



# Market Announcement

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7 December 2023

## **Fonterra lifts forecast FY24 earnings and Farmgate Milk Price after strong Q1**

Fonterra Co-operative Group Ltd today increased its forecast Farmgate Milk Price and earnings guidance for FY24 following a strong start to the year.

The forecast Farmgate Milk Price midpoint for the 2023/24 season is up 25 cents to \$7.50 per kgMS, with the forecast range moving from \$6.50-\$8.00 per kgMS to \$7.00-\$8.00 per kgMS.

Fonterra CEO Miles Hurrell says the revised forecast reflects recent strengthening in demand for reference commodity products from key importing regions, including improvement in demand from China during the first quarter.

“Global Dairy Trade prices have lifted, and our sales book is also well contracted for this time of year, giving us confidence to increase our forecast Farmgate Milk Price.

“It’s still early in the year, with potential for further volatility in commodity prices, so we will continue to watch market dynamics closely and provide updates as needed,” says Mr Hurrell.

The Co-op also reported strong earnings for the first quarter due to improved performance in all three of its sales channels.

“As a result, we have lifted the midpoint of our forecast earnings for the year up 5 cents per share, with the range moving from 45-60 cents per share to 50-65 cents per share,” says Mr Hurrell.

### **Business performance**

Fonterra's profit after tax is up 85% on this time last year to \$392 million, equivalent to 24 cents per share. EBIT is up 63% to \$575 million.

These earnings are from continuing operations and exclude the performance and impact of selling DPA Brazil<sup>1</sup>.

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Mr Hurrell says higher margins across the Co-op's Ingredients, Foodservice and Consumer channels have driven the lift in earnings, with gross margin up from 15.5% this time last year to 21.4%.

“Our Foodservice and Consumer channel performance is due to improved margins as well as the Co-op allocating more milk to these higher returning channels.

“We've also seen continued strong performance in New Zealand Ingredients, but lower margins in Australia Ingredients.

“Looking ahead, we expect these higher margins to continue throughout the first half of the year, before tightening across all three sales channels in the second half of the year, due to higher input costs and the gap between reference and non-reference product prices narrowing.

“Our increased forecast earnings guidance of 50-65 cents per share reflects this and we are on track for a strong interim dividend,” says Mr Hurrell.

During the first quarter of FY24, the Co-op also continued to make progress against its strategy.

“In August, we returned 50 cents per share and unit following the completion of the sale of Soprole. We also recently completed the divestment of DPA Brazil, as part of our plan to focus on our New Zealand farmers' milk.

“Our in-market teams are continuously working on new ways to commercialise our innovation expertise.

“This includes partnering with a customer in Japan to launch an adult milk powder containing our protein and designed to target muscle loss, and partnering with a customer in Greater China to develop a cake containing our probiotics in response to rising consumer interest in the health benefits of probiotics.

“As part of our plan to be a leader in sustainability, we introduced a target of a 30% reduction in on-farm emissions intensity by 2030 (from a 2018 baseline) and have since been meeting with farmers to discuss how the Co-op can collectively achieve it.

“We are pleased with the results for the first quarter of FY24 and see positive momentum across our business as we work towards our 2030 goals,” says Mr Hurrell.

<sup>1</sup> Including discontinued operations, FY24 Q1 Total Group profit after tax was \$346 million.

ENDS

#### **Non-GAAP financial information**

*Fonterra uses several non-GAAP measures when discussing financial performance. Non-GAAP measures are not defined or specified by NZ IFRS.*

*Management believes that these measures provide useful information as they provide valuable insight on the underlying performance of the business. They may be used internally to evaluate the underlying performance of business units and to analyse trends. These measures are not uniformly defined or utilised by all companies. Accordingly, these measures may not be comparable with similarly titled measures used by other companies. Non-GAAP financial measures should not be viewed in isolation nor considered as a substitute for measures reported in accordance with NZ IFRS.*

*Non-GAAP measures are not subject to audit unless they are included in Fonterra's audited annual financial statements.*

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# Fonterra FY24 Quarter One Business Update

