29 August 2022
NZX/ASX Market Release

# FY22 Results
# The a2 Milk Company delivers double digit growth and announces share buyback

The a2 Milk Company ("the Company", "a2MC") today announces that the Company has made significant progress in implementing its refreshed growth strategy and improving performance during FY22[1]. More specifically, the:

1. Inventory management actions taken last calendar year to address excess infant milk formula (IMF) inventory have proven effective with channel inventory at target levels, product freshness amongst the best in the industry and improved market pricing
2. Refreshed growth strategy communicated to the market in October 2021 which focused on capturing the full potential of the China market opportunity is having an impact achieving new highs in brand health metrics and record market shares
3. Full year result for FY22 is in line with the Company's expectations as outlined on 21 February 2022, delivering double digit revenue and earnings growth despite challenging market conditions driven by the refreshed growth strategy and improved execution
4. Outlook for the business in FY23 is positive with continued revenue and earnings growth expected, and the Company is on track to deliver on its medium-term financial and non-financial ambitions communicated to the market at its Investor Day in October 2021

As a result of the above, and considering its strong balance sheet position, the Company intends to execute an on-market share buyback of up to $150 million. An on-market share buyback is considered to be the most appropriate form of capital management at this time.

The Board and Executive Leadership Team would like to express their appreciation to the Company's supportive shareholders, talented team, valued farmers, loyal customers/distributors, committed suppliers and strategic partners in China, for their collective support during a challenging period overcoming COVID-19 related disruption and market headwinds.

***Financial highlights*[2]**

- Revenue growth of 19.8% to $1,446.2 million (11.2% ex-MVM[3]) with 2H22 up 18.9% on 1H22 (15.7% ex-MVM)
  - China label and English label IMF sales up 12.2% and 11.6% respectively
  - ANZ and USA liquid milk sales up 1.8% and 30.2% respectively
- Earnings before interest, tax, depreciation and amortisation (EBITDA[4]) up 59.0% to $196.2 million. EBITDA to sales margin increased to 13.6% (16.1% ex-MVM) compared to 10.2% in FY21
- Net profit after tax (NPAT) including amounts attributable to non-controlling interests up 42.3% to $114.7 million with $122.6 million attributable to owners of the Company[5]
- Earnings per share up 51.8% to 16.5 cents in FY22 compared to 10.9 cents in FY21
- Strong balance sheet with closing net cash[6] of $816.5 million with operational cash conversion[7] of 114% during the year
- Positive outlook for FY23 with high single digit revenue growth and EBITDA margin improvement expected (see Outlook below for further detail, including key industry and business risks)

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[1] All references to full year (FY), halves (H) and quarters (Q) relate to the Company's financial year, ending 30 June.
[2] All figures are in New Zealand Dollars (NZ$), unless otherwise stated.
[3] Excluding the impact of consolidating Mataura Valley Milk (MVM) into the Group result, which was acquired in July 2021.
[4] EBITDA is a non-GAAP measure and does not have a standardised meaning prescribed by GAAP. However, the Company believes that in combination with GAAP measures, it assists in providing investors with a comprehensive understanding of the underlying operational performance of the business. A reconciliation of EBITDA to net profit after tax is shown in the Company's FY22 Investor Presentation (slide 55) and Other Information in the Annual Report (page 126) dated 28 August 2022.
[5] The non-controlling interest represents China Animal Husbandry Group's 25% interest in MVM.
[6] Including term deposits and borrowings, excluding subordinated non-current shareholder loans.
[7] Operational cash conversion defined as net cash flow from operating activities before interest and tax divided by EBITDA.

***Operational highlights***

- Brand health metrics reached new highs across the business with total a2MC IMF spontaneous brand awareness in China increasing significantly from 16% to 21% following a 36.3% increase in marketing investment
- Record market shares achieved in China label IMF in mother and baby stores (MBS) and domestic online (DOL), with English label IMF market share in cross border e-commerce (CBEC) increasing in 2H22 and offline-to-online (O2O) over the full year. Record market shares also achieved in Australia and USA milk
- Deliberate shift in distribution of English label IMF to more transparent, performance-based and exclusive partners progressing well with significantly improved share of voice in the Daigou channel
- Increased focus on innovation resulted in the highest number of new product launches in the Company's history: *a2 Milk® Half & Half, HERSHEY'S a2 Milk®, a2 Milk® UHT, a2 Milk® Cream on Top, a2 Milk® Lactose Free* and refreshed *a2 Platinum®* English label IMF
- Completion of Mataura Valley Milk (MVM) acquisition with China Animal Husbandry Group with successful integration and commencement of *a2 Milk®* powder manufacturing underway
- Significant increase in sustainability targets, initiatives and impact in many areas of the business, including committing to New Zealand's first high pressure electrode boiler supplied by 100% renewable energy at the MVM site

