



CLSA Investors' Forum

Hong Kong
11 - 12 September 2017

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Company overview





“The Company’s continued growth reflects increasing consumer acceptance of the a2™ brand and the benefits of dairy-based products free from the A1 beta casein protein type”.

**Geoffrey Babidge
Managing Director & CEO**

The a2 Milk Company at a glance

- The a2 Milk Company (“a2MC”) is in the business of producing, marketing and selling premium branded dairy nutritional products in targeted global markets
- All a2MC branded products contain only A2 beta casein protein type rather than both A1 and A2 types found in conventional cows’ milk products
- Uniquely focused on building a branded and differentiated business supported by an integrated IP portfolio and growing scientific evidence



Key metrics FY17		
	USD million ¹	NZD million
Market Capitalisation ²	~2,900	~4,050
Group Revenue	397.8	549.5
Group EBITDA ³	102.2	141.2
Group NPAT	65.6	90.6
EPS ⁴ (cents per share)	9.2c	12.7c

¹ USD metrics converted at 28 August 2017 (NZD/USD = 0.724)

² Based on share price of NZD5.58/USD4.04 as at 28 August 2017 (quoted securities only)

³ EBITDA is a non-GAAP measure, representing earnings before interest, tax, depreciation and amortisation

⁴ Basic Earnings Per Share



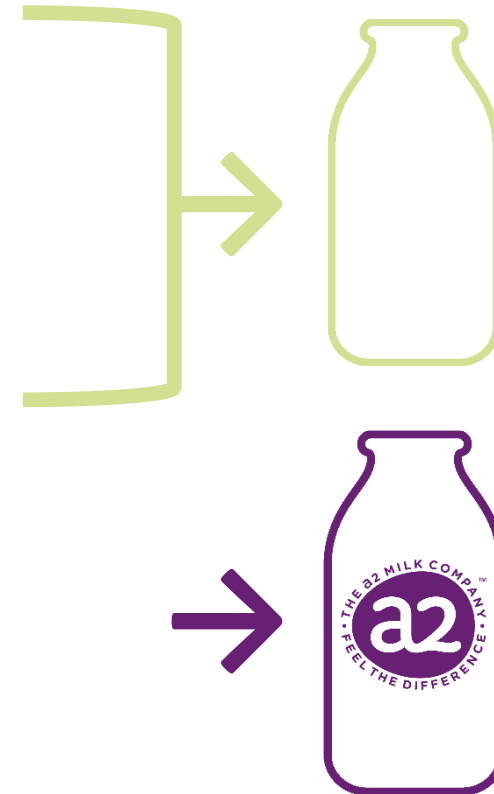
What is the a2 Milk® brand difference?

- The a2 Milk® brand is a naturally occurring cows' milk and not a product of a technological process or genetic engineering
- a2MC have accumulated significant proprietary know-how and quality processes to ensure a2MC products are A1 protein-free



Originally all cows produced milk containing only the A2 protein¹

➔
Genetic mutation occurred in European herds and spread via migration and modern farming practices



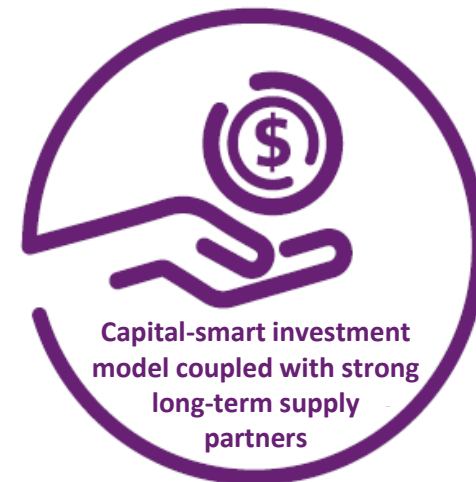
All conventional milk is a mix of A1 and A2 proteins¹

a2MC milk naturally contains only the A2 protein and is free from A1 protein¹

¹ A1 and A2 protein refers to A1 and A2 beta casein protein types respectively



The a2 Milk Company proposition



Group strategy



Growth strategy

OUR PURPOSE

As the a2 Milk® pioneers we are determined to help people enjoy a better life

OUR VISION

To be the innovative and smart choice for dairy nutrition

OUR AMBITION

To be the most admired and commercially attractive dairy nutritional company

OUR STRATEGIC PRIORITIES



BROAD DAIRY NUTRITIONAL PRODUCT PORTFOLIO

Across a continuum from the purity of fresh a2 Milk™ to customised A1 protein-free products

Targeting adults, children and infants to satisfy their growing digestive health needs



TARGETED ATTRACTIVE REGIONS

Asia Pacific focus
(ANZ, China, Other Asia)

