



Half year interim results FY19

Jayne Hrdlicka | Managing Director & CEO | 20 February 2019



Record results and step changing investment for the future

Record financial results in 1H19, continuing strong momentum

- Group revenue: \$613.1 million¹ +41.0%; EBITDA²: \$218.4 million +52.7%
- Net profit after tax: \$152.7 million +55.1%
- Strong balance sheet with closing cash balance: \$287.9 million

Record market share positions underpin strong results in each region

- Infant formula consumption market share in China of 5.7%³; China label revenue +82.6%, brand leadership in Australia at 35.7%⁴
- US sales growth +114.1% (USD) and over 10k store distribution
- Australian fresh milk value share 10.8%⁵, revenue +11.7% (AUD)

Step changing investment for the long term health of our brand and core markets

- Accelerating strategic investment in consumer insights, brand and organisational capability
- Marketing spend +75% in first half (#1 priority China, #2 priority USA)
- Number of new senior and broader team hires, focussing on China, NPD and capacity for continued growth and resilience
- Building both depth and breadth of organisational capability and infrastructure



¹ All figures quoted in New Zealand Dollars (NZ\$) and all comparisons are with the six months ended 31 December 2017 (1H18), unless otherwise stated

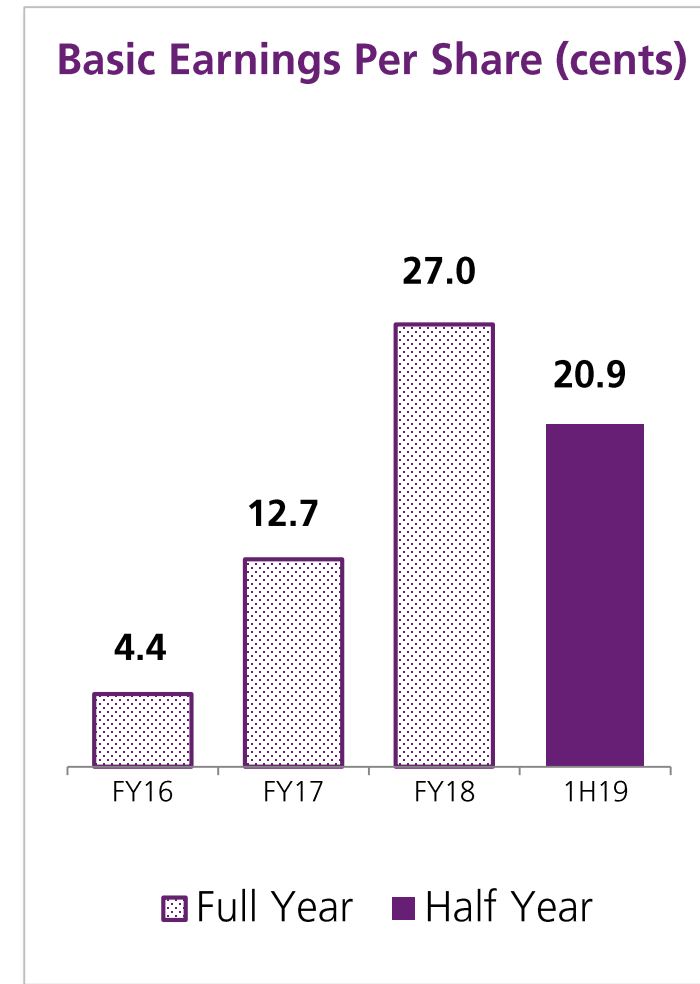
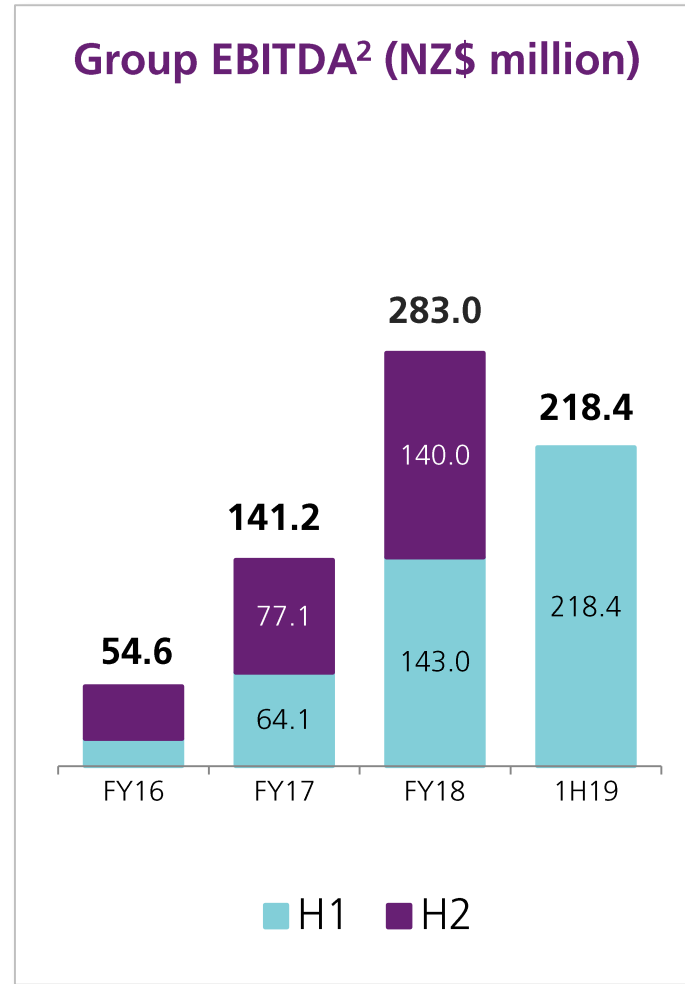
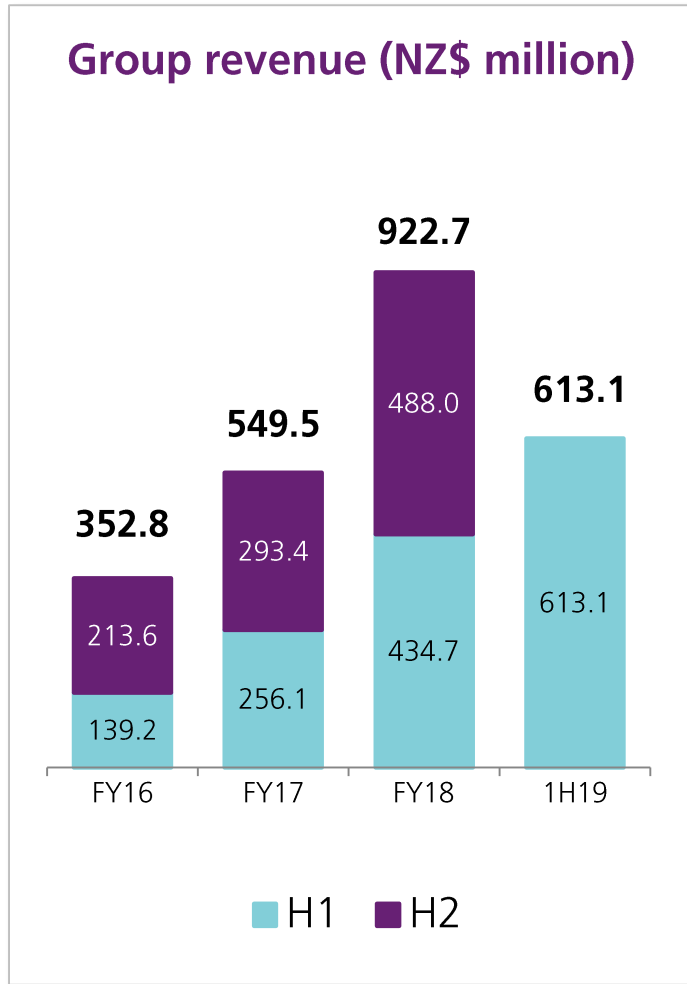
² Operating EBITDA is a non-GAAP measure and represents earnings before interest, tax, depreciation and amortisation

³ Kantar Infant Formula market tracking of China Tier 1 and Key A cities for 12 months ending 28 December 2018 by value

⁴ Aztec Australian Grocery and Pharmacy Scan 12 months ending 30 December 2018

⁵ Aztec Australian Grocery Weighted Scan 12 months ending 30 December 2018

Key financial charts¹ – continuing strong momentum



¹ The Company's financial year ends 30 June; H1 refers to the first half period from 1 July to 31 December; H2 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