***CEO commentary***

The a2 Milk Company's Managing Director and CEO, David Bortolussi said:

- "It was a successful year for The a2 Milk Company returning to double digit growth in revenue and earnings despite significant headwinds.
- "We are pleased with the progress that has been made in stabilising the business, refreshing our strategy and improving our execution.
- "Our significant increase in marketing investment has driven further gains in brand health metrics and record market shares delivering strong growth in our China infant milk formula business.
- "We are pleased with the transition of our English label product distribution to more transparent, performance-based and exclusive partners. We remain committed to the Daigou channel and have increased our direct engagement and marketing support with more Daigou supporting the brand.
- "We have maintained our brand leadership position in liquid milk in Australia with increased loyalty and household penetration, and our USA milk business grew strongly during the year driven by innovation.
- "Our on-market buyback of up to $150 million demonstrates effective capital management and the improved confidence we have in our strategy, execution and outlook."

## Group financial performance[8,9]

The Company's revenue for FY22 was up 19.8% driven by strong growth in the China & Other Asia and USA segments, along with incremental sales from the first-time inclusion of MVM. This was partially offset by lower IMF sales in ANZ due to deliberate changes to the Company's English label IMF route-to-market structure, resulting in a shift in sales towards the China & Other Asia segment. 2H22 revenue growth also reflects actions taken by the Company in 2H21 and 1H22 to address excess IMF channel inventory, execution of the Company's growth strategy, strong China label IMF consumer demand in part due to COVID-19 related lockdowns, as well as pricing and favourable foreign exchange.

Gross margin percentage[10] of 46.0% was up 3.7ppts and reflects the cycling of prior year stock write-downs, price increases, reduced trade spend and favourable foreign exchange; partially offset by higher raw material and logistics costs which were impacted by COVID-19 and the inclusion of MVM. Gross margin percentage excluding MVM was 50.9% compared to 42.3% in FY21 which was significantly impacted by stock write-downs.

EBITDA increased by 59.0% to $196.2 million primarily reflecting higher revenue and gross margin. EBITDA growth came notwithstanding a 36.3% increase in marketing spend and the anticipated uplift in Administrative and Other Expenses, which have increased by 15.6% due to capability investment, increase in employee incentive costs (low base last year), and higher professional services fees and insurance costs. COVID-19 adversely impacted in-market freight rates and distribution costs, particularly in the USA business. Together, these factors resulted in an EBITDA margin of 13.6% (16.1% ex-MVM).

Net profit after tax, including amounts attributable to the non-controlling interest was $114.7 million, an increase of 42.3%. Depreciation and amortisation was $18.9 million, net interest income was similar to prior period and the effective tax rate of the Group was 36.7%. NPAT attributable to owners of the Company was $122.6 million.

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[8] All figures are in New Zealand Dollars (NZ$), unless otherwise stated.
[9] All comparisons are with the 12 months ended 30 June 2021 (FY21), unless otherwise stated.
[10] Gross margin percentage is calculated as sales less cost of goods sold, divided by sales.

The balance sheet remains in a strong position with closing cash and term deposits of $887.3 million. The higher cash balance reflects the cash generated during the year offset by $213.7 million of capital invested in the acquisition of MVM (net of cash acquired). As a result of the ownership structure of MVM, the Group is now consolidating MVM's financial debt which was $70.8 million at period end (excluding $36.2 million of subordinated non-current shareholder loans), and therefore, the Company had net cash[11] of $816.5 million. Inventory at the end of the period was $140.0 million, higher than at the end of FY21, mainly due to the inclusion of MVM. The Company's IMF inventory levels were lower than planned at year-end due to COVID-19 impacts on its China label supply chain.

Operating cash flow was $203.8 million. Excluding interest and tax, this represented operational cash conversion of 114%[12] which was relatively high during the period. This was mainly due to an increase in trade and other payables related to the timing of 4Q22 brand investment and inventory orders, combined with delayed invoicing and payments processing in China due to COVID-19 related lockdown impacts.

