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NZX/ASX Market Release

Chair's speech and Managing Director & CEO address delivered at The a2 Milk Company Limited's 2024 Annual Meeting, held at 11 am on 22 November 2024

Chair's Speech (Pip Greenwood)

With the formalities taken care of it is now my pleasure on behalf of the Board to update our shareholders on a2's progress over the last year.

I'll start with progress against our strategy. During FY24, we continued to focus on execution and delivering against the strategic objectives we shared back in October 2021 when we refreshed our growth strategy. A strategy that the entire Board and management team remain committed to.

Our strategy remains firmly focused on realising the potential of the a2 brand, with a focus on people, planet, consumers and of course our shareholders. In FY24, driven by our extraordinary teams, we made great strides in lifting capability across the organisation, investing in a more sustainable future, expanding distribution in China and across new markets, delivering new and improved products to our consumers, and we reported another strong financial performance.

I'll cover now a few of our key achievements

FY24 was a milestone year for our China label product, following re-registration in June 2023 of our upgraded China label infant milk formula product. Given the positive signs we have seen including strong consumer offtake and healthy metrics, we are pleased that the transition has been successful. As a proud New Zealand company, we are delighted that in our largest market China, our consumers continue to highly value the A1 protein free proposition and our products' New Zealand provenance. Being the pioneer of A1 protein free helps us differentiate our products in a competitive market. It is especially pleasing that in FY24 we achieved a top 5 brand position in the China infant milk formula market with our China and English label products combined.

Our liquid milk businesses in Australia and the USA, both under new leadership, also progressed well in FY24 with innovation delivering positive results and we continue to progress our application for long-term US Food and Drug Administration approval to import infant milk formula into the USA.

In August, we announced that we resolved our arbitration disputes with Synlait and in September supported Synlait by participating in its equity raise which has subsequently completed. Synlait continues to be an important supply chain partner of The a2 Milk Company.

As we look ahead, obtaining access to additional China label registrations and developing our own nutritional manufacturing capability are critical components of the Company's supply chain transformation strategy. The Company continues to explore opportunities to achieve this through investment in its own supply chain and through acquisitions and commercial partnerships. While we do not have any new information to share with you today, I can say that we continue to make good progress in this regard and that this remains a top priority for management and the Board.

As mentioned earlier, The a2 Milk Company has made considerable progress against its strategic objectives. Given this progress, our strong cash flow and balance sheet position, the Board believes the time is right to introduce a dividend policy demonstrating the company's commitment to shareholder returns and effective capital management. David Bortolussi will provide more details on dividend policy shortly in his address.

The Board remains conscious of the Company's significant cash balance, which is being prioritised for supply chain transformation, growth opportunities and risk mitigation. As the Company continues to execute its strategy and risk evolves, the Board will continue to review capital management options which may result in further capital returns to shareholders, likely in the form of special dividends.

Turning now to the Board, it has been an honour and privilege for me to serve on the Board of The a2 Milk Company over the past five years.

In taking up my role as Chair, my commitment to board renewal and succession planning has been a focus. The Board and I are dedicated to ensuring that our Board continues to benefit from diverse perspectives and the skills and experience to support management in achieving its strategic objectives and to continue to drive long-term sustainable growth for our shareholders.

To this end, we recently announced the appointment of Antonio Rivera to our Board who is standing for election today. Tonet, as we know him, is a highly capable individual with deep expertise and experience gained over many years as a supply chain leader, including leading the global supply chain of a multinational infant nutrition company. You will hear from Tonet later in the meeting.

Further to Tonet's appointment, we announced that after 8 years as a Director and Chair of the People and Remuneration Committee, Warwick Every-Burns will be retiring from the a2 Milk Board at the conclusion of this meeting. I'd like to take the time to acknowledge Warwick for his invaluable input as a Director and Chair of the People and Remuneration Committee. We thank you for your significant contribution to the Board and wish you well, you will be missed. Before Warwick departs, I would like to invite Warwick to say a few words.

Thank you Warwick.

More recently and after the Notice of Meeting was circulated to shareholders, we announced the appointment of Lain Jager as a Director who brings extensive international, agribusiness leadership experience through his former role as CEO of Zespri. Lain's appointment will be effective 1 December, and he will stand for election by shareholders at next year's Annual Meeting. Lastly, we also announced the resignation of David Wang as a Director of the Company, and we thank David for his valuable contribution to the Board.

