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Managing Director and CEO 2019 Annual Meeting Address

I'd like to welcome those of you in the room and those joining us via webcast. Thank you for your interest in The a2 Milk Company – this is indeed a special company.

We are delighted to be here in Auckland for this year's Annual Meeting. New Zealand is where Dr Corrie McLaughlan and Howard Paterson founded the company with the intention that it "was not merely a company with a good financial future but was also destined to do good for human health globally."

Fast forward nearly 20 years to now, and The a2 Milk Company continues to have a very strong sense of purpose; we feel a strong sense of responsibility to improve the quality of people's lives. This was at the foundations of our company in New Zealand in 2000 and is still at the heart of everything we do today.

We have changed a lot as a company over the last two decades and are engaged now on the next phase of our evolution. In FY19, we kicked off a journey to step up the role we play as a unique, premium and modern dairy nutritional company. This has led us to clarity on how much potential we have remaining in our core business in the two largest consumer markets in the world – Greater China and the US.

The growth potential of these markets for our company is significant and energising. So, while we will continue to be informed by our past and preserve what makes us who we are - our passionate purpose, our deep-seated core values, and our company culture - we are also clear about what is required to step up and into our potential as a company.

Strategy recap

Our strategy at the highest level gives us three clear priorities. The first is to maximise growth from existing products in core markets; the second is to broaden our product portfolio in core markets with core consumers and the third is to take a careful and considered approach to expanding into other targeted markets and/or different consumer groups.

These priorities translate into four team objectives that underpin our financial targets and form an important part of our balanced scorecard. The first is to build capability in China and ANZ to support the delivery of our ambitions; the second is to accelerate growth in the US; the third is to build sustainable brand leadership across our core markets; and the fourth is to ensure our organisation has the right people, tools and partners to enable our growth.

For this phase of our business, we consider the most important metrics to measure our success are a series of brand metrics in core markets - awareness, trial and loyalty conversion; share of category consumption; absolute revenue growth; and healthy underlying gross margins, by product categories.

Delivering on our priorities requires investment in people, brand and infrastructure, which includes technology.

We have enhanced our people plan by adding new skills and capability across the total organisation in key areas such as consumer insights, marketing, strategy, sales and commercial growth, technical and human resources and we are pleased with how our new team members are settling into, and contributing to, the organisation. This includes good progress in building our local China team and empowering them to grow a strong and capable organisation that will enable us to stay ahead in this dynamic market. Expanding our team thoughtfully, quickly and in line with our purpose and values, is critical to realising our growth strategy.

Our brand investments are building both broader awareness in our target market segments and driving trial and consumer engagement. We continue to see encouraging results from several in-market tests in China which will be scaled up during the second half alongside an exciting new advertising campaign that launches in December in the lead up to Chinese New Year. In the US we have launched a new advertising campaign and impactful new packaging which is all contributing to increases in brand awareness and sales velocities in our key accounts.

We also have a unique opportunity to step-change our information systems, data usage and technology-based tools more broadly. Without the burden of significant legacy systems, we have a great opportunity to put in place state-of-the-art digital data and technology tools to enable our business growth strategy. These projects will be phased over the course of the next three years.

We commenced execution of our sharpened strategic focus in the second half of FY19 and are progressing well into FY20.

I'd like to take some time now to talk in more detail about our two most significant regions: Greater China and the US.

Regional deep dive – Greater China and ANZ

Our China strategy entails building a broad reaching China-based business to serve our consumers across all core retail channels. This strategy is designed to ensure we are serving the full addressable market and building our business to evolve dynamically in a fast-changing consumer world in China. Despite the considerable success we have enjoyed, we are only just beginning on the journey to our full potential in this market. Delivering on sustainable long-term success requires excellence in execution across all the channels important to consumers.

The evolving nature of the daigou network is an example of the dynamic nature of the China market. We have for some time now referred to all Australian reseller activity as 'daigous' (which translates to 'personal shopper'). These daigous are sourcing products direct from Australian retail outlets or directly from us as a company. However, this Australian 'reseller' network is evolving well beyond being just 'personal' shoppers. Australian resellers are now more sophisticated using a combination of web-based selling tools, commission-based selling, tapping into social e-commerce networks and other channel pathways into China. So, we believe we also need to continue to improve the way we engage these channels to accurately track and measure a range of Australian reseller activity as the product flows from them to a combination of 'new generation' trade customers and consumers. We have a long history of working well in these channels and we will not take our eye off that ball.

