



28 October 2021  
NZX/ASX Market Release

**Select Equities Conference Presentation**

The a2 Milk Company is today presenting the attached at the *Select Equities – 5<sup>th</sup> Annual China Conference*.

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# DOING BUSINESS IN CHINA



28 October 2021

The a2 Milk Company

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# The a2 Milk Company overview



We enrich lives by harnessing the nutritional wonders of nature – through the naturally occurring *a2 Milk™* difference



Portfolio of *a2 Milk™* based products including fresh milk, UHT, ESL, IMF, milk powder and other nutritional products



Sales primarily in New Zealand, Australia, Greater China and North America



World class manufacturing facilities and international strategic partners in China and New Zealand



Over 400 talented team members around the globe



Revenue of NZD\$1.2 billion in FY21



## We have taken action to address the disruption experienced in FY21

### Issues disrupting a2MC in FY21

**Cross-border trade was disrupted by COVID-19**, creating substantial demand/supply volatility, which caused excess inventory, exacerbating the issue



As a result of this disruption, a2MC experienced a **significant decline in its English label IMF sales** through both daigou/reseller and e-commerce channels



At the same time, **China infant nutrition market growth reduced significantly** from globally high rates to be flat in value terms and to decline in volume terms, a trend that became clear following China's release of 2020 birth numbers on 11 May 2021 which showed a reduction in the birth rate

### Key actions we have taken

- **Recognised stock write-downs and deliberately slowed down sales in 4Q21**, together with other planned initiatives, to reduce inventory levels and rebalance English label IMF pricing across channels
- **Swapped older distributor inventory with more recent stock** to improve on-shelf product freshness
- **Increased brand investment** with a significant campaign in 4Q21 to drive consumer demand
- **Bolstered leadership team** with new internal and external talent
- **Reorganised our Asia-Pacific division** for enhanced focus on our key business opportunities
- **Refreshed our growth strategy** to realise the full potential of our business

## We have undertaken a holistic review of our growth opportunities

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### Market

Continuing the journey to **focus on our China market opportunity** in particular

### Brand

**Reviewing our brand positioning** to create continued distinctiveness amongst an evolving consumer base and new entrants in the category

### Channel

Assessing our **route-to-market for English label IMF** and capturing the **full potential of our China label IMF** distribution in key channels






### Product

**Re-imagining our infant formula product portfolio** in English label and China label to appeal to a broader set of consumers and maximise distribution potential

### Adjacencies

Outside our core, we are also considering opportunities for **adjacent category growth in China, ANZ and USA** as well as assessing opportunities in new emerging markets

# We have adapted our a2MC growth strategy

<b>Purpose</b>	To enrich lives by harnessing the nutritional wonders of nature					
<b>Ambition</b>	Rebuild a2MC into an exciting, innovative and sustainable growth company					
<b>Goals</b>	<b>People</b> Create the safest and most diverse, inclusive and engaging place for our people to thrive	<b>Sustainability</b> Support our farmers, protect our planet and cows, rethink packaging and contribute to our communities	<b>Consumers</b> Bring the unique benefits of pure and natural a2 Milk™ to as many consumers as possible	<b>Shareholders</b> Create long-term, enduring value for shareholders and a trusted, transparent relationship		
<b>Strategic priorities</b>	<b>1 Invest in people and planet leadership</b> <ul style="list-style-type: none"> <li>Invest in our people to enable them to thrive</li> <li>Take direct action to lead the industry in GHG emissions reduction and farming practices</li> </ul>	<b>2 Capture full potential in China IMF</b> <ul style="list-style-type: none"> <li>Gain more control over CL and EL distribution and get closer to our consumer</li> <li>Increase investment in our brand, digital marketing and E-comm</li> </ul>	<b>3 Ramp-up product innovation</b> <ul style="list-style-type: none"> <li>Expand our CL and EL IMF product portfolios</li> <li>Enter adjacent product categories in relevant markets to drive growth</li> </ul>	<b>4 Transform our supply chain</b> <ul style="list-style-type: none"> <li>Expand CL registered market access</li> <li>Utilise MVM capability</li> <li>Develop China supply capability over time</li> </ul>	<b>5 Accelerate path to profitability</b> <ul style="list-style-type: none"> <li>Take action to realise potential in USA</li> <li>Expedite insourcing and 3<sup>rd</sup> party volume to significantly increase MVM utilisation</li> </ul>	
<b>Enablers</b>	Brand strength		Science & innovation	Strategic relationships		Capability development
<b>Values</b>	 Bold Passion	 Pioneering spirit	 Humility	 Respect	 Integrity	