The past year has been a busy time for the a2 Milk family, I would like to thank our Managing Director and CEO, David Bortolussi for his leadership and the entire a2 Milk team across New Zealand, China, Australia and the USA for the way in which you deliver for our customers and consumers and live our values every day. I'd also like to take the time to thank all of my fellow Directors for their stewardship of the Company. Finally, to our shareholders, thank you for your ongoing support and investment in The a2 Milk Company.

In closing, the Board and I are excited about the future of our Company given the considerable progress we have made, the opportunities we are set to capitalise on as we continue to advance our strategy, and our exceptional brand that continues to resonate with consumers in our key markets.

I will now invite David Bortolussi to address the meeting.

Managing Director & CEO Address (David Bortolussi)

Thank you Pip.

Good morning everyone and thank you for joining us today at our Annual Meeting.

My name is David Bortolussi and I am the Managing Director and CEO of The a2 Milk Company.

Over the past year, we have been focused on executing our strategy and improving our financial results in a challenging market.

Today, I will provide you with an update on the progress we have made over the last year.

In terms of our key achievements, we were pleased to present our FY24 results to the market in August where we reported strong growth in revenue, EBITDA and EPS.

We grew total infant milk formula (or IMF) sales by 4.6% despite a double-digit decline in the China IMF market, and we became a top-5 brand in an increasingly concentrated market.

We also achieved another record high in China label IMF market share in a year of significant disruption due to the market-wide transition to new China GB standards.

Importantly, after several periods of decline, we stabilised our English label IMF sales and achieved growth in the second half.

And lastly, as Pip outlined earlier, we resolved our Synlait arbitration disputes and participated in Synlait's re-capitalisation, whilst progressing our supply chain transformation.

I'll now provide a summary overview of our FY24 financial results.

Revenue for the period was \$1.68 billion, up 5.2% on FY23.

EBITDA was \$234 million, up 6.9% on FY23 with a slightly improved EBITDA margin of 14%.

Our Net Profit After Tax was \$168 million, up 7.7% and EPS was up 9.2% to 23.2 cents.

Our net cash position at the end of the period was \$969 million, up \$212 million compared to June 2023 and our operational cash conversion improved to 126%.

Revenue growth for the year was again driven by our China & Other Asia segment which was up 14%, and now represents over two-thirds of our total sales.

As expected, our ANZ segment was down 15% reflecting the change in our English label IMF distribution strategy with sales shifting from the Daigou channel to Cross-Border E-Commerce (or CBEC) and Offline to Online (or O2O).

US sales were up 8% while Mataura Valley Milk sales were down 11%.

From a category perspective, we grew total IMF sales by 4.6% with China label sales up 9.5% and English label sales broadly flat.

Sales in our liquid milk businesses both grew and were up 3% in Australia and up 7% in the US.

Sales of Other Nutritionals, which is made up of plain and fortified milk powders, UHT and fresh milk exports to China, also grew by 37%.

Our strong financial results are underpinned by important operational achievements, executed by our exceptional team.

We've summarised some of our key achievements in FY24 on this page, most of which I will cover individually in later slides so won't dwell on this page.

Before I talk to our operational achievements, I wanted to share some context around China market conditions in FY24.

Our China segment and IMF category each represent close to 70% of total sales, therefore China market conditions are an extremely important factor when considering our performance.

Since we refreshed our growth strategy in 2021, the China IMF market has been more challenging due to a greater than expected reduction in China newborns. More recently the rate of decline has improved to -6% in CY23 with a positive outlook for this calendar year.

In FY24, the total China IMF market declined by 10.7% in value, with the decline in Key&A cities greater than BCD (or lower tier) cities. This decline was driven by the reduced number of newborns, GB transition impacts, increased competition and challenging economic conditions.

The China label IMF market declined by 12.5% for these reasons, but the English label IMF market outperformed, up 3.8% in value, which was driven by various factors including consumer value perceptions and innovation in the category.

Within the total China IMF market, the A2 protein segment grew rapidly and now accounts for 18% of total market value.

And brand concentration continues to increase amongst the top-5 players now representing over 50% of the market.

In the context of a challenging market, we are extremely pleased with how our China label business performed in FY24.

It was a critical year for China Label IMF with the launch and transition to our upgraded a2 Zhichu® product under the new GB standards. For those not familiar with this process, due to the expiry of our registration and changes to the relevant Chinese regulations, we needed to reformulate, re-register and relaunch our entire a2 Zhichu® range, whilst phasing out our previous product range.

I can't explain how complicated and challenging such a transition is to manage, and our team and partners executed superbly and achieved record market share at the same time – a remarkable achievement acknowledged by many in the industry.