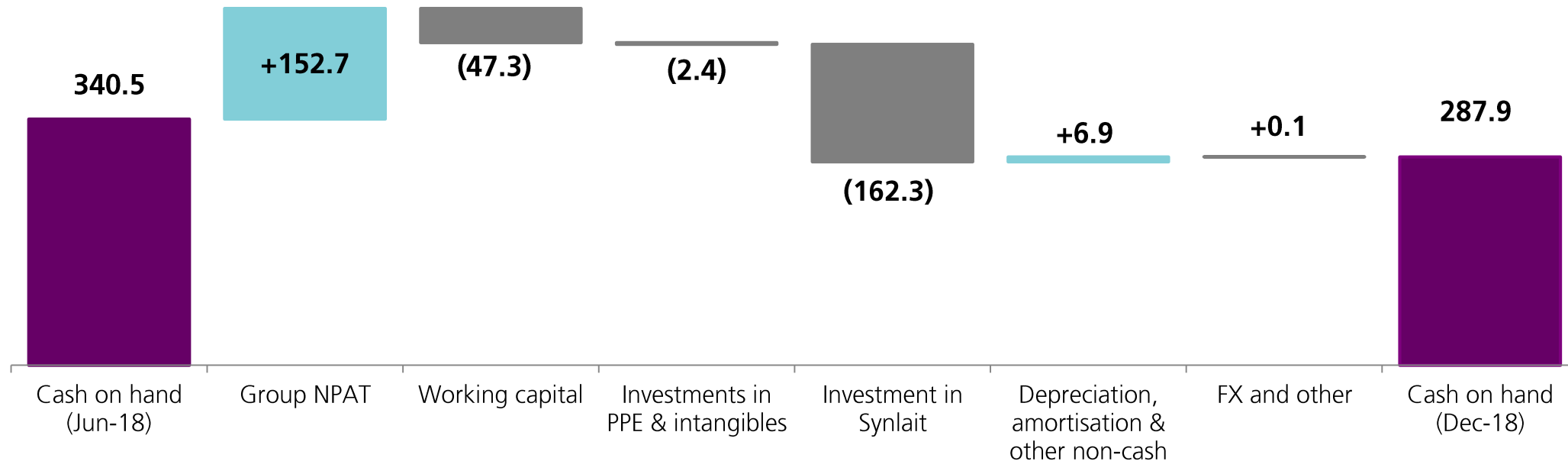
Financial summary – step changing investment

NZ\$ million	1H19	1H18	% change	
Revenue	613.1	434.7	+41%	• Reflects continuing strong growth across key regions
Gross margin	340.6	216.5	+57%	• GM of 55.6% reflects benefits of scale and mix (higher proportion of infant formula sales), partially offset by currency movements (most notably a weaker AUD)
Distribution	(14.8)	(13.0)	+14%	
Marketing	(45.5)	(26.0)	+75%	• Increased marketing investment primarily to support growth in China and the US
Employee costs	(27.4)	(16.4)	+67%	• Employee cost increases reflect capability build in core markets and corporate
Administration & other	(34.5)	(18.0)	+91%	• Reflects strategic investment in consumer insights and costs to support business expansion
EBITDA	218.4	143.0	+53%	
EBIT	217.4	141.9	+53%	
NPAT	152.7	98.5	+55%	
NZ\$ million	Dec-18	Jun-18	% change	
Cash on hand	287.9	340.5	-15%	• Cash on hand reflects strong NPAT contribution, offset by investment in Synlait
Inventory	72.8	64.1	+13%	• Increase in infant formula inventories; includes \$35.3m of goods in transit



Cash position – strong balance sheet

Group cash movement: 1H19
(NZ\$ million)



- Working capital movement reflects timing of tax and supplier payments, impact of revenue phasing on debtors and increased infant formula inventory
- Increased investment in Synlait to 17.4% shareholding in August 2018



Geographic and product segment performance

Geographic segment revenue & EBITDA						
NZ\$ million		Australia & New Zealand	China & other Asia	UK & USA	Corporate	Total Group
1H19	Revenue	418.4	171.7	23.0	-	613.1
	EBITDA ¹	192.0	68.4	(14.6)	(27.4)	218.4
	EBITDA %	45.9%	39.9%	NM	-	35.6%
1H18	Revenue	304.3	114.4	16.0	-	434.7
	EBITDA	116.4	48.3	(8.4)	(13.3)	143.0
	EBITDA %	38.3%	42.3%	NM	-	32.9%
% Change	Revenue	37.5%	50.1%	43.1%	-	41.0%
	EBITDA	64.9%	41.6%	NM	105.2%	52.7%

