# Interim Results

The a2 Milk Company Limited | Half year interim results FY20 | 27 February 2020

# Disclaimer



This presentation dated **27 February 2020** provides additional comment on the Interim Report for the 6 months ended 31 December 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.

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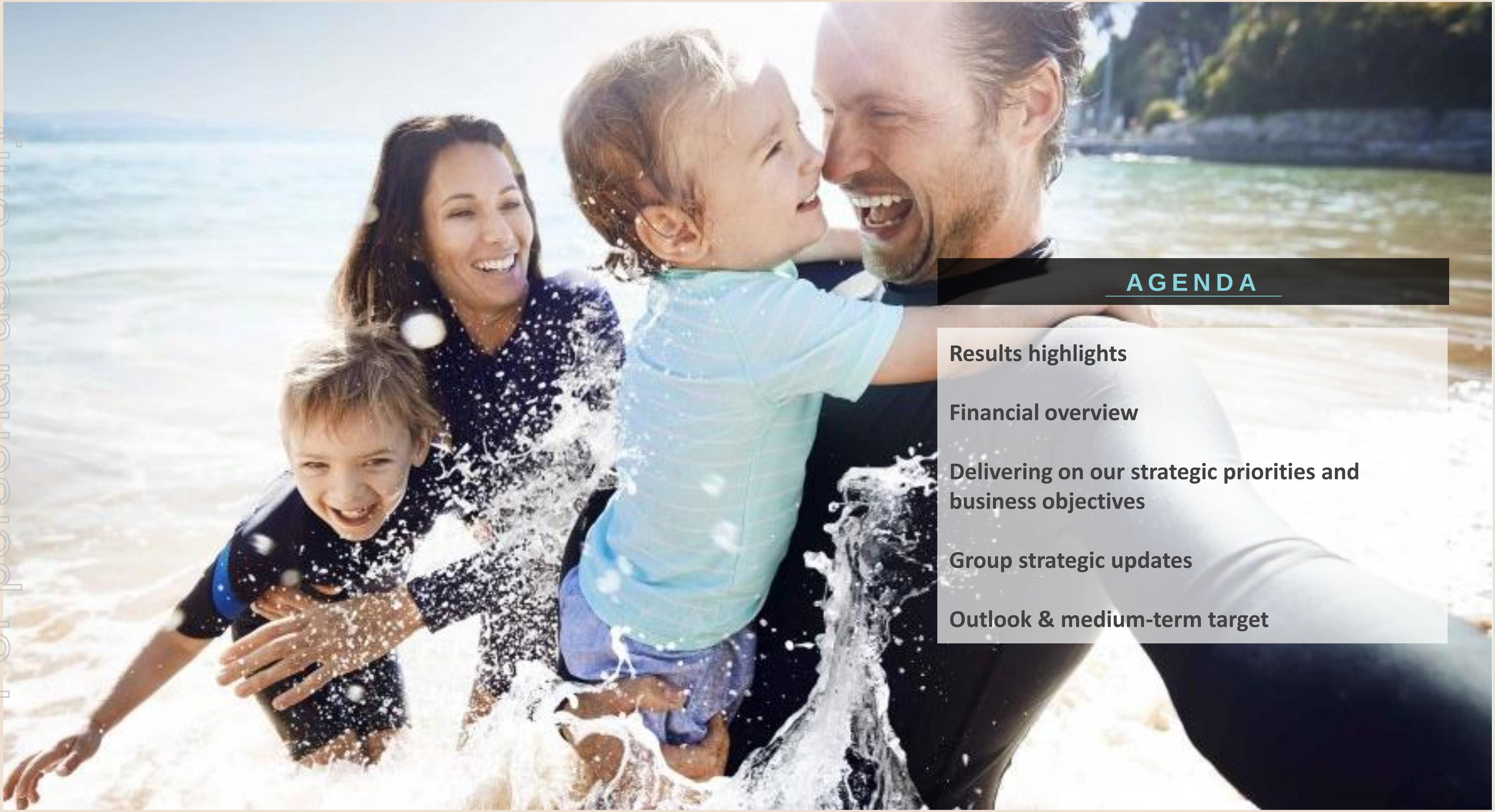


## AGENDA

# RESULTS HIGHLIGHTS

# 1H20 highlights



- Total revenue of $806.7 million, an increase of 31.6%
- EBITDA of $263.2 million, an increase of 20.5%
- Net profit after tax of $184.9 million, an increase of 21.1%
- Basic earnings per share (EPS) of 25.15 cents, an increase of 20.6%
- EBITDA to sales margin of 32.6%, better than expected
- Operating cash flow of $160.6 million and a closing cash balance of $618.4 million
- Marketing investment of $84.1 million targeting opportunities in China and the USA
- Group infant nutrition revenue of $659.2 million, up 33.1%
- Strong growth in China label infant nutrition, with sales doubling to $146.7 million and distribution expanded to 18,300 stores
- USA milk revenue more than doubled and distribution expanded to 17,500 stores

*Notes:*
*All figures quoted in New Zealand Dollars (NZ$) and all comparisons are with the 6 months ended 31 December 2018 (1H19), unless otherwise stated.*
*Operating EBITDA is a non-GAAP measure and represents earnings before interest, tax, depreciation and amortisation.*
*All figures are quoted based on all operations of the Group, without excluding discontinued operations, unless otherwise stated.*
*Earnings before interest, tax, depreciation and amortisation (EBITDA) is a non-GAAP measure. However, the Company believes that it assists in providing investors with a comprehensive understanding of the underlying performance of the business. A reconciliation of EBITDA to net profit after tax is shown on Slide 34.*

# FINANCIAL OVERVIEW

# Financial summary – strong earnings growth based on strong underlying gross margin



| NZ$ million (including discontinued ops) | 1H20 | 1H19 | % change |
|---|---|---|---|
| Revenue (including discontinued operations) | 806.7 | 613.1 | +32% |
| EBITDA (including discontinued operations) | 263.2 | 218.4 | +21% |
| NPAT (including discontinued operations) | 184.9 | 152.7 | +21% |

- Result including the loss from discontinued operations (ie fresh milk operations in the UK)
- Revenue marginally above outlook provided for 1H20
- EBITDA margin of 32.6% slightly better than anticipated due to our stronger than expected underlying gross margin

| NZ$ million (continuing operations) | 1H20 | 1H19 | % change |
|---|---|---|---|
| Revenue | 805.3 | 610.9 | +32% |
| Gross margin | 460.7 | 340.0 | +36% |
| Distribution | (19.8) | (14.5) | +36% |
| Marketing | (83.9) | (44.7) | +88% |
| Employee costs | (32.3) | (26.6) | +21% |
| Admin & other | (58.2) | (33.7) | +73% |
| EBITDA | 266.5 | 220.5 | +21% |
| EBIT | 264.7 | 219.6 | +21% |
| NPAT | 188.2 | 155.0 | +21% |
| (Loss)/profit from discontinued ops | (3.3) | (2.3) | nm |
| Reported profit for the period | 184.9 | 152.7 | +21% |

