Stepping it up.

The a2 Milk Company Limited

2019 Annual Results | 21 August 2019

CONTENTS

RESULTS HIGHLIGHTS

A record year.

Record financial results and market shares; step-changing investment in brand and capability for further growth

Record financial results in FY19, continuing strong momentum

- Total revenue of $1,304.5 million[1] +41.4%
- EBITDA[2] of $413.6 million +46.1%
- Net profit after tax of $287.7 million +47.0%
- Basic earnings per share (EPS) of 39.25 cents per share, an increase of 45.4%
- Operating cash flow of $289.1 million and a strong balance sheet with closing cash balance of $464.8 million

Record market shares underpin strong results in each region

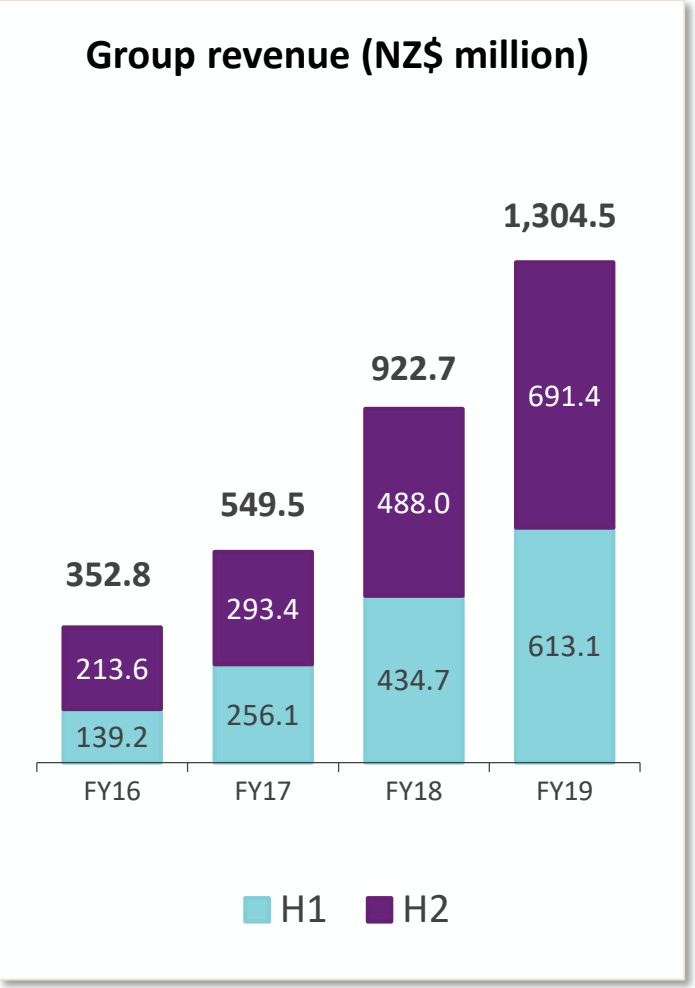
- Infant nutrition market share strengthened to 6.4%[3] in China with Group revenue of $1,063.8 million up 46.9%
- US milk revenue grew over 160% and distribution expanded to 13,100 stores
- Australian fresh milk revenue growth of 10.7%[4] and record market share of 11.2%

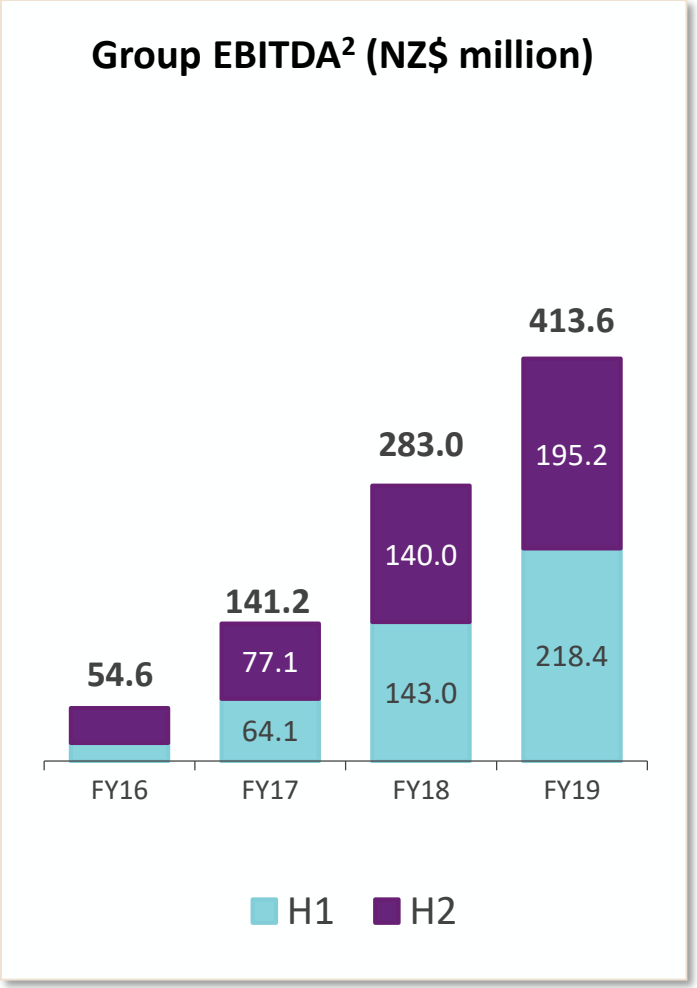
Step-changing investment in brand and capability for further growth

