

**synlait**<sup>TM</sup>  
making more from milk

DOING  
BUSINESS IN  
CHINA

27 OCTOBER 2017

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# FY17 HIGHLIGHTS

NET DEBT FY16  
\$214m

DEBT DOWN

NET DEBT FY17  
\$83m

ADDITIONAL  
CAPITAL RAISED

\$97.6m

SYNLAIT  
ADDED TO  
S&P/NZX  
50 INDEX

PROFIT UP

NPAT FY16  
\$34.4m

NPAT FY17  
\$38.2m

NZDC ACQUIRED TO  
DOUBLE CANNING CAPACITY

5 YEAR

NEW HOPE NUTRITIONALS  
INFANT FORMULA SUPPLY  
AGREEMENT IN PLACE

\$8.9m

IN PREMIUMS PAID  
TO MILK SUPPLIERS

APPROVAL TO EXPORT  
LACTOFERRIN TO THE U.S.

ASX DUAL LISTING COMPLETED

5

SIGNIFICANT  
APPOINTMENTS  
TO THE SENIOR  
LEADERSHIP TEAM

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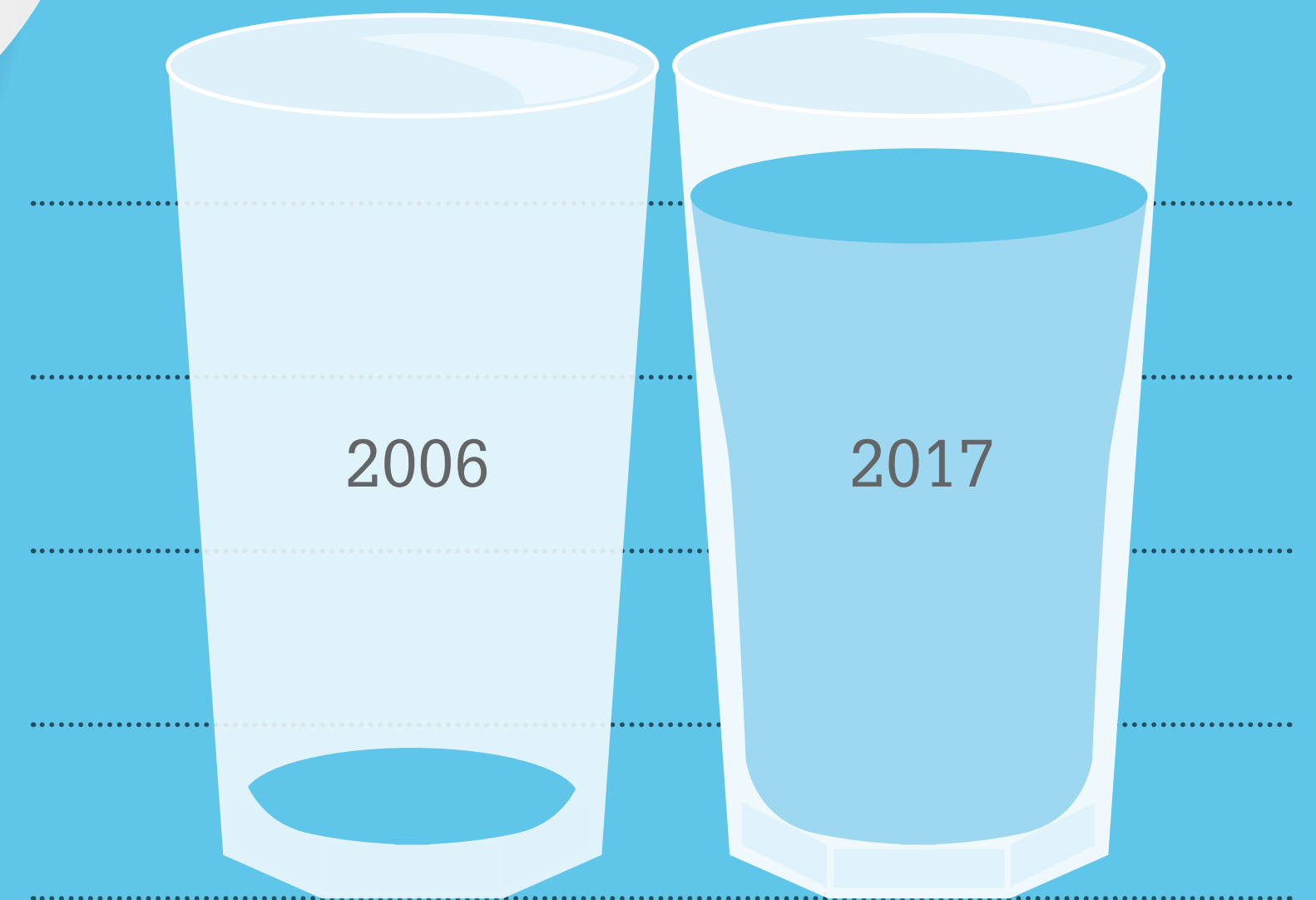
# STRATEGIC UPDATE

2017

WE ARE A  
**GROWTH  
COMPANY**

SYNLAIT IS A B2B  
MANUFACTURING  
COMPANY FOCUSED  
ON MAKING THE MOST  
FROM MILK.

OVER THE PAST 11 YEARS  
WE HAVE GROWN FROM  
START-UP TO ANNUAL  
PRODUCTION VOLUMES OF  
140,000 METRIC TONNES (MT)



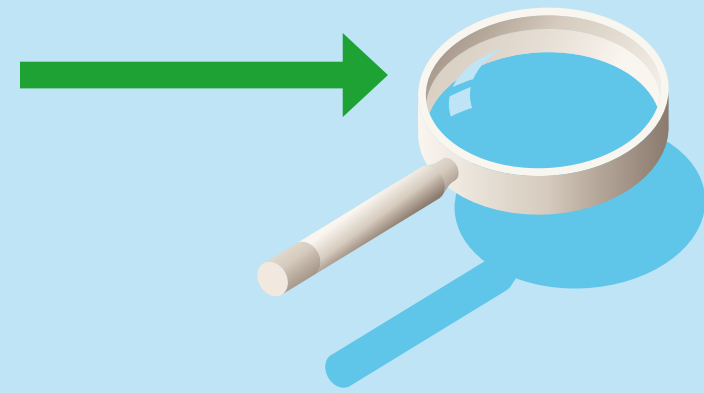
# SYNLAIT ADDS VALUE FROM FARM TO CONSUMER

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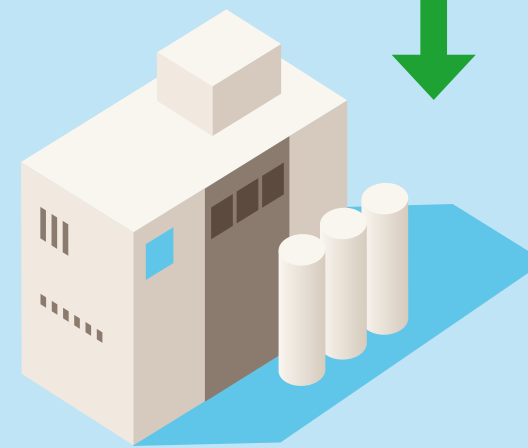
## DIFFERENTIATED MILK SUPPLY

- Contract supply of milk, and other high quality ingredients
- Facilitate and monitor differentiated milk supply behind the farm gate (a2 Milk™, Grass Fed™, Lead With Pride™)



## RESEARCH + CATEGORY DEVELOPMENT

- Select categories and markets
- Design products
- Innovate production and processes



## MANUFACTURING EXCELLENCE

- Large multi-purpose plant
- Control all aspects of product quality
- Optimise plant utilisation

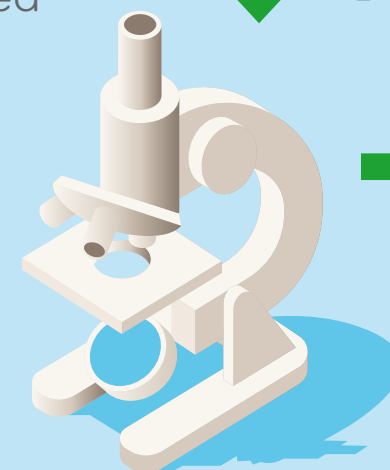


## CONSUMER PACKAGING

- Second state-of-the-art canning line being built
- High-specification sachet lines

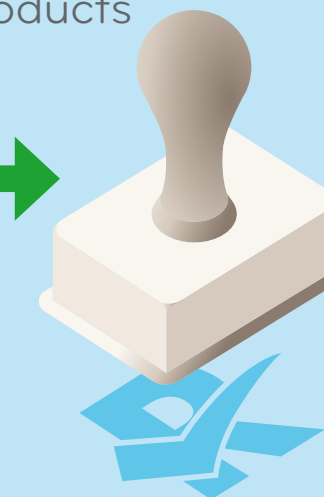
## QUALITY TESTING LABORATORY

- Zero defects target
- Testing raw materials, finished products and facilities
- Full quality assurance and traceability



## REGULATORY CAPABILITY

- Provide market access for our customers
- Secure regulatory approval for products



## CUSTOMERS

- Our brand partners market, promote, and distribute their products



## CONSUMER



# REGISTERING BRANDS IN CHINA

INFANT FORMULA IS THE MOST REGULATED FOOD PRODUCT IN THE WORLD - IT IS THE ONLY FOOD PROVIDED TO SOME INFANTS IN THEIR FIRST MONTHS OF LIFE.