- Reflects strong growth across core markets and product categories
- GM of 57.2% reflects a continued mix shift to infant formula, as well as improved price yield
- Marketing investment of $83.9 million targeting opportunities in China and the USA
- Employee costs reflect continued capability build, especially in-market in China and the USA
- Admin & other costs increase reflects investment in consumer insights and costs to support business expansion; as we improve internal capability, the composition and level of external resourcing should moderate over time

# Geographic and product segment performance



## Geographic segment revenue & EBITDA

| | NZ$ million | ANZ | China & other Asia | USA | Corporate | Total Group | UK (discontinued ops) |
|---|---|---|---|---|---|---|---|
| 1H20 | Revenue | 460.2 | 317.1 | 28.0 | - | 805.3 | 1.4 |
| | EBITDA | 227.9 | 117.5 | (30.0) | (48.9) | 266.5 | (3.2) |
| | EBITDA % | 49.5% | 37.0% | nm | nm | 33.1% | |
| 1H19 | Revenue | 418.4 | 179.5 | 13.0 | - | 610.9 | 2.2 |
| | EBITDA | 192.0 | 73.2 | (17.3) | (27.4) | 220.5 | (2.1) |
| | EBITDA % | 45.9% | 40.8% | nm | nm | 36.1% | |
| % change | Revenue | 10.0% | 76.7% | 115.7% | n/a | 31.8% | |
| | EBITDA | 18.7% | 60.3% | 73.7% | 78.5% | 20.8% | |

## Product segment revenue

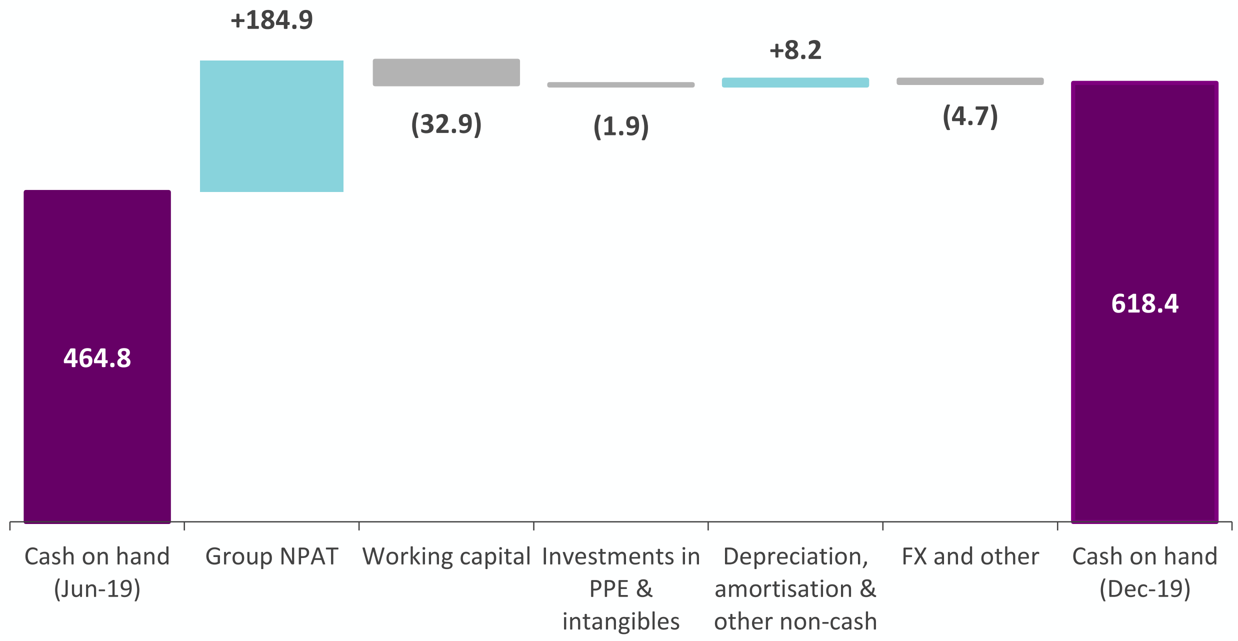
| Liquid milk | Infant nutrition | Other nutritional |
|---|---|---|
| **105.8** | **659.2** | **41.7** |

| Liquid milk | Infant nutrition | Other nutritional |
|---|---|---|
| 83.4 | 495.5 | 34.2 |
| **26.9%** | **33.1%** | **21.9%** |

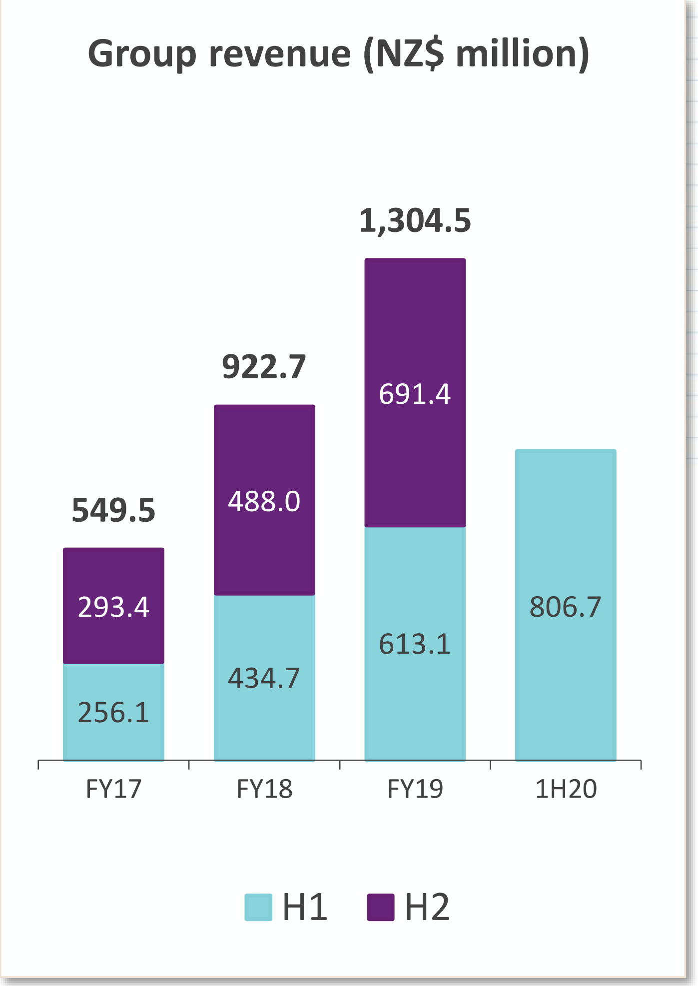
# Strong balance sheet with substantial cash balance