## China IMF market update[13]

The number of births in China decreased by 11.5% in 2021 to 10.6 million[14] and is expected to decline in 2022. This decline has been partially offset by an increase in household penetration and consumption within the IMF market.

In volume terms, the overall IMF market in China decreased by 4.3%in FY22, as several years of declining newborns had a cumulative impact on Stages 2 and 3, partially offset by increasing household penetration particularly in relation to growth in Stage 4. Market value also decreased by 3.1% in FY22 as growth in average market prices was not enough to offset volume declines. Market price growth of 1.3%, driven both by premiumisation (consumers trading-up and new product innovation) and channel mix shift to higher-priced China label channels, was less than in previous years and was also impacted by increasing promotion frequency, albeit at reduced discount levels.

The market shift towards China label product continued compared to English label product, although the extent of the shift this year was less pronounced than last year. In FY22, China label product accounted for 85% of the market (compared to 84% in FY21) and English label product accounted for 15% (compared to 16% in FY21). The shift towards China label in the previous year was more significant (7% pts) due to significant COVID-19 related disruption and associated demand and supply volatility.

Growth rates varied significantly between Key&A and BCD cities, with Key&A value sales decreasing by 7.1% whilst in BCD cities market value was broadly flat in line with the divergence of birth rates across city tiers.

Within China label channels, several market dynamics are supporting a2MC's growth, including a continued mix shift to the ultra-premium segment (where the Company's China label product competes), more rapid growth of the A2 protein segment, increasing brand concentration towards market leading brands (with *a2 至初®*remaining one of the few international brands continuing to grow market share) and the continued shift to online channels, where international brands have historically outperformed local brands.

English label channels are showing signs of stabilisation, with the rate of decline in overall English label value sales (down 9%) reducing significantly compared to FY21 (down 33%) and sales growing by 1.6% in BCD cities in 2H22. Within English label channels, there is a mix shift from Daigou to CBEC and O2O channels.

Despite challenging market dynamics, a2MC's growth in FY22 in China label and English label IMF was encouraging, and the Company has a significant opportunity to grow market value share from its current levels of 4-5%.

## a2MC regional performance

### *1. China & Other Asia*

China & Other Asia revenue of $726.5 million was up 24.5%, with EBITDA of $145.1 million up 92.0%. Growth was driven by 2H22 performance as the Company ramped-up execution of its growth strategy supported by strong China label IMF consumer demand in part due to COVID-19 related lockdowns, as well as favourable foreign exchange. The increase in EBITDA margin from 13.0% to 20.0% reflected higher gross margin during the period mainly due to cycling the impact of stock write downs last year and the operational leverage benefit of higher sales partially offset by higher marketing investment.

There were further gains in brand health metrics following the significant increase in marketing investment in 2H22. Based on the Company's most recent tracking (Jul-22 compared to Jan-22), spontaneous awareness for total a2MC IMF (ie China label and English label) increased from 16% to 21%, the rate of consumers who have ever trialled the Company's IMF products increased from 19% to 20% and the percentage of consumers who claim to use the Company's IMF most often increased from 12% to 13%. Within this, China label prompted brand awareness improved from 45% to 50% and English label prompted brand awareness improved from 27% to 29%.

[11] Including term deposits and borrowings, excluding subordinated non-current shareholder loans.
[12] Operational cash conversion defined as net cash flow from operating activities before interest and tax divided by EBITDA.
[13] Kantar Worldpanel 0-6 years old Baby & Kids panel: National IMF market tracking (Key&A + BCD cities); unless otherwise stated.
[14] Source: China National Bureau of Statistics.

The 2H22 campaign continued to build on the execution themes from the 1H22 campaign with more balanced functional and emotional brand messaging, more precise targeting of consumers, greater use of health care professional marketing, increased social seeding and stronger integration across all channels and of both labels.

