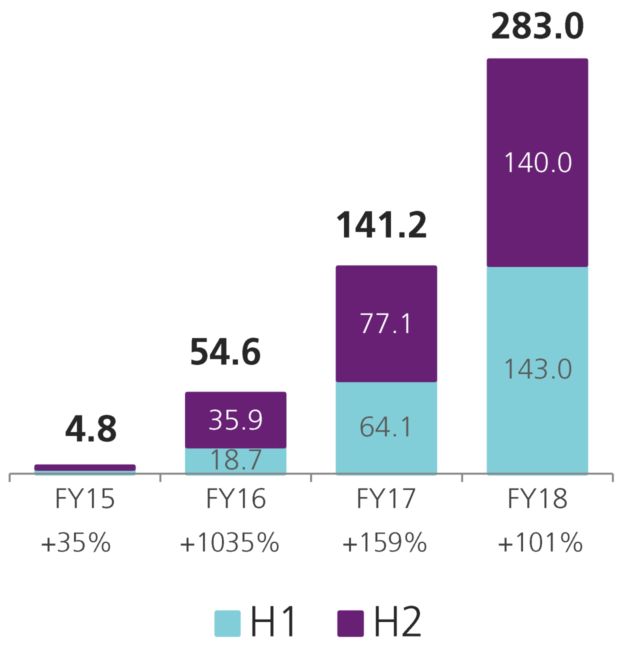
[1] *Consumer marketing excludes China trade marketing costs of ~$10m previously forecast as marketing expense*

Historic perspective[1]

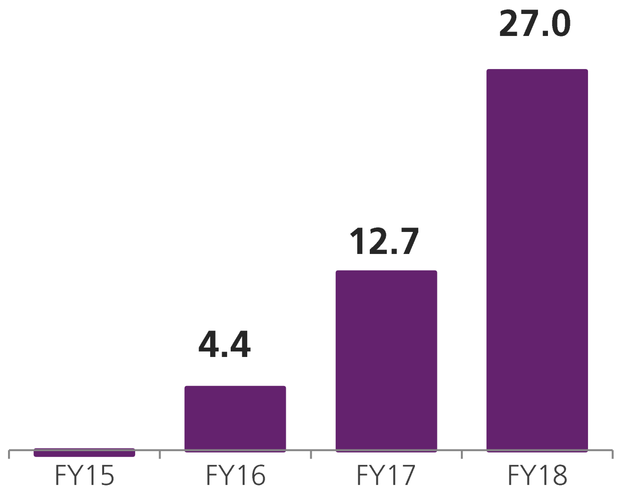
Group revenue (NZ$ million)



Group EBITDA[2] (NZ$ million)



Basic Earnings Per Share (cents)



[1] The Company's financial year ends 30 June; 1H refers to the first half period from 1 July to 31 December; 2H refers to the second half period from 1 January to 30 June
[2] EBITDA is a non-GAAP measure and represents earnings before interest, tax, depreciation and amortisation, and is shown before non-recurring items

Geographic and product segment performance

NZ$ million		Australia & New Zealand	China & other Asia	UK & USA[2]	Corporate	Total Group
FY18	Revenue	656.6	233.6	32.4	-	**922.7**
	EBITDA[1]	262.2	81.3	(27.6)	(32.8)	**283.0**
	EBITDA %	39.9%	34.8%	NM	-	**30.7%**
FY17	Revenue	439.6	88.9	21.0	-	**549.5**
	EBITDA	155.3	32.7	(22.5)	(24.4)	**141.2**
	EBITDA %	35.3%	36.8%	NM	-	**25.7%**
% Change	Revenue	49.4%	162.9%	54.1%	-	**67.9%**
	EBITDA	68.8%	148.2%	NM	34.2%	**100.5%**

Revenue

Segment	Revenue	Change
Liquid milk	**$142.4m**	+13.1% on pcp
Infant nutrition	**$724.2m**	+83.8% on pcp
Other nutrition	**$56.1m**	+89.2% on pcp