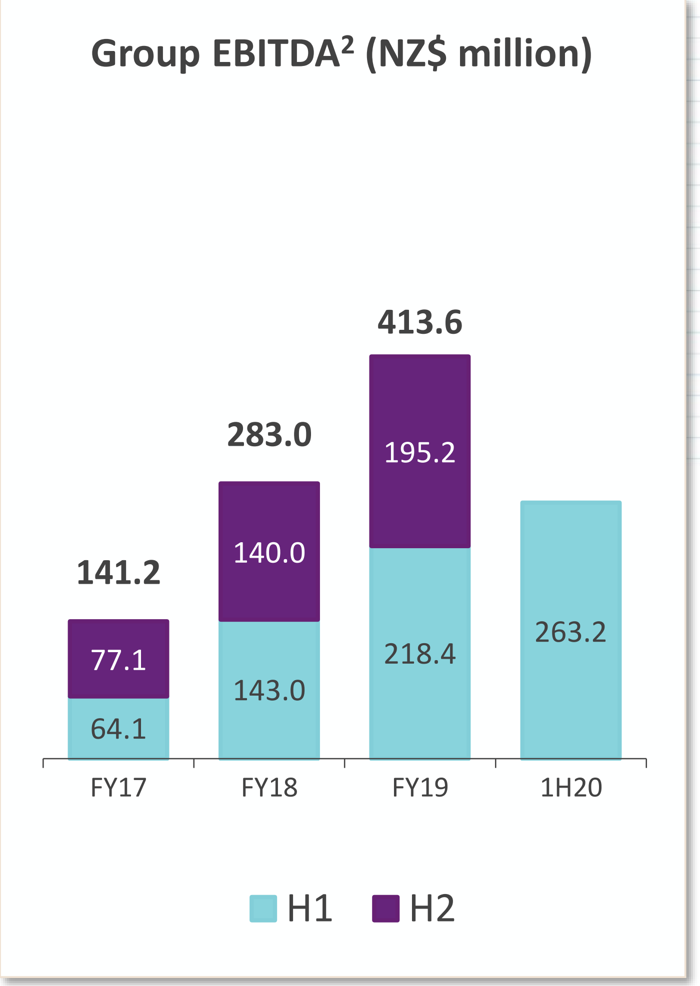


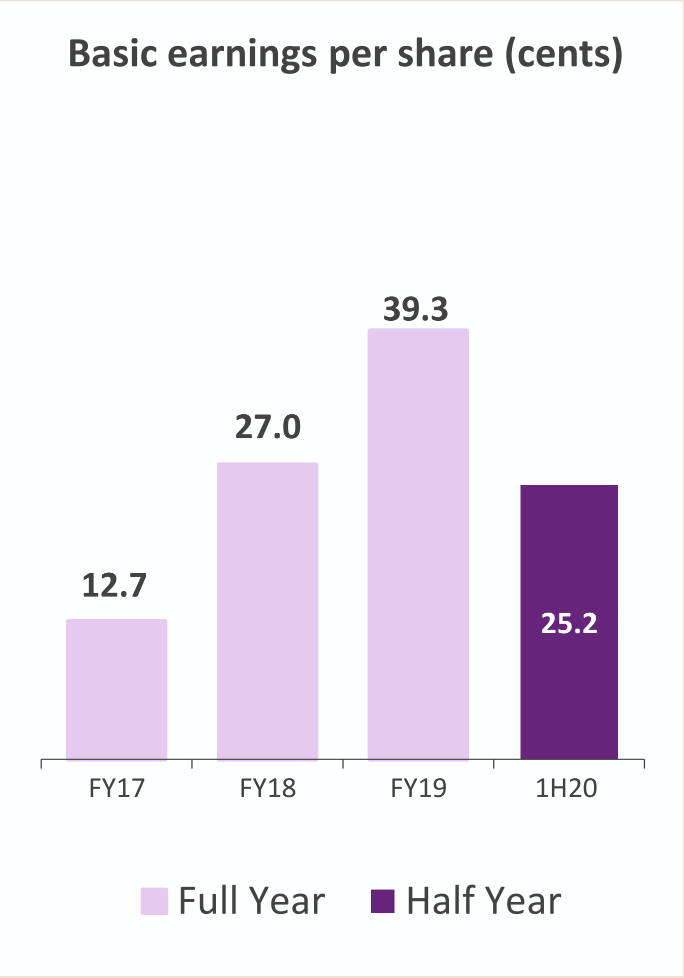
- Cash balance of $618.4 million
- Increase due to strong performance across the group, partly offset by increase of working capital
- Working capital increase of $32.9 million to support continued growth, including increase in inventory



# Key financial charts[1]






[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. Key financial charts include discontinued operations.
[2] EBITDA is a non-GAAP measure and represents earnings before interest, tax, depreciation and amortisation, and is shown before non-recurring items.

# DELIVERING ON OUR STRATEGIC PRIORITIES AND BUSINESS OBJECTIVES

# Committed to a focussed approach to pursuing our three strategic growth priorities


**Maximise growth from existing products in core markets**


**Broaden product portfolio in core markets**

**Expand in other targeted markets**

# Our strategic priorities translate into four business objectives

**Deliver Asia Pacific sales strategy outcomes**

**Reach meaningful scale in the USA**

**Build towards sustainable brand leadership**

**Deliver the organisation of the future**

# Asia Pacific business delivering strong growth



## Asia Pacific business

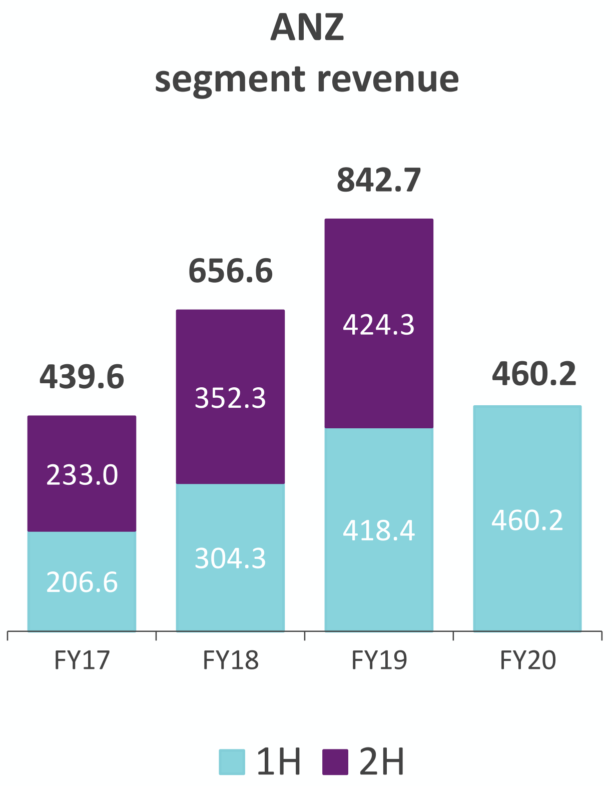
- Revenue $777.4 million, up 30.0% and EBITDA of $345.4 million, up 30.2%
- 30.0% growth in infant nutrition revenue across APAC, driven by 76.7% increase in China – strong growth in all channels
- Revenue growth benefitted from favourable pricing and product mix