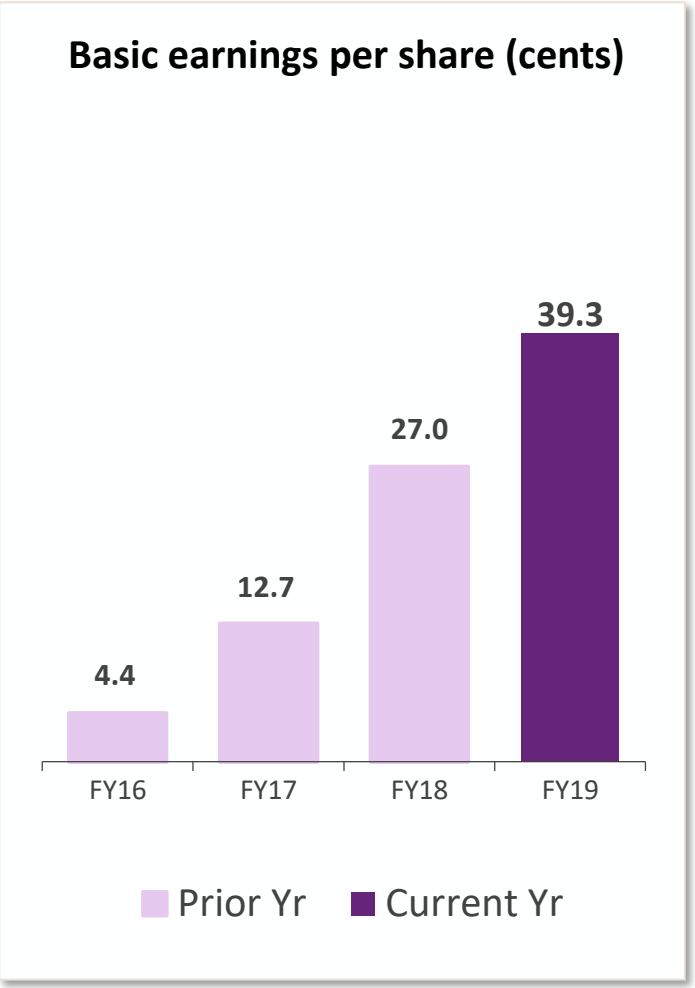
- Marketing spend of $135.3 million, representing 10.4% of sales and an increase of 83.7%
- EBITDA to sales margin of 31.7%
- Significant investment in building depth and breadth of organisational capability to support continued growth and resilience

[1] All figures quoted in New Zealand Dollars (NZ$) and all comparisons are with the 12 months ended 30 June 2018 (FY18), unless otherwise stated.
[2] Operating EBITDA is a non-GAAP measure and represents earnings before interest, tax, depreciation and amortisation.
[3] Kantar Infant Formula market tracking of China Tier 1, Key A, B, C & D cities for 12 months ending 14 July 2019 by value.
[4] Local currency (AUD).

Key financial charts[1] – continuing strong momentum







[1] *The Company's financial year ends 30 June; H1 refers to the first half period from 1 July to 31 December; H2 refers to the second half period from 1 January to 30 June.*
[2] *EBITDA is a non-GAAP measure and represents earnings before interest, tax, depreciation and amortisation, and is shown before non-recurring items.*

Financial summary – strong earnings growth and step-change investment in marketing and capability

NZ$ million	FY19	FY18	% change
Revenue	1,304.5	922.7	+41%
Gross margin	713.8	464.3	+54%
Distribution	(31.3)	(26.8)	+17%
Marketing	(135.3)	(73.6)	+84%
Employee costs	(53.9)	(34.8)	+55%
Other	(79.7)	(46.1)	+73%
EBITDA	413.6	283.0	+46%
EBIT	411.4	280.9	+46%
NPAT	287.7	195.7	+47%