***China label IMF***

Sales for *a2 至初®* China label IMF of $437.6 million were achieved, representing an increase of 12.2%. As referred to in the Company's announcement on 21 February 2022, the Company restricted sales to distributors in 1H22 (particularly in 4Q21 and 1Q22) to rebalance channel inventory levels and improve channel dynamics. As a result of this, sales in 1H22 were down, but were up significantly during 2H22. Consumer demand for *a2 至初®* over the year was strong and the Company increased share in store and online, and across all stages.

a2MC increased offline numeric and weighted distribution as well as same store sales, resulting in Key&A and BCD cities share increases during the year. Offline distribution increased to 26.5k stores at the end of June 2022 from 22.8k at the end of June 2021[15]. The Company has expanded its focus from building share in national key accounts to also pursuing regional key accounts, as well as targeting greater penetration in BCD cities and developing new strategies for accelerated growth in certain high-potential provinces. As measured by Nielsen[16], retail sales for the MBS channel by value were down 2% in FY22[17]. a2MC's market value share in MBS increased to 3.0% at the end of June 2022 versus 2.2% at the end of June 2021, and *a2 至初®* was one of the few international brands that gained share in the period.

Accelerating the Company's online growth is a strategic priority for China label IMF and performance in DOL is a key measure of success. As measured by Smart Path, retail sales for DOL by value were up 4% for FY22[18]. a2MC's market value share in DOL increased to 2.5% at the end of June 2022 versus 2.0% at the end of June 2021.

***English label IMF (CBEC)***

*a2 Platinum®* English and other label IMF sales of $255.8 million were up 53.3%. The result reflected improved channel economics and demand during the period, price increases, favourable foreign exchange and reduced discounting during the "6/18" and "11/11" online sales periods in China.

Strong revenue growth in CBEC also reflects execution of the Company's strategy to simplify and delayer its distribution network to move closer to its consumers, which has reduced the extent of indirect unauthorised cross-channel sales from ANZ resellers to CBEC participants. This has resulted in a greater proportion of those sales now being supplied by authorised CBEC distribution partners, increasing reported revenue to CBEC (refer ANZ section below).

a2MC continued to prioritise overall channel economics through tightly controlled inventory levels and promotional activity in CBEC. As a result, and as expected, English label sales during key promotional events in 1H22 were slightly down on last year but recovered in 2H22 with improved market pricing across CBEC platforms and reseller channels, enhancing overall channel economics. Notwithstanding these actions, the Company's platform rankings were maintained or improved during the period.

Similar to DOL, the Company is focused on CBEC online growth and building digital marketing and e-commerce capability to improve its execution which is having an impact, particularly on new user recruitment and late-stage retention. As measured by Smart Path, retail sales by value for the CBEC channel were down 2% for the period[19]. a2MC's market value share in CBEC was 19.5% at the end of June 2022 versus 21.1% at June 2021, with market share improving in 2H22.

***Liquid milk and other nutritional products***

Sales of liquid milk in China & Other Asia were up 34.4% to $11.1 million and revenue from other nutritional products was also up 19.7% to $22.1 million. This reflected progress in executing against adjacent category growth opportunities, including the launch of UHT in China. These results were achieved notwithstanding significant supply chain disruption in liquid milk during the period due to COVID-19 impacts on manufacturing and logistics.

## *2. Australia and New Zealand (ANZ)*

ANZ segment revenue of $532.7 million was down 4.8%, with EBITDA of $173.2 million up 16.4%. Lower revenue was a direct consequence of the Company restructuring its English label IMF route-to-market and reflected a mix shift in English label IMF sales from an existing reseller to CBEC distribution partners. The shift in the English label route-to-market is a constructive change and an evolution for the Company in the long term to progress its ambition to have the number one English label product range in China. Higher EBITDA was driven mainly by cycling prior year inventory write-downs, pricing and favourable foreign exchange, partially offset by higher cost of goods sold.

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[15] a2MC internal data tracking of stores with active sales in the past 12 months.

[16] Note that during the period, Nielsen expanded its sample store coverage to enhance channel representativeness, and historical data has been restated to reflect this enhancement.

[17] Nielsen MBS retail measurement service: mother and baby stores only retail sales (by value). 12-month rolling share. FY22 versus FY21.

[18] Smart Path China IMF online market tracking: domestic online platform sales (by value). 12-month rolling share. FY22 versus FY21.

[19] Smart Path China IMF online market tracking: for CBEC only retail sales (by value). 12-month rolling share. FY22 versus FY21.