7 December 2023



# Improved margins delivered higher earnings

Profit after tax<sup>1</sup>

**\$346** million

↑ from \$214m

Total Group  
earnings per share<sup>2</sup>

**20** cents

↑ from 13c

Continuing operations  
earnings per share<sup>2</sup>

**24** cents

↑ from 13c

2023/24 forecast Farmgate Milk Price

**\$7.00 – \$8.00** per kgMS

↑ midpoint up 25 cents

Full year FY24 forecast Continuing operations

**50 – 65** cents per share

↑ midpoint up 5 cents



# FY24 Quarter One business update

- Upgraded FY24 farmgate milk price and full year earnings forecasts
  - Farmgate Milk Price: demand improving from key importing regions and well contracted sales book
  - Earnings range: reflects continued improved performance of Foodservice and Consumer margins during first half, with tighter margins in all three channels in the second half
- Foodservice and Consumer channel earnings up, reflecting improved margins and higher volumes
- Continued strong performance in New Zealand Ingredients but lower margins in Australia Ingredients
- Our in-market teams continue to commercialise our innovative expertise by partnering with customers to launch new products
- Introduced a target of 30% reduction in on-farm emissions intensity by 2030
- Completed the sale of DPA Brazil

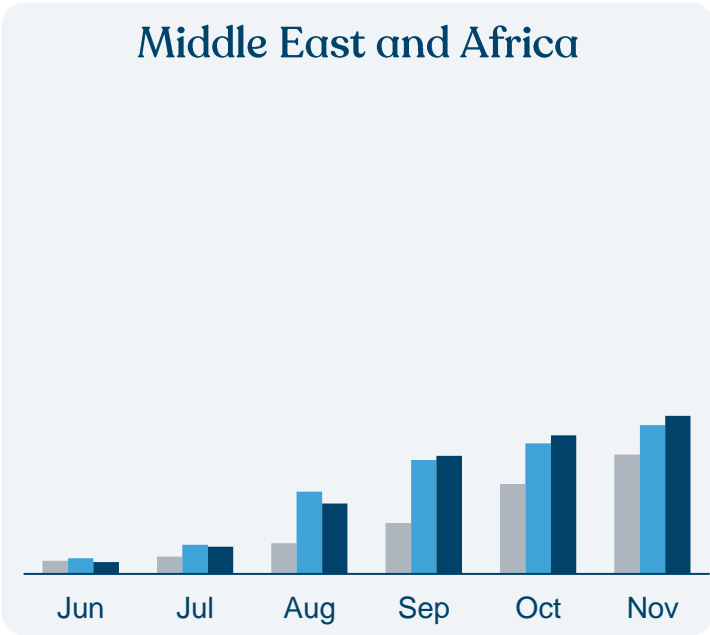
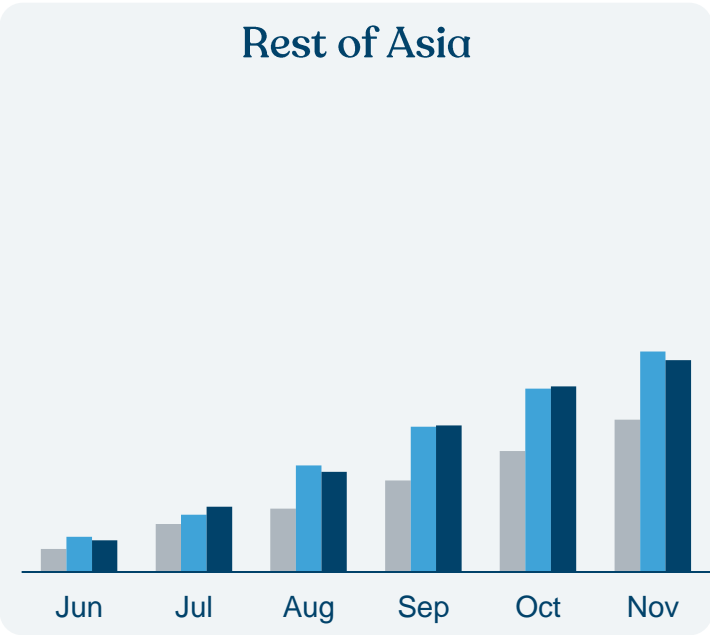
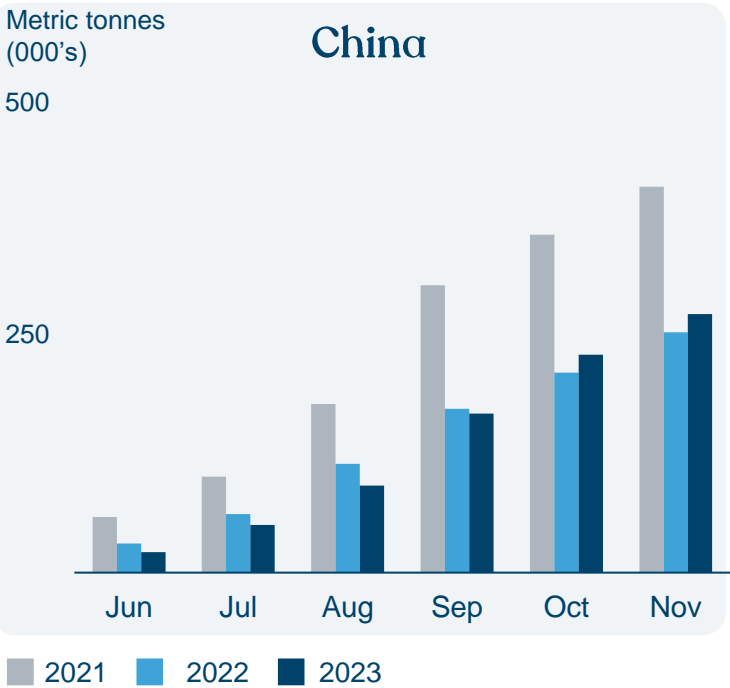