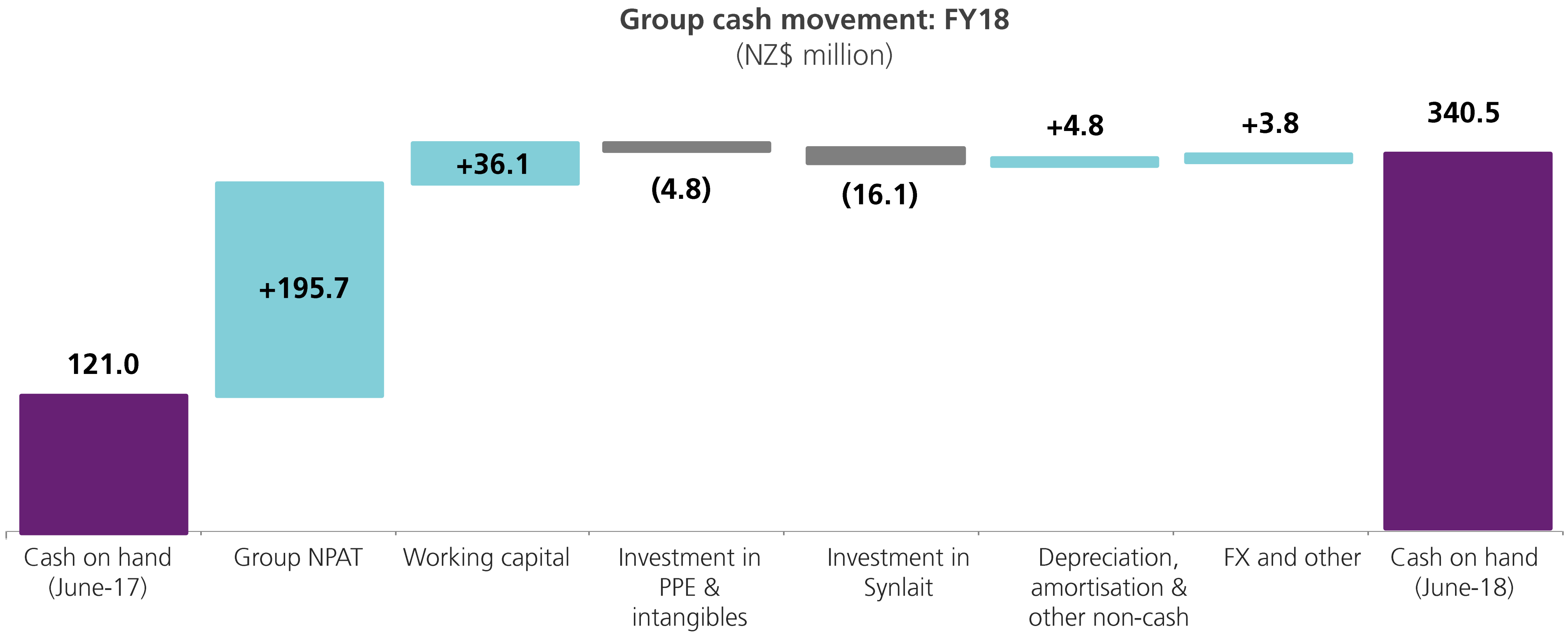
[1] *EBITDA is a non-GAAP measure and represents earnings before interest, tax, depreciation and amortisation*
[2] *UK & US Operating EBITDA includes $2.2 million in impairment charges in FY17*

Reconciliation of non-GAAP measures

NZ$ million	FY18	FY17
Australia & New Zealand segment EBITDA	262.2	155.3
China & other Asia segment EBITDA	81.3	32.7
UK & USA segment EBITDA[1]	(27.6)	(22.5)
Corporate EBITDA	(32.8)	(24.4)
EBITDA[2]	283.0	141.2
Depreciation/amortisation	(2.2)	(2.7)
EBIT[2]	280.9	138.5
Net interest income	2.4	0.9
Income tax expense	(87.5)	(48.7)
Net profit for the period	195.7	90.6