## ANZ segment

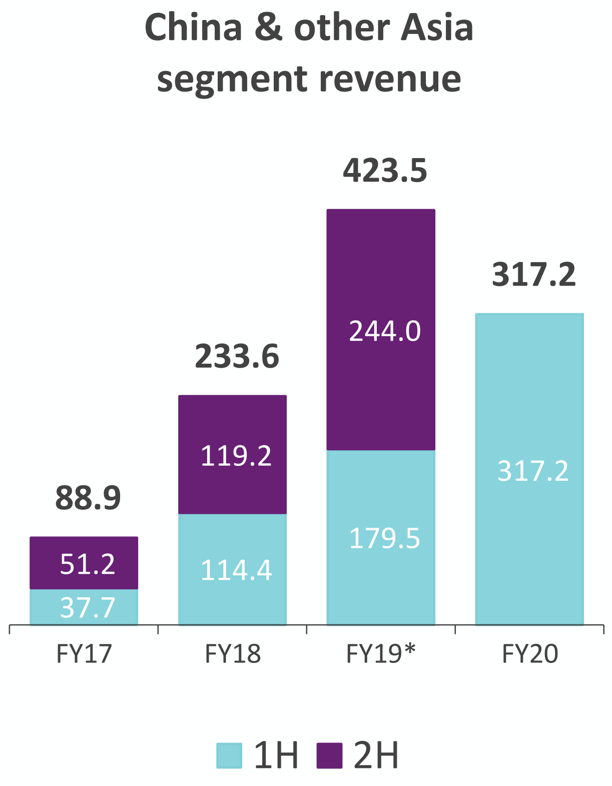
- Revenue $460.2 million, up 10.0%
- EBITDA $227.9 million, up 18.7%

## China & other Asia segment

- Revenue $317.2 million, up 76.7%
- EBITDA $117.5 million, up 60.3%




NZ$'000s




NZ$'000s

**Note: UK infant formula for FY19 has been reclassed and shown in China & other Asia segment.*

# Asia Pacific: infant nutrition

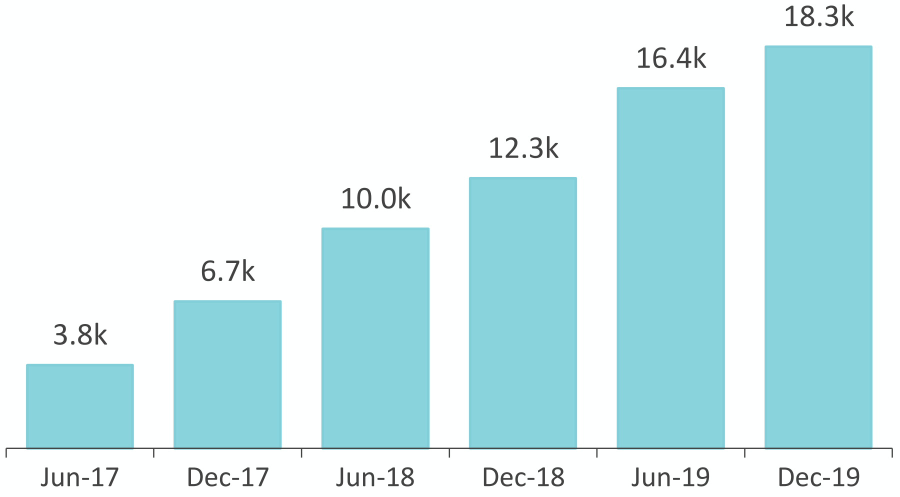


**Infant nutrition – China offline channels**

- Sales in *a2 Platinum®* China label infant nutrition of $146.7 million, double the sales in the prior corresponding period
- Expanded our footprint to 18,300 stores, up from 16,400 stores at the end of 2H19
- Achieved our highest market value share in the MBS channel during the period



**China distribution (store count)**



# Asia Pacific: infant nutrition

**Infant nutrition – Cross border e-commerce**

- Sales in *a2 Platinum®* English label infant nutrition of $158.7 million, up 57.8%
- Positive results for 11:11 China e-commerce sales event
  - — **JD.com**: a2 Platinum® Stage 3 was the top selling infant nutrition product
  - — **JD.com**: second best-selling brand overall (within IMF)
  - — **Tmall**: #3 infant nutrition brand overall (English and China label combined)
  - — **Tmall**: #1 number one CBEC flagship store (within IMF)

京东

天猫 TMALL.COM

# Asia Pacific: infant nutrition



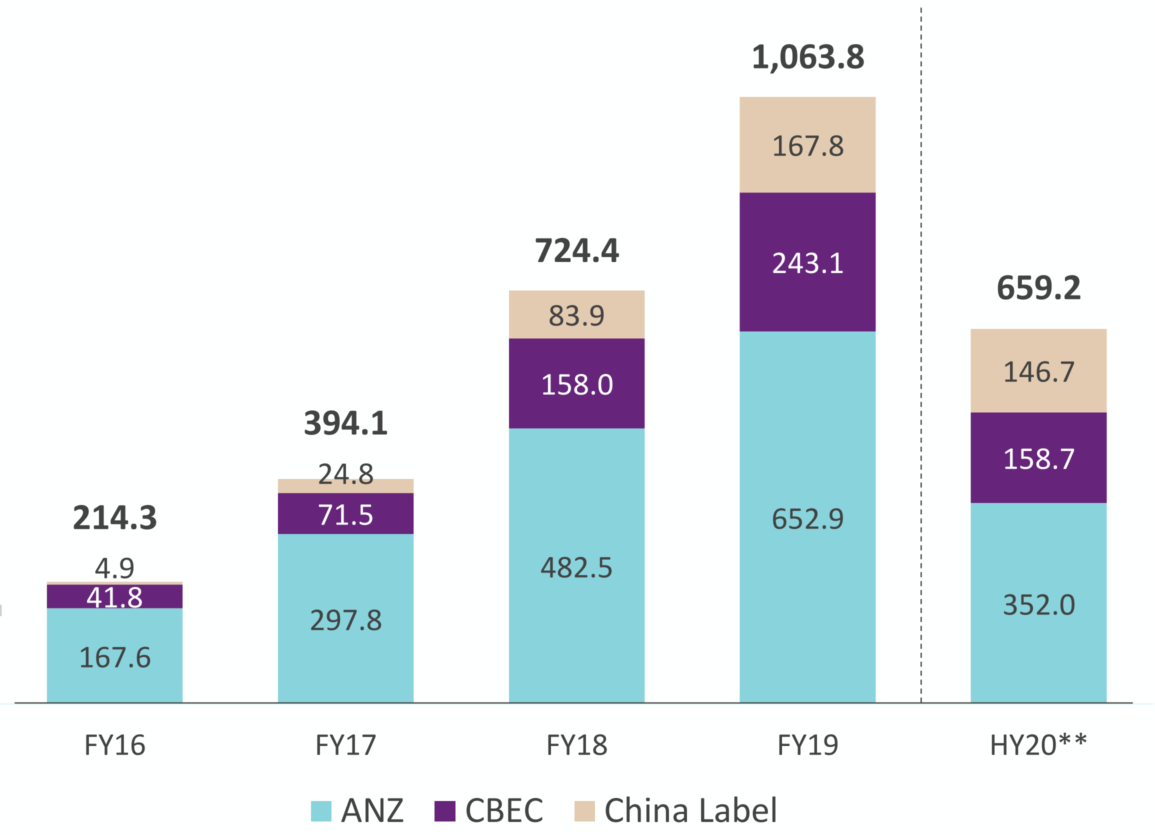
**Infant nutrition – Australian retailers and resellers**

- Sales in *a2 Platinum®* English label infant nutrition of $352.0 million, up 9.5%
- We remain the market brand leader in Australian grocery and pharmacy channels
- We continue to invest behind our brand, with our level of advertising being the highest in the category