***IMF resellers and retail***

IMF sales in ANZ decreased 7.9% to $328.8 million. In addition to the channel mix shift from ANZ resellers to CBEC, customer mix within ANZ resellers also shifted significantly during the period with some resellers securing additional volume. This managed shift followed an in-depth review of the Company's reseller route-to-market which has resulted in improved visibility and control of channels to market. The lower reseller sales due to the channel mix shift were partially offset by pricing adjustments to address pricing relativities and less promotional activity on CBEC in the interests of maintaining a healthy ecosystem.

Following this route-to-market review and consistent with the Company's growth strategy, management has focused on developing more transparent, performance-based, exclusive and channel compliant distribution partnerships during the period. As a result, significant volume transitioned from the Company's previous largest reseller to CBEC distributors (ANZ volumes ultimately on-sold to CBEC platforms were re-routed through authorised CBEC distributors) and to other existing ANZ reseller partners during the period. Supply continues to be allocated carefully to all reseller partners to ensure appropriate stock levels are maintained in the channel.

Although market share reduced in the Daigou channel during the period, the rate of decline improved in 2H22 following the change in distribution partners. Kantar data[20] indicates consumer sales in the Daigou channel were down 17% for FY22[21] and that a2MC's Daigou market share declined to 18.7% at the end of June 2022 versus 22.2% at the end of June 2021. However, a2MC's Daigou market share decreased by approximately 2% pts in 2H21 and 1H22 but declined by less than 1% in 2H22 following the change.

The ANZ reseller channel is an important channel, particularly in relation to new user recruitment. In addition to changing distribution partners, the Company stepped up its support for the channel through more direct engagement with resellers and Daigou, production of more digital marketing content and conducting Daigou sales events resulting in increased share of voice in the channel which is an important leading indicator of share growth. To enable this increased level of activity, the Company invested in developing its reseller and Daigou trade marketing capability during the period.

An initiative to increase distribution in the O2O channel commenced during the period with growth experienced during FY22. A key strategic focus was working with partners to increase store numbers through the O2O channel and drive new user recruitment. Kantar data indicates consumer sales in the O2O market grew 26%[22] for FY22 and that a2MC's O2O market share increased to 18.6% by the end of June 2022 versus 17.5% at the end of June 2021.

As part of the Company's strategic priority to drive growth through innovation, the Company refreshed its English label IMF product range and packaging in 1Q23 which has gained additional distribution in retail.

***Liquid milk***

Australian liquid milk sales increased marginally by 1.8% to $172.0 million, reflecting volume growth and price increases implemented during the year in response to higher raw milk prices and other input and logistics costs, as well as favourable foreign exchange. This was partially offset by easing COVID-19 restrictions in 2H22 which negatively impacted in-home consumption levels.

The Company maintained its brand leadership during the year with increased loyalty and household penetration. Brand health metrics improved with awareness and trial increasing. a2MC achieved a value share of 12.4% at the end of June 2022[23] versus 12.2% at the end of June 2021 declining marginally in 2H22 as lockdowns eased. Market share gains were achieved in all states except Western Australia, with new record value shares in New South Wales and Victoria. Pleasingly, three *a2 Milk®* products achieved rankings in the top ten products in the dairy category in Grocery.

*a2 Milk® UHT* was launched during 3Q22 and is now available in major supermarket chains across Australia. This addition to the Australian liquid milk portfolio provides loyal consumers with a shelf-stable pantry backup or camping supply of their favourite *a2 Milk®*. *a2 Milk® Cream on Top* was also launched during 2H22 and is now available in 350 stores across Australia. Post year-end, the Company launched a new *a2 Milk® Lactose Free* range for consumers that are lactose intolerant enabling all consumers to enjoy the benefits of *a2 Milk®* (noting that individuals can be A1 protein and/or lactose intolerant). Lactose free milk is a significant category in Australia with retail sales value greater than $130 million. The Company has secured arrangements for distribution of the range with major supermarket retailers in Australia, supported by a targeted marketing campaign. The *a2 Milk® UHT, a2 Milk® Cream on Top* and recent *a2 Milk® Lactose Free* launches are consistent with the Company's strategy of ramping up innovation to drive growth.

***Other nutritional products***

Revenue in other nutritional products was also impacted by the channel mix shift to CBEC, and was slightly below prior year, declining 5.2% to $31.9 million.