- CFDA registration of The a2 Milk Company's infant formula was granted in September 2017.
- Because the manufacturer controls quality, the manufacturer is registered alongside the product in most markets. Synlait registers the brands its B2B customers sell.
- The Chinese Food and Drug Administration (CFDA) will grant selected factories licences to manufacture up to three brands for the Chinese market.
- We recruited Ying Jin as our Regulatory and Science Affairs Director, China, to support market access and business development. Experienced in managing regulatory affairs for multi-national infant formula companies, Ying has a PhD in food safety and a medical degree.
- The expanded New Hope Nutritionals supply agreement will underpin applications to register New Hope Nutritionals infant formula brands.
- In October 2017 we submitted an application to register New Hope Nutritionals Akara brand with the CFDA.



# INCREASING OUR CAPACITY AND REDUCING RISK

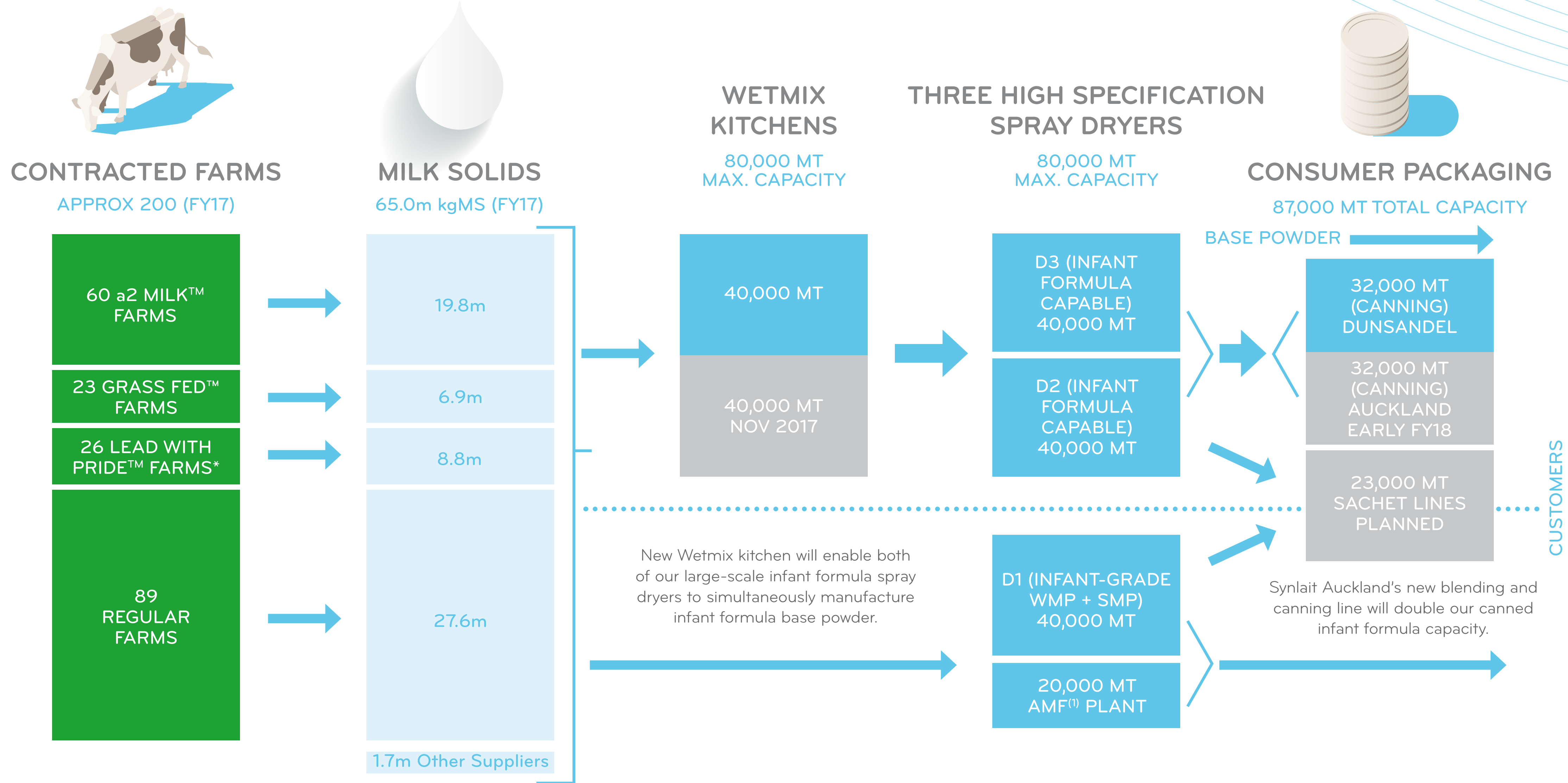
GIVEN STRONG CURRENT AND EXPECTED CUSTOMER DEMAND, WE CHOSE TO ACQUIRE 100% OF THE SHARES IN THE NEW ZEALAND DAIRY COMPANY LIMITED (NZDC). NZDC WAS CONSTRUCTING AN INFANT FORMULA-CAPABLE BLENDING AND CONSUMER PACKAGING OPERATION IN AUCKLAND.

- The acquisition will enable us to supply more consumer packaged products to customers faster than a new development would have done.
- Having a second blending and consumer packaging site mitigates single site risk.
- With an additional manufacturing site in Auckland, Synlait's potential number of brands in China has expanded.
- We will be seeking both Ministry for Primary Industries and CNCA (Certification and Accreditation Administration of the People's Republic of China) registration for the new facility.
- In total, including acquisition, Synlait expects to spend \$52m in Auckland by the time the plant is commissioned early in FY18.





# UNLOCKING INFANT FORMULA DRYER CAPACITY



# IMPROVING A WORLD CLASS TEAM

- **Our team has grown** from 436 to 500 in FY17
- **Two additional shifts** in the consumer packaging facility
- **Technical roles** for the quality testing laboratory
- **New roles** to support Integrated Business Planning (IBP)
- **Lifting the experience profile of our people** in Projects, Technology and Finance