[1] UK & US Operating EBITDA includes $2.2 million in impairment charges in FY17
[2]EBITDA and EBIT are non-GAAP measures. However, the Company believes they assist in providing investors with a comprehensive understanding of the underlying performance of the business

Continued strong cash conversion



- Working capital benefitted from improved customer terms and includes increase in infant formula inventory

Strategic progress

Macro consumer trends support our momentum

Growing consumer demand for health and wellness products

Food safety, naturalness and provenance

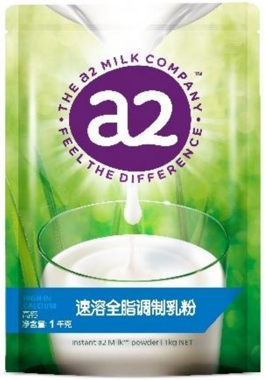
Growing middle class in Asia

How we are unique

- Single-minded focus
- Unique, modern and premium brand
- Innovative and agile approach
- Focussed investment in brand, IP and growth
- Capital-smart approach
- Australia and New Zealand sourcing for Asia Pacific

New products & markets

a2 Milk™ powder into China and Vietnam



a2 Milk™ into Singapore

a2 Platinum® Stage 4 into ANZ and China[1]

a2 Platinum® Pregnancy into ANZ and China[1]

a2 Milk™ into NZ (July FY19)

a2 Platinum® into Hong Kong

a2 Milk™ into SE and NE USA

a2 Milk™ blended with Mānuka honey into ANZ

[1] *Cross border e-commerce (CBEC)*

Enhanced strategic partnerships

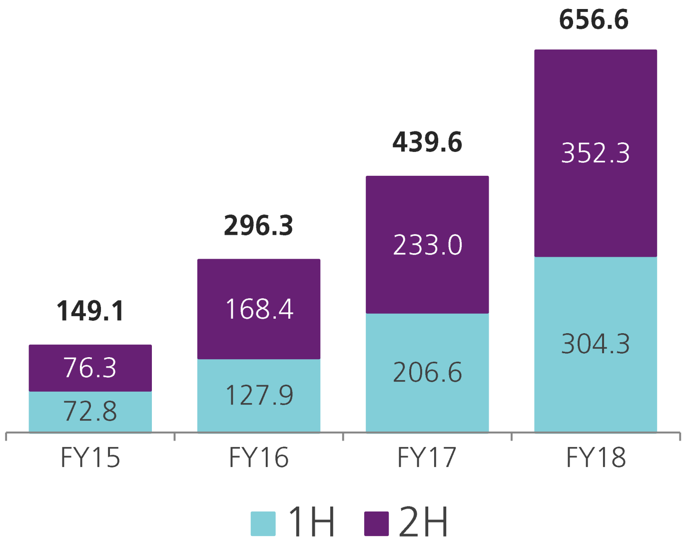
- **Synlait Milk**
  - Foundation infant nutrition partner
  - Multiple NZ manufacturing sites
  - Exclusive supply partnership for infant and pregnancy powdered nutrition in ANZ and China
  - New product innovation capability
  - Enhanced supply agreement (announced July FY19)
  - Increased shareholding to 17.4% (August FY19)

- **Fonterra Co-operative Group**
  - New comprehensive agreement announced February FY18
  - Multiple Australian and NZ manufacturing sites
  - Exclusive supply rights for infant nutrition in new emerging markets (Other Asia, Middle East) and potential to develop new non-infant nutrition products globally
  - NZ fresh milk license (launched in limited supply from July FY19; national rollout in October)