# Improved demand from China later in Q1

Demand from China for product that informs the Farmgate Milk Price (Reference Products) has improved towards the end of Q1, from what was a slower start through June – August

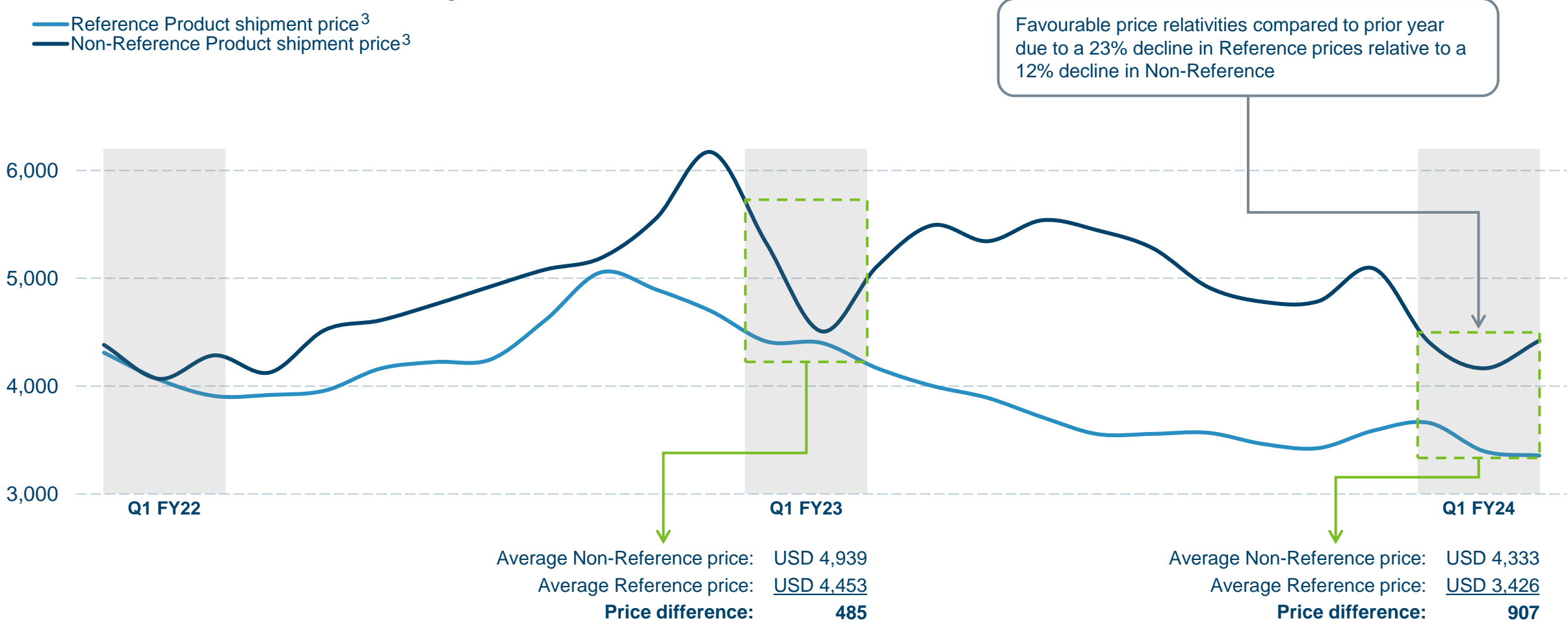
Cumulative Reference Product purchased by key importing regions  
Cumulative contracted volume