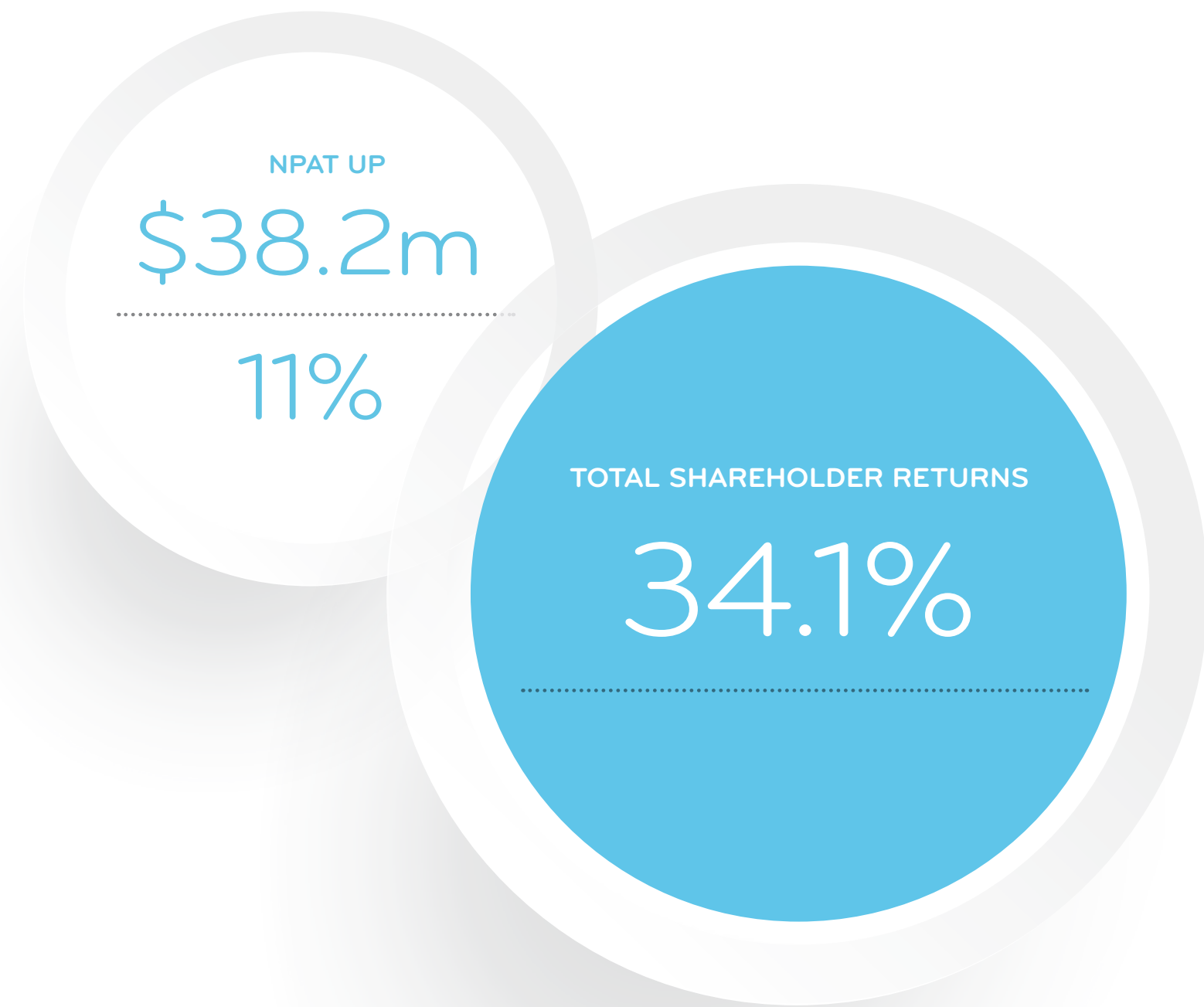


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# OUR FINANCIAL RESULTS

FY17

# FINANCIAL SUCCESS



EBIT INCREASED TO  
\$65.8m  
(FY16: \$61.1m)

NET DEBT DECREASED FROM  
\$214m  
TO \$83m

LEVERAGE FROM  
2.6X DOWN TO 0.9X<sup>(1)</sup>

GEARING DOWN FROM  
46.8%  
TO 18.0%<sup>(3)</sup>

ROCE OF 13.9% (FY16: 13.5%)<sup>(2)</sup>

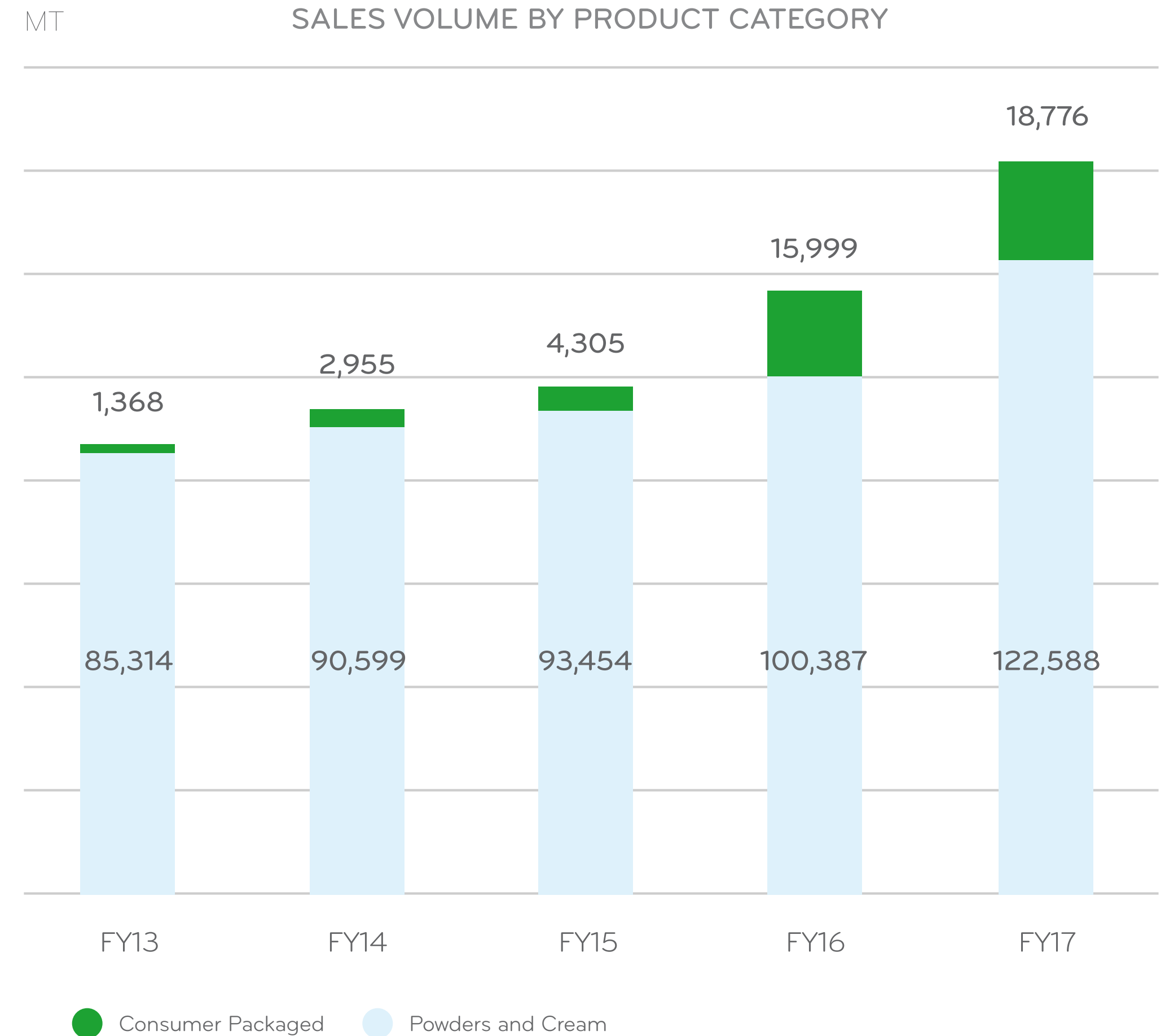
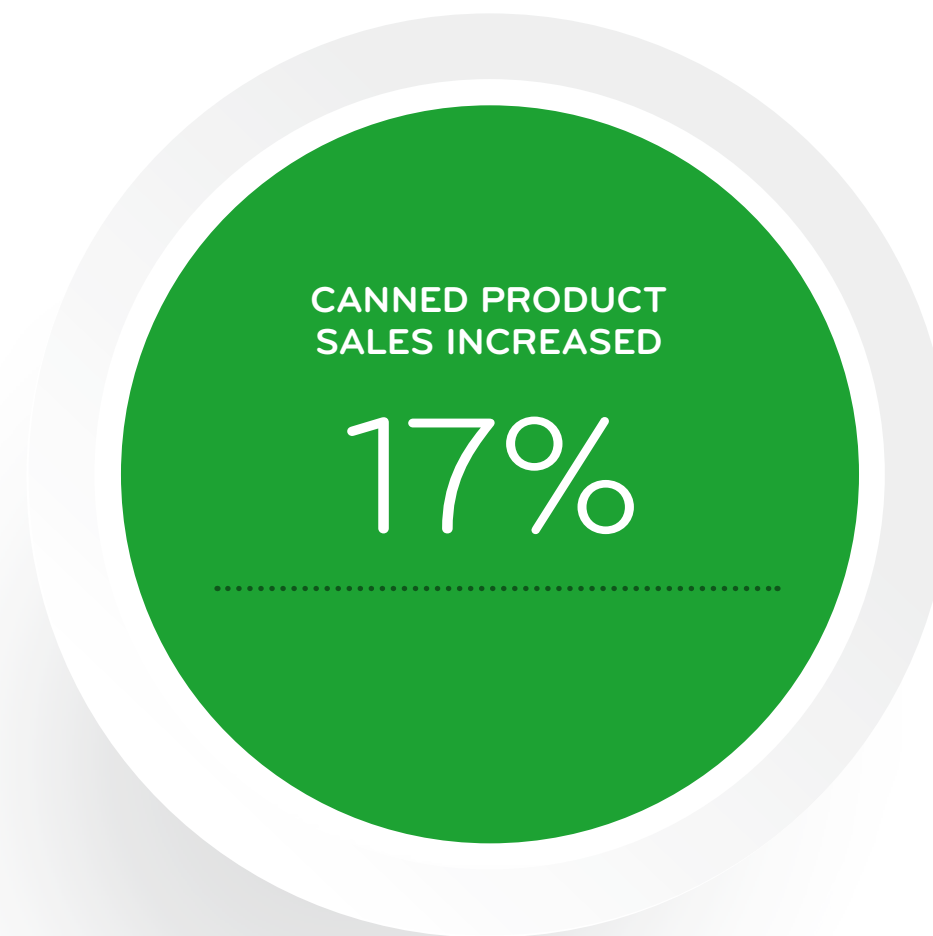
Notes: (1) Leverage = net debt / EBITDA;

(2) Return on capital employed (ROCE) is calculated by dividing earnings before interest and tax (EBIT) by the average capital employed (equity + net debt);