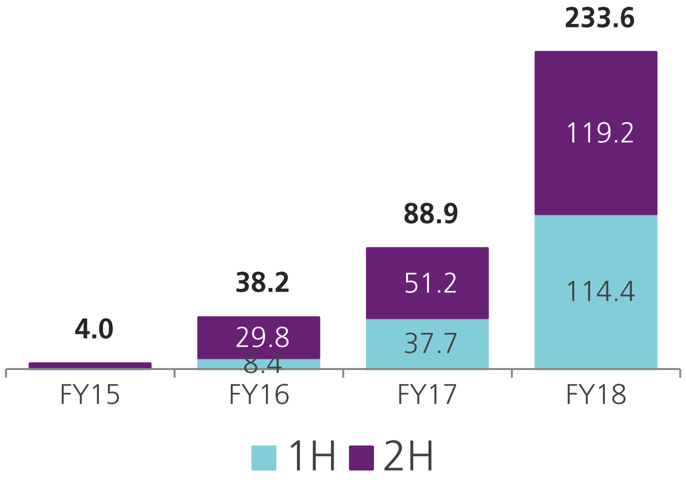
Regional performance

FY18 regional performance overview (NZ$ million)[1]

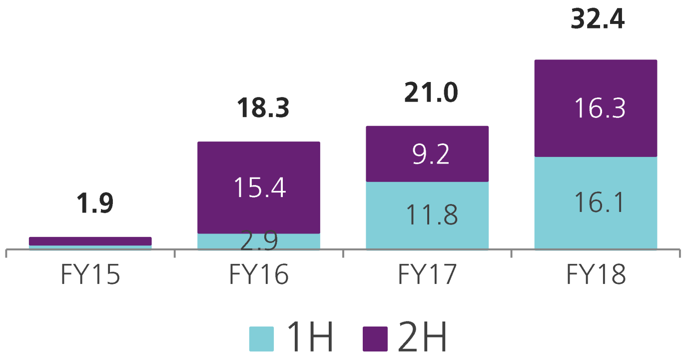
ANZ revenue



China & Other Asia revenue



UK & US revenue[2]



- **Revenue:** $656.6 million
- **EBITDA:** $262.2 million

- **Revenue:** $233.6 million
- **EBITDA:** $81.3 million

- **Revenue:** $32.4 million
- **EBITDA:** ($27.6) million

[1] The Company's financial year ends 30 June; 1H refers to the first half period from 1 July to 31 December; 2H refers to the second half period from 1 January to 30 June
[2] UK & USA Segment revenue includes ~$15m revenue contribution in FY18 from infant formula sold to UK exporters

Australia and New Zealand

- Continued outstanding ANZ revenue and earnings performance
- a2 Milk™ branded fresh milk achieved record value market share of ~9.8% from ~9.3%[1] in pcp
  - Further share growth to ~10% in the latest quarter[2]
  - Revenue grew ~4% on pcp
- Strong growth in a2 Platinum® infant formula:
  - Number one infant formula brand in Australia, market value share increased from ~26% to 32%[3]
  - a2 Platinum® Stage 4 (launched August 2017) performed above plan
  - Launched online platform to improve access for Australian parents
  - Packaging changeover progressing in line with expectations
- Other nutritional products revenue significantly higher than in pcp
  - Healthy whole milk powder and skim milk powder sales growth
  - Mānuka & Pregnancy products launched 4Q18
- Highest national brand advertising spend in both infant formula and milk categories

[1] Aztec Australian Grocery Weighted Scan 12 months ending 30/06/18 vs YA
[2] Aztec Australian Grocery Weighted Scan Qtr ending 30/06/18
[3] Aztec Australian Grocery and Pharmacy Scan 12 months ending 30/06/18 vs YA