# Price relativities favourable compared to prior year

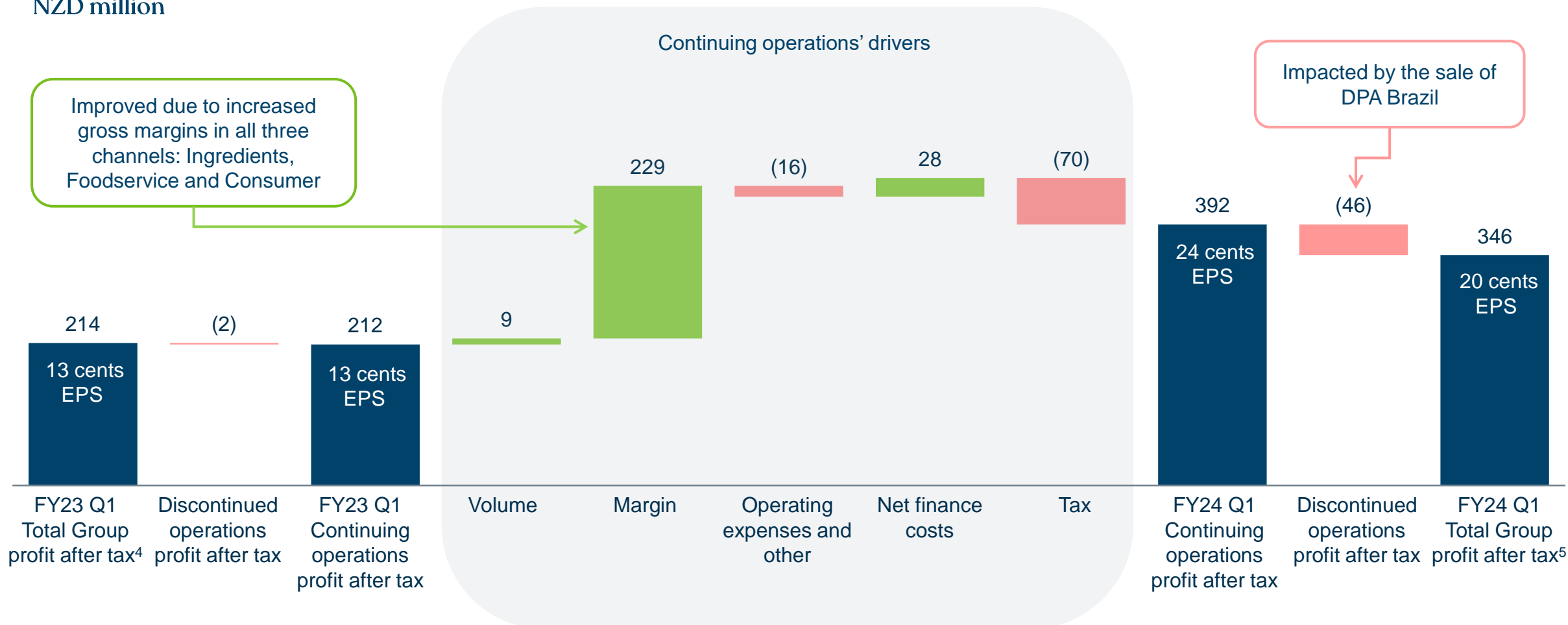
Fonterra Reference and Non-Reference price relativities