(3) Gearing = net debt / (net debt + equity), excluding derivatives. See our 2017 Annual Report for further details, available at: <http://www.synlait.com/investors/>

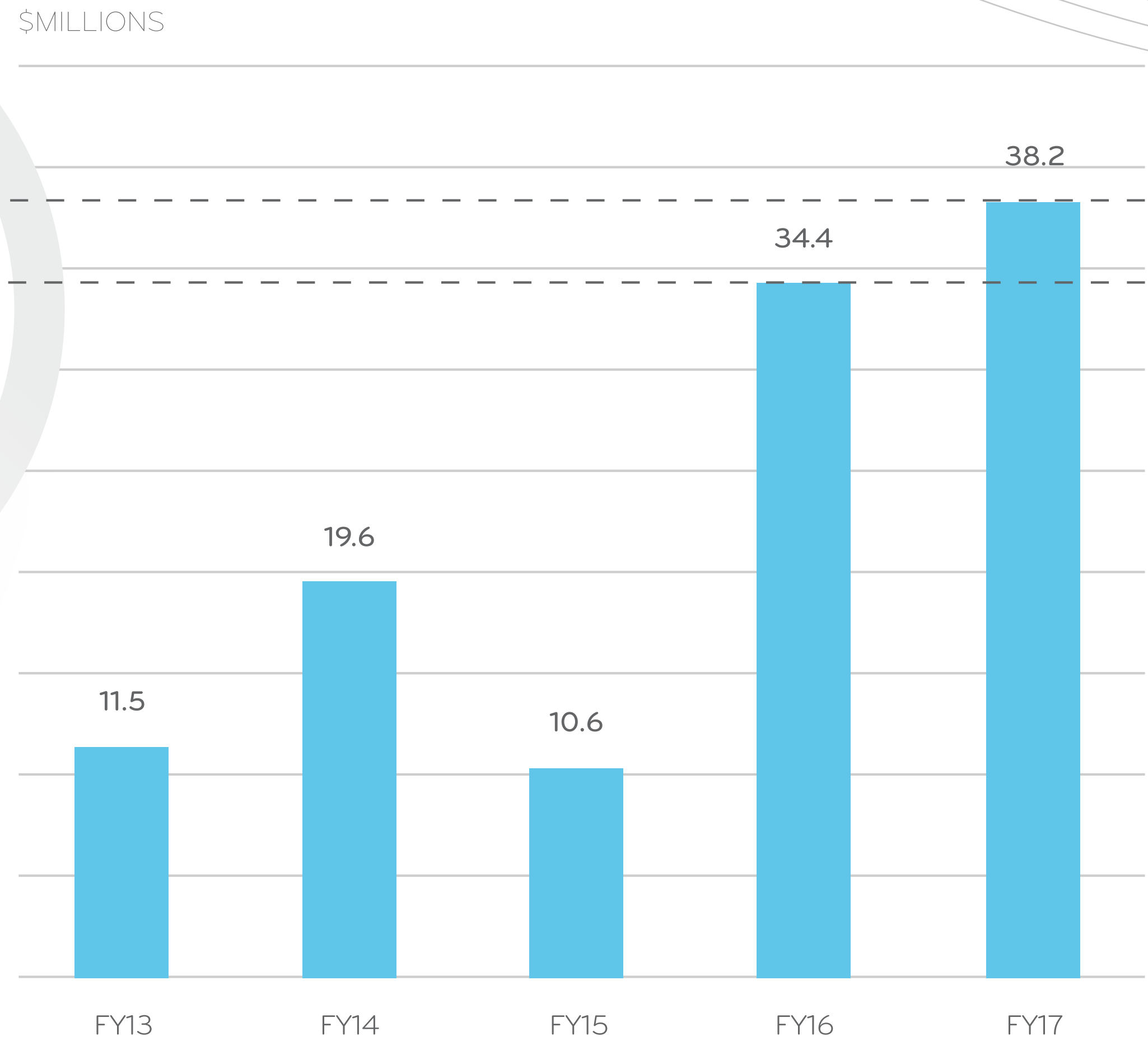
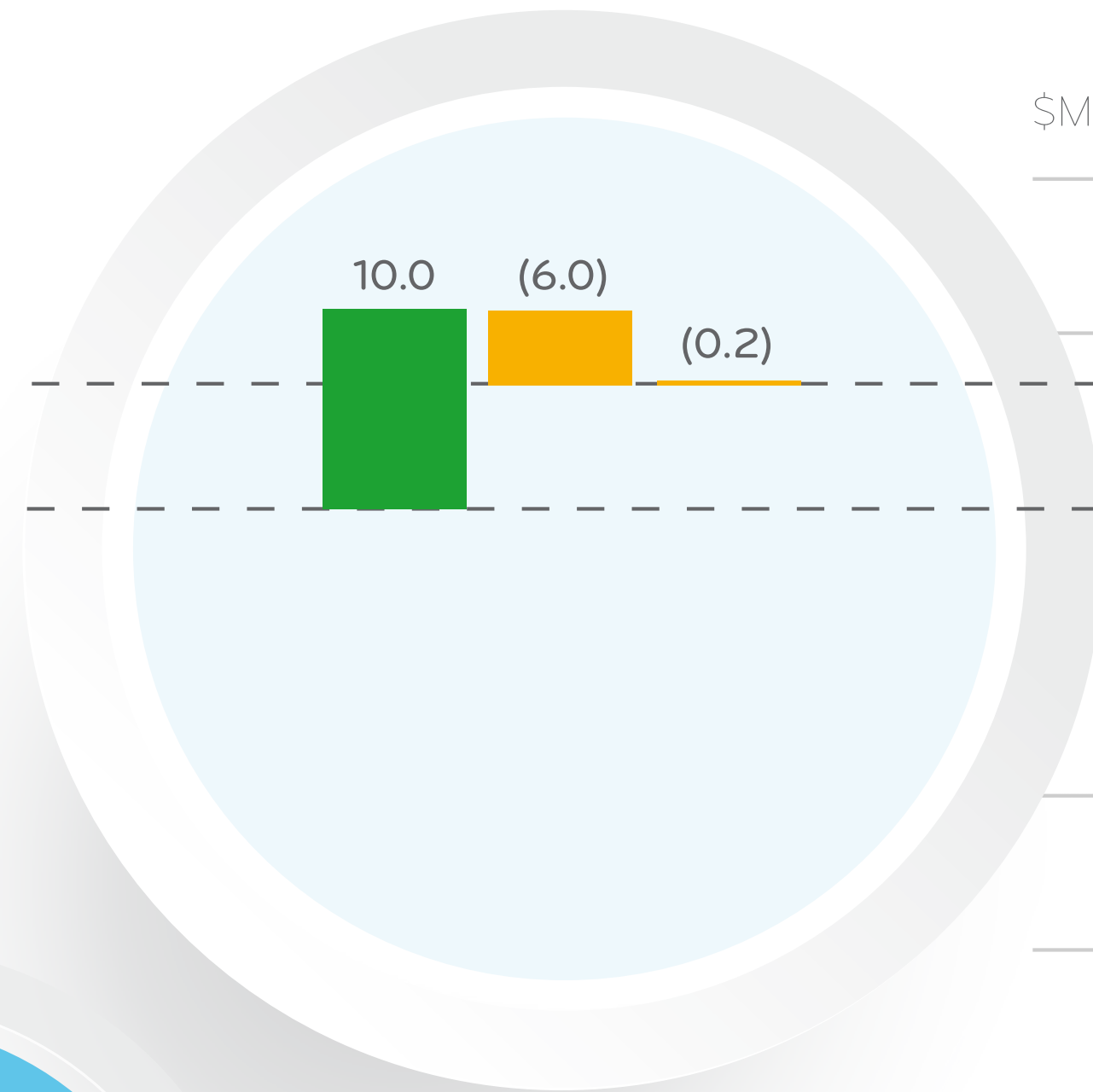
# HIGHER VOLUMES DRIVE REVENUE GROWTH

- **Revenue at \$759.0m was up 39% on last year's \$546.9m**, driven by increased sales volumes and improved dairy commodity prices.
- **Total sales volume at 141,393 MT was 21% above last year's 116,402 MT**, due to increased milk supply and carry over stock from FY16 sold through.
- **Canned infant formula volumes increased 17% to 18,776 MT.**
- **11 MT of lactoferrin sold in FY17 (FY16: 10 MT)**. We also used 1.7 MT of lactoferrin internally in producing infant formula.