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[20] Kantar data based on a panel of 9,000 consumers covering 0-6 year olds and only seeks to project ~40% of the population.
[21] Kantar Worldpanel 0-6 years old Baby & Kids panel: National IMF market tracking (Key&A + BCD cities).
[22] Kantar Worldpanel 0-6 years old Baby & Kids panel: National IMF market tracking (Key & A + BCD cities)
[23] IRI Australian Grocery Weighted Scan 12-months ending 30 June 2022.

## *3. North America*

USA revenue increased 30.0% to $82.7 million while EBITDA decreased 9.4% resulting in a loss of $36.7 million. The higher revenue was driven by growth in core liquid milk, the introduction of new products, reduced trade spend and favourable foreign exchange. Sales growth in core liquid milk was primarily driven by growth in the Grocery and Mass channels of trade which grew 38% during the period, partially offset by reduced Club channel distribution.

Sales growth was mainly through increased same store sales with only modest increases in distribution from 26.8k stores at the end of June 2021 to 27.4k stores at the end of June 2022[24]. Two new products were launched during 1H22 – *HERSHEY'S a2 Milk®* and *a2 Milk® Half and Half* – achieving higher than expected listings in trade. A combination of growth in the core and innovation increased a2MC's market value share in the premium milk category for the Grocery channel from 1.8% in June 2021 to 2.1% in June 2022[25]. Key marketing and public relations activities continued which resulted in improvements in brand awareness and household penetration.

The increased EBITDA loss was mainly due to a significant increase in freight costs throughout the year, coupled with fuel surcharges from higher diesel prices and higher raw milk costs in 2H22, partly offset by price increases and trade spend reductions. Marketing and SG&A costs were relatively flat in combination. EBITDA losses were also higher due to foreign exchange movements. Accelerating the path to profitability in the USA by FY25/FY26 remains a key strategic focus and the Company expects to make meaningful progress on this during the year ahead.

## *4. Mataura Valley Milk*

MVM revenue of $104.4 million[26] and an EBITDA loss of $18.8 million were recorded for the eleven months of a2MC's ownership during FY22. The EBITDA loss reflects the current production mix with MVM primarily selling lower value milk powders on the commodity market. The result was slightly better than expected due to favourable foreign exchange and Global Dairy Trade (GDT) pricing partly offset by higher raw milk costs during the period.

a2MC's acquisition of a 75% interest in MVM is strategically important as it provides the opportunity to participate in nutritional products manufacturing and the potential to pursue additional China label registrations and product innovation opportunities in the future. It strengthens relationships with key strategic partners in China, achieves supplier and geographic diversification, reduces risk across a2MC's IMF and other nutritionals businesses, and over time will offer access to insourced manufacturing margins.

Accelerating MVM's path to profitability by FY26 or earlier is a key strategic focus. To improve profitability, the Company commenced manufacturing *a2 Milk® Full cream milk powder* at MVM during 1H22, which was previously manufactured by Synlait Milk Limited (Synlait). The Company is working on in-sourcing *a2 Milk® Skim milk powder* and certain existing English label IMF product from Synlait, developing future product innovation at the facility and exploring additional third-party customer opportunities. To complement this and facilitate future China label registration applications, MVM has commenced planning for the installation of a laboratory and blending and canning capability at the site.

## Growth strategy update

At a2MC's Investor Day in October 2021, the Company announced its refreshed growth strategy which was adapted to the rapidly changing IMF market dynamics in China. At the same time, the Company also outlined its medium-term indicative sales and EBITDA margin ambition. In 2H22 the Company focused on implementing its strategic priorities and related initiatives, including a material increase in brand investment. Significant early progress has been made against the Company's five strategic initiatives.

### 1. Invest in people and planet leadership

The Company refreshed its purpose "We pioneer the future of Dairy for good" and vision "An A1-free world where Dairy nourishes all people and our planet" which highlights the positive impact the Company wants to have on the world, inspiring its team and partners. New leadership and culture development programmes were launched, and team engagement, net promoter and diversity and inclusion surveys were completed to benchmark progress. Investment was made in organisational capability expansion, particularly in China with a focus on digital marketing and e-commerce targeting DOL, CBEC and O2O growth opportunities. More ambitious sustainability targets were set, and related initiatives launched, including commitments in GHG emissions reduction, farm environmental plans and animal welfare, and for the transition to more sustainable packaging. Importantly, a2MC announced a significant investment to reduce GHG emissions through the MVM boiler electrification, sourced from 100% renewable power, and to support Synlait's biomass boiler conversion.