# Asia Pacific: revenue mix for ANZ & China infant nutrition is evolving

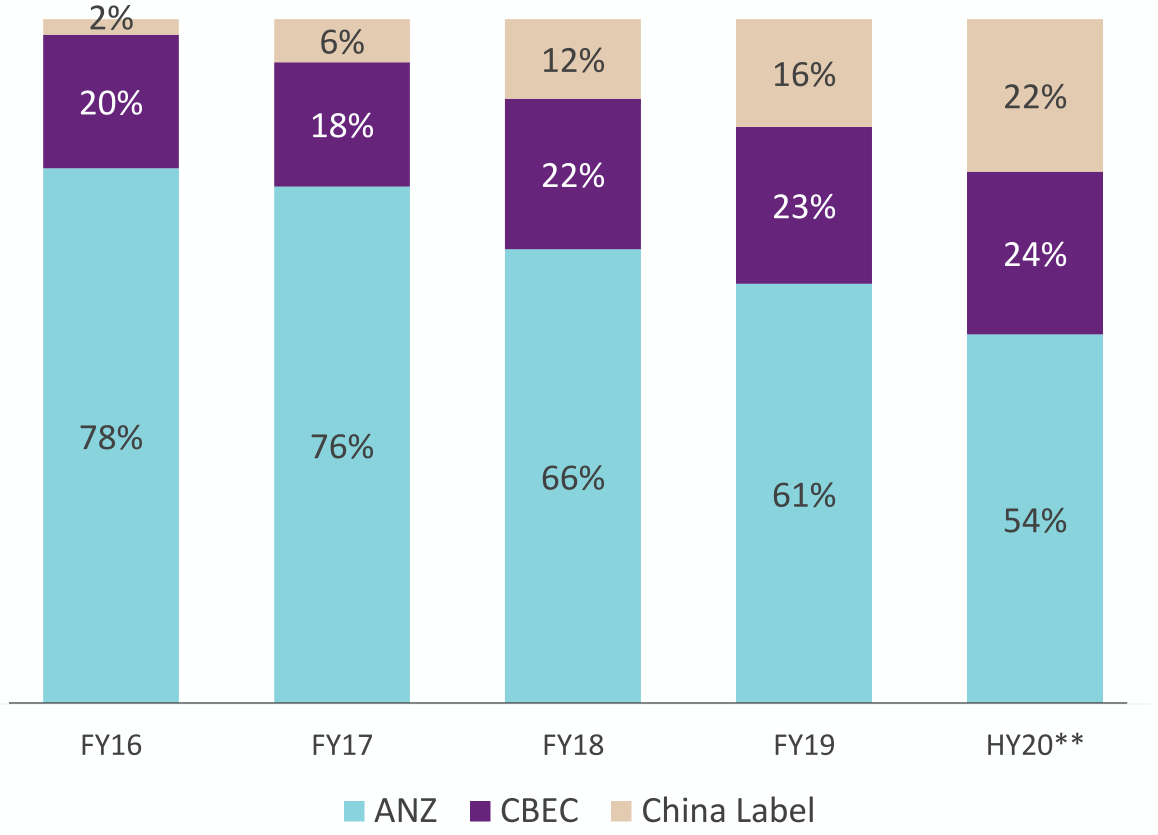
## We are growing revenue across all our channels…

a2MC IMF revenue (NZ$m)



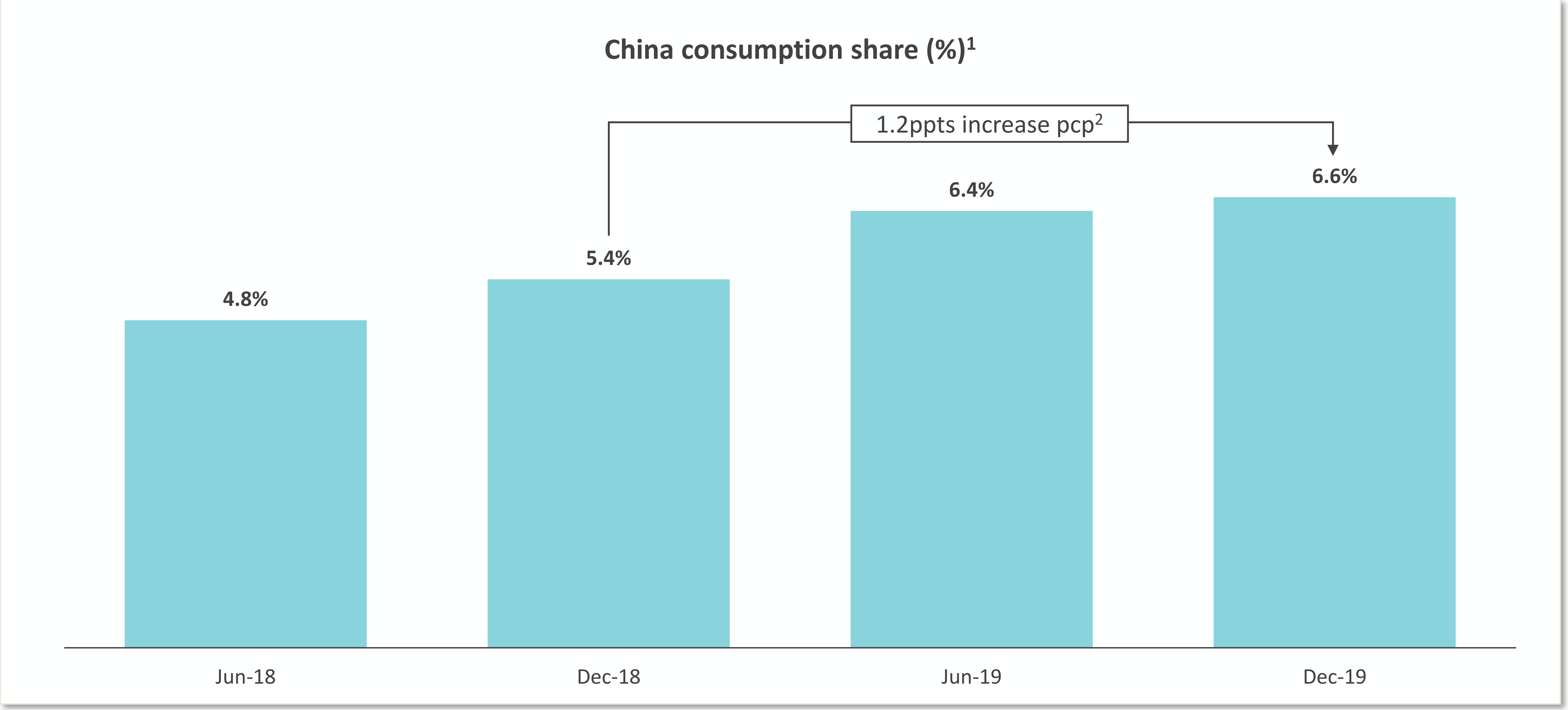

## …changing the shape of our business

a2MC IMF % revenue by channel




*Notes:*
*UK infant formula has been reclassed and shown in China and other Asia segment.*
*** Total for HY20 includes infant nutrition from Other Asia of $1.8 million.*