# Our strategy is designed to drive growth across multiple horizons

	FY22	FY23-24	FY25-26
	<b><i>Stabilise and reset strategy</i></b>	<b><i>Full scale roll-out of growth &amp; other initiatives</i></b>	<b><i>Deliver “next wave” growth from innovation and supply chain transformation</i></b>
<b>Strategic priorities</b>	<ul style="list-style-type: none"> <li>Restore demand &amp; supply balance and attractive channel economics</li> <li>Stabilise EL IMF decline</li> <li>Commence CL in-market growth initiative pilots</li> <li>Focus on new user recruitment and Stage 4 penetration</li> <li>Invest in content generation and always-on brand comms</li> </ul>	<ul style="list-style-type: none"> <li>Launch new GB std. CL range and roll-out distribution initiatives</li> <li>Innovate in EL IMF and increase control of distribution</li> <li>Scale innovation in USA</li> <li>Innovate in ANZ core &amp; adjacencies</li> <li>Implement MVM electrification</li> <li>Deliver more sustainable packaging</li> </ul>	<ul style="list-style-type: none"> <li>Expand CL product portfolio with additional registrations</li> <li>Scale adjacent categories</li> <li>Achieve profitability in USA and MVM businesses</li> <li>Grow 2-3 new emerging markets</li> <li>Operationalise China supply capability</li> <li>Achieve meaningful progress on Scope 1 &amp; 2 GHG emissions reduction</li> </ul>
<b>Enablers</b>	<ul style="list-style-type: none"> <li>Refresh strategic priorities and execution plan</li> <li>Review China brand positioning</li> <li>Ramp-up innovation focus</li> </ul>	<ul style="list-style-type: none"> <li>Invest further in digital marketing and E-comm capability</li> <li>Increase investment in brand</li> <li>Implement IT and data roadmap</li> </ul>	<ul style="list-style-type: none"> <li>Create rolling innovation pipeline</li> <li>Leverage next level scientific research</li> </ul>
	<b><i>Explore opportunities to accelerate strategy execution through M&amp;A, JV and alliances</i></b>		



# We are focused on five key non-financial measures of success over time

## People

1

Safety TRIFR <10 with continuous improvement

Engagement >80%

Diversity and inclusion rated >4 out of 5 by team

## Sustainability

2

GHG emissions reduction

- Scope 1+2 net zero by 2030
- Scope 3 net zero by 2040

100% completion of Farm Environmental Plans and Certified Animal Welfare Programs

100% reusable, recyclable or compostable packaging with 50% average recycled content