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[24] SPINS retail sales data as of 30 June 2022 and internal counts
[25] SPINS data for the Grocery channel only for the 52 weeks ending 30 June 2022 and 30 June 2021.
[26] Revenue excluding intercompany sales.

**2. Capture full potential in China IMF**

The Company's most critical business development focus is to ensure it delivers its full potential in China IMF. The Company completed its brand positioning review, significantly increased China marketing investment, invested in digital content generation and executed integrated marketing campaigns with a more targeted mix to increase impact. In terms of offline sales, the Company commenced China label in-market growth pilots with a mix of above-the-line and below-the-line brand and sales activation initiatives, increased MBS distribution (particularly in lower tier cities) and increased same store sales. Investment was also made in growing DOL and CBEC sales and developing the O2O model in key accounts. The English label route-to-market review was completed and actioned, as well as investing in Daigou marketing support and engagement.

**3. Ramp-up product innovation**

Liquid milk and other nutritional products grew significantly in China & Other Asia demonstrating progress in executing against adjacent growth opportunities outside of IMF. The Company supported Synlait to complete and submit a2MC's China label IMF new GB registration dossiers for an upgraded formulation. The Company launched *UHT*, *Cream on Top*, *Lactose free*, *Half & Half* and *HERSHEY'S a2 Milk®* products in liquid milk during the year and refreshed English label IMF product post year-end.

**4. Transform the supply chain**

Following completion of the MVM acquisition, the Company commenced planning for laboratory and blending and canning capability at MVM with third-party support and accelerated efforts to explore additional opportunities relating to China label market access in New Zealand and China. The Company progressed capacity expansion initiatives at its Smeaton Grange and Kyabram manufacturing facilities.

**5. Accelerate path to profitability for USA and MVM**

USA top-line growth was accelerated through new product launches, reduced trade spend and price increases, which also improved gross margins. The Company accelerated plans to insource *a2 Milk®* branded product manufacturing from Synlait and develop third-party business at MVM to improve capacity utilisation.

## China label new GB registration update

a2MC and Synlait are working closely together in relation to the new GB registration process by China's State Administration for Market Regulation (SAMR) for a2MC's China label IMF product, *a2 至初®*. China label product manufactured after 21 February 2023 needs to comply with the new GB standard.

While the Company's new GB registration process is progressing, timing is uncertain and subject to SAMR approval. However, it is noted that the Ministry for Primary Industries (MPI) has co-operation arrangements in place with SAMR which, amongst other things, positions New Zealand well in relation to China registration processes.

a2MC's current China label IMF product registration expires in late September 2022. a2MC and Synlait have applied for the renewal of this existing registration which the Company anticipates receiving in September consistent with SAMR's practice with other brands in similar situations. Such renewal would in effect allow Synlait to manufacture a2MC's current registered product up until the end of the grace period on 21 February 2023 when transition to the new GB standard is required. The current registered product manufactured up until this date is allowed to be sold in market after that date. This period through to 21 February 2023 is sometimes referred to as an "extension" of the existing registration.

In all circumstances, a2MC fully respects SAMR's governance and timing of this important registration process.

## On-market share buyback

The Company announces that it intends to undertake a capital return of up to $150 million through an on-market share buyback. The buyback is expected to commence towards the end of September and could run for up to 12 months.

a2MC regularly assesses its balance sheet position in order to deliver the optimum structure to enhance shareholder value in line with the Company's strategy and capital allocation framework. This framework prioritises investment in growth initiatives and maintaining balance sheet flexibility ahead of capital returns to shareholders. Where there is capital which is surplus to achieving these priorities a2MC makes a disciplined assessment of the potential to return funds to shareholders.

The Company's balance sheet is in a strong position that provides the capacity to distribute up to $150 million to shareholders, with the most appropriate method being an on-market share buyback. With a closing net cash balance[27] in FY22 of $816.5 million, there is sufficient capital reserve to fund investment opportunities, maintain an appropriate cash buffer as well as return surplus capital to shareholders.

The buyback is subject to market conditions, a2MC's prevailing share price and all other relevant considerations. a2MC reserves the right to vary, suspend without notice, or terminate the on-market buyback at any time.

Further details in relation to the share buyback are provided in the separate Company announcement also released to the market on 29 August 2022.