# Asia Pacific: infant nutrition – China consumption share




[1] *Kantar Infant Formula market tracking of China Key & A and BCD cities for 12 months, by value.*
[2] *Prior corresponding period.*

# Asia Pacific: liquid milk & other nutritional products



## Liquid milk

- Achieved double-digit revenue growth in Australian fresh milk, our most mature category
  - Revenue growth of 11.3% totalling $74.7 million
- Achieved a record market share of 11.3%
- The *a2 Milk™* brand continues to be the only fresh milk brand ranged in all major supermarket chains
- Largest brand advertiser in the fresh milk category, maintaining very high brand awareness and loyalty that benefits the portfolio as a whole
- Liquid milk sales in China and other Asia segment grew 62.0% to $1.8 million


## Other nutritional products

- Overall revenue growth of 21.7% to $41.7 million the majority of which is recorded in our ANZ segment
- *a2 Smart Nutrition™* showing positive signs and a China label launched in January 2020
- Successful re-launch of our nutritional product targeting mothers under new branding of *a2 Nutrition for mothers™*
- We continue to experience delays in producing our *a2 Milk™* powder blended with Mānuka honey, with this scheduled to be available by 4Q20
- We continue to target growth opportunities for other nutritional products in China

# Sustainable brand leadership: China focus
# Building awareness and driving conversion



## Broadcast media to build awareness


## In-store education and activation to drive trial

## Trade and retail awareness building


CHILDREN-BABY-MATERNITY EXPO

# Sustainable brand leadership: China focus
# New advertising, website and strong performance for “11:11 singles day”



## New TV advertising campaign and website launched in Dec-19



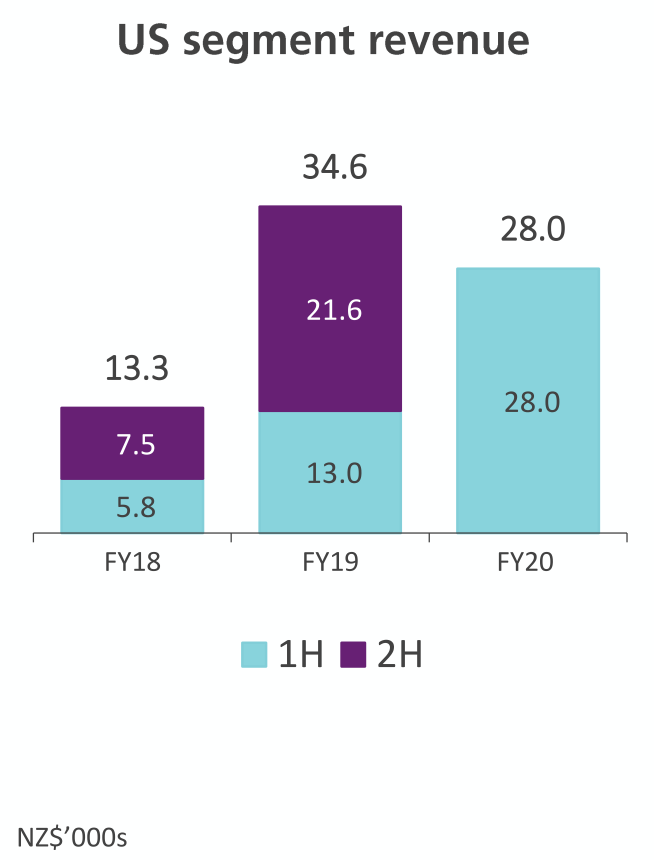
## “11:11 singles day” a success




# USA: driving towards meaningful scale



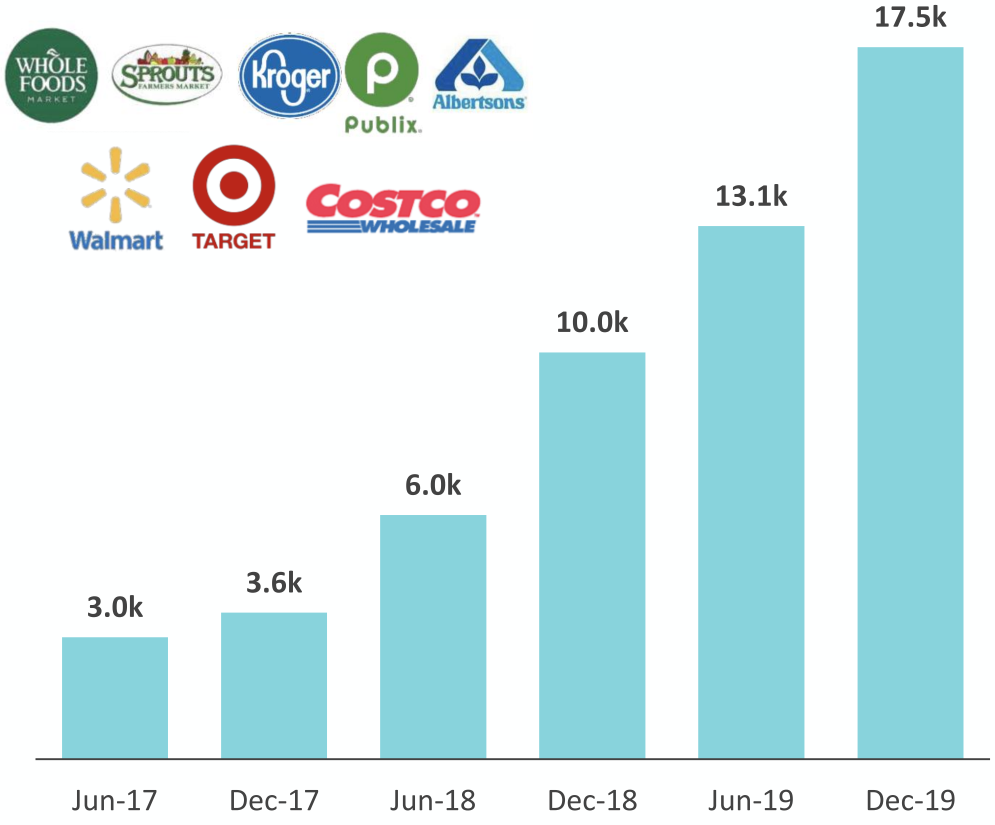
- We are gaining momentum as we execute on our US strategy
  - Revenue up 116% to NZ$28.0 million
  - EBITDA losses of NZ$30.0 million resulting from increased investment in building brand awareness and distribution growth through marketing
- Building towards an initial milestone of USD$100 million of annualised sales
- Sales performance driven by improved in-store productivity as well as through expanding our distribution footprint
  - Distribution grew to 17,500 stores, from 13,100 (end of June 2019)
- Sales velocities driving improved performance
  - Increasing sales velocities with our most established retail customers accounted for over a quarter of our sales growth
  - Velocities in key customers were approximately 27% higher than the prior corresponding period
- Portfolio extension with the launch of Coffee Creamers in July 2019