## Brand health

3

China unprompted awareness >25%

Australian fresh milk loyalty >40%

USA household penetration >10% in premium milk

## Market share

4

Top-5 CL IMF player with share >5%

Leading EL IMF range with share >25%

Australian fresh milk share >15%

USA premium milk share >5%

Incremental \$100m revenue from existing and new emerging markets

## Innovation

5

Access to ≥3 CL registrations

Expanded EL IMF portfolio

Incremental \$200m in revenue from dairy and other nutritionals to China

>25% of sales from new products in Australia and USA

## Defining a specific timeline to achieve our financial goals is challenging

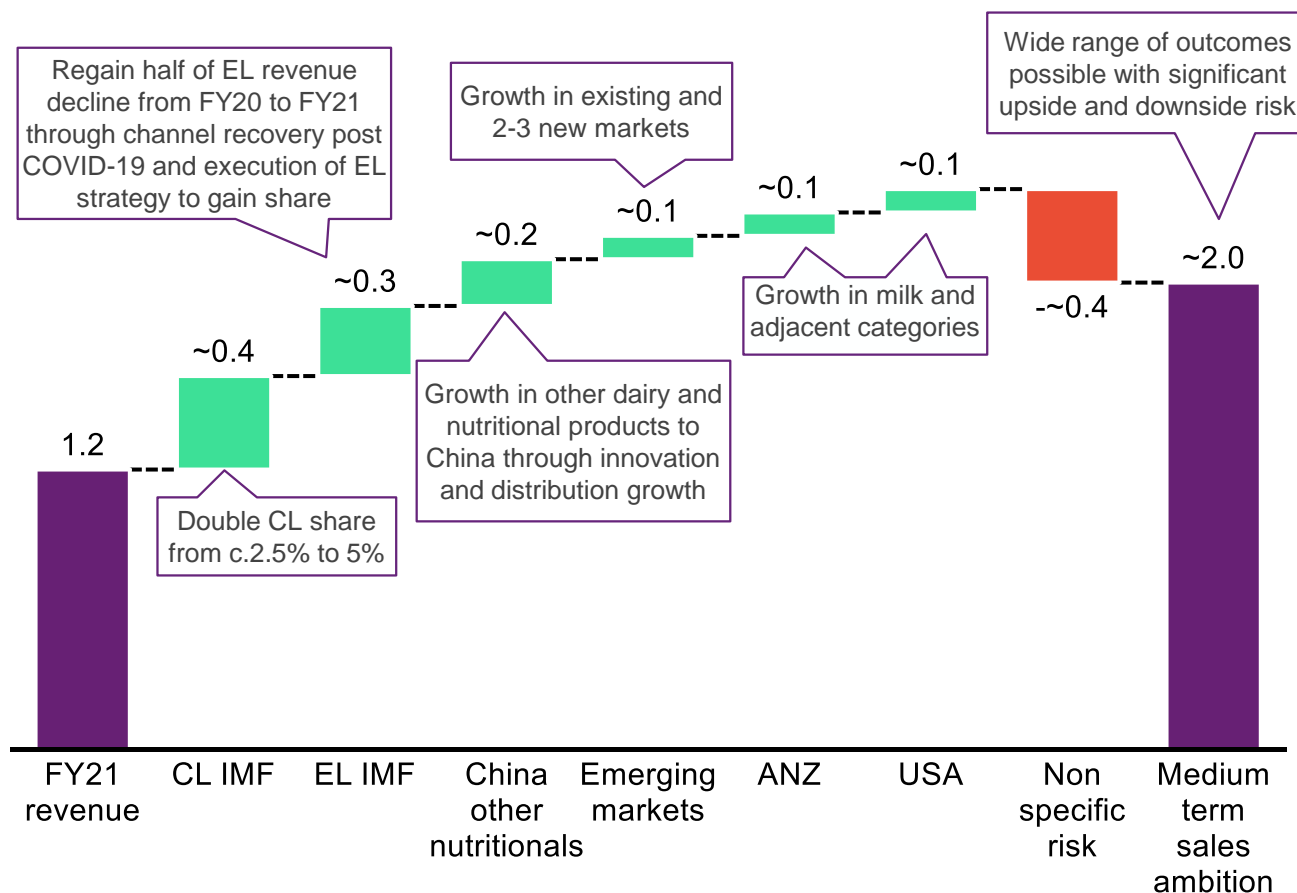
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- The pace and degree of change in the China IMF market over the past 12 months is truly unprecedented – including from the prolonged COVID-19 impact and the reduction in the number of Chinese newborns
- There are key macro uncertainties impacting the future outlook, including:
  - How the China birth rate will evolve and the impact policy changes may have on this
  - The extent and pace of recovery in cross-border trade post COVID-19
  - How the competitive landscape will evolve in China including the outcome of the new GB registration process
  - The extent and pace of change in consumer product and channel preferences
  - How the China regulatory framework and international relations may evolve and impact trade
- Because of these uncertainties and the range of potential outcomes, it is very difficult to define future state targets and when they will be achieved – the path is also unlikely to be linear
- However, we remain confident that with our unique brand proposition, coupled with our team's ability to execute, we are well placed to rebuild a2MC into an exciting, innovative and sustainable growth company

# Notwithstanding, we have an ambition to grow sales to over NZD\$2 billion

## Medium-term indicative sales ambition (≥ 5 years)

a2MC future state revenue ambition (B, NZD)



## EBITDA margin dynamics

### Indicative range

- IMF sales, particularly EL, key driver of upside/downside risk
- Target margins probably in the “teens” in the medium term due to expected market conditions, investment and innovation
- Target margins possibly in the “low-to-mid 20s” in the medium-to-long term subject to higher than expected market recovery, EL channel growth and share gains

### Key accretion drivers

- Operational leverage impact of share growth, cross-border trade recovery and/or increase in China birth rate
- Mix impact on delivered margin (EL > CL > ANZ > USA)
- Mitigation of USA losses and path to profitability
- Nutritionals insourcing margin capture by MVM
- Pricing, promotional activity, trading terms and FX

### Key dilution pressures

- Operational de-leverage impact of China IMF market headwinds and regulatory risks
- Mix impact on delivered margin (EL > CL > ANZ > USA)
- Increasing brand reinvestment rate and margin pressure in China as competition intensifies
- Innovation, reformulation and FX impact on margin
- Supply chain transformation period
- Investment in capability and sustainability

## Key messages

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- The market landscape has experienced **unprecedented change over the past 12 months**, requiring us to adapt
- As a result, we have **adapted our growth strategy** to achieve the full potential of our business
- Importantly, our **brand is strong**, we have a relatively small share in China IMF and **significant opportunity** to capture
- We have **reorganised to prioritise** our most important growth levers and have a clear plan to execute
- We have a **great leadership team and pioneering culture** to lead the execution





QUESTIONS?