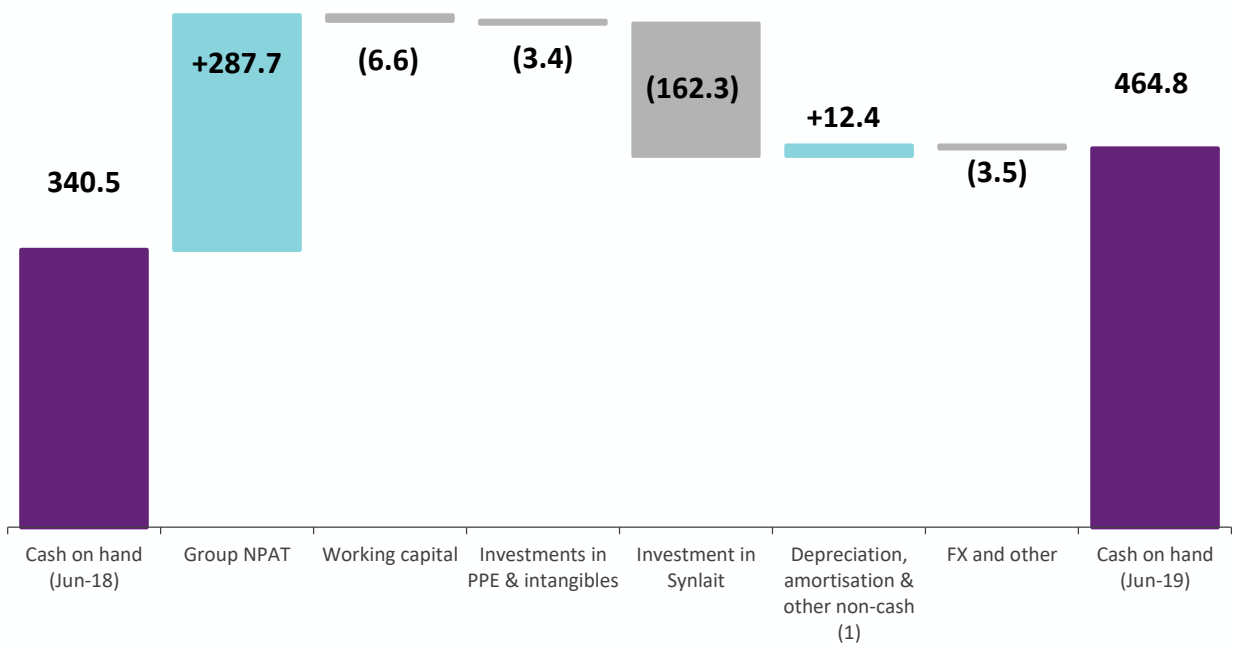
- Reflects strong growth across core markets and product categories
- GM of 54.7% reflects benefits of product mix (higher proportion of infant formula sales), pricing and COGS improvements, partially offset by currency movements (most notably a weaker AUD)
- A further step-change in marketing investment from 2H19 to support growth in China and the US
- Employee cost increases reflect capability build in core markets and corporate
- Reflects strategic investment in consumer insights and costs to support business expansion
- EBITDA margin of 31.7%

NZ$ million	Jun-19	Dec-18	% change
Cash on hand	464.8	287.9	+61%
Inventory	108.5	72.8	+49%

- Increase due to strong NPAT contribution, partially offset by Synlait investment
- Planned increase in infant formula inventories; includes $39.0m of goods in transit

Strong balance sheet with substantial cash balance

- Working capital movements include steps taken to improve business flexibility by increasing inventory, enabling us to adjust more quickly to demand changes; offset by improved receivables and timing of supplier payments
- Increased investment in Synlait to 17.4% shareholding in August 2018
- With a strong balance sheet and cash position we retain the flexibility to support our growth strategy