USA

UK

Opportunistic new markets



PROPRIETARY KNOW-HOW, A2 PROTEIN EXPERTISE

Integrated intellectual property portfolio

Leading operational & compliance capability

Sponsoring relevant scientific research

Differentiated brand development



Dairy nutrition innovation continuum

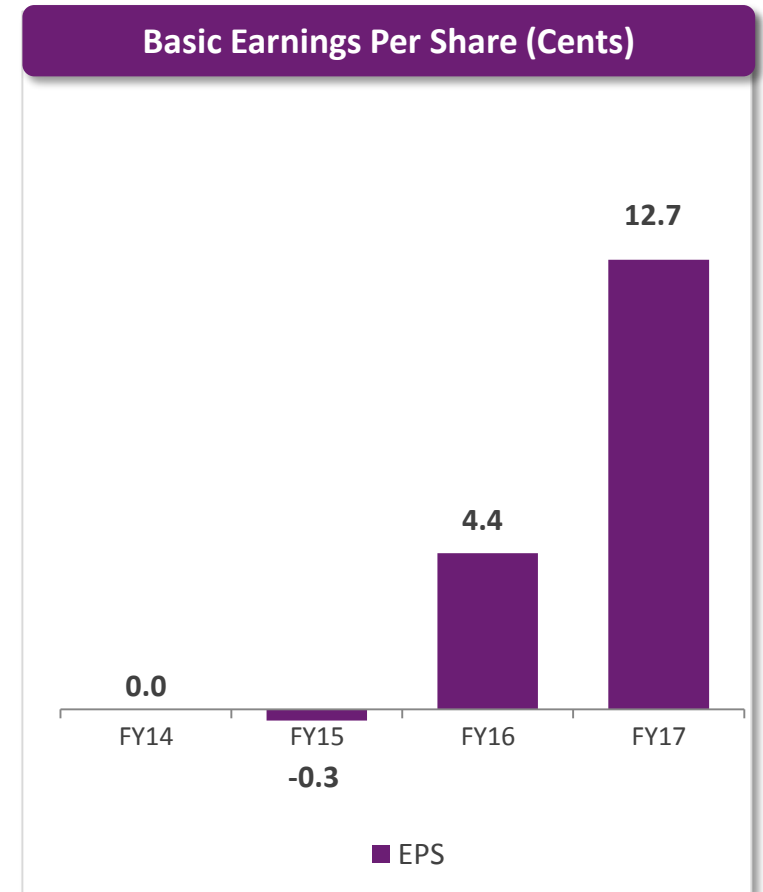
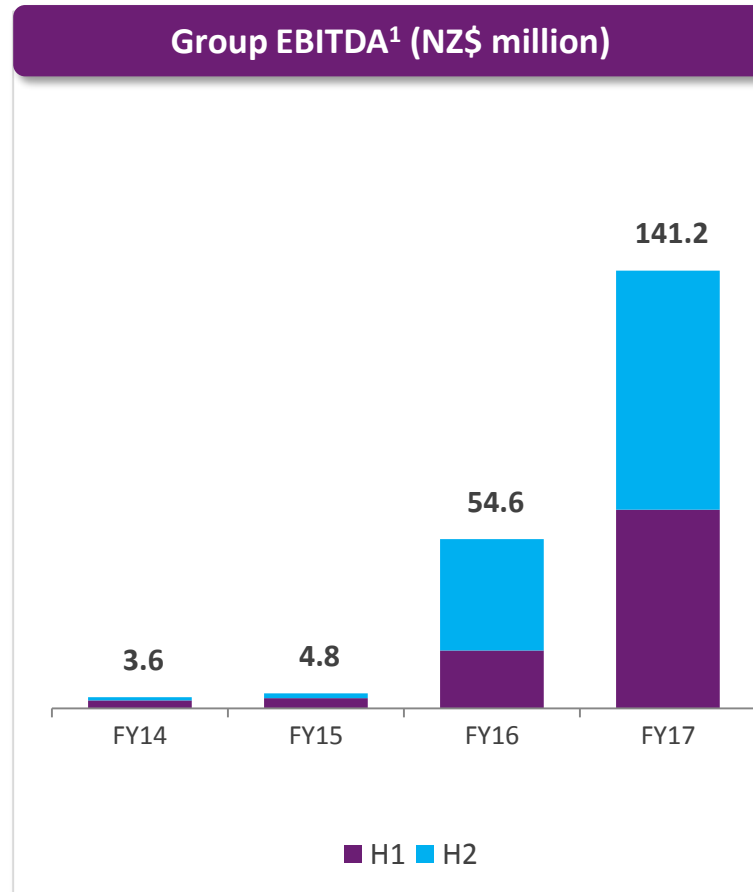
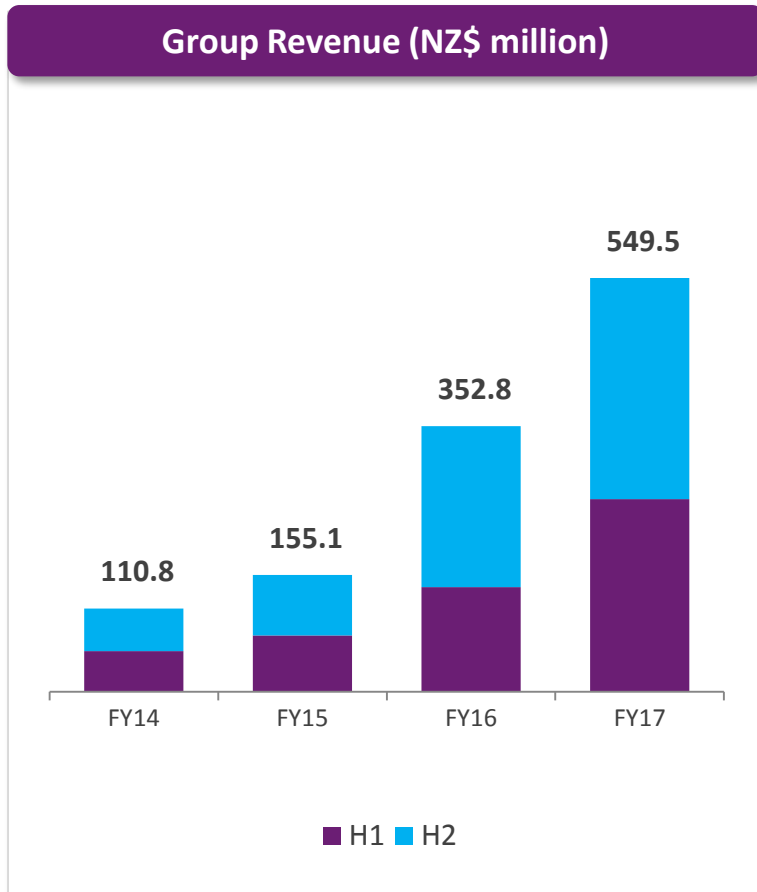
Further scope for innovation in existing & adjacent product segments