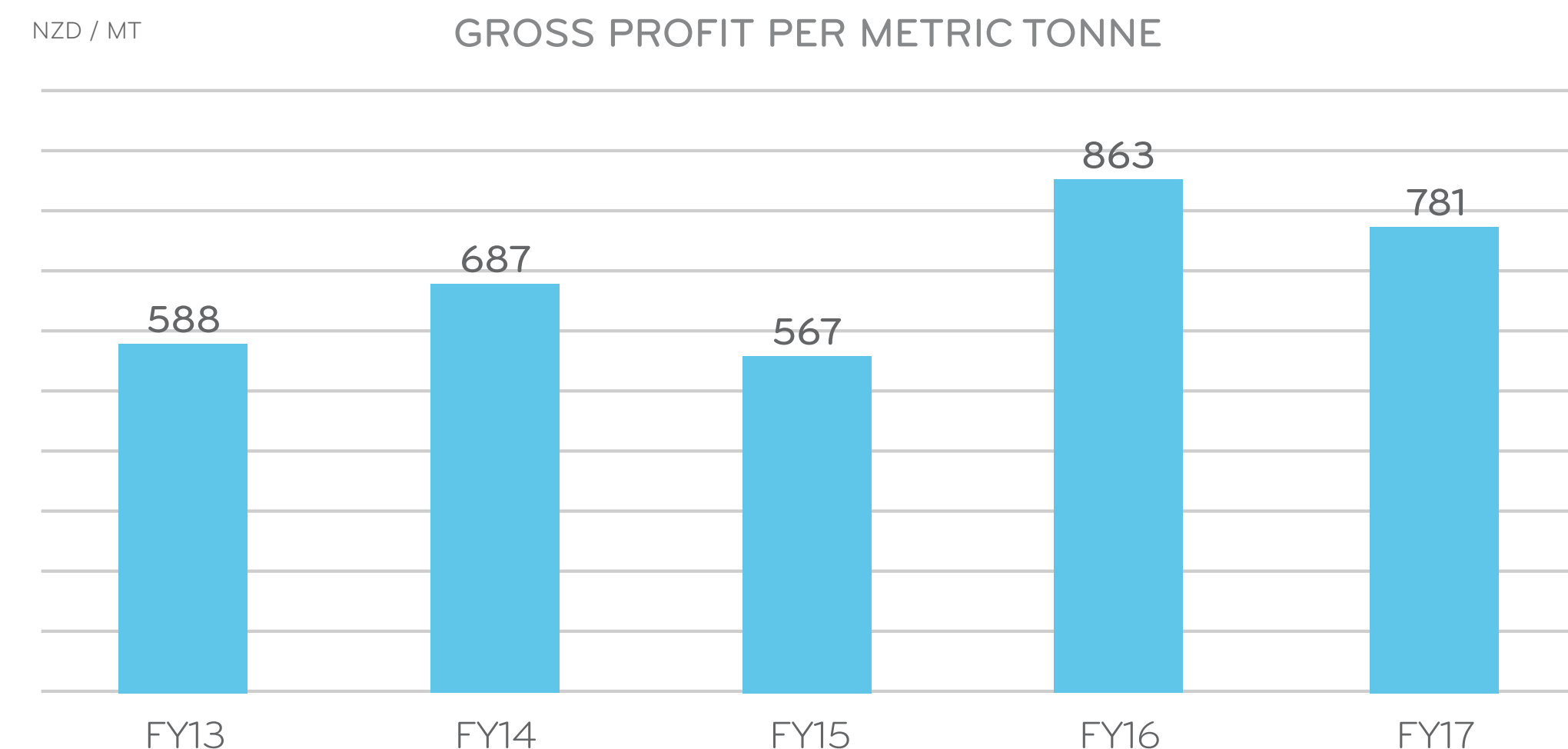
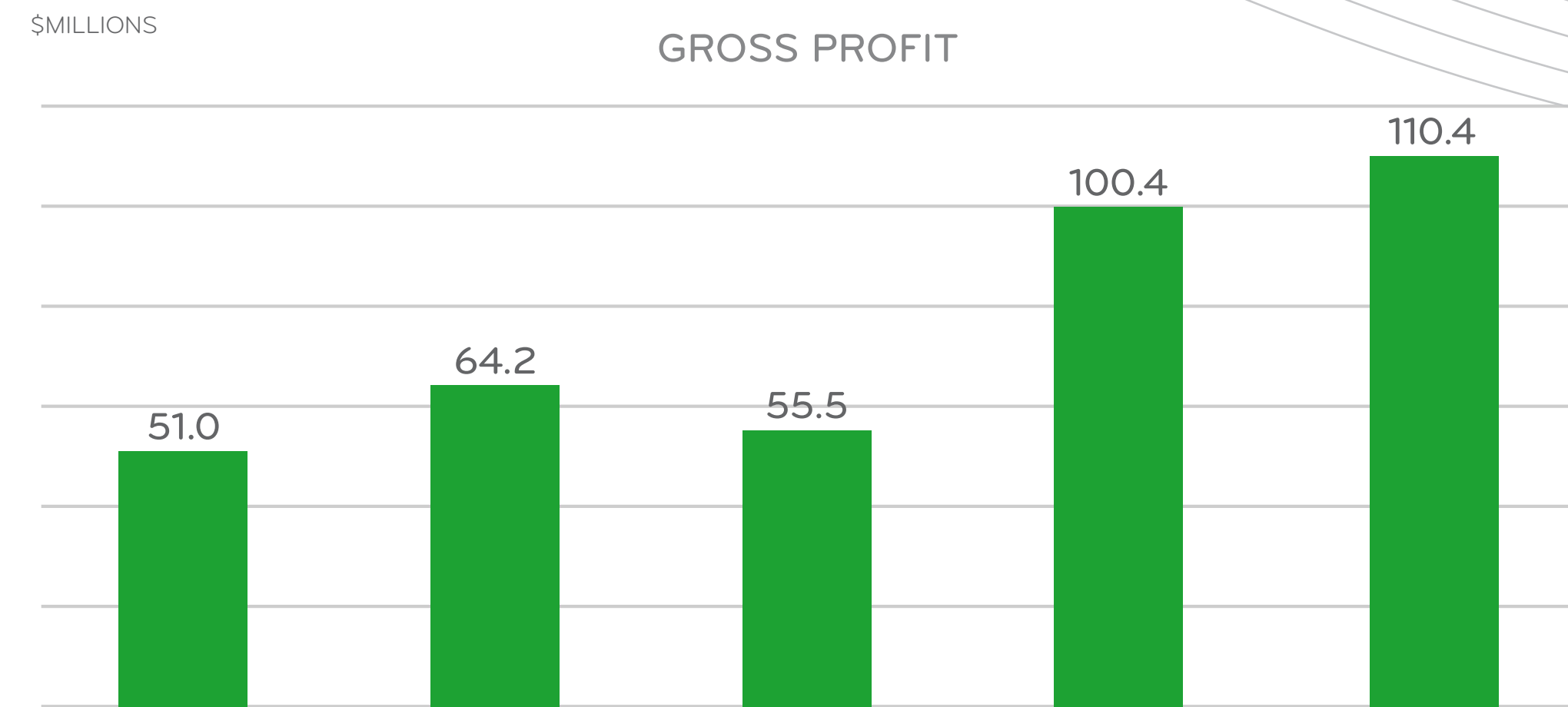
# PROFIT GROWTH

- **Net profit after tax** was \$38.2m, up from \$34.4m in FY16.
- **Increased infant sales** volumes drove gross profit growth of \$10.0m (before tax).
- **\$6.0m was reinvested** into business development and planning capabilities for future growth.