Product segment revenue		
Liquid milk	Infant nutrition	Other
83.4	495.5	34.2

69.4	341.0	24.3
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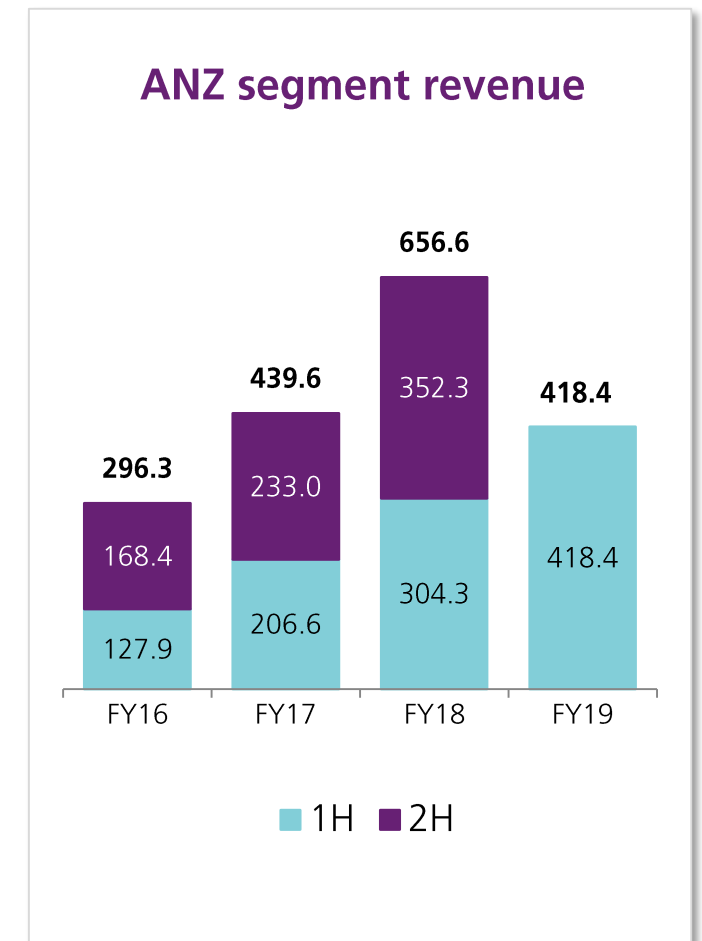
20.2%	45.3%	40.4%
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¹ EBITDA is a non-GAAP measure and represents earnings before interest, tax, depreciation and amortisation



Australia goes from strength to strength

- Continued strong performance across all key product segments: liquid milk, infant formula and other nutritional products with strong underlying brand health
- *a2 Milk*[™] branded fresh milk, our most mature business, achieved record value market share of ~10.8%¹ and revenue growth of 11.7%²
- *a2 Platinum*[®] infant formula remains brand market leader: value share grew from ~32.0% to 35.7%³
- No. 1 advertised brand in both milk and infant formula categories
- Other nutritional products revenue grew 37% on prior year
 - Includes Pregnancy and Mānuka products launched in 4Q18



¹ Aztec Australian Grocery Weighted Scan 12 months ending 30/12/18. Note, the market share reporting database has been updated in current period to include Costco, Aldi SA & Aldi WA

