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Trading update & FY20 Outlook

The a2 Milk Company provided its last update on the Group's trading performance and its full year FY20 outlook with the release of its interim FY20 results (1H20) on 27 February 2020.

Since then, the Company has continued to experience strong revenue growth across all key regions, particularly in respect of infant nutrition products sold in China and Australia.

We are now able to confirm that our revenue for the three months to 31 March 2020 (3Q20) was above expectations. This primarily reflected the impact of changes in consumer purchase behaviour arising from the COVID-19 situation and included an increase in pantry stocking of our products particularly via online and reseller channels. We are unable to estimate the timing and extent to which pantry stocking may unwind.

In addition, our China segment revenue, transacted in US dollars, was favourably impacted by a significant depreciation of the New Zealand dollar to the US dollar in the quarter.

Overhead costs are now tracking lower than previously expected due to travel restrictions and some planned recruitment, particularly in China, being temporarily delayed.

The health and wellbeing of our people and those of our partners remains our primary focus and we continue to take measures to ensure all employees are as safe as possible.

Our business has benefited from the support of all our strategic partners who have assisted in managing the various supply chain challenges which have arisen during recent months.

We support the actions of the various governments in the countries in which we operate in responding to the COVID-19 pandemic. We will continue to closely monitor the situation and remain vigilant to the ongoing advice of authorities.

FY20 Outlook

Given the COVID-19 situation, the outlook for both revenue and earnings remains uncertain. Furthermore, significant uncertainty remains around the potential impact on supply chains and consumer demand in our core markets and the resulting financial impact on our performance for the balance of the financial year.

Overall for FY20, we anticipate ongoing revenue growth across our key regions supported by increased levels of marketing investment in China and the USA as well as, to the extent practicable in the current circumstances, the ongoing development of our organisational capability to support the execution of our strategy.

Notwithstanding this uncertainty, we anticipate revenue for FY20 in the range of $1,700 million to $1,750 million.

Full year EBITDA margin is now anticipated to be above that advised in February and in the range of 31% to 32%. This assumes that planned marketing activity for FY20 of $200 million, weighted to 2H20, will be fully expended prior to year-end.

Our 2H20 EBITDA margin is therefore expected to be higher than previously anticipated. This is primarily a result of:

- Higher revenue, and hence gross margin, from higher margin nutritional products, in part due to consumer pantry stocking in 3Q20 compared to expectations;
- Favourable impact arising from exchange rate movement in USD:NZD impacting on China segment revenue and earnings; and
- Lower than expected costs for travel, and other costs as a consequence of a delay in planned recruitment, due to COVID-19 restrictions.

It is unlikely that these factors will be sustained as these unprecedented circumstances begin to unwind.

Given the above, the Board continues to consider 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.

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