



24 December 2020
NZX/ASX Market Release

Terms agreed for strategic acquisition of 75% interest in Matura Valley Milk

The a2 Milk Company (**a2MC**) is pleased to confirm that it has, as previously contemplated, entered into binding agreements relating to the acquisition of a 75% interest in Matura Valley Milk (**MVM**), a dairy nutrition business, located in Southland, New Zealand.

The proposed acquisition will provide the opportunity for a2MC to participate in nutritional products manufacturing, provides supplier and geographic diversification, and strengthens our relationship with key partners in China.

The terms of the transaction are consistent with those previously advised and provide for the acquisition of 75% of MVM for total consideration of NZ\$268.5 million, based on an enterprise value of circa NZ\$385 million. The acquisition will be undertaken on a debt-free cash-free basis and funded from a2MC's existing cash reserves.

Completion of the proposed transaction is subject to approval of the New Zealand Overseas Investment Office, with completion expected to occur on 31 May 2021.

A key feature of a2MC's proposed investment in MVM is that MVM's current majority shareholder, China Animal Husbandry Group (**CAHG**), will retain a 25% interest in MVM alongside a2MC. CAHG is a wholly owned subsidiary of China National Agriculture Development Group Co., Ltd, which is also the parent company of a2MC's strategic logistics and distribution partner in China, CSFA Holdings Shanghai, Co., Ltd. (**China State Farm**).

Strategic rationale

The due diligence process has confirmed our strategic rationale for pursuing this proposed acquisition, namely:

- the establishment of dual supply arrangements for nutritional products to complement our existing supply relationships that remain in place with Synlait Milk Limited and Fonterra Co-operative Limited;
- capturing a unique opportunity to acquire a recently constructed and operational, world-class nutritional products manufacturing facility in New Zealand;
- MVM is well located for access to a growing productive milk pool supported by favourable climatic conditions and water availability;
- partnering with a highly-respected China state owned enterprise in CAHG, to assist in further developing the business, including into China;
- the opportunity to produce additional infant nutrition products for China and other markets; and
- the ability to capture manufacturing margin.

Expansion of MVM operations

As part of the due diligence and through discussions with the MVM and CAHG teams, we have also commenced the development of a medium-term operating plan for the MVM facility.

With the business currently producing a high proportion of commodity milk powder products, our plans for MVM are to support its transition to being a manufacturer of predominantly consumer packaged nutritional products for a2MC over the medium term.

In order for MVM to produce consumer packaged nutritional products, a blending and canning facility and associated infrastructure will need to be established, which would require an additional investment in the order of NZ\$120m over the first 2-3 years following completion of the transaction. In addition, an A1 protein free milk pool will be developed.

Transitional operating plan

In the transitional period, MVM will continue to operate as a manufacturer of commodity powders and some base powders for nutritional products. We anticipate that during this period (FY22-24) the business will operate at approximately EBITDA break even, with the business returning a positive EBITDA from FY25, when significant nutritional volumes will be manufactured at the site.

Geoff Babidge, Chief Executive Officer, said, "MVM provides a unique opportunity to acquire a new world-class nutritional products manufacturing capability in New Zealand, alongside a highly respected China state owned enterprise in China Animal Husbandry Group. We have worked closely with CAHG and MVM over recent months and have developed relationships with both teams that we are confident will provide a strong foundation for the business going forward. We continue to be impressed by the MVM facility and the management team."

"We are very pleased that the transaction has the support of all MVM's existing minority shareholders, many of whom are farmer suppliers."

Dr.Xue, Chairman of MVM, said, "CAHG welcomes The a2 Milk Company as a strategic partner as both companies share the same vision of creating large scale world-class nutritional manufacturing at MVM. a2MC already works closely with our sister company China State Farm and is well respected in the China market. CAHG would like to thank our local farmers and staff for their continued support and is looking forward to MVM being a significant contributor in the Southland economy."

One-off acquisition costs

While it is not expected that the acquisition will be completed until the end of FY21, we expect to incur transaction costs of approximately NZ\$10 million which are expected to be treated as a one-off expense in the current fiscal year, of which approximately half will be recognised in 1H21.

By order of the Board of Directors

Geoff Babidge

Chief Executive Officer

The a2 Milk Company Limited

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