FY17 result highlights



The year in charts



¹EBITDA is a non-GAAP measure and represents earnings before interest, tax, depreciation and amortisation, and is shown before non-recurring items



FY17 highlights¹

- Group revenue \$549.5m and Operating EBITDA² \$141.2m
- EBITDA to sales margin 26% (FY16 15%)
- Group a2 Platinum[®] infant formula revenue +84%
- China revenue more than doubled and EBITDA +258%
- ANZ business revenue +48% and EBITDA +83%
- Infant formula consumption share in China of ~3.5%³
- Rate of sale growth in UK and US markets
- Development of a broader nutritional products strategy and a new focus on emerging markets
- Strongly focused on China's evolving regulatory regime for infant formula products and cross border trade
- Operating cash flow of \$99.9m and a cash balance of \$121.0m at year end
- To support our manufacturing partner, acquired 8.2% shareholding in Synlait Milk Limited

¹ All figures quoted in New Zealand Dollars (NZD) 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 Key and A cities for quarter ending 30/06/17 (Kantar track a substantial proportion of the total market)



Financial summary

NZ\$ million	FY17	FY16	% change	
Revenue	549.5	352.8	56%	
Gross margin	263.5	151.0	75%	<ul style="list-style-type: none"> Gross margin primarily reflects increased contribution from infant formula sales and lower infant COGS in FY17
Sales & distribution	(21.3)	(19.0)	12%	
Marketing	(42.0)	(33.0)	27%	<ul style="list-style-type: none"> Increased marketing and brand development spend of \$9.0m vs pcp, primarily in US and China
Employee costs	(23.0)	(19.1)	20%	
Administration & other	(36.0)	(25.3)	42%	<ul style="list-style-type: none"> Increases to 'administration and other' reflects write-down of intangibles (+\$2.4m), increased spend on patents, trademarks and R&D (+\$2.0m) and others costs associated with business expansion
EBITDA	141.2	54.6	159%	
EBIT	138.5	51.8	167%	
NPAT	90.6	30.4	198%	<ul style="list-style-type: none"> Effective tax rate reduced from ~42% to ~35% reflecting lower weighting of non-deductible expenses and international losses not tax effected
	Jun-17	Jun-16		
Cash on hand	121.0	69.4	74%	<ul style="list-style-type: none"> Cash on hand reflects strong NPAT contribution offset by \$48.7m investment in Synlait
Inventory	28.4	52.6	(46%)	<ul style="list-style-type: none"> Inventory reduction reflects strong demand for infant formula



Reconciliation of non-GAAP measures

NZ\$ million	FY17	FY16
ANZ segment EBITDA	155.3	84.7
China & other Asia segment EBITDA	32.8	9.2
US & UK segment EBITDA	(22.5)	(20.5)
Corporate & other segment EBITDA	(24.4)	(18.8)
EBITDA ¹	141.2	54.6
Depreciation & amortisation	(2.7)	(2.8)
EBIT ¹	138.5	51.8
Net interest income	0.8	0.5
Income tax expense	(48.7)	(21.9)
Net profit for the period	90.6	30.4

¹EBITDA and EBIT are non-GAAP measures, but the Company believes they provide investors with a comprehensive understanding of the underlying performance of the business