It's also important to understand that, whilst we are performing very well within the Australian reseller network, this pathway into China serves only a small part of the total addressable market opportunity. So, in order to realise our very significant potential, we need to be able to significantly increase our ability to execute effectively in other channels, including mother and baby stores (MBS) and cross border e-commerce (CBEC) channels, while still maintaining our excellence in Australian-based reseller channels.

Channels outside what is sourced directly from Australia account for ~90% of the market's infant nutrition category value. We are significantly under-developed in the majority of these strategically important channels to consumers. So, whilst the Australian-based reseller channels will continue to be strategically important for us, and a continued source of market strength, this pathway into China represents only a small part of the total infant nutrition market and is unlikely to grow at the levels it has historically. That is why we're clear as a team that building a sustainable long-term China business requires serving *all* major established and emerging channels well. This requires continued investment in capability and tools to understand each unique channel in a constantly evolving market.

The great news is that our brand is demonstrating strong potential amongst Chinese consumers. Our research (supported by other publicly available studies) shows we have a very loyal consumer following. When you couple this with relatively low brand awareness, it reveals that there is a significant opportunity to accelerate our brand scale by step-changing brand awareness and trial. This is especially exciting when you combine the benefits of increasing our brand awareness with broadening our channel distribution to build a significantly more robust and sustainable China-based business.

Despite the declining birth rates in China the premium infant nutrition category trends remain positive. Premiumisation, increasing household penetration and increasing usage are all contributing to our view of attractive long-term category growth prospects in China.

In order to accelerate the execution of our strategy, we took a considered strategic decision in 2H19 to significantly step up our investment in brand, people and infrastructure. Our progress thus far in the first half FY20 is very encouraging and, given that we are 6 weeks away from the close of this half we have confidence in providing a detailed first half outlook, which demonstrates progress being made in the early stages of our strategy execution.

The results of the 11/11 China e-commerce sales event, also known as Singles' Day were very positive. We had another strong performance during this important promotional event. In JD.com, our a2 Platinum® Stage 3 was the top selling infant nutrition product in cross border e-commerce, and we were the second best-selling brand overall. In Tmall, we were the number three infant nutrition brand overall (English and China label combined) across the e-commerce platform and we were the number one CBEC flagship store.

Our latest Kantar MAT share is 6.4%. A single source for reliable market share data in a market as fast moving and complex as China is impossible to obtain. Kantar remains the best single metric for consumption but under represents our share of stages 3 and 4. This is for a variety of reasons, but principally due to Kantar only tracking children's consumption from 0-3 years of age across select Key & A, and B, C, D cities. Internally we use a methodology to triangulate several sources of data, including Kantar, Nielsen MBS data and Smartpath e-commerce data plus internal product movement data to formulate our view of category size, channel growth and our relative share position. We are pleased with our progress.

Our key new product innovations are also progressing well with more product launches to come in the second half of FY20.

Stage 4 English label (targeting children 3+) now accounts for approximately ~8% of our a2 Platinum® English label range and a China label Stage 4 product is being launching in the second half.

a2 Smart Nutrition™ is showing strong signs of developing into a meaningful extension of our infant and children's nutritional portfolio, again with early indications of positive consumer acceptance, and a China label version is also launching in 2H20.

We have improved packaging communication of our a2 Platinum® Pregnancy product and have relaunched the product under new branding of a2 Nutrition for Mothers™ from October 2019. The impact of this change on sales velocities is positive. We have also addressed our technical issues with our a2 Milk™ powder blended with Mānuka honey product, which will be relaunched during December.

We are pleased with the early results of our strategy execution and continue to be very energised about our growth outlook. Working closely with China State Farm and our distributors, we are seeing results in our first wave trade initiatives that demonstrate material share gains. This encourages us to continue working hard to accelerate initiative roll-out and builds confidence in our detailed plans and the way in which the team are executing.

Regional deep dive – US

I'd like to now switch gears to the US. Our US performance in the first half will be excellent and reflects the outcomes of a detailed and strong execution plan.

Our growth strategy for the US is focused on building a milk business of scale across grocery, mass merchandisers, natural, and club channels. We have made significant progress in penetrating and demonstrating strong consumer acceptance across all these channels to date and are encouraged by our most recent results.

In-store velocities continue to increase, with double-digit in-store sales rate growth in key customers. We have leveraged the deep consumer research we did in FY19 to identify our key target consumer groups. We have translated these consumer insights into messaging platforms that are actively driving awareness and household penetration. Our new advertising campaign, impactful new packaging, and new website launched during October are key elements of the execution of this strategy. All have received strong positive feedback from consumers and our retail trade partners.