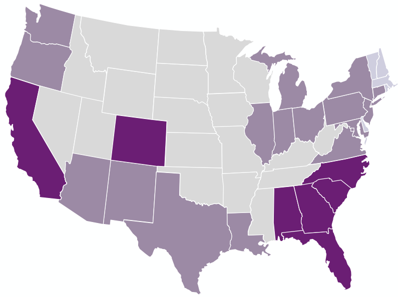


# USA: strong growth in distribution and national footprint

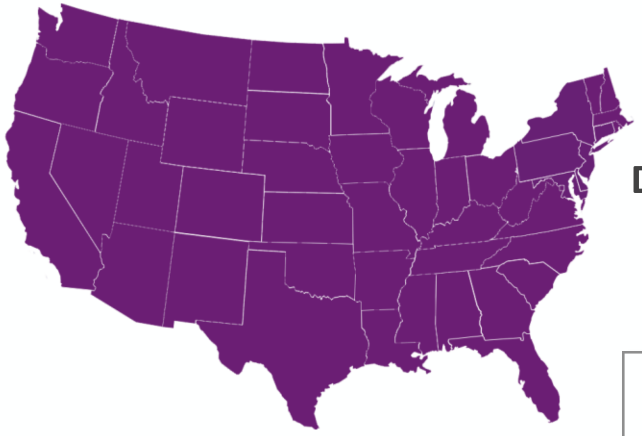


**USA distribution (store count)**



**January 2018:**
southeast and
northeast launch

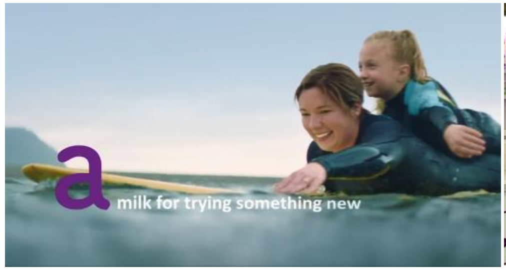


**December 2019:**
broad national
distribution

**Legend**
- Broad distribution
- Limited distribution
- No distribution

# Sustainable brand leadership: USA focus
# New advertising and website, packaging and products

**Coffee Creamer launched Jul-19; new ad campaign launched Oct-19; and new consumer website launched Nov-19**



**New packaging design launched Sep-19 with greater impact and modernity**


# Organisation of the future
# Substantial progress accelerating the development of our organisation



**Investing in more great people**

**Step-changing our people experience**

**Investing in technology**

# GROUP STRATEGIC UPDATES

# Committed to our sustainability goals and supporting the communities in which we operate



- In August 2019 we announced goals and our formal commitments to:
  - Support the global ambition of the Paris Agreement and a 2050 net zero emissions target;
  - Work with our farmers to meet the standards set by the World Organisation for Animal Health and avoid practices that contravene the Five Freedoms[1];
  - Continue to improve the high standards of our animal welfare program;
  - Execute on our smarter packaging goals for higher quality and lower environmental impact; and
  - Innovate to become even more efficient in product processing.
- Undertaking a sustainability assessment of our total supply chain including ensuring we are compliant with modern slavery legislation
- Working towards implementing the Task Force on Climate-related Finance Disclosures (TCFD) recommendations within three years
- Supporting communities in Australia affected by widespread bushfires
- Package of assistance and support initiatives valued at NZ$3.0 million in response to the recent coronavirus disease (COVID-19), with equal contributions to each of the following:
  - Product donation: working with China State Farm to dispatch product donations to frontline medical teams and families
  - Shanghai Red Cross cash donation to help and support the areas and people seriously affected
  - Funding to assist independent research to support the international effort to find a vaccine for the virus; funding committed to the University of Queensland's School of Chemistry and Molecular Biosciences, and the Peter Doherty Institute for Infection and Immunity (Doherty Institute)

*[1] The Five Freedoms outline five aspects of animal welfare: freedom from hunger or thirst; discomfort; pain, injury or disease; fear and distress; and freedom to express (most) normal behaviour.*

# Strong partner relationships are critical to our capital-smart approach



中国农垦控股上海有限公司
CSFA Holdings Shanghai Co.,Ltd.

- Strong partner for our infant nutrition products in mainland China since 2013
- Exclusive import agent for our China label infant nutrition products
- Strong capabilities in importation services and product traceability as well as local market regulatory insights

Synlait

- Foundational partnership for infant nutrition
- Supply rights for defined infant nutrition products into ANZ & China
- Committed production capacity from Synlait and well-established process to manage significant continued growth

**Update**

- Extended our comprehensive manufacturing and supply arrangements to July 2025
- Auckland blending and canning facility receiving GACC infant formula registration in December 2019

Fonterra™

- Relatively new partnership spanning multiple products and emerging markets
- *a2 Milk™* branded fresh milk launched in NZ in August 2018
- Ingredients production began during 2019

**Update**

- Building capacity to support future growth
- Joint teams working together to commercialise new opportunities

# Ongoing review of capital allocation prioritises investment in growth initiatives



- As part of the Board's ongoing review of the most appropriate use of capital for the business, our intention has been to prioritise investment in growth initiatives ahead of returning capital to shareholders.
- Due to the increasing scale of our infant nutrition business, the Board considers it is now appropriate to assess participation in manufacturing capacity and capability to complement our existing supply chain relationships. Accordingly, we are presently evaluating opportunities to address this issue.

# OUTLOOK & MEDIUM-TERM TARGET

# FY20 outlook & medium-term target

## FY20 outlook

- Overall for FY20, we anticipate continued strong revenue growth across our key regions supported by increased marketing investment in China and the USA as well as the ongoing development of organisational capability to support the execution of our strategy.
- Globally, there is uncertainty around the potential impact to supply chains and consumer demand in China resulting from COVID-19 and we continue to monitor the situation closely.
- The health and wellbeing of our people is our primary focus and we have taken all measures to ensure our staff in China are as safe as possible. We remain vigilant to the advice of relevant authorities.
- Given the essential nature of our products for many Chinese families, demand is strong, particularly through online and reseller channels, with revenue for the first two months of 2H20 above expectations. However, this is a dynamic situation and at this stage we are unable to quantify the impact, either positively or negatively, for the full year.
- Notwithstanding this uncertainty, full year EBITDA margin is still anticipated to be in the range of 29-30%. 2H20 EBITDA margin is therefore expected to be lower than 1H20. The improved price yield in 1H20 is expected to be offset by:
  - Increased COGS (including lactoferrin, milk price, and tamper-evident infant nutrition packaging)
  - Planned increased levels of strategically important trade marketing activation in China
  - Potential for increased supply chain costs resulting from COVID-19
  - Phasing of marketing and capability investment weighted to 2H20; full year marketing investment expected to be approximately $200 million, as previously communicated
  - Potential impact from unfavourable foreign exchange movements (weaker AUD:NZD)
- Given the COVID-19 situation, we are assessing the level of discretionary marketing investment and trade marketing activation that can be effectively deployed in China for the remainder of the fiscal year.

## Medium-term target

- The Board considers it appropriate that the Company target an EBITDA margin in the order of 30% in the medium-term. This assumes the market performance and mix of our products remains broadly consistent and the competitive environment evolves as anticipated. We will keep the balance between growth and investment under constant review.