Geographic financial performance

NZ\$ million	FY17		FY16		Movement %	
Operating Segment	Segment Revenue	Operating EBITDA ¹	Segment Revenue	Operating EBITDA ¹	Segment Revenue	Operating EBITDA ¹
Australia & New Zealand	439.6	155.3	296.3	84.7	48.3%	83.4%
China & other Asia	88.9	32.8	38.2	9.2	132.9%	257.6%
Corporate and other	-	(24.4)	-	(18.8)	-	30.2%
Total excluding US & UK	528.5	163.7	334.5	75.1	58.0%	118.0%
US & UK ²	21.0	(22.5)	18.3	(20.5)	15.1%	9.8%
Total Group	549.5	141.2	352.8	54.6	55.8%	158.6%

Infant formula (included in Group total)

394.0

214.4

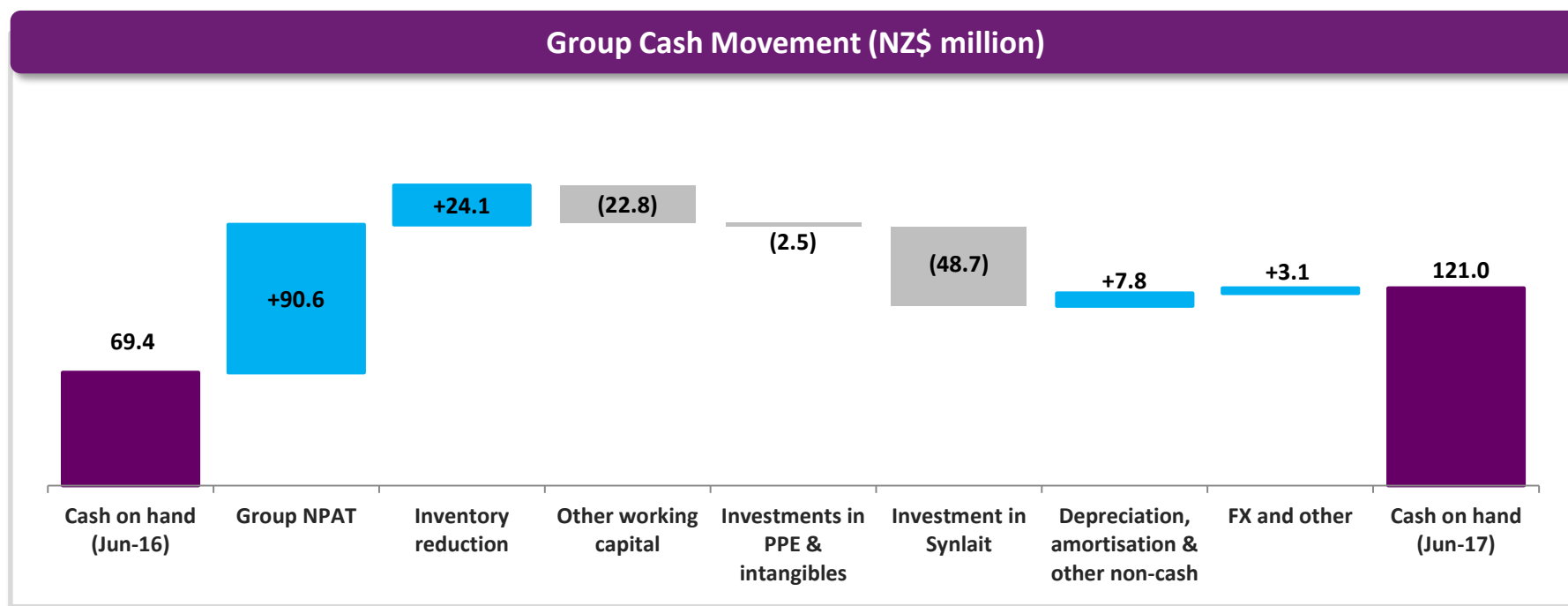
83.8%

¹Operating EBITDA is a non-GAAP measure and represents earnings before interest, tax, depreciation and amortisation

