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NZX/ASX Market Release

The a2 Milk Company responds to Synlait's FY23 guidance announcement
No material change to a2MC's FY23 outlook

The a2 Milk Company ("a2MC" or the "Company") notes the announcement from Synlait Milk Limited ("Synlait") today updating its full year 2023 (FY23) net profit after tax (NPAT) guidance range.

In its announcement, Synlait noted two components to its lower earnings expectation for FY23, namely:

1. Further Advanced Nutrition demand reductions, mostly from one of Synlait's customers, which impact consumer-packaged infant formula volumes and base powder production, are expected to have an NPAT impact of approximately $16.5 million in FY23.

2. The remainder of the NPAT impact (approximately $3.5 million) is attributable to less material factors, including higher financing and supply chain costs.

In the same announcement, Synlait also noted that the State Administration for Market Regulation (SAMR) re-registration process remains on track, the on-site audit process is complete and Synlait still expects to receive re-registration and commence production in 4Q23[1], subject to SAMR approval.

In response to Synlait's announcement, which indirectly refers to a2MC, the Company is surprised at the extent of the reduction in Synlait's guidance range and notes the following:

- In the two forecasts provided to Synlait by a2MC since Synlait's previous guidance update on 17 March 2023, a2MC has lowered its total forecast production volume needs for English label consumer-packaged infant milk formula (IMF) in respect of March, April, May and June 2023 production months[2] by ~1,650 metric tonnes in aggregate (equating to less than 5% of Synlait's reported Advanced Nutritional sales volumes over the 12 months ending 31 January 2023). This is mainly due to:
  - continued weakness in the ANZ Daigou / reseller market which is down 49% in the most recently reported quarter from Kantar[3];
  - the impact of significant cumulative delays in English label consumer-packaged IMF deliveries from Synlait to a2MC over an extended period expected to be fulfilled in 4Q23[4] resulting in a material amount of inventory arriving within a relatively short period which needs to be managed; and
  - ongoing refinement of the Company's English label distribution model resulting in more customers and distributors being supplied directly out of Hong Kong and China leading to lower future a2MC and channel inventory requirements.

- a2MC has recently confirmed its forecast demand based on commencement of China label consumer-packaged IMF production in line with previously anticipated timing to receive SAMR re-registration and commencement of production in Synlait's 4Q23, subject to SAMR approval, as previously announced by Synlait on 17 March 2023 and reconfirmed today. a2MC is pleased with this progress; and

- a2MC is in discussions with Synlait regarding the allocation of certain one-off production/supply chain and other related costs between the two companies.

[1] Synlait's financial year ending 31 July 2023
[2] Volumes manufactured by Synlait are generally expected to be delivered and sold to a2MC (following quality assurance testing and release) the month following production.
[3] Kantar Worldpanel 0-6 years old Baby & Kids panel: National IMF market tracking (Key & A + BCD cities). Quarterly market value 23P2 versus prior year.
[4] a2MC's financial year ending 30 June 2023

Taking all of the above factors noted by the Company into account, a2MC confirms that there is no material change to its FY23 outlook as confirmed at the time of the announcement of its 1H23 results on 20 February 2023. The Company maintains its FY23 revenue guidance of low-double digit percentage growth on FY22, but notes that English label IMF revenue is now expected to be down mid-single digits partially offset by continued strong double-digit growth in China label IMF revenue. As a result, the Company expects revenue growth to be at the low end of its previous expectations (ie approximately 10%). The Company continues to expect an EBITDA margin (% of sales) similar to FY22.

Key risks

In addition to the challenges noted above and trading upside and downside, other risks include, but are not limited to, COVID-19 impacts on supply and demand, SAMR approval and GB registration process timing and associated inventory transition, volume impact of price increases, cross border trade, foreign exchange movements, changes in interest rates and commodity prices, and changes in the regulatory environment. These challenges and risks could materially impact expected revenue and earnings outcomes.

Authorised for release by the Board of Directors

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