# APPENDIX

# Reconciliation of non-GAAP measures

| NZ$ million | 1H20 | 1H19 |
|---|---|---|
| Australia & New Zealand segment EBITDA | 227.9 | 192.0 |
| China & other Asia segment EBITDA | 117.4 | 73.2 |
| USA segment EBITDA | (30.0) | (17.3) |
| Corporate EBITDA | (48.9) | (27.4) |
| UK EBITDA | (3.2) | (2.1) |
| EBITDA[1] | 263.2 | 218.4 |
| Depreciation/amortisation | (1.8) | (1.0) |
| EBIT[1] | 261.4 | 217.4 |
| Net interest income | 2.9 | 1.6 |
| Income tax expense | (79.4) | (66.3) |
| Net profit for the period | 184.9 | 152.7 |

*[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 | Total Group | UK (discontinued operations) |
|---|---|---|---|---|---|---|
| 1H20 | Liquid milk | 74.7 | 1.8 | 28.0 | **104.5** | 1.4 |
| | Infant nutrition | 352.0 | 307.2 | - | **659.2** | - |
| | Other nutritional | 33.5 | 8.1 | - | **41.6** | - |
| | TOTAL | 460.2 | 317.1 | 28.0 | **805.3** | 1.4 |
| 1H19 | Liquid milk | 67.1 | 1.1 | 13.0 | **81.2** | 2.2 |
| | Infant nutrition | 321.6 | 173.9 | - | **495.5** | - |
| | Other nutritional | 29.7 | 4.5 | - | **34.2** | - |
| | TOTAL | **418.4** | **179.5** | **13.0** | **610.9** | 2.2 |
| % Change | Liquid milk | 11.3% | 62.1% | 115.7% | **28.7%** | nm |
| | Infant nutrition | 9.5% | 76.6% | - | **33.0%** | nm |
| | Other nutritional | 12.3% | 84.3% | - | **21.7%** | nm |
| | TOTAL | **10.0%** | **76.7%** | **115.7%** | **31.8%** | nm |

# Regulatory updates

- Synlait Milk's Auckland blending and canning facility received infant formula registration:
  - In December 2019, Synlait received the infant formula registration from the GACC[1] for its Auckland-based blending and canning facility. Synlait can now progress brand registration processes, for China, for this facility.
  - The registration process included an in-depth assessment of Synlait and required the Company to prove it has a robust quality management system. There was a three-day onsite audit conducted by the Ministry for Primary Industries on behalf of GACC, which included a full traceability exercise from raw materials through to export, as well as an assessment of Synlait's capability to meet China's rigorous regulatory and quality requirements.
  - The Auckland facility had been granted a China general dairy registration in May 2018.
- Relevant to our close partnership with Synlait Milk, it now holds:
  - SAMR product registration[2] for the importation of our China label infant formula through to September 2022; and
  - GACC[1] registration for its Dunsandel manufacturing facility, allowing canned infant formula to be exported to China.

*[1] General Administration of Customs of the People's Republic of China.*
*[2] Registration achieved by Synlait Milk and given by the organisation now known as China's State Administration for Market Regulation (SAMR) in September 2017 for our China label infant formula. SAMR requires registration to be held in the name of the manufacturer as opposed to the brand owner.*

# 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



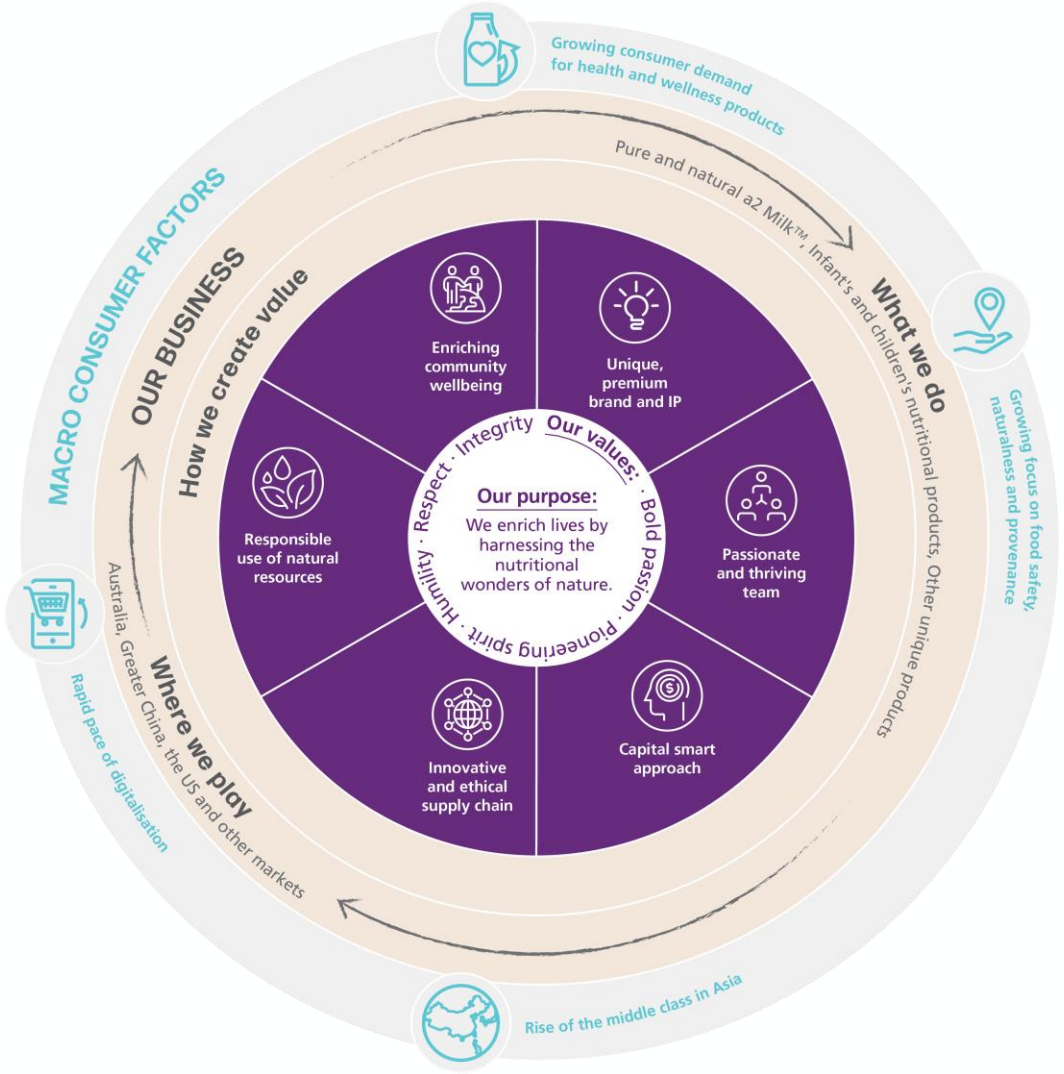
| | | | | | |
|---|---|---|---|---|---|
| **Unique, premium brand and IP** | **Passionate and thriving team** | **Capital smart approach** | **Innovative and ethical supply chain** | **Responsible use of natural resources** | **Enriching community wellbeing** |
| Intellectual capital | Human capital | Financial capital | Manufacturing capital | Natural capital | Social capital |

# 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



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