²UK & US Operating EBITDA includes \$2.2 million in impairment charges in FY17



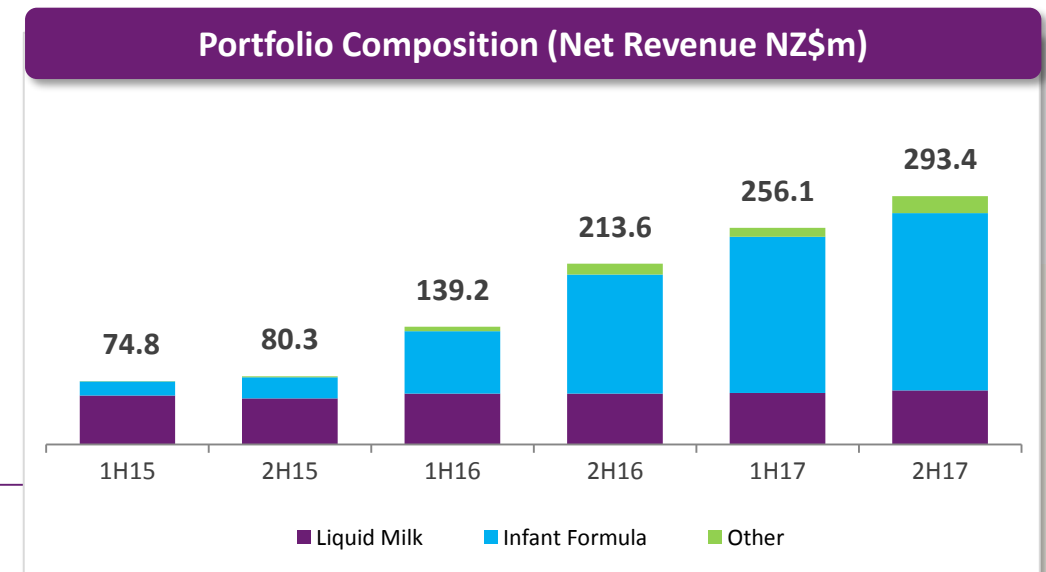
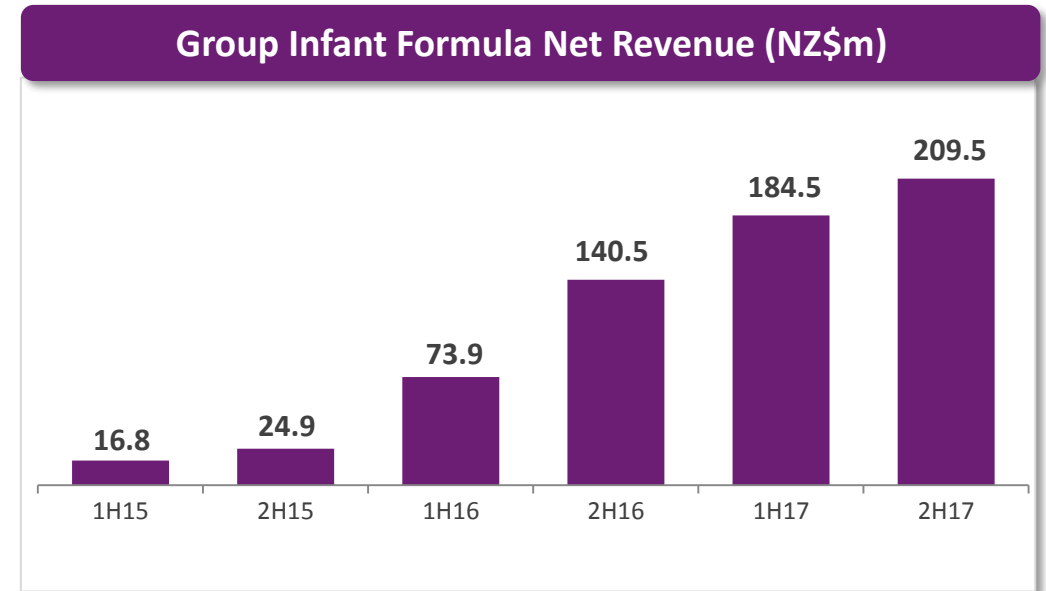
Cash position



- Cash on hand reflects continued earnings momentum
- Inventory reduction reflects strong infant formula demand exceeding stock availability
- Working capital movement driven largely by increase in trade debtors and prepayments relating to infant formula
- Includes acquisition of shareholding in Synlait
- Working capital outlook assumes a planned increase in infant formula inventory in FY18

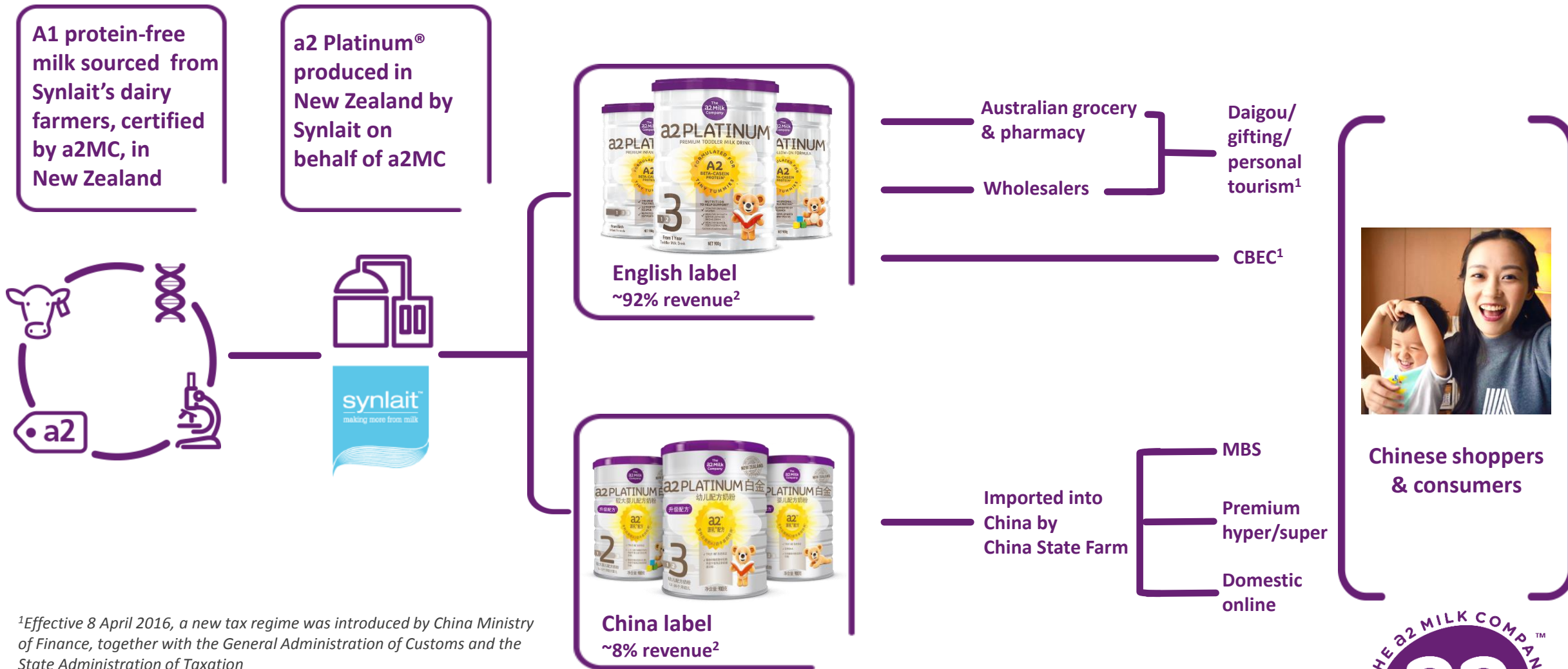
Continued strong growth in sales and market share for a2 Platinum®

