19 August 2024
NZX/ASX Market Release

FY24 Results media release

The a2 Milk Company ("the Company", "a2MC") announces a positive FY24[1] result driven by strong execution of its growth strategy notwithstanding challenging market conditions. Key highlights:

1. Delivered a positive full year result with strong revenue, EBITDA[2] and EPS growth
2. Became a top-5 China IMF[3] brand growing total IMF sales despite a double-digit decline in China market value
3. Achieved record China label IMF market share and strong sales growth in a year of market-wide product transition
4. Stabilised English label IMF sales with growth in 2H24 following several periods of decline
5. Resolved Synlait arbitration disputes subject to Synlait completing its equity raise and refinancing

Financial results and outlook[4,5]

- Revenue growth of 5.2% to $1,675.5 million
  - Regional revenue: China & Other Asia segment up 14.1%, ANZ segment down 14.6% due to a change in English label IMF distribution strategy, USA segment up 8.2% and MVM external sales down 11.0%
  - Category revenue: Total IMF up 4.6% with China label up 9.5% and English label down 0.3%[6], liquid milk in ANZ and USA up 3.3% and 7.4% respectively, other nutritionals[7] up 36.7%
- EBITDA up 6.9% to $234.3 million with an EBITDA margin of 14.0% (up 0.2ppts)
- Net profit after tax (NPAT) attributable to owners of the Company up 7.7% to $167.6 million[8]
- Basic earnings per share (EPS) up 9.2% to 23.2 cents
- Closing net cash[9] of $968.9 million up $211.7 million on June 2023 with operational cash conversion of 125.7%[10]
- FY25 guidance for revenue growth of mid-single digit percent and EBITDA margin (% of revenue) to be broadly similar to FY24 (see FY25 Outlook in the "FY24 Results Commentary and Outlook" announcement)

Operational highlights

- Grew total IMF sales by 4.6% despite a challenging China IMF market that was down 10.7% in value. Conditions in the China IMF market remain difficult, impacted by the cumulative decline in China newborns over the past few years, increased competitive intensity, market-wide transition to new GB standard products and macroeconomic conditions
- Achieved top-5 brand position in the overall China IMF market supported by increased marketing investment and improved brand health metrics, including unprompted awareness, top of mind brand awareness and brand used most often
- Maintained positive IMF key business health indicators, including market pricing and higher share of early-stage product sales with Stages 1 and 2 being a2MC's fastest growing stages
- Delivered China label IMF sales growth of 9.5% and record market share in China label IMF channels, with 3.5% market value share in mother and baby stores (MBS) and 3.9% market value share in domestic online (DOL) retail channels on an MAT basis

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[1] All references to full year (FY), halves (H) and quarters (Q) relate to the Company's financial year, ending 30 June.
[2] EBITDA is a non-GAAP measure and does not have a standardised meaning prescribed by GAAP. However, the Company believes that in combination with GAAP measures, it assists in providing investors with a comprehensive understanding of the underlying operational performance of the business. A reconciliation of EBITDA to net profit after tax is shown in the Company's FY24 Investor Presentation (slide 59) dated 19 August 2024.
[3] Infant milk formula.
[4] All figures are in New Zealand Dollars (NZ$), unless otherwise stated.
[5] All comparisons are with the 12 months ended 30 June 2023 (FY23), unless otherwise stated.
[6] English and other labels IMF included in China & Other Asia, ANZ and USA segments.
[7] Other nutritionals consists of powdered milk products (plain and fortified), and liquid milk products (plain and fortified) exported to China & Other Asia.
[8] Excludes non-controlling interest in Mataura Valley Milk (MVM), a loss of $13.7 million.
[9] Including term deposits and borrowings, excluding subordinated non-current shareholder loans.
[10] Operating cash conversion defined as net cash flow from operating activities before interest and tax divided by EBITDA.

- Launched upgraded China label IMF product, *a2 至初®*, supported by impactful marketing campaigns and enhanced product formulation and packaging that has been well received by the trade and consumers, resulting in distribution gains and minimal stock write-offs incurred during the transition
- Stabilised English label IMF sales with growth in 2H24 and increased overall market share to 20.2% compared to 19.0% in FY23, with strong growth in cross-border e-commerce (CBEC) channels driven by emerging channels including Douyin/TikTok and Red
- Continued to optimise English label route-to-market through drop-shipping from Tier 1 distributors direct to consumers, and developed new strategic distribution partnership with Yuou, a market leader in the O2O channel
- Progressed the development of an expanded portfolio of IMF products, launching *a2 Gentle Gold™* in 2H24 with an additional range to follow in FY25
- Accelerated growth of other nutritional products, largely sourced from MVM, with sales up 36.7%. Launched two new fortified adults and seniors milk powder products, *a2™ Immune* and *a2™ Move*, in 2H24
- Continued to drive *a2 Milk® Lactose Free* share growth in Australia, supported by a brand relaunch and progressed a major upgrade of the Kyabram milk processing site in Victoria, due to complete in FY25
- Improved USA profitability significantly and commenced distribution of IMF with selected retailers in-store and online under FDA Enforcement Discretion and progressed long-term IMF approval which is on-track for FY26 subject to FDA approval
- Resolved Synlait arbitration disputes, including Synlait's acceptance of the validity of a2MC's notice of cancellation of exclusivity, subject to Synlait completing its equity raise and the refinancing of its existing banking facilities. The Company has agreed to support and subscribe for shares under Synlait's equity raise on terms to be agreed
- Progressed the Company's supply chain transformation by gaining access to a potential additional China label IMF product registration slot with Synlait to be developed by December 2029 subject to SAMR approval. The Company remains focused on securing further China label registrations and exploring other investment opportunities, mainly in New Zealand and China
- Expanded English label IMF commercial supply chain partnerships with Yashili NZ (subsidiary of Mengniu) and New Zealand New Milk (subsidiary of Lactalis), produced new English label IMF and fortified milk powders in partnership with MVM, and continued to invest significantly in upgrading supply chain capability
- Progressed execution of sustainability strategy including completion of an on-farm methane inhibitor feasibility study in Australia and materially reducing Scope 1 and 2 greenhouse gas emissions resulting from the commissioning of a high-pressure electrode boiler at MVM powered by certified renewable energy

CEO commentary

The a2 Milk Company's Managing Director and CEO, David Bortolussi said:

- "We continued to execute well against our growth strategy, primarily focused on the China market, delivering positive FY24 results with strong revenue and EBITDA growth."
- "The *a2™* brand continued to increase market share in the China IMF market and is now a top-5 brand. We grew IMF sales despite the China IMF market being down double-digits."
- "A major highlight for the year was the successful launch of our upgraded China label IMF product. We were pleased with the market's reaction to our new product and our sales growth of 9.5% on last year."
- "After several years of COVID-19 related disruption and market decline, we are pleased that our English label IMF sales stabilised in the first half and grew 6.9% in the second half."
- "Beyond IMF, we are investing in growth in liquid milk and other nutritional products for kids, adults and seniors and pursuing growth in new markets. We launched new products in FY24 with more to come next year."
- "We made significant progress delivering against our sustainability strategy including reducing our Scope 1 and 2 greenhouse gas emissions by 45% and completing a methane inhibitor feasibility study."

Authorised for release by the Board of Directors

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