[1] *"Other non-cash" includes share based payments costs of $8.2 million.*

Geographic and product segment performance

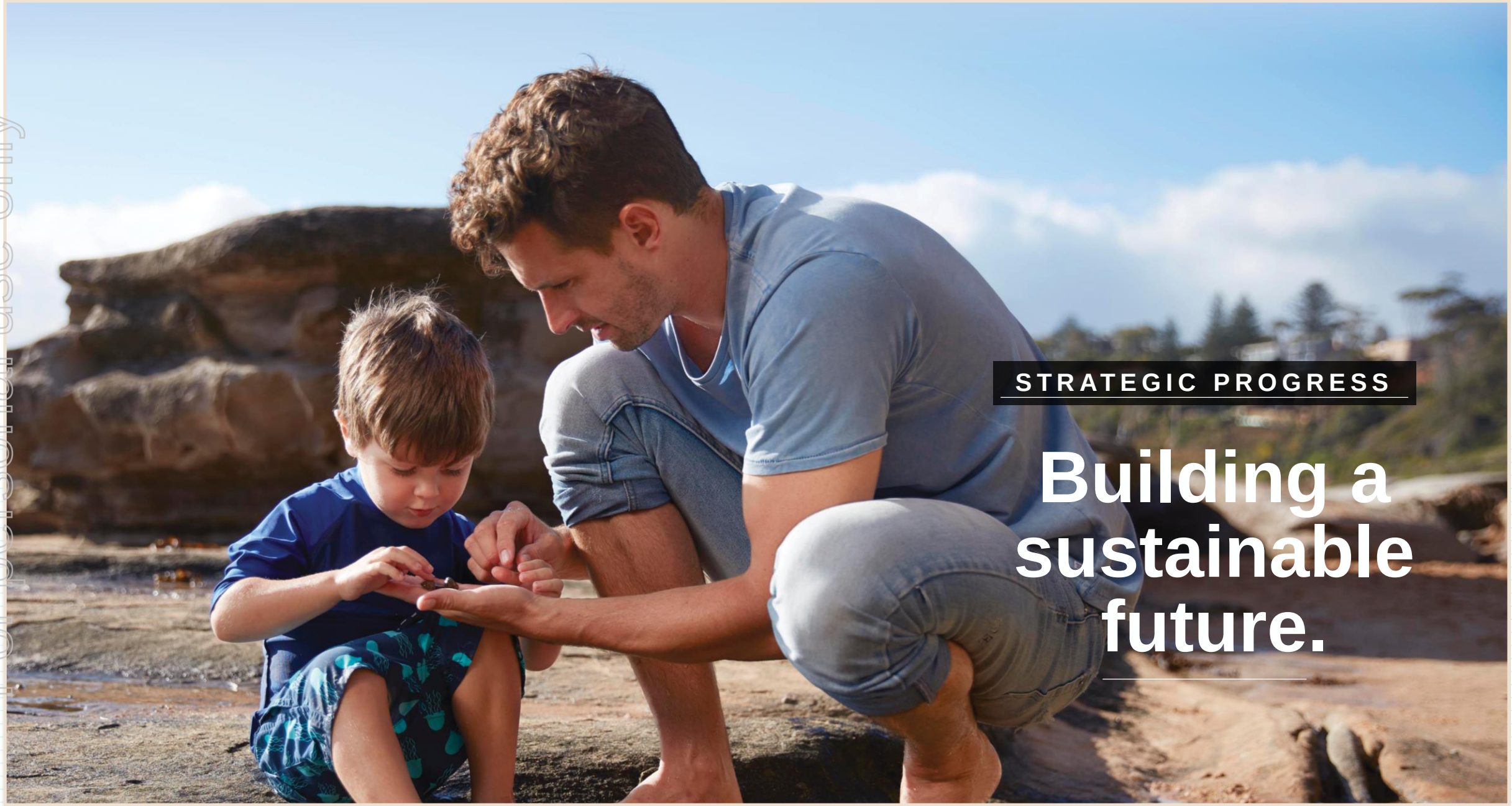
Geographic segment revenue & EBITDA

	NZ$ million	ANZ	China & other Asia	USA	UK[1]	Corporate	Total Group
FY19	Revenue	842.7	405.7	34.6	21.6	-	**1,304.5**
	EBITDA	388.2	123.9	(44.0)	4.4	(58.9)	**413.6**
	EBITDA %	46.1%	30.5%	NM	20.4%	-	**31.7%**
FY18	Revenue	656.6	233.6	13.3	19.1	-	**922.7**
	EBITDA	262.2	81.3	(28.6)	0.9	(32.8)	**283.0**
	EBITDA %	39.9%	34.8%	NM	4.9%	-	**30.7%**
% change	Revenue	28.3%	73.6%	160.7%	12.7%	-	**41.4%**
	EBITDA	48.1%	52.4%	54.0%	373.2%	79.7%	**46.1%**

Product segment revenue

Liquid milk	Infant nutrition	Other nutritional
174.9	**1,063.8**	**65.8**
142.4	724.2	56.1
22.8%	**46.9%**	**17.3%**

[1] *UK EBITDA of $4.4 million includes $(2.1) million impairment of goodwill and intangibles.*



STRATEGIC PROGRESS

Building a sustainable future.

Macro factors shaping consumer demand and creating opportunity

Growing consumer demand for health and wellness products

Growing focus on food safety, naturalness and provenance

Rise of the middle class in Asia

Rapid pace of digitalisation

How we create value depends on success across each source of capital given the inter-connected nature of our business model