- Group infant formula revenue of NZ\$394.0 million, compared to NZ\$214.4 million for FY16
- Infant formula accounts for 72% of Group revenue
- Significant growth in Australian marketplace:
 - Fastest growing Australian infant formula brand by value¹
 - Number 2 infant formula brand in the Australian market¹
 - Value market share growing from ~16% to ~26% (MAT)¹
- Continued success of a2 Platinum® in China a function of our multi-product, multi-channel strategy:
 - Direct sales into China increased significantly in cross border e-commerce channels (CBEC) and mother baby retail stores (MBS)
 - China achieved ~150% growth of infant formula sales from FY16
 - China Label accounted for ~6% of Group infant formula sales in FY17, strengthening to ~8% in 2H17
- An enhanced supply agreement with manufacturing partner Synlait completed in August 2016 provides surety of supply



¹Australian Grocery and Pharmacy Scan 52 weeks to 30 June 2017

Route to market pathways into China



¹Effective 8 April 2016, a new tax regime was introduced by China Ministry of Finance, together with the General Administration of Customs and the State Administration of Taxation

²Revenue for 2H17



China infant formula regulatory environment



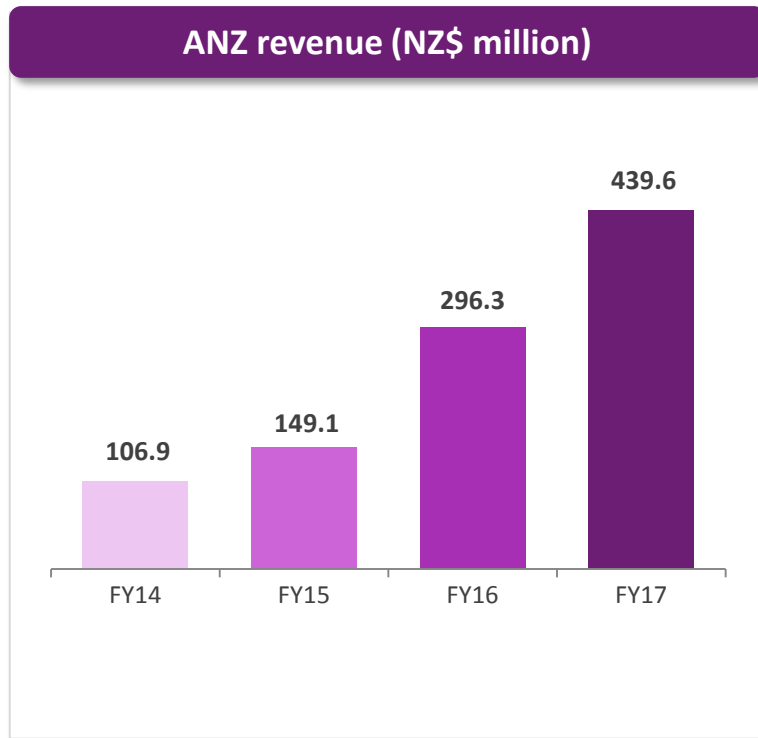
¹ CFDA: China Food and Drug Administration