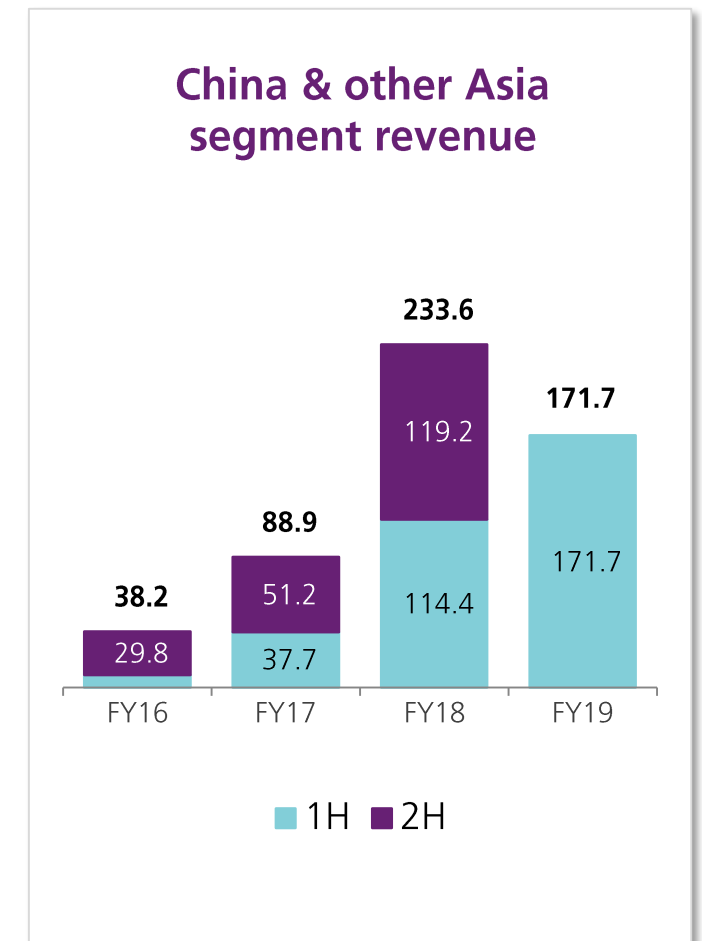
² In AUD

³ Aztec Australian Grocery and Pharmacy Scan 12 months ending 30/12/18 vs 12 months ending 30/06/18



China performing well

- Infant formula consumption market share growing across China
 - 5.7% Kantar Tier 1 & Key A cities market value share, up from 5.1% as at 30 June 18¹
 - 5.4% Kantar Tier 1, Key A, B, C & D cities market value share up from 4.7% as at 30 June 18²
- Our unique multi-channel strategy continues to provide strength
- China label revenue +83% through Mother Baby Stores (MBS)
 - In-store velocity growth outpacing distribution build
 - China MBS store distribution at ~12,250 stores
 - In-store productivity and building store distribution remain a focus moving forward
- Cross border e-commerce (CBEC) remains a key pathway
 - *a2 Platinum*[®] brand ranked #2 infant formula brand during 11/11 e-commerce festival across four key e-commerce platforms and *a2 Platinum*[®] Stage 3 was the top selling product overall³
- Accelerating marketing investment to further grow brand awareness, to leverage high loyalty and trust



¹ Kantar Infant Formula market consumption tracking of China Tier 1 and Key A cities for 12 months ending 28 December 2018 by value vs 30 June 2018

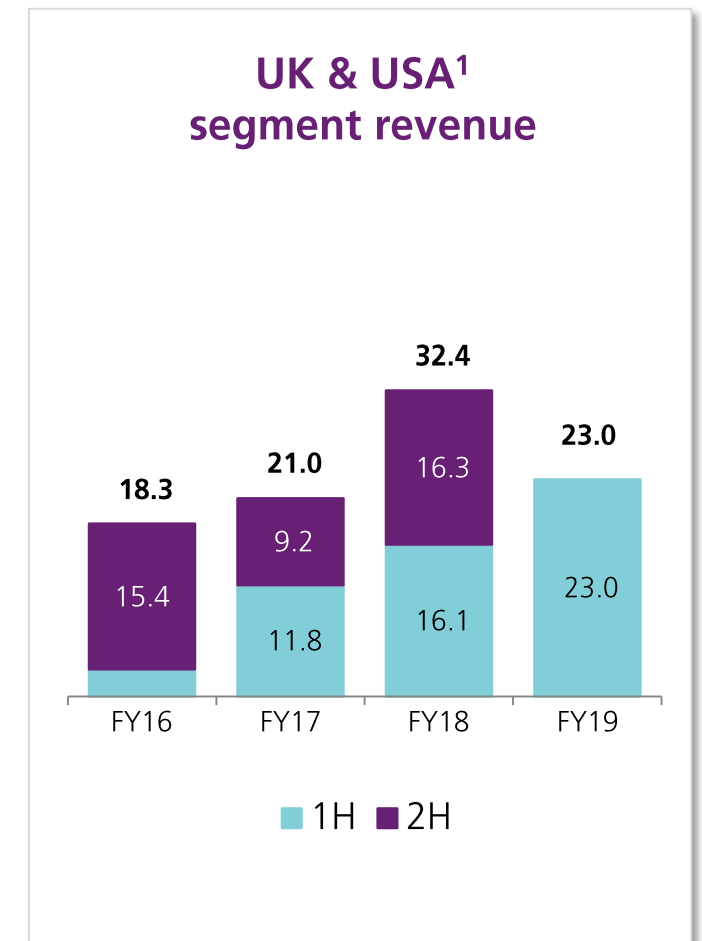
² Kantar Infant Formula market consumption tracking of China Tier 1, Key A, B, C and D cities for 12 months ending 28 December 2018 by value vs 30 June 2018