# GROSS PROFIT PER MT MARGINALLY LOWER

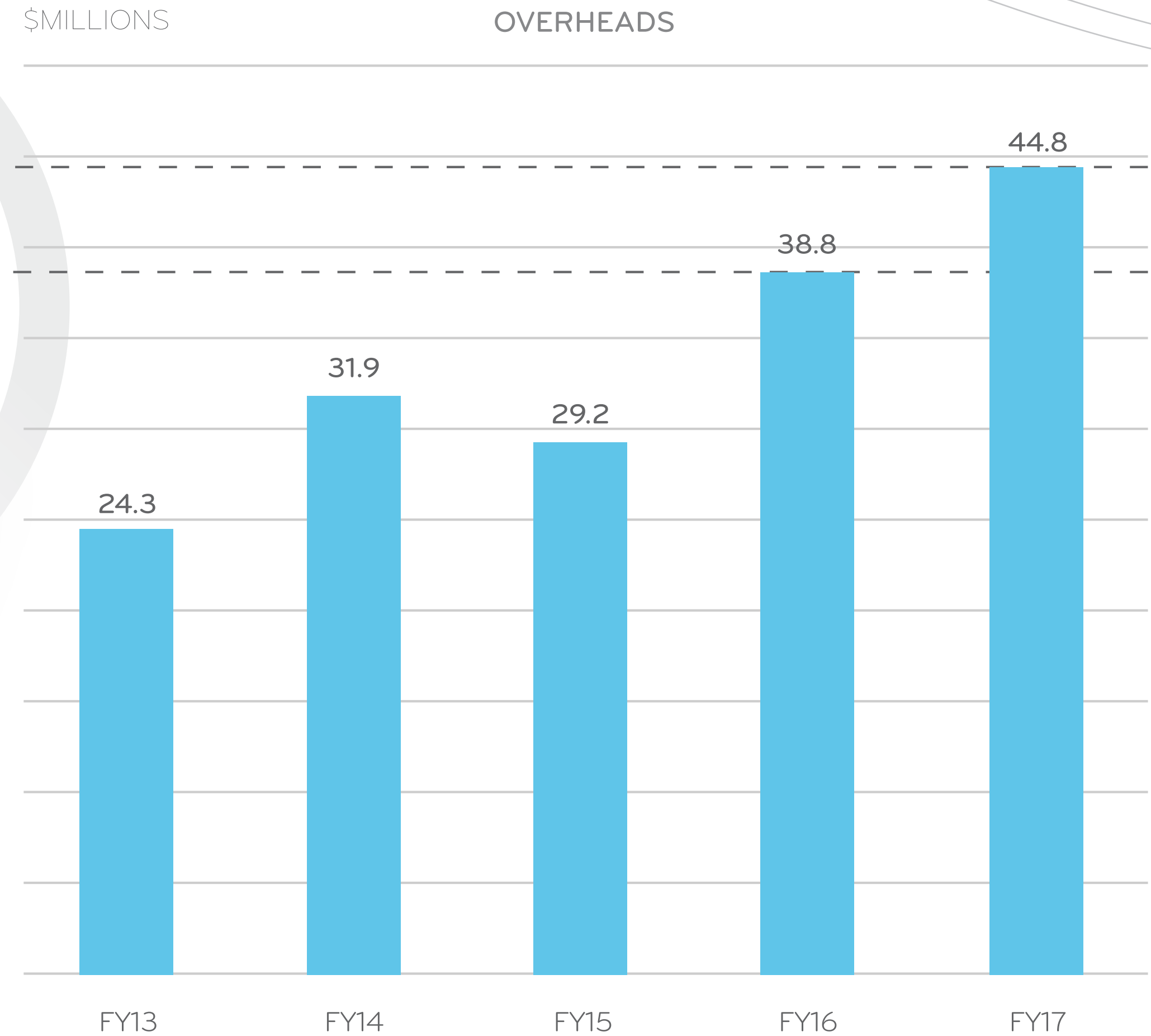
- Continued growth in earnings driven by improved volumes. **Gross profit was up 10% to \$110.4m.**
- **Our overall gross profit per MT at \$781 was \$82 per MT down on last year.** This was due to higher growth in ingredient sales, which is dilutive to margin.
- In addition, 3,939 MT of carry over inventory was sold at net realisable value (no margin).
- Consumer packaged gross profit per MT improved, with higher utilisation at our Dunsandel blending and canning facility.



# REINVESTING MARGIN INTO BUSINESS DEVELOPMENT

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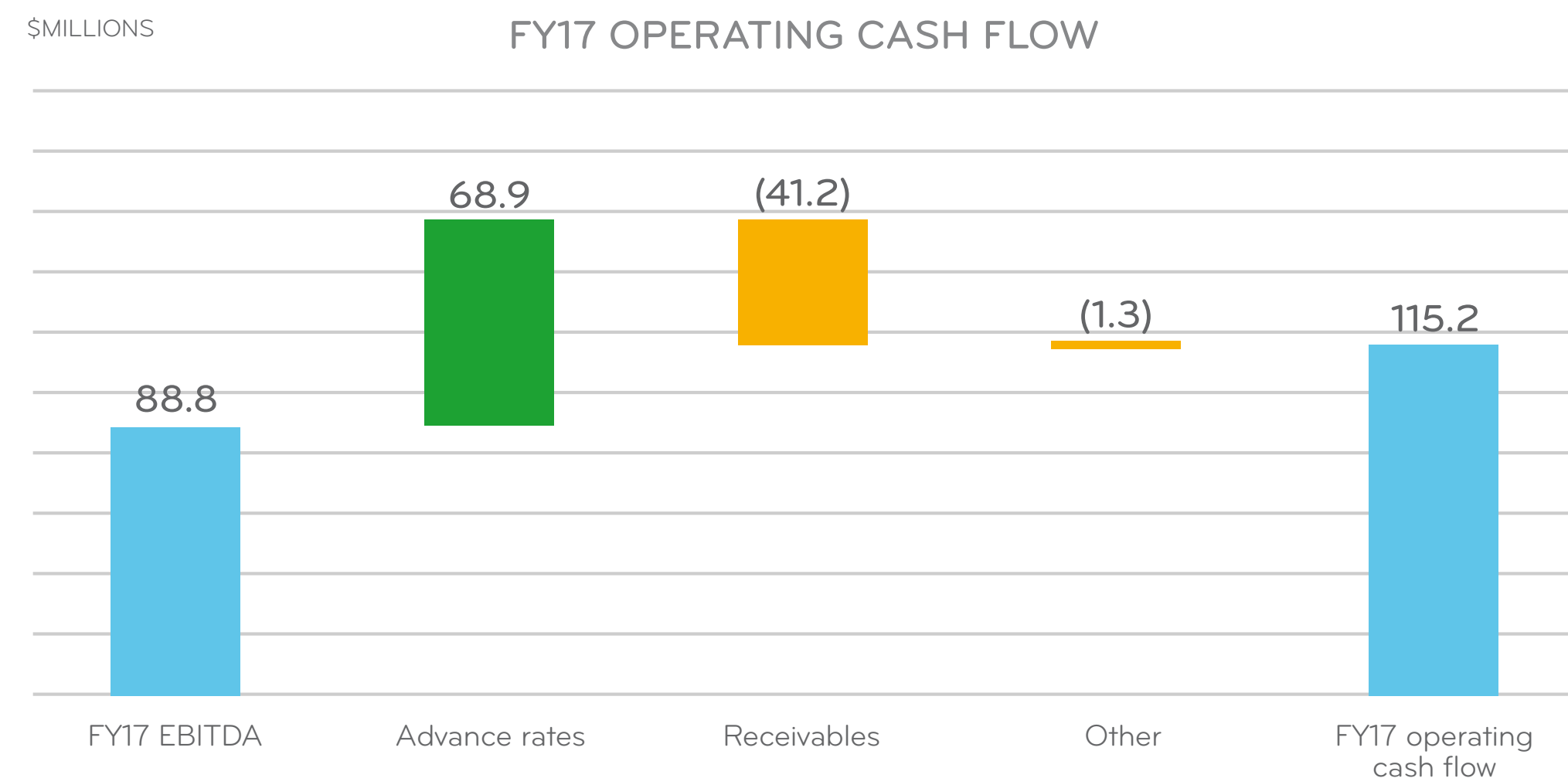
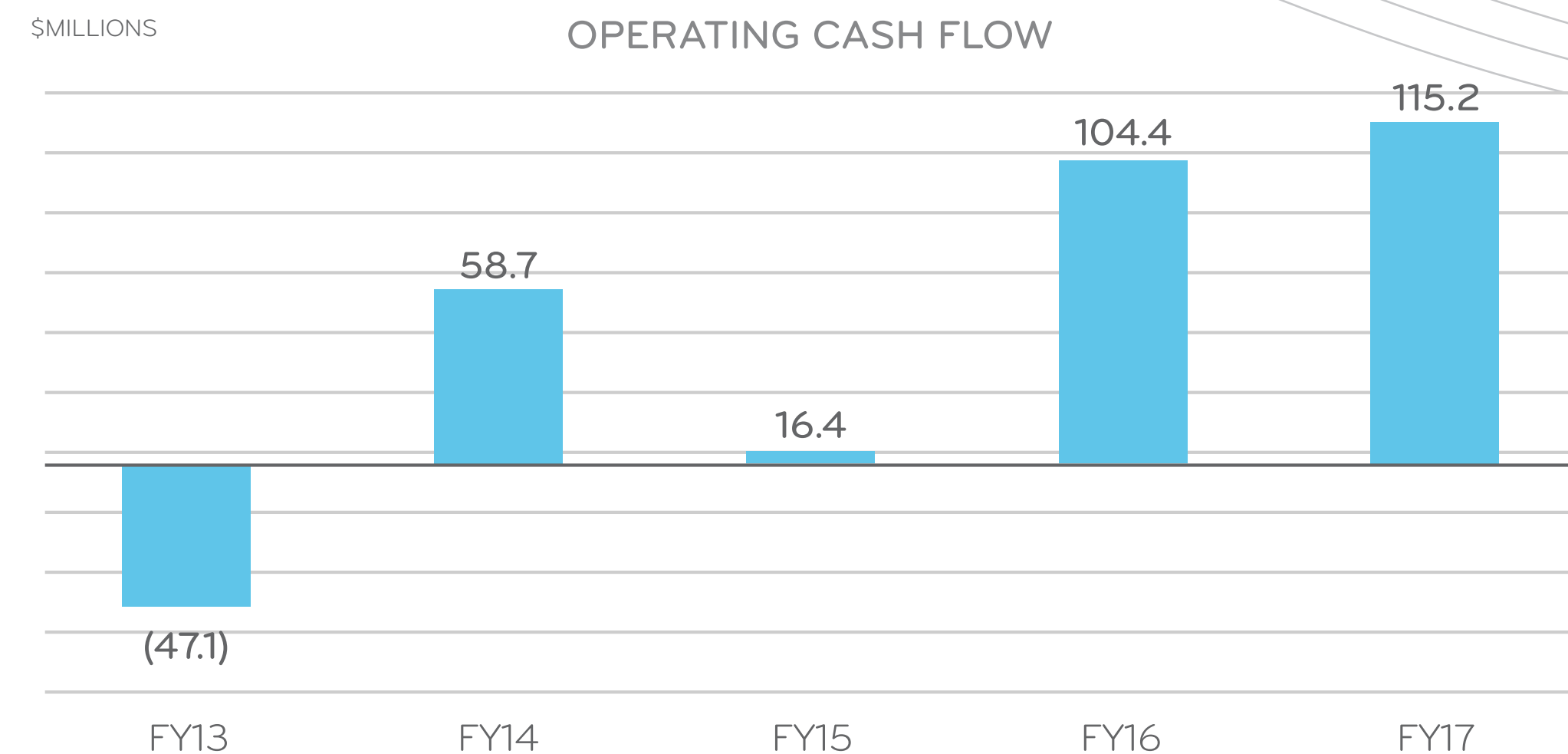
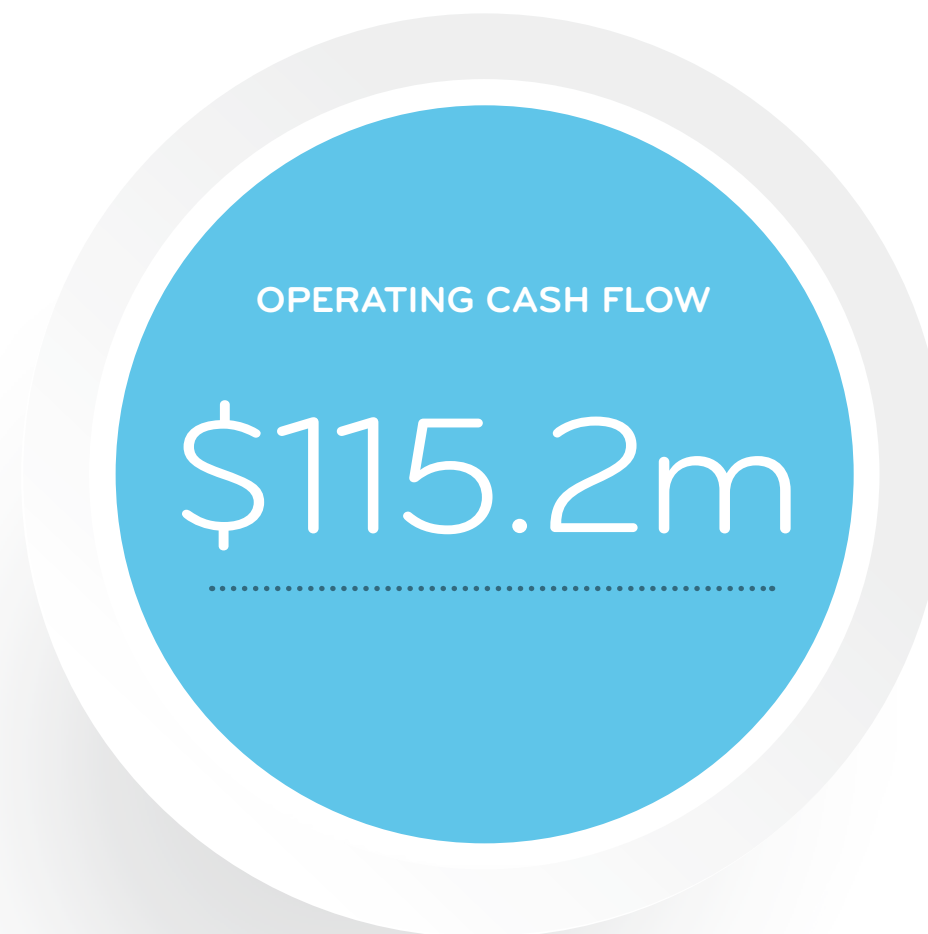
- **In total our overhead expenses** for FY17 at \$44.8m **were up \$6.0m** on FY16 (\$38.8m).
- **Our strong focus on quality, strategic initiatives and Research and Category Development comprised half of our increase in overheads.** Our investments in employees was planned, as we noted in our FY16 full year and interim presentations.
- Partly due to increased infant volumes, Synlait has carried higher average inventory through FY17 compared with FY16. This has required additional warehousing space.