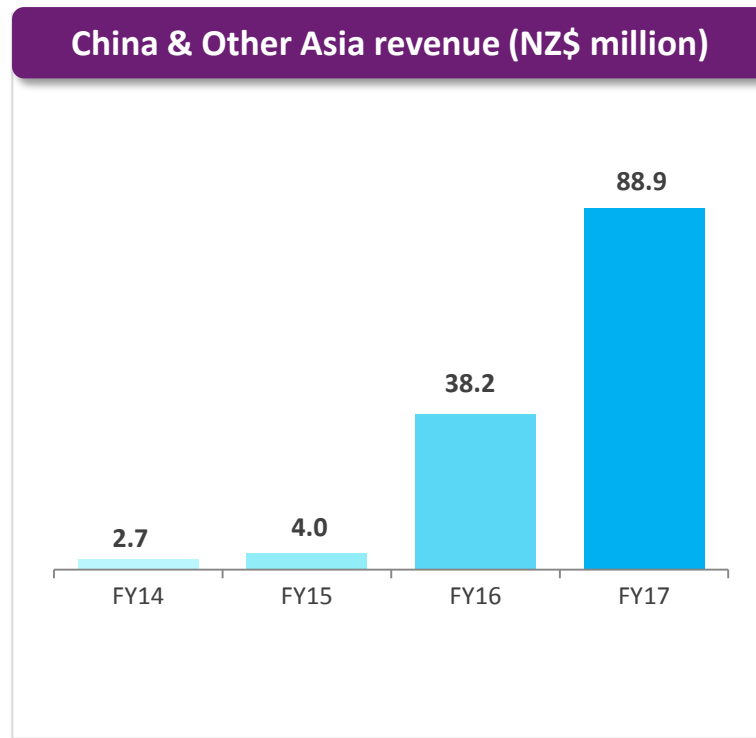
FY17 regional performance



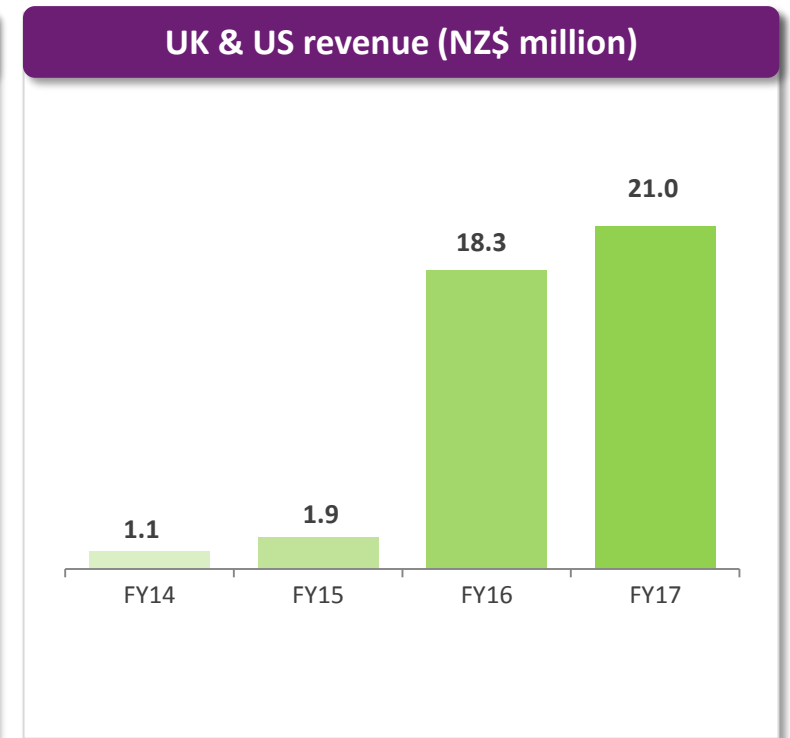
Regional Growth underpinned by a targeted product portfolio



- **Revenue:** \$439.6m
Growth driven by infant formula
- **3 year revenue CAGR:** ~60%
- **EBITDA:** \$155.3m



- **Revenue:** \$88.9m
English & China Label Infant Formula growth
- **3 year revenue CAGR:** ~215%
- **EBITDA:** \$32.8m



- **Revenue:** \$21.0m
Increase in FY17 driven by UK & US milk performance
FY17 impacted by lower infant formula availability
- **3 year revenue CAGR:** ~175%
- **EBITDA:** (\$22.5)m



Australia & New Zealand

- Exceptional performance for the ANZ business in FY17
- Strong a2 Platinum® revenue growth of ~78% on pcp
- a2 Milk® branded fresh milk revenue growth of ~5.5% on pcp
- a2 Milk® is the only milk brand distributed through all six key grocery retailers in Australia
- Nutritional portfolio expanded with skim milk powder launched May 2017; whole milk powder showed strong growth
- Close management of infant formula supply chain, improvement in product availability in Q4
- a2MC highest brand advertising spend within the infant formula and fresh milk categories
- Spontaneous consumer brand awareness for a2 Milk® increased from 17% to 28% in FY17¹
- Continued to pay a premium to farmers to supply a2 Milk®
- Milk supply arrangements with Moxey Farms and Leppington Pastoral Co extended for a further three-year term
- The Australian Federal Court action initiated against a competitor remains in progress; the Company remains confident of achieving a successful outcome

¹ Australian brand tracking, EY Sweeney Brand Health Study, November 2016; n=1,808