Unique, premium brand and IP

Intellectual capital

Passionate and thriving team

Human capital

Capital smart approach

Financial capital

Innovative and ethical supply chain

Manufacturing capital

Responsible use of natural resources

Natural capital

Enriching community wellbeing

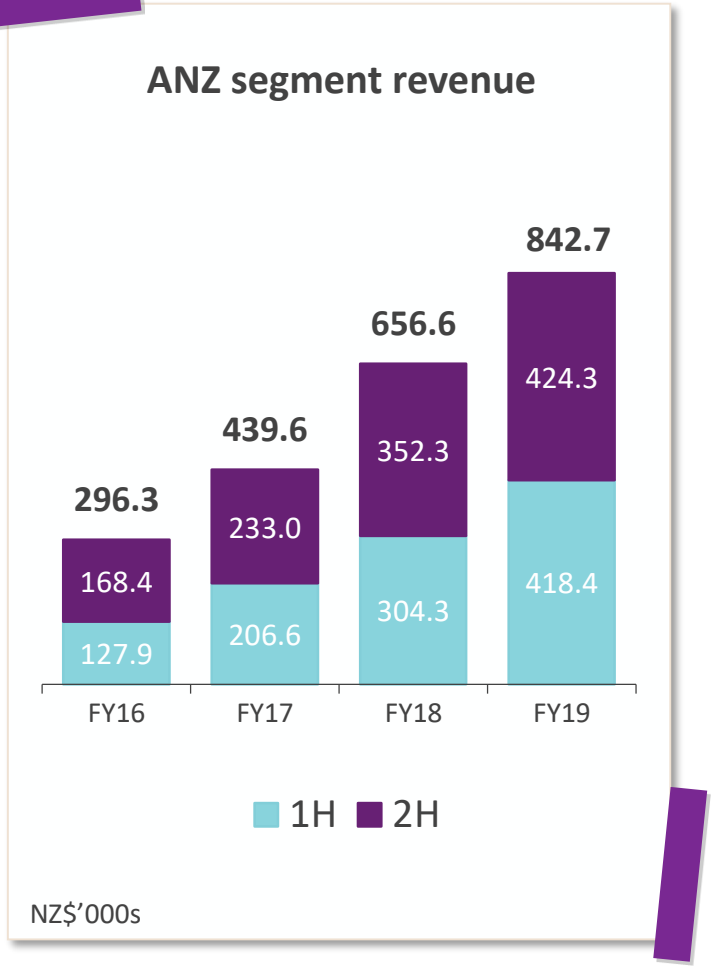
Social capital

REGIONAL PERFORMANCE

Australia strengthens; China & US momentum builds.

Australia and New Zealand goes from strength to strength

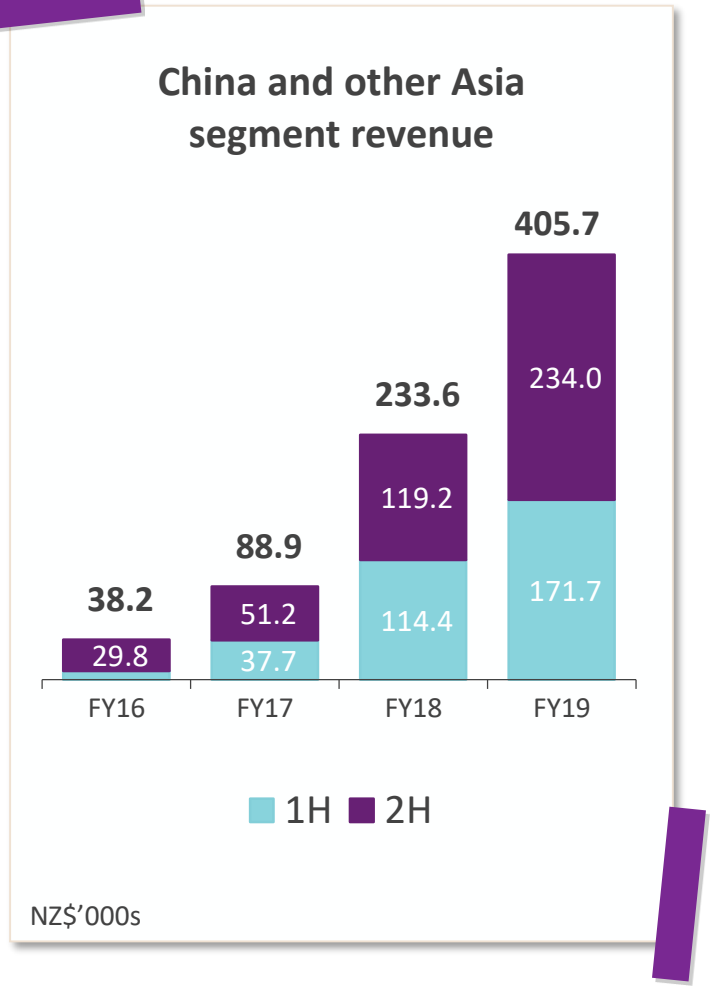
- Continued strong performance across all key product segments: liquid milk, infant formula and other nutritional products with strong underlying brand health
- *a2 Milk™* branded fresh milk continues to strengthen with 10.7%[1] revenue growth and a record 11.2%[2] market share – fastest growing major fresh milk brand in Australian supermarkets and remains the leading premium milk brand and the only brand ranged in all major Australian supermarkets. Second half performance especially strong driven by effective and consistent marketing investment.
- *a2 Platinum®* infant nutrition revenue grew 35.3%[1] and remains the market brand leader in grocery and pharmacy channels
- Other nutritional products revenue grew 10.9% on prior year
  - Includes Pregnancy and Mānuka products launched in 4Q18
  - Includes sales of *a2 Smart Nutrition™* launched in 4Q19



[1] *In constant currency.*
[2] *Aztec Australian Grocery Weighted Scan 12 months ending 30 June 2019.*