China and other Asia

- Exceptional performance for the China and other Asia business
- Flexible multi-product, multi-channel infant formula strategy:
  - Kantar consumption market share by value increased from ~2.8% to ~5.1%[1]
  - Distribution in China Mother Baby Stores (MBS) increased to ~10,000 stores
  - China Label accounted for ~12% of Group infant formula sales, up from ~6% in FY17
  - Direct sales into China increased significantly in cross border e-commerce channels (CBEC)
  - Successful participation in key seasonal online sales events in China during first half
- Growing brand awareness driven by increased sales and marketing investment in new brand campaign, social media and big digital activation events with live streaming
- a2 Platinum® infant formula launched in Hong Kong through high-end pharmacy outlets in September
- Continued to build local China capability
- SEA initiatives progressing well with fresh milk in Singapore, milk powder in Vietnam and new agreement with Yuhan Corporation in South Korea

[1] *Kantar Infant Formula market tracking of Tier 1 and Key A cities for 12 months ending June 2018 vs 12 months ending 30/06/17 by value (Kantar track a substantial proportion of the total market)*

China infant formula regulatory environment

Key regulatory milestones continue to be actively managed and achieved:

- CFDA[1] registration achieved by Synlait Milk for the Company's China label infant formula in September 2017
  - Newly-registered China label packaging launched to the market June 2018; transition and performance of new pack proceeding well
- Synlait Milk CNCA[2,3] infant formula applications progressing:
  - New Auckland facility registered with MPI[4]; infant formula CNCA registration/application progressing well
  - CNCA registration renewal process at Dunsandel facility continues; re-application is required by Chinese authorities for all international facilities

China's regulatory organisation continues to evolve and Company continues to actively monitor China's regulatory framework:

- CBEC grace period scheduled to expire in Dec 2018; market expects further announcements closer to that date
- A number of China regulatory bodies have consolidated under a new State Administration for Market Regulation (SAMR) to streamline regulatory processes
  - SAMR assumes responsibility for formula registration and enforcing advertising regulations in market
  - China customs now assumes responsibility for plant registrations[3], import requirements, testing and product clearance

[1] China Food and Drug Administration (CFDA)
[2] Certification and Accreditation Administration of the People's Republic of China (CNCA)
[3] CNCA (split into China Customs & SAMR) – CNCA plant registration will be managed in the future by China Customs
[4] Ministry of Primary Industries (New Zealand)

UK & USA

UK

- a2 Milk™ branded fresh milk volume increased more than 50% on pcp; continues to be a challenging market to deliver scale
- Company will transition between suppliers early in FY19; not anticipated to create any disruption to stock availability