China and other Asia

- Strong sales and earnings momentum
- Increased marketing and sales investment on prior year
- Flexible multi-channel strategy incorporating China and English label infant formula and milk powder
- Consumption share for a2 Platinum® infant formula brand grew strongly
 - ~3.5% value share¹ up from ~2.1% in prior year
- Strong growth in distribution in MBS channel
 - Increased from ~1,450 to ~3,800 stores
 - Supported by in-store marketing activities and sales personnel at store level
- Strong growth continued across CBEC channel
 - JD.com awarded the company 'Fastest Growing Brand' and 'Best Annual Supplier'
- Significant increase in capability within the local China team including appointment of new Executive Vice President, Jane Xu
- Expansion managed in a structured way, supported by in-market consultants
- Progressing liquid milk opportunity utilising ANZ exports, assessing further growth initiatives

¹ Kantar Infant Formula market tracking of China Key and A cities for quarter ending 30/06/17
(Kantar track a substantial proportion of the total market)



United States

- Progress on strategy to build brand awareness and expand footprint on a region-by-region basis
- Distribution increased to ~3,000 stores across the country:
 - Sales velocities grew in California with a number of key accounts now exceeding 30 units per store per week (UPSW)
 - Expanded into the South East from March with Publix, with ~1,100 stores in Florida, Georgia and the Carolinas
 - Achieved increased distribution with Whole Foods Market; now ranged in seven of eleven regions
- Chocolate flavoured milk variant added in Q3
- New marketing campaign ‘Love Milk Again’ launched across TV, radio and digital advertising, supported by PR, shopper marketing and in-store activity
- Supply chain efficiencies through operation of a second contract processor in the Los Angeles basin
- Progress since launch has been slower than our expectations and we continue to focus closely on our return on this investment
- Based on recent performance, financial outlook now assumes ~US\$25 million forward investment before positive monthly EBITDA in FY20



United Kingdom

- The UK business achieved its first annual operating profit in FY17
- 'a2tonishing™' marketing campaign launched in May 2016 continues to resonate strongly with consumers
- Distribution gains for fresh milk
 - Increased range in J Sainsbury and increased facings in Waitrose
 - New listing in Asda WalMart near year end
- Ranging now in all major supermarkets with distribution in ~1,600 stores
- a2 Platinum® infant formula sales in the wholesale channel below prior year due to inventory availability
- Assessing incremental opportunities in Europe and the Middle East



Strategic update



Strategic progress & agenda

- Continued build of Board and senior management capability
 - Appointment of Warwick Every-Burns & Jesse Wu as non-executive Directors
 - Reorganisation of senior leadership team and new focus:
 - Chief Executive Asia Pacific
 - Executive Vice President China
 - Head of Business Development – Emerging Markets
 - UK, Europe & Strategic initiatives
- New hires across the Company to support regional growth and innovation needs
- Product innovation planned for FY18 targeting adults, children and infants
 - a2 Platinum® Stage 4 English label in market from August 2017
 - Further launches to follow
- Recent launch of Australian fresh milk into Singapore, first SEA initiative
- Further investment in IP portfolio, supported by targeted R&D
- New unifying brand identity



Intellectual property and R&D

- The Company recognises increased interest in A1 protein-free products
 - Focus on patents, trade marks and proprietary know-how across chosen markets, building on first mover advantage
 - a2MC will continue to actively enforce its intellectual property rights
- Research projects progressed during FY17:
 - Significant human study in China (n=600) builds upon digestive benefit findings from an earlier study published in FY16
 - Clinical study in China amongst pre-school children examining digestive and cognitive function submitted for publication; results aligned with recent adult findings
 - Human clinical study in association with Monash University Australia examining the benefits of a2 Milk® on irritable bowel syndrome
 - Clinical examination of benefits of A1 protein-free milk to gut and systemic inflammation at USA Pennington Biomedical Research Centre
 - First acute human study supported by New Zealand Government grant now complete, results support previous research in Australia and China
- In September 2016 the *Nutrition Journal* reported that consumption of a2 Milk® increases natural production of the body's key antioxidant, Glutathione (GSH) in milk-intolerant consumers
 - GSH is widely recognised for its association with a range of health benefits

FY18 outlook and capital management



FY18 outlook and capital management

FY18 outlook

- a2MC expects:
 - continued strong growth in infant formula and milk powders in Australia and China;
 - improved momentum in US and UK;
 - some downward pressure on gross margin % against prior year given evolving product mix and movement in commodity prices;
 - increased marketing spend, 1H18 ~NZ\$5 million higher than 2H17
- Achieving CFDA registration for China label infant formula remains an important target for the Company
- Continued close management of infant formula supply chain, expect inventory availability of a2 Platinum® to improve from current low levels
- Working capital outlook assumes an increase in infant formula inventory to more sustainable levels during FY18
- The Company expects to provide an update on performance at its Annual Meeting in November 2017

Capital management

- Board has been evaluating capital management alternatives whilst continuing to maintain a flexible and conservative structure
- Company intends to establish an on-market share buyback programme over the next 12 months of up to NZ\$40 million
- Further details of the on-market share buyback will be announced prior to commencement
- Board remains open to a special dividend depending on progress on the buyback and future market conditions