China momentum continues to build

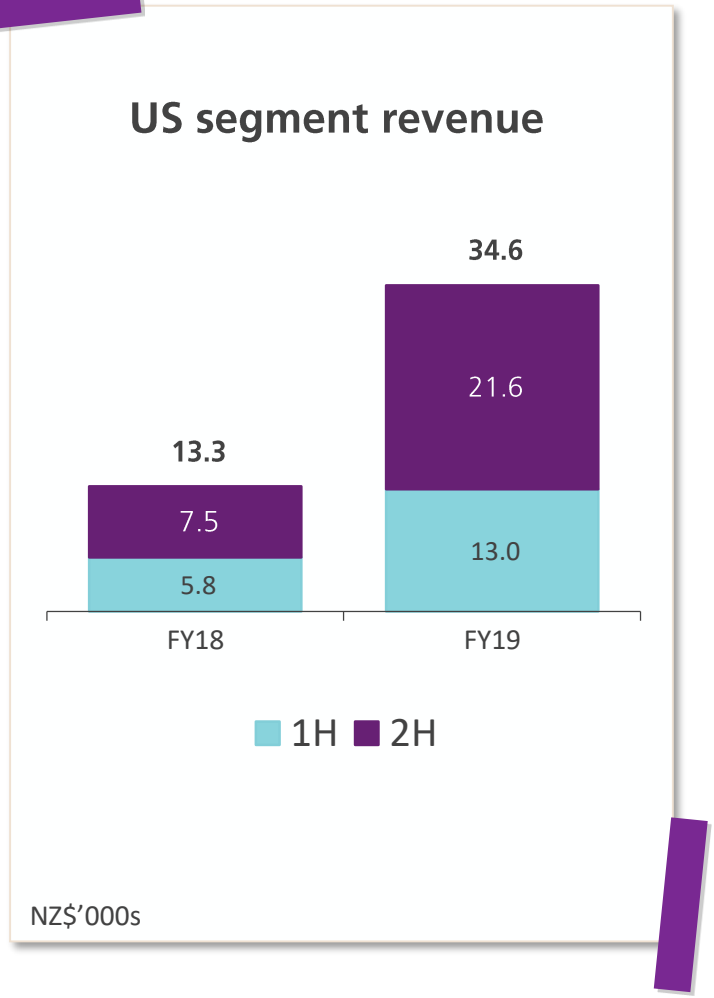
- Infant formula consumption market share growing across China
  - 6.4% Kantar Tier 1, Key A, B, C & D cities market value share up from 4.8% as at 30 June 18[1]
- Invested in expanded Kantar market share coverage to include city tiers B, C and D – considerable momentum in lower tier cities. Our multi-channel strategy remains important to our success in building household penetration
- Cross border e-commerce (CBEC) remains a key pathway
  - Performed well during the online seasonal events and continues to perform strongly across all CBEC platforms
- China label revenue +100% through Mother Baby Stores (MBS) and modern trade
  - Higher sales velocity within existing stores was a strong contributor to the overall growth
  - China MBS store distribution at ~16,400 stores; up 64% for the year
  - In-store productivity and building store distribution remain a focus moving forward
- Deep consumer and sales channel insights developed during the year gives us confidence that we will benefit from increased investment in brand building and marketing



[1] *Kantar Infant Formula market tracking of China Tier 1, Key A, B, C & D cities for 12 months ending 14 July 2019 by value.*

United States building scale

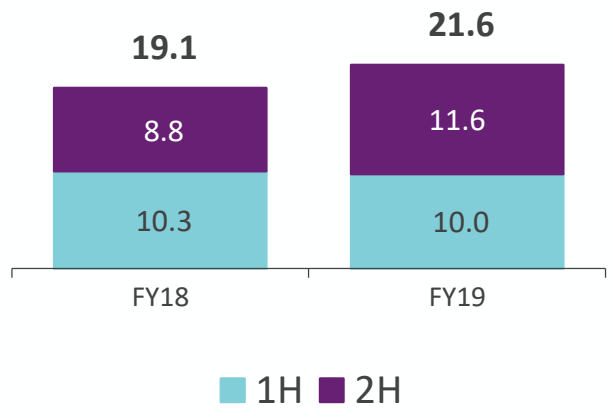
- *a2 Milk™* building sales velocities
  - Revenue up 160.7% to NZ$34.6 million
  - EBITDA losses of NZ$44.0 million resulting from increased investment in building brand awareness
- Distribution increased to 13,100 stores (Jun 19)
  - Rate of distribution growth driven by national distribution within Kroger supermarket chain, three new regions within Costco; additional Vons and Safeway stores and further Walmart distribution
  - Significant distribution growth in January driven by building brand awareness and new store planogram reset timings within the respective retail chains
  - Continued focus on increased distribution and improving in-store productivity in relatively newer stores
- National brand advertising delivering further increases in awareness and velocities
  - The brand is successfully growing category consumption, sourcing volume across multiple product segments and trading up consumers from conventional milk while demonstrating high levels of consumer loyalty once the brand is trialled
  - Expecting to continue investing strongly in the US to support the growth opportunity
- Portfolio extension to include coffee creamers from FY20