We anticipate distribution to grow by roughly two thousand stores through the first half and including January with committed increased distribution (and products) ranged in Walmart, Safeway and Sam's Club Warehouse in line with new store planograms.

The launch of a2 Milk™ Coffee Creamers continues to build in distribution after its launch during July. While it is still early days for our new range, we are pleased with the initial progress.

Sustainability

As highlighted early in my remarks, we are a purpose driven company and passionately believe that our brand stands for doing the right thing across all aspects of our business. This requires us to take a stronger, more visible and more vocal leadership role across animal welfare and the environment generally, and farming practices specifically. We announced in our FY19 annual report our goals as well as our formal commitments to:

- Remain carbon neutral across our supply chain (first achieved in FY19)
- Work with our farmers to meet the standards set by the World Organisation for Animal Health and avoid practices that contravene the Five Freedoms
- Continue to improve the very high standards of our animal welfare program
- Execute on our smarter packaging goals for higher quality and lower environmental impact and
- Innovate to become even more efficient in product processing

In addition, in FY20 we are undertaking an assessment of our total supply chain in line with the framework set out by the United Nations Sustainable Development Goals. This includes ensuring we are compliant with modern slavery legislation.

Given the nature of our business model, our approach is integrated across all our supply chain partners. Additionally, it is embedded across our entire business strategy.

Summary FY19 results

Let us turn our attention to a quick summary of our FY19 results. The year demonstrated strong growth in the key areas required to build sustainable leadership in our core markets; it was also a year of considered and appropriate investment. We were very pleased with our results and were further pleased with the agility we've been able to demonstrate in responding both to opportunity and the changing consumer and channel dynamics in China.

We are operating in dynamic markets; our capability in anticipating and responding to change is an essential part of attaining - and sustaining - market leadership.

The FY19 highlights[1] are:

- $1.3 billion in revenue, an increase of $382 million, up 41% on 2018
- EBITDA of $413.6 million an increase of $131 million, up 46%
- NPAT of $287.7 million an increase of $92.0 million, up 47%
- Gross Margin percentage of 54.7%
- Basic Earnings per share of 39.25 cents

Our balance sheet continues to strengthen, which is important as we work our way through the delivery requirements of our long-term strategy. We continue to consider the appropriate use of available capital in the context of supporting our very significant growth ambitions.

Outlook

Overall, for FY20 we anticipate continued strong revenue growth across our key regions supported by brand and marketing investment in China and the US and the development of both capability and infrastructure to support in-market execution.

As an outcome of strategic gross margin focus, full year EBITDA margin % is now anticipated to be stronger than previously communicated and in the range of 29-30% with gross margin benefiting from:

- Improved price yield
- COGS reduction (including the effects of favourable FX)

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[1] All figures are in NZ$ unless otherwise stated

For 1H20, we anticipate revenue in the range of $780 million to $800 million with growth demonstrating strong performance against strategy:

- China label infant nutrition sales forecast to be approximately $135 million representing a growth rate of ~84%
- CBEC infant nutrition sales forecast to be approximately $155 million[2] representing a growth rate of ~54%
- ANZ English label infant nutrition sales forecast to be approximately $350 million representing a growth rate of ~9%
- US sales forecast to be approximately $27 million representing a growth rate of ~110%
- Australia fresh milk sales forecast to be $75 million representing a growth rate of ~12%

EBITDA margin % in 1H20 is expected to be higher than FY20 and in the range of 31-32% as a result of:

- Increased cost of goods (including lactoferrin and packaging materials) in 2H20 and increased levels of strategically important trade marketing activation in China
- Phasing of marketing and capability investment slightly weighted to 2H20; full year marketing investment expected to be approximately $200 million

Summary

In conclusion, we are pleased with the revenue growth realised in FY19 and the early momentum in FY20. We have positioned ourselves well by strategically improving gross margin in order to support our capacity to continue investing behind growth.

While we have only just begun our journey in both Greater China and the US, the results of strategic focus and investment are starting to come through. Competitive intensity will continue to increase in China and thus far we have been well prepared. Our investments are strategic and designed to build the brand, deepen our capability and create further organisational depth and resilience to thrive in this environment. This is strongly enabled by our deep sense of purpose, the passion that backs that up and importantly, our growth mindset as a team.

Thank you for your ongoing support as we continue to focus on enriching people's lives through the wonder of nature.

[2] *1H19 comparative for CBEC includes infant formula sales previously reported under UK segment*