³ CBEC ranking provided by platforms: Tmall, JD, Kaola and Yunji



US momentum building

- a2 Milk™ building sales velocities
 - Revenue more than doubled, up 114.1%²
 - Strongest sales velocities in accounts where a2 Milk™ ranged >2 years
- Distribution increased from ~6,000 stores (June 18) to over 10,000 stores (Dec 18)
 - ~12,400 by end of January 2019
 - Driven by national distribution within Kroger supermarket chain, three new regions within Costco; additional Vons and Safeway stores and further Walmart distribution
 - Rate of distribution growth in January driven by building brand awareness and new store planogram reset timings within the respective retail chains
 - Second half will continue to focus on increased distribution and there will also be a focus on improving in-store productivity in relatively newer stores
- National brand advertising delivering further increases in brand awareness and rate of sale
 - The brand is successfully growing category consumption and sourcing volume across multiple product segments
 - Increased investment in 2H19 to support continued velocity growth; planned investment for FY19 is now approximately US\$27 million and we expect to achieve positive monthly EBITDA during 2021



¹ UK & USA segment revenue includes ~\$7.8m revenue contribution in 1H19 from infant formula sold to UK exporters (~\$8.5m in 1H18)

² In USD



FY19 outlook¹

- In the first half the Company has invested strongly in both internal and external capability to better understand our Chinese consumers, channel dynamics and ways of improving brand awareness
- Following a very strong first half performance, and encouraged by growing market share in China, the Company is now in a position to reinvest the benefits of scale into increased marketing activities in the second half. This is intended to drive brand awareness, predominantly in China, and the US. Increased brand and marketing investment is expected to continue into FY20
- The Company expects the Group revenue growth rate in the second half to continue broadly in line with the first half. The increased investment in brand building in 2H19 is expected to support revenue growth in FY20 and beyond
- Second half EBITDA margins will consequently be lower than first half, with full year FY19 EBITDA as a percentage of sales expected to be approximately 31-32%. This is due largely to:
 - Marketing investment in 2H19 to approximately double 1H19
 - Continued investment in building organisational capability

¹ The Company's forecast has been calculated using exchange rates as at 31 December 2018





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Appendix



Reconciliation of non-GAAP measures

NZ\$ million	1H19	1H18
Australia & New Zealand segment EBITDA	192.0	116.4
China & other Asia segment EBITDA	68.4	48.3
UK & USA segment EBITDA ¹	(14.6)	(8.4)
Corporate EBITDA	(27.4)	(13.4)
EBITDA ¹	218.4	143.0
Depreciation/amortisation	(1.0)	(1.1)
EBIT ¹	217.4	141.9
Net interest income	1.6	0.8
Income tax expense	(66.3)	(44.2)
Net profit for the period	152.7	98.5

¹EBITDA 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



Geographic and product segment performance

NZ\$ million		Australia & New Zealand	China & other Asia	UK & USA	Total Group
1H19	Liquid milk	67.1	1.1	15.2	83.4
	Infant nutrition	321.6	166.1	7.8	495.5
	Other	29.7	4.5	-	34.2
	TOTAL	418.4	171.7	23.0	613.1
1H18	Liquid milk	61.1	0.8	7.5	69.4
	Infant nutrition	221.5	111.0	8.5	341.0
	Other	21.7	2.6	-	24.3
	TOTAL	304.3	114.4	16.0	434.7
% change	Liquid milk	9.8%	45.5%	102.1%	20.2%
	Infant nutrition	45.2%	49.7%	-8.9%	45.3%
	Other	37.2%	66.8%	-	40.4%
	TOTAL	37.5%	50.1%	43.1%	41.0%

China regulatory environment

- The Chinese government issued a number of regulatory updates during the half with respect to e-commerce and CBEC across all products and services. A new e-commerce law (effective 1 Jan 2019) and CBEC policy framework (effective 31 March 2019) together confirmed:
 - A strengthening of compliance obligations for e-commerce operators (domestic and CBEC)
 - English label infant formula and milk powder products can continue to be sold via CBEC as imports for personal use¹
 - A continuation of preferential tax rates for imports via CBEC bonded warehouse zones
 - An increase to the number of approved CBEC bonded warehouse zones across China
- Synlait Milk facility registrations progressing:
 - Late December 2018, Synlait Milk obtained registration renewal of its Dunsandel plant with the GACC² allowing Synlait to continue to export canned infant formula to China; Auckland plant has achieved GACC dairy registration and is progressing with the GACC infant nutrition process

¹ Provided CBEC participants adhere to the responsibilities as outlined in the policy framework by 31 March 2019

² General Administration of Customs of the People's Republic of China



Disclaimer

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