Growth of UK liquid milk remains challenging

- We have made the decision to exit our UK liquid milk operations, we believe there is significant value to be realised by consolidating our market focus and strengthening our presence in our core regions of China and US
- The business is winding down over 1H20
- It is important to note that this decision does not preclude us from pursuing UK or European markets at some stage in the future for liquid milk or other nutritional products
- Infant nutrition customers transferred to our China and other Asia segment from FY20

UK segment revenue[1]



NZ$'000s

[1] *UK segment revenue includes ~$17.8m revenue contribution in FY19 from infant formula sold to UK exporters (~$15.1m in FY18).*

OUTLOOK

Continued growth and investment in China & US.

FY20 outlook

- We anticipate continued growth in revenue across our key regions supported by increasing brand and marketing investment in China and the US

- Full year FY20 EBITDA as a percentage of sales is expected to be broadly consistent with 2H19 EBITDA margin (28.2%) reflecting:
  - increased full year marketing investment to ~12 per cent of sales;
  - continued investment in organisational capability to support future growth; and
  - gross margin percentage expected to be broadly consistent with FY19

APPENDIX

Reconciliation of non-GAAP measures

NZ$ million	FY19	FY18
Australia & New Zealand segment EBITDA	388.2	262.2
China & other Asia segment EBITDA	123.9	81.3
USA segment EBITDA	(44.0)	(28.6)
UK segment EBITDA	4.4	0.9
Corporate EBITDA	(58.9)	(32.7)
EBITDA[1]	413.6	283.0
Depreciation/amortisation	(2.2)	(2.2)
EBIT[1]	411.4	280.9
Net interest income	4.3	2.4
Income tax expense	(128.0)	(87.5)
Net profit for the period	287.7	195.7

[1]*EBITDA and EBIT are non-GAAP measures. However, the Company believes they assist in providing investors with a comprehensive understanding of the underlying performance of the business.*

Geographic and product segment performance

Geographic and product segment revenue

	NZ$ million	ANZ	China & other Asia	USA	UK[1]	Total Group
FY19	Liquid milk	133.7	2.9	34.6	3.7	**174.9**
	Infant nutrition	652.9	393.1	-	17.8	**1,063.8**
	Other nutritional	56.1	9.7	-	-	**65.8**
	TOTAL	**842.7**	**405.7**	**34.6**	**21.5**	**1,304.5**
FY18	Liquid milk	123.6	1.5	13.3	4.0	**142.4**
	Infant nutrition	482.5	226.7	-	15.1	**724.2**
	Other nutritional	50.6	5.5	-	-	**56.1**
	TOTAL	**656.6**	**233.7**	**13.3**	**19.1**	**922.7**
% Change	Liquid milk	8.2%	90.8%	160.7%	(6.7)%	**22.9%**
	Infant nutrition	35.3%	73.4%	-	17.9%	**46.9%**
	Other nutritional	10.9%	76.2%	-	-	**17.3%**
	TOTAL	**28.3%**	**73.6%**	**160.7%**	**12.7%**	**41.4%**

[1] UK liquid milk sales on a like-for-like basis is up 8.9% - this is in constant currency and excludes the impact of certain trade marketing costs.

