NZX: SML
ASX: SM1

1 April 2022

Synlait Publishes Half Year Result

Synlait Milk Limited (Synlait) today published its financial result for the six months ended 31 January 2022:[1]

- NPAT up 338% to $27.9 million[2]
- EBITDA up 45% to $68.4 million[3]
- Revenue up 19% to $790.6 million
- Net debt down 19% to $391.8 million
- Operating cash flows up 269% to $117.3 million
- Capital expenditure down 37% to $46.0 million

Synlait Chair Dr John Penno commented: "This is a strong result that reinforces the focus and hard work undertaken to get Synlait back on track after a challenging 18 months."

"Having been part of Synlait from the outset, I saw it as extremely important to help lead the company through its recent challenges and set it up for future success. While the job is not yet done, we have made some big steps in the right direction as we reset our leadership and rebuild our profitability and balance sheet."

Synlait CEO Grant Watson commented: "Today comes as I reach two and a half months at Synlait. The result validates that momentum is building, but to return Synlait to strong, sustainable growth we need a greater level of focus and accountability right across the organisation. Improving our systems, tools and processes will improve our ability to execute with excellence. This is a significant opportunity and will be our focus for the second half."

Full year 2022 guidance update

Synlait still expects its Net Profit After Tax result to return to robust profitability in FY22 based on:

- Tighter management of its Ingredient business;
- Improved infant base powder volumes;
- A growing contribution from its Lactoferrin and Consumer Foods businesses; and
- Retained cost savings.

FY22 also includes a one-off gain on sale of $17.1 million from the sale and leaseback of the land and building at Synlait Auckland, which was realised in the first half. Note $11.9 million (non-taxable) of this gain was recognised in H1 22 and the balance will be released to the P&L over the life of the 10-year lease in accordance with relevant lease accounting standards.

Synlait does not expect its profitability to grow at the same rate in the second half of FY22 due to several external factors which could impact performance. These include:

[1] Comparisons are to the six months ended 31 January 2021 unless stated otherwise.
[2] Adjusted NPAT up 128% to $14.5 million, excludes Synlait Auckland gain sale and leaseback and related items.
[3] Adjusted EBITDA up 20% to $56.5 million, excludes Synlait Auckland gain on sale and leaseback and related items.

- The impact of Omicron and broader labour shortages in New Zealand on Synlait's workforce, which remains unknown. This could impact Synlait's ability to operate at normal production levels in the short-term.
- Ongoing disruptions to global supply chains due to COVID-19 and geopolitical issues which could impact Synlait's ability to procure raw materials and export products.
- Dairy commodity prices continuing to rise due to strong global demand outrunning restricted supply, which could potentially create downside risk in FY22, and equally an opposite upside opportunity in FY23, due to lagged priced contracts with large multinational customers.

Planned reductions in inventory at Synlait and Dairyworks will generate operating cashflows in excess of earnings. These strong cashflows will enable Synlait to complete its capital expenditure programme and reduce debt to comfortable levels over the next two years.

As previously communicated, Synlait's performance will build into FY23 as production for its new multinational customer at Synlait Pokeno ramps up and its Consumer Foods business continues to grow.

Board and Management still expect that by the end of FY23 the recovery plan will have seen Synlait return to similar levels of profitability, operating cash flows, and debt ratios as per the years leading into FY21.

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