I'd like to take this opportunity to extend our gratitude to China's State Administration for Market Regulation, New Zealand's Ministry for Primary Industries, our strategic partners in China, China National Agricultural Development

Group and China State Farm Agribusiness, and our manufacturing partner, Synlait and its major shareholder Bright Dairy. I also want to thank our a2 team for their extraordinary efforts to deliver this outcome.

We were also very pleased to see an improvement in English label IMF performance in FY24, with the total market returning to growth, and a2MC sales growing in the second half.

The English label channel was disrupted significantly during COVID and has experienced material declines, particularly in the Daigou channel. In recent years, our distribution strategy has focused more on the CBEC and O2O channels.

Our team has been executing various initiatives to drive growth over the past couple of years, including forming new strategic partnerships, capturing growth in emerging e-commerce channels, improving customer service through drop-shipping, investing in marketing activations, and supporting a healthy trade ecosystem for our distribution partners.

So it is pleasing to see this coming through in our results – in fact, we achieved our highest English label market share since April 2021.

In terms of market share, we are very proud that a2MC has now become a top-5 brand in the total China IMF market, with a value share of 7.3%, up 1.4 percentage points for the year.

This includes being the number 6 brand in China label IMF with almost 5% share and the clear number two player in the English label IMF market with over 20% share, both of which were improvements in FY24.

Our market share growth is critical, as we have been growing share in a declining China IMF market to drive absolute growth in sales over the past couple of years.

Turning now to our recent Double-11 results. We generally don't promote heavily during this period, but rather focus on new user acquisition whilst maintaining a healthy trade ecosystem to avoid channel conflict.

This year, the major Platforms commenced the Double-11 sales period earlier, on 14 October, and increased the number of key sales events from 3 to 5 including category days. Whilst it is therefore not a strictly comp event, we were pleased with our results shown on this slide in terms of year-on-year growth, share of early-stage product sales and platform rankings.

Shifting now to take a closer look at our Other Nutritionals and liquid milk businesses.

Other Nutritional sales grew 37% driven by a more dedicated team focus, improved supply, prior year innovation gaining traction, and further innovation delivered in FY24 with new fortified and organic milk powders.

Liquid milk sales grew 4.8% with Lactose-free growth in Australia and Grassfed growth in the US being key drivers.

In terms of product innovation, we continue to make good progress in developing our innovation pipeline and bringing new products to market. During the year we launched a number of new products.

As mentioned earlier, in IMF we launched our upgraded a2 Zhichu® range with great success. In English label IMF we expanded our portfolio with a2 Gentle Gold™ which is targeted at the Australian and South-East Asia markets. I'll come back to future portfolio expansion in IMF shortly.

Outside of IMF, we also launched our new fortified milk powder range targeting adults and the fast-growing seniors' market. We are developing additional new fortified products targeted at kids and seniors' market to be launched next year.

In addition to product innovation, we continued to pursue opportunities to enter and expand our presence in new and emerging markets.

We have actively expanded our reach and product portfolio – in Korea, we are expanding retail distribution with UHT and IMF; in Singapore, we are ranging fresh milk in major retailers; and in Vietnam, and we have launched our IMF and macro milk portfolio.

Planet leadership is a central part of our growth strategy and we are pleased to have released our first Climate Statement in August as part of our annual reporting materials.

In terms of progress during the year against our sustainability goals, I wanted to highlight two key milestones:

- Firstly, the electrification of the boiler at MVM which has been the primary driver in helping us to reduce Scope 1 and 2 emissions by 45% with further reductions to come this year; and
- Secondly, our investment in AgriZeroNZ which we were pleased to have the opportunity to join this year alongside other industry stakeholders and the New Zealand government

Moving now to a brief strategy update. Our growth strategy is focused on five key priorities which haven't changed since 2021 which are:

- Investing in people and planet leadership
- Capturing the full potential in China IMF
- Ramping up product innovation and entering new markets
- Transforming our supply chain
- Accelerating the path to profitability for our US and MVM businesses

In relation to supply chain transformation, we have resolved our disputes with Synlait, supported their equity raise and they remain an important supplier of a2MC. We are, however, focused on developing our own nutritional manufacturing capability and increasing market access through additional controlled China label IMF registrations

through MVM or otherwise. In doing so, we continue to explore options to accelerate this through M&A and joint venture opportunities primarily in New Zealand and China.

The next slide shows how we are tracking towards our medium-term goals reflected in our measures of success. Overall, we are making good progress against the plan with a few of changes that we outlined as part of our full year results in August.