China regulatory environment

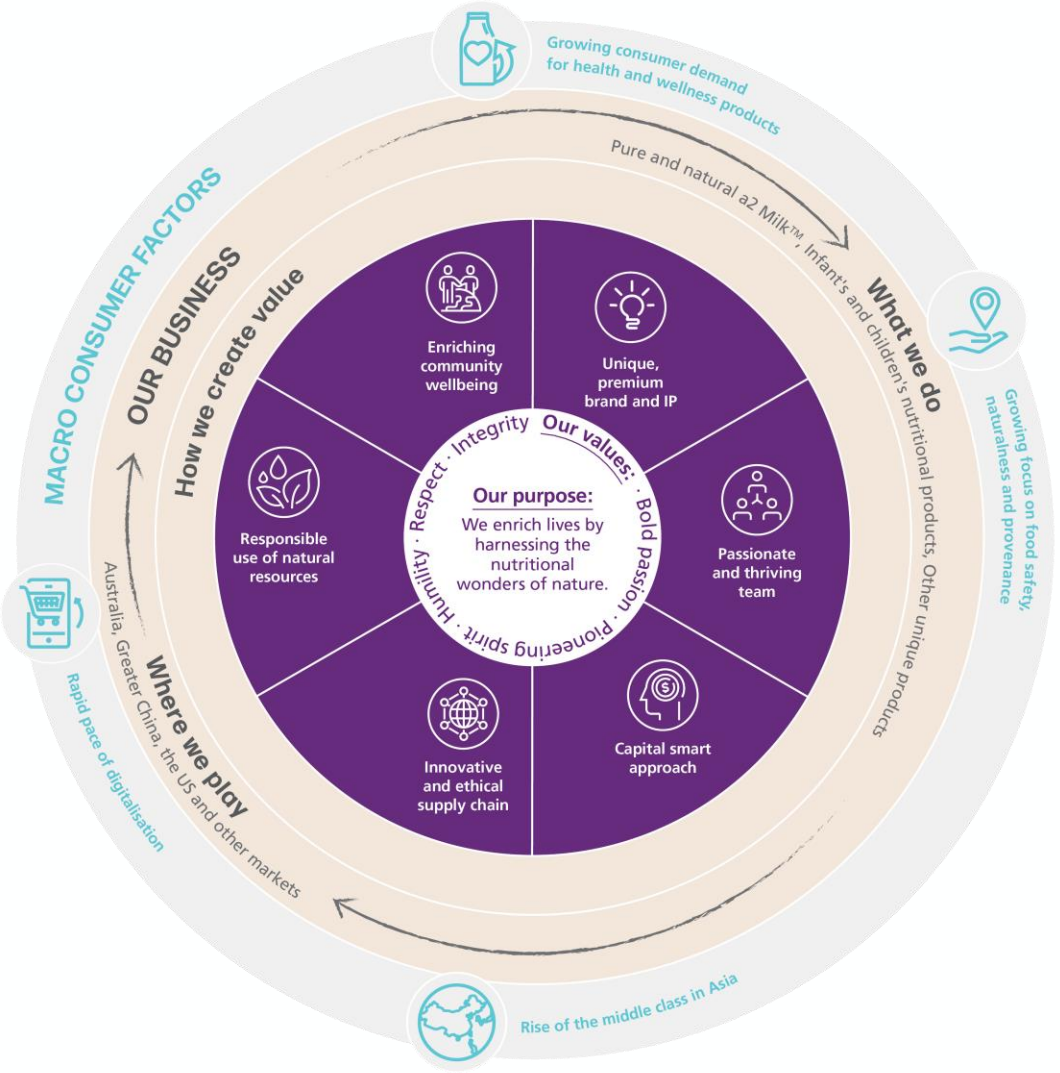
- A number of important regulatory changes were introduced during the year with respect to e-commerce and cross border trade in general. This included a new e-commerce law and a new CBEC policy framework containing implementation guidance for future CBEC trade
- These regulatory changes initially resulted in some orders being pulled forward into the third quarter. However, the overall impact has been minimal
- A number of announcements relating to regulation in China were made towards the end of 2H19 including from China's State Administration of Market Regulation ("SAMR") and other ministries and bureaus outlining measures to ensure successful implementation of the e-commerce legislation which became effective from April 2019
- Synlait Milk facility registrations progressing:
  - Late December 2018, Synlait Milk obtained registration renewal of its Dunsandel plant with the GACC[1] allowing Synlait to continue to export canned infant formula to China; Auckland plant has achieved GACC dairy registration and is progressing with the GACC infant nutrition process

[1] *General Administration of Customs of the People's Republic of China.*

Our integrated approach to being a responsible company in the wider world we operate in

- The interrelationship between our macro consumer factors and our business strategy determines our ability to create and sustain value

- As we grow, we are focused on having a positive impact on the world in which we operate, recognising that with scale comes greater responsibility



Disclaimer

This presentation dated **21 August 2019** provides additional comment on the Annual Report for the 12 months ended 30 June 2019 of The a2 Milk Company Limited (the "Company" or "a2MC") and accompanying information released to the market on the same date. As such, it should be read in conjunction with the explanations and views in those documents.

This presentation is provided for general information purposes only. The information contained in this presentation is not intended to be relied upon as advice to investors and does not take into account the investment objectives, financial situation or needs of any particular investor. Investors should assess their own individual financial circumstances and consider talking to a financial adviser or consultant before making any investment decision.

This presentation is not a prospectus, investment statement or disclosure document, or an offer of shares for subscription, or sale, in any jurisdiction.

Certain statements in this presentation constitute forward looking statements. Such forward looking statements involve known and unknown risks, uncertainties, assumptions and other important factors, many of which are beyond the control of the Company and which may cause actual results, performance or achievements to differ materially from those expressed or implied by such statements.

While all reasonable care has been taken in relation to the preparation of this presentation, none of the Company, its subsidiaries, or their respective directors, officers, employees, contractors or agents accepts responsibility for any loss or damage resulting from the use of or reliance on this presentation by any person.

Past performance is not indicative of future performance and no guarantee of future returns is implied or given.

Some of the information in this presentation is based on unaudited financial data which may be subject to change.

All values are expressed in New Zealand currency unless otherwise stated.

All intellectual property, proprietary and other rights and interests in this presentation are owned by the Company.

thea2milkcompany.com