[27] Including term deposits and borrowings, excluding subordinated non-current shareholder loans.

## Board and Management renewal

The Board is continuing its programme of renewal and is focused on increasing its levels of China market, IMF category and manufacturing experience. In March 2022, Sandra Yu was appointed to the Board. Sandra is a highly regarded company director and has extensive experience in the IMF market in China as a former head of Mead Johnson Nutrition's Greater China business. The Company also announced today the appointment of David Wang to the Board as a non-executive director. David's appointment adds further China market and manufacturing expertise which will be an invaluable asset with the recent acquisition of MVM and the Company's strategy to develop its supply chain capability in New Zealand and China.

Consistent with corporate governance best practice, the Company's Deputy Chair, Julia Hoare, who joined the Board in November 2013, has advised of her intention to step down as a Director after the Company has delivered its FY23 interim results in February 2023. A process will shortly commence to identify a suitable replacement director that ensures the Board maintains an appropriate balance of skills, knowledge and experience.

During the year, the Company announced a number of changes to its Executive Leadership Team. Yohan Senaratne was appointed as Executive General Manager – International, Kevin Bush was appointed as Executive General Manager – ANZ, Bernard May joined as Chief Executive – MVM, Amanda Hart was appointed as Chief People & Culture Officer, and Edith Bailey was appointed as Chief Marketing Officer. Lastly, the Company announced the resignation of its Chief Financial Officer, Race Strauss, and the appointment of David Muscat who will join the Company as its Chief Financial Officer in October 2022. Prior to David joining a2MC, Mark Sherwin has assumed the position of Interim Chief Financial Officer.

## Outlook

***Business and category***

China label IMF sales are expected to be up in FY23 with significant growth in sales in 1H23 versus 1H22. At this stage, 2H23 sales growth is expected to be impacted by transition to the Company's pending new GB registration. English label IMF sales are expected to be up in FY23 with 1H23 sales expected to be broadly in line with 2H22 due to the impact of managing transition to the refreshed *a2 Platinum®* range.

Australian liquid milk sales are expected to remain broadly in line with FY22, with reduced in-home consumption following the easing of COVID-19 related lockdowns offset by growth through innovation. USA liquid milk sales are expected to be up in FY23 driven by continued growth in core liquid milk and innovation, and a significant improvement in EBITDA losses is expected.

MVM will be included in the Company's result for 12 months compared with 11 months in FY22. MVM FY22 revenue (excluding intercompany revenue) and EBITDA losses for the 12 months were $116.2 million and a loss of $23.2 million respectively (unaudited). Revenue is expected to be down in FY23 compared to FY22 (12 months) due to increasing levels of insourcing and lower GDT pricing, and EBITDA is expected to be broadly in line with FY22 (12 months).

***Key financials***

The Company is expecting high single digit revenue growth in FY23. 1H23 growth (on 1H22) is expected to be significantly higher than 2H23 growth (on 2H22).

FY23 gross margin percentage is expected to be broadly in line with FY22, with cost of goods sold headwinds related to increasing milk, ingredient and packaging costs offset by price increases, mix benefits and cost mitigation initiatives.

The Company will continue to increase its brand investment in FY23. Marketing spend will be skewed marginally towards 1H23 with a significant uplift versus 1H22 due to campaign timing.

A further uplift in Administration & Other expenses is expected, reflecting additional capability build, upweighted investment in science, innovation and sustainability, and inflation impacts.

Overall, the Company is expecting EBITDA growth in FY23 and a modest improvement in EBITDA margin (% of sales). With the marketing plan weighted to 1H23, the Company expects a slightly higher EBITDA margin in 2H23 versus 1H23.

Operational cash conversion is likely to be significantly lower in FY23 than FY22 mainly due to the reversal of working capital timing benefits in FY22 and an increase in inventory levels.

The Company expects that capital expenditure will be approximately $25 million during FY23 mainly due to enhancements in existing supply chain capacity and capability. This amount excludes any more substantive investment to develop the Company's New Zealand and China supply chain capability.

***Industry and business risks***

In addition to trading upside and downside, other risks include, but are not limited to, COVID-19 impacts on supply chain, SAMR registration process timing, volume impact of price increases, foreign exchange movements, cross border trade, changes in the regulatory environment, and commodity prices. These risks could materially impact expected revenue and earnings outcomes.

**Authorised for release by the Board of Directors**

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