In terms of financial performance after refreshing our growth strategy, from FY21 we have grown group revenue by \$469 million at a revenue CAGR of 11.6% and improved our EBITDA margin to 14% from a post-COVID low of 10%.

Overall, we are on track to achieve our medium-term revenue ambition of \$2bn by FY27 or later with EBITDA margins in the “teens” targeting year-on-year improvement.

The expansion of our IMF portfolio is critical to support the long-term sales growth of a2MC. We thought it would be helpful to conceptualise how we’re thinking about the growth in our IMF portfolio over the next few years.

For simplicity, we’ve presented this chart based on the market definition of price segments – being Ultra-Premium, Super Premium, Premium and Mainstream. From left to right, you can see the indicative positioning of our current English label products, with 3.3% market share – a2 Platinum® and the recently launched a2 Gentle Gold™, with a further product to be positioned in the Premium to Super Premium segment targeted for launch in 2H25.

We then show our China label a2 Zhichu® product, playing in the Ultra-Premium segment, with 4.0% market share. Our ambition is to have another 3 or more China label registrations over time subject to market access and SAMR approval.

This page obviously focuses on our China focused IMF portfolio, but I also note that we are progressing our application for long-term approval to import IMF into the US. To that end, we recently submitted our New Infant Formula Notification to the FDA which is a significant body of work and we expect an outcome at some stage during CY25.

Moving to the next slide and as Pip noted earlier, I am pleased today to announce that the Board has approved the establishment of a dividend policy.

The policy targets a payout ratio range of between 60% and 80% of normalised Net Profit After Tax.

The policy will commence immediately with the first interim dividend expected to be declared in February 2025 based on the Company’s interim result in line with the bottom end of the range.

Dividends are expected to be declared on a semi-annual basis in February and August each year at a level consistent with the payout ratio range.

In determining future dividends, a number of factors will be taken into consideration, including market conditions, current and future earnings, cash flows, capital requirements and the Company's financial position.

We intend to impute and frank dividends to the maximum extent possible subject to available credits, noting that imputation credits are limited.

Any additional capital returns in the future are likely to be in the form of a special dividend.

The declaration and payment of all dividends will be subject to Board approval at the time.

And we will provide further details in relation to our first dividend at our interim results announcement in February.

Turning now to FY25 and the Company's outlook.

With reference to the full year guidance we provided on 19 August 2024, our year-to-date trading is ahead of plan and guidance.

China label IMF sales are broadly in line with plan taking into account supply constraints. We are making good progress to rectify shortages of early-stage China label IMF products with production returning to normal during 1Q25, and trade stock returning to target levels ahead of Chinese New Year supported by air freight.

English label IMF sales are slightly above plan due to stronger EL category growth and recent Double-11 performance which I mentioned earlier.

Liquid milk sales are slightly above plan due to growth in core products, and Lactose Free in Australia and Grass fed in the US.

Other Nutritional sales are below plan due to significant competitor discounting and promotional activity impacting milk powder sales. New higher-priced fortified products are performing well.

MVM external ingredient sales are significantly higher than plan and prior year due to higher GDT prices, currency impacts and changes in product mix, which have an immaterial impact on earnings and are slightly dilutive to Gross percent margin and EBITDA percent margin.

Having regard to year-to-date trading and outlook:

- Full year reported revenue is likely to increase to mid to high single-digit growth on prior year compared to previous guidance of mid single-digit growth
- Full year EBITDA percent margin is still expected to be broadly in line with prior year

In terms of phasing, 1H25 revenue growth percentage on prior year is expected to be broadly similar to 2H25. However, as noted in the full year guidance, gross percent margins and EBITDA percent margins will be lower in 1H25 than 2H25 due to higher air freight in 1H25.

That's it from me. I hope my presentation has provided you with a good summary of our achievements in FY24 and I look forward to answering any questions you may have after the formal business section of the Annual Meeting or after the meeting closes if you prefer.

Thank you very much for your time, and I'll now hand back to our Chair.

Authorised for release by the Board of Directors

David Bortolussi
Managing Director and Chief Executive Officer
The a2 Milk Company Limited

For further information, please contact:

Investors / Analysts

Chante Mueller
Head of Investor Relations
M +61 400 374 133
chante.mueller@a2milk.com

Media – New Zealand

Barry Akers
M +64 21 571 234
barryakers9@gmail.com

Media – Other markets

Rick Willis
M +61 411 839 344
rick@networkfour.com.au