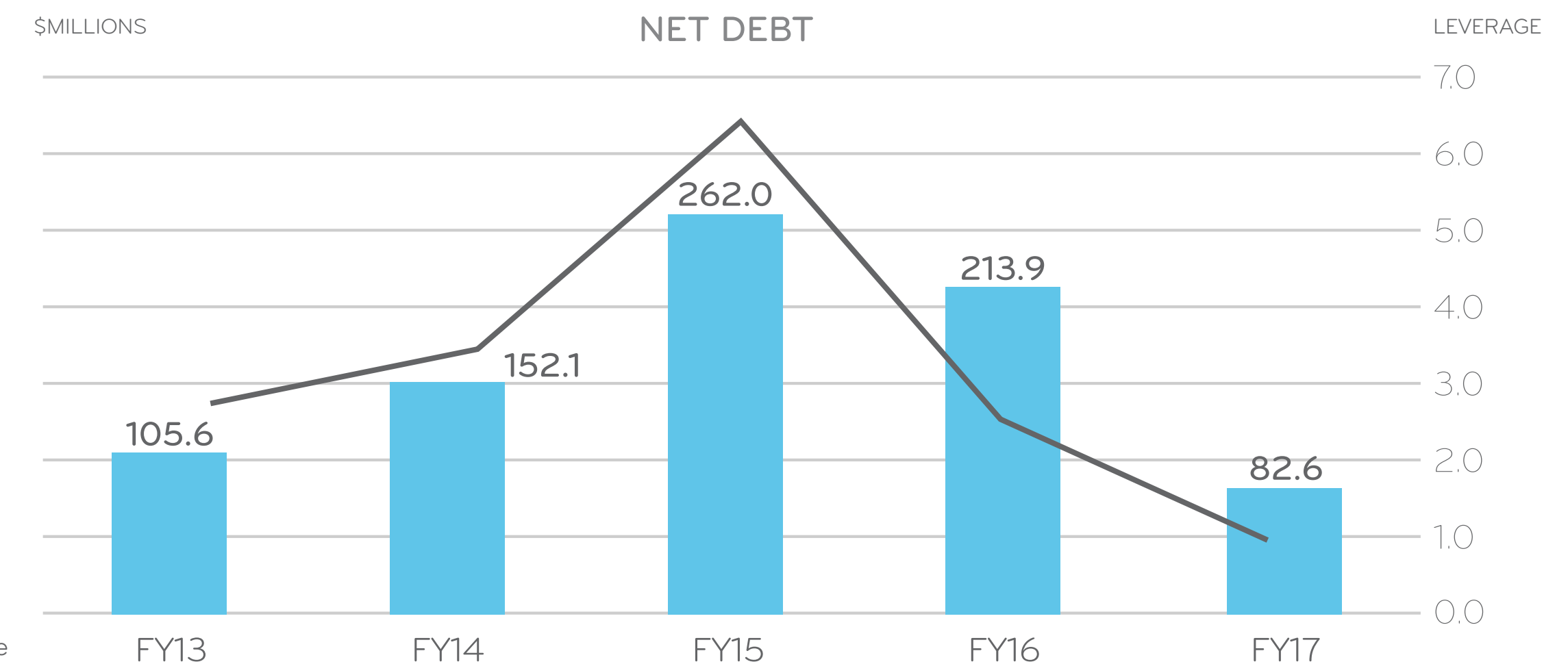
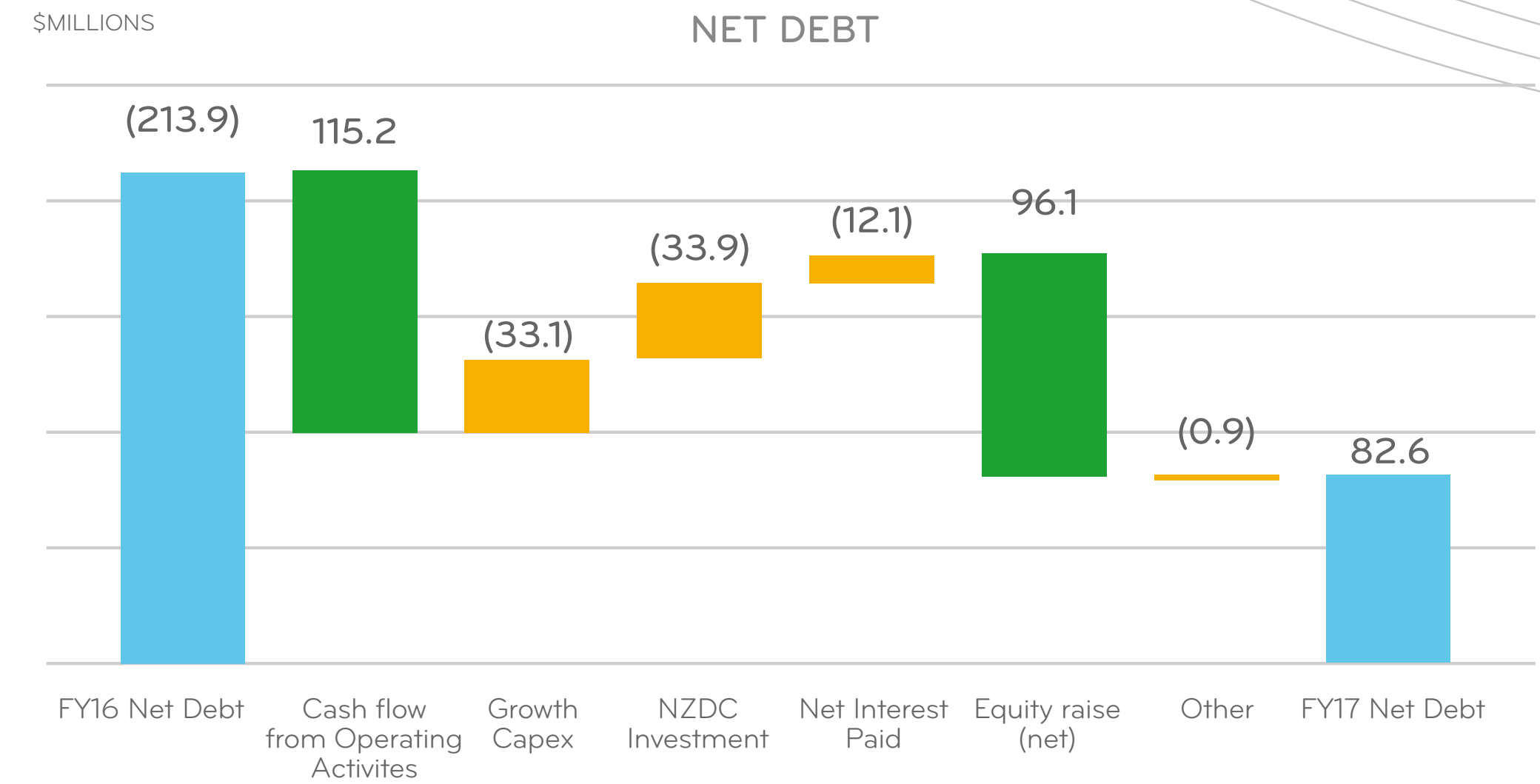
# CONTINUED CASH FLOW GROWTH