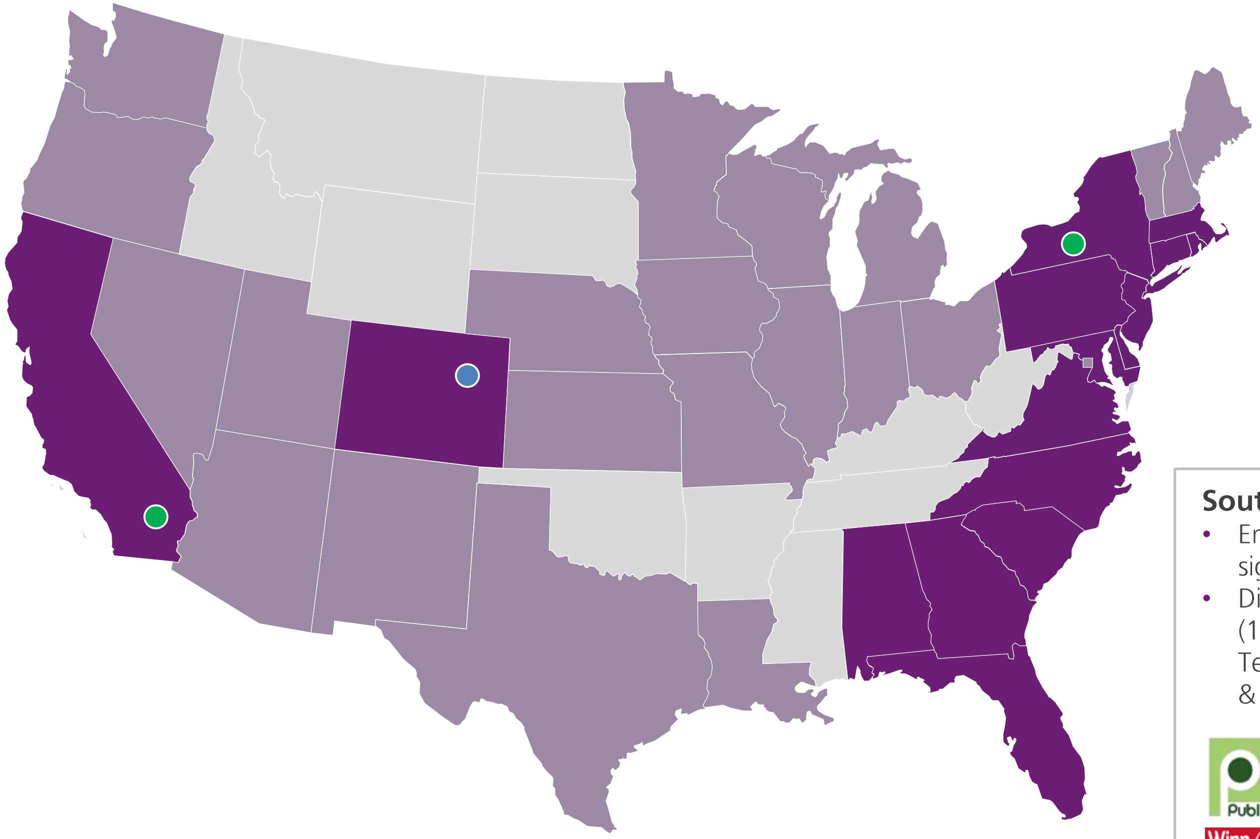
USA

- Sales more than doubled year on year
- Distribution increased from ~3,000 to ~6,000 stores including Wegmans, Whole Foods, Ahold and more recently Costco and Walmart in select regions
- Brand awareness and national profile continues to build, supported by national advertising and active editorial and digital media programme
- Velocity growth continues with particularly strong performance in the natural channel (including Whole Foods & Sprouts)
- Opportunity to more quickly build distribution and brand awareness on a national basis sees revised outlook:
  - Planned investment for FY19 is ~US$22 million; anticipating positive monthly EBITDA within three years
  - Investment primarily relates to marketing expenditure, sales activation and capability in market

US distribution footprint

Legend

- Broad distribution
- Limited distribution
- No current distribution
- Processing and milk supply
- US office, Boulder, Colorado



California

- Launched April 2015
- Distribution in Sprouts, Whole Foods, Kroger & Safeway, Target & independent retailers

Northeast

- Entered market Jan 2018
- Improved speed of distribution build
- Whole Foods Northeast and major roll-out to over 1,400+ stores including ShopRite, Ahold Banners (Giant and Stop & Shop) Wegmans, and Market Basket

Southeast

- Entered March 2017 with significant and steady growth
- Distribution includes Publix (1,100 stores), Winn Dixie, Harris Teeter, Ingles, Earthfare, Costco & Walmart

Outlook

Outlook

- Anticipate further growth in revenue particularly in respect of nutritional products in ANZ and China, and liquid milk in the US
- Focus on growth initiatives in targeted emerging markets and new product development will continue
- Marketing expenditure as a percentage of sales expected to be higher than FY18 given continued investment in Australian market, re-phasing of 2H18 activities in China, and US market expansion investment support
- Overhead costs expected to be higher than FY18 – primarily headcount in China & Corporate to support continued growth
- Expect EBITDA to sales ratio broadly consistent with FY18
- Board continues to consider appropriate use of capital to support Company's growth strategy and supply chain development
- Includes review of opportunities to invest in blending and canning capability where appropriate as part of longer-term nutritional products sourcing arrangements

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