- **Operating cash flow increased by \$10.8m from FY16, to \$115.2m in FY17.**
- **Operating cash flow was greater than EBITDA given rising milk prices, relative to the advance rates paid.**
- **An offsetting factor was an increase in receivables (up \$41.2m on FY16).**  
This was driven equally by increased dairy commodity prices and increased sales volumes in the last two months of the financial year (phasing).



# DEBT REDUCTION

- **Net debt has decreased from \$213.9m in FY16 to \$82.6m.**
- **The capital raise of \$97.6m** completed in October 2016 and strong **operating cash flows of \$115.2m** were the main drivers.
- These factors vastly outweighed the **investment in our Wetmix kitchen (\$33.1m), the acquisition of NZDC (\$33.9m) and other capital expenditure of \$12.1m.**
- Synlait continued generating free cash flow in FY17, producing \$55.0m (being operating cash flow less investing cash flow). Our leverage ratio improved substantially, from 2.6x to 0.9x.



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OUR  
EXPECTATIONS  
AND FUTURE

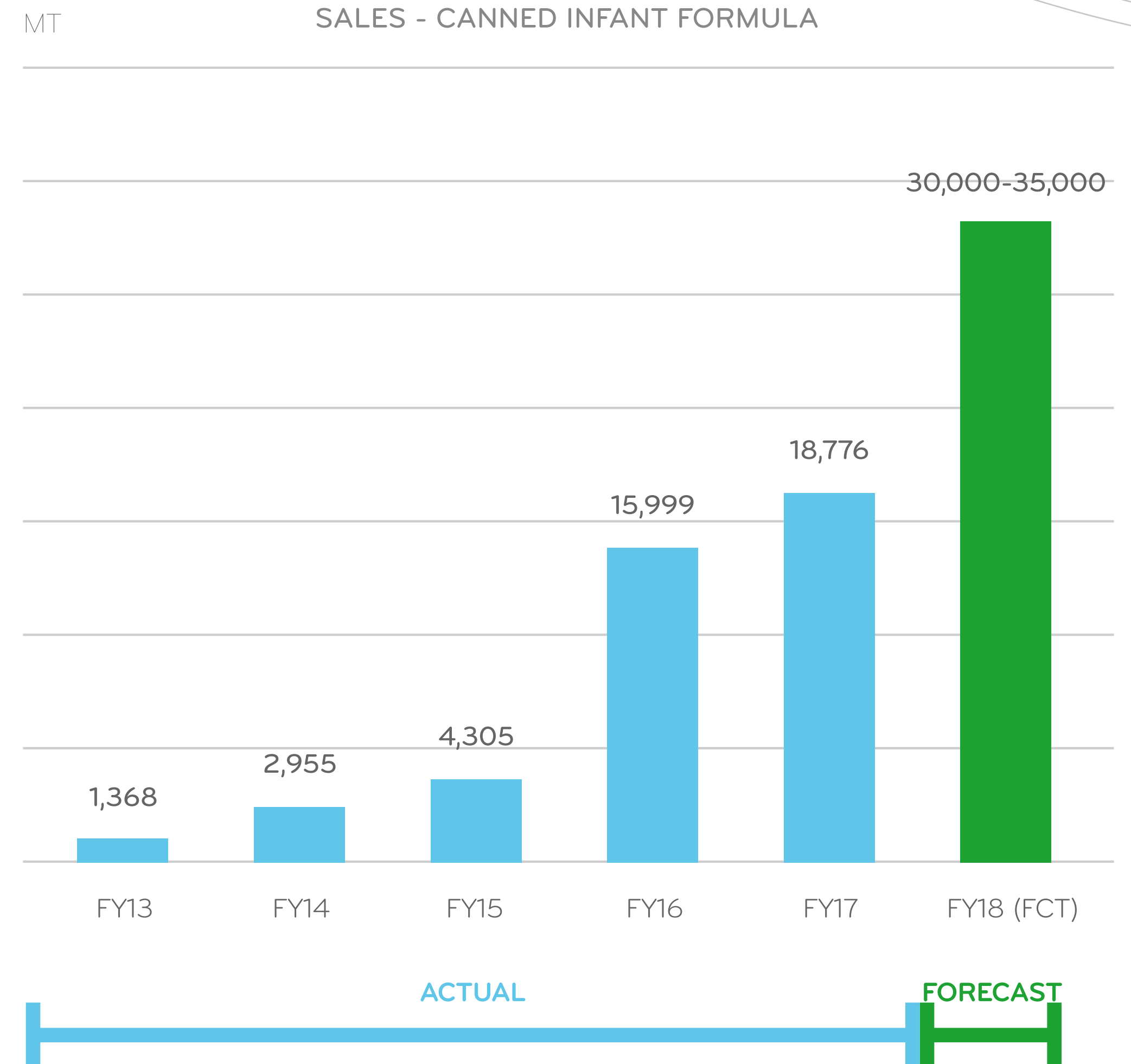
# GOING FORWARD

- We see considerable opportunities to solidify our current ingredient and infant formula positions and to enter new categories.
- To date our strategy has been exclusively business to business. In future, we may consider the establishment of branded positions, where
  - there is no conflict with our existing partner relationships; and
  - we feel we have significant consumer benefits.
- It is likely that to achieve this strategy we will also establish further manufacturing sites over time. Our current balance sheet and projected earnings are sufficient to fund our strategy.
- In summary our strategy is to continue to grow both top and bottom lines at pace.
- A more profitable, more diversified and lower risk business is the goal.



# EXPECTATIONS OF GROWTH

- **We expect Chinese infant formula demand to continue to grow, particularly with the relaxing of the one child policy.**
- The regulatory change targeting rationalisation of brands may boost demand in the second half of FY18, post registration.
- Registration of The a2 Milk Company's and New Hope Nutritional's infant formulas in China are expected to support demand growth.
- Investment in customer and market development (e.g. Munchkin Inc.) is also expected to support our sales growth.
- As a result, we expect demand to increase significantly for Synlait consumer packaged products.
  - Increased infant formula sales drives margin growth.
  - Increased volume from 18,776 MT to approximately 30,000 to 35,000 MT.
  - 16,000 MT forecast for H1 FY18.
- We will continue to grow our investment in business development and technical capability.





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