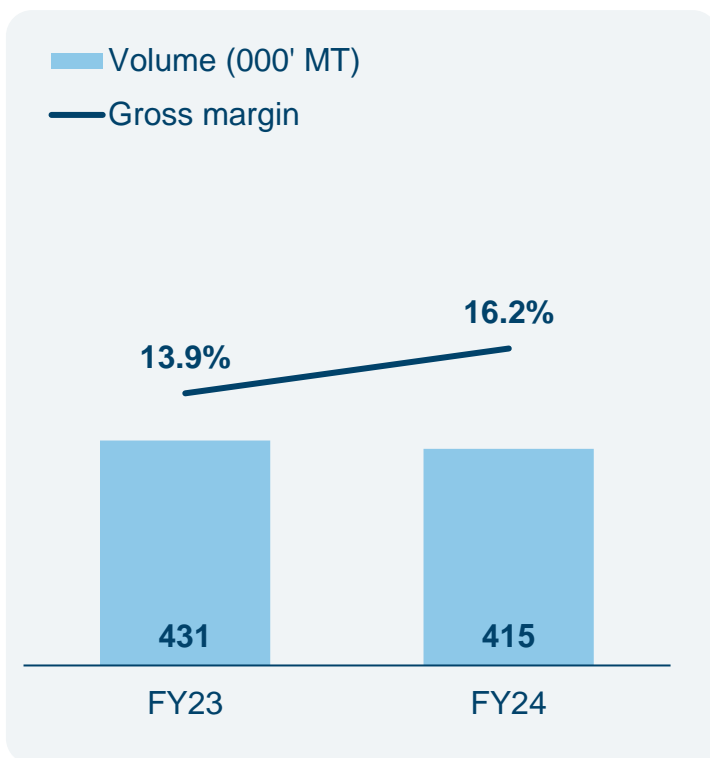
# Key performance drivers

NZD million

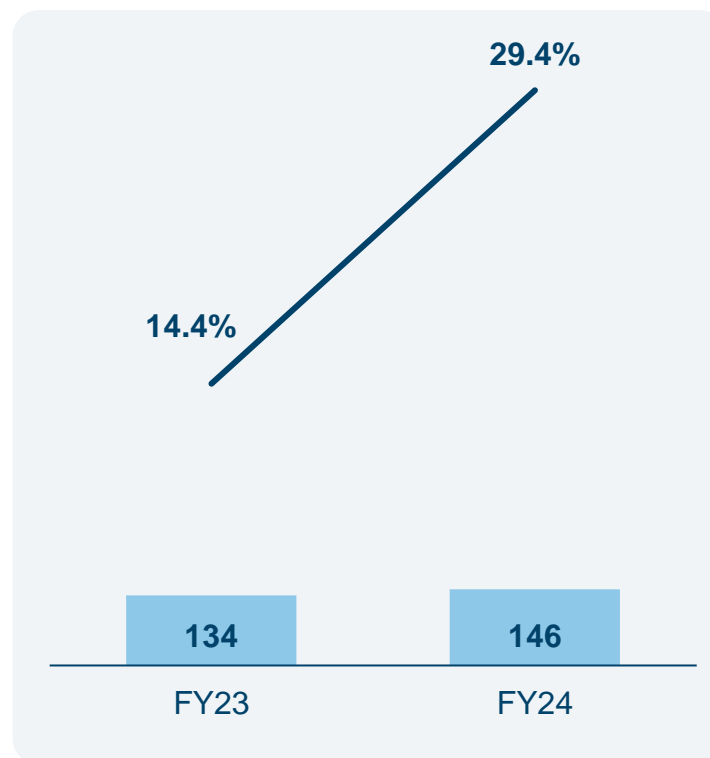


# Higher margins across all channels

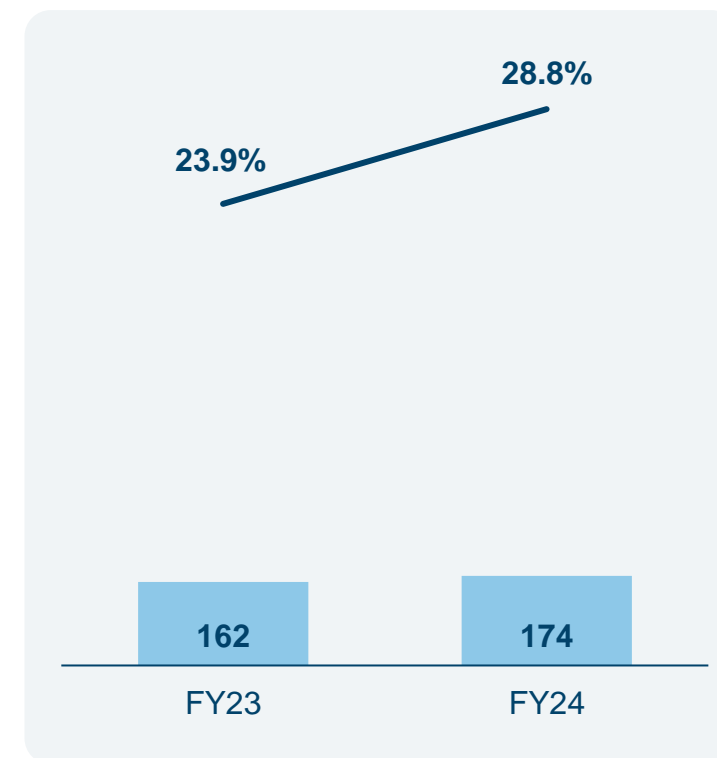
## Ingredients



## Foodservice



## Consumer



# Forecast 2023/24 season Farmgate Milk Price

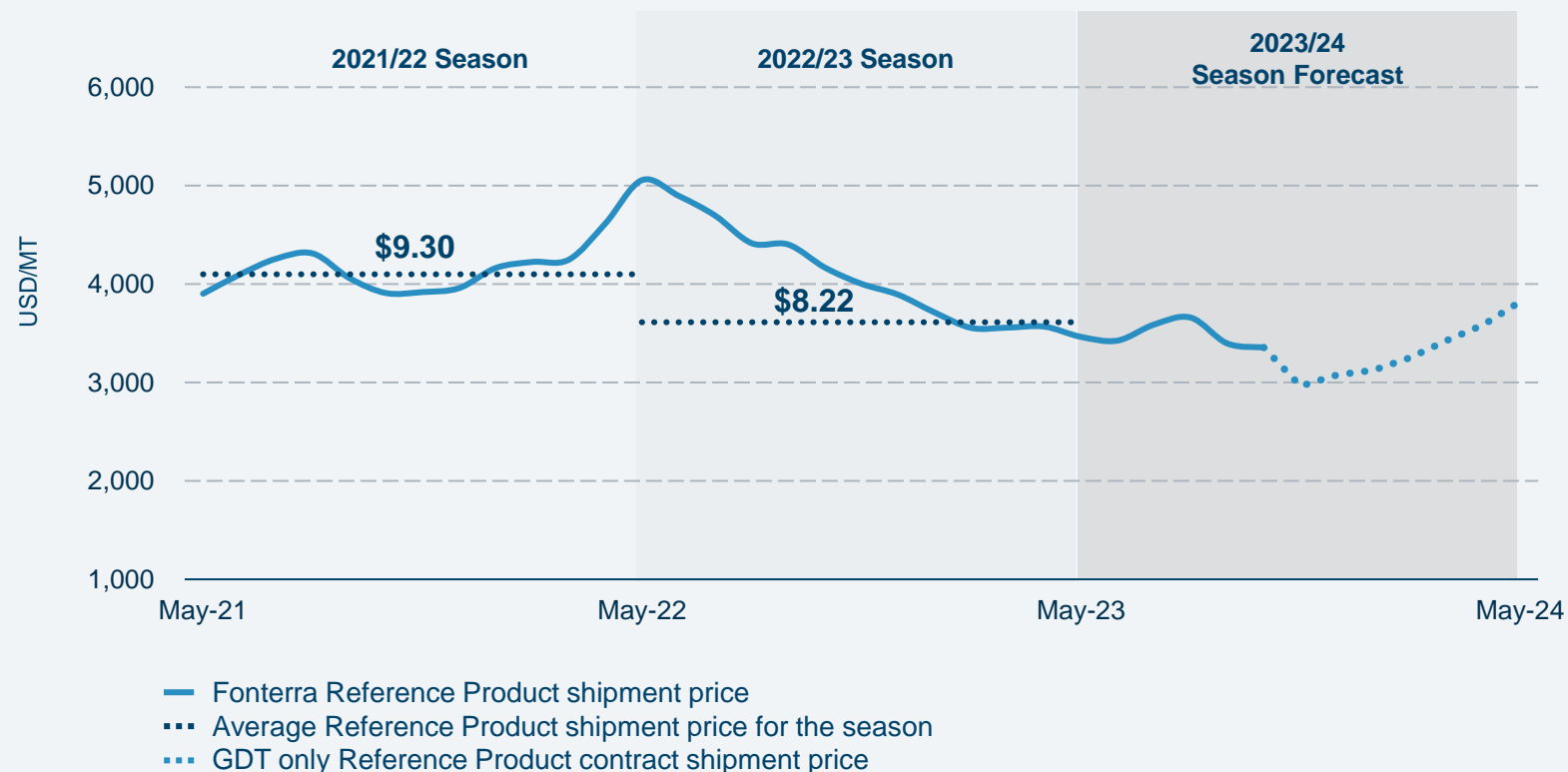
## Forecast Farmgate Milk Price

**\$7.00–\$8.00**  
per kgMS

Lifted and narrowed range reflects:

- strengthening demand from key importing regions for Reference Commodity Products
- well contracted sales book

## Reference Product Prices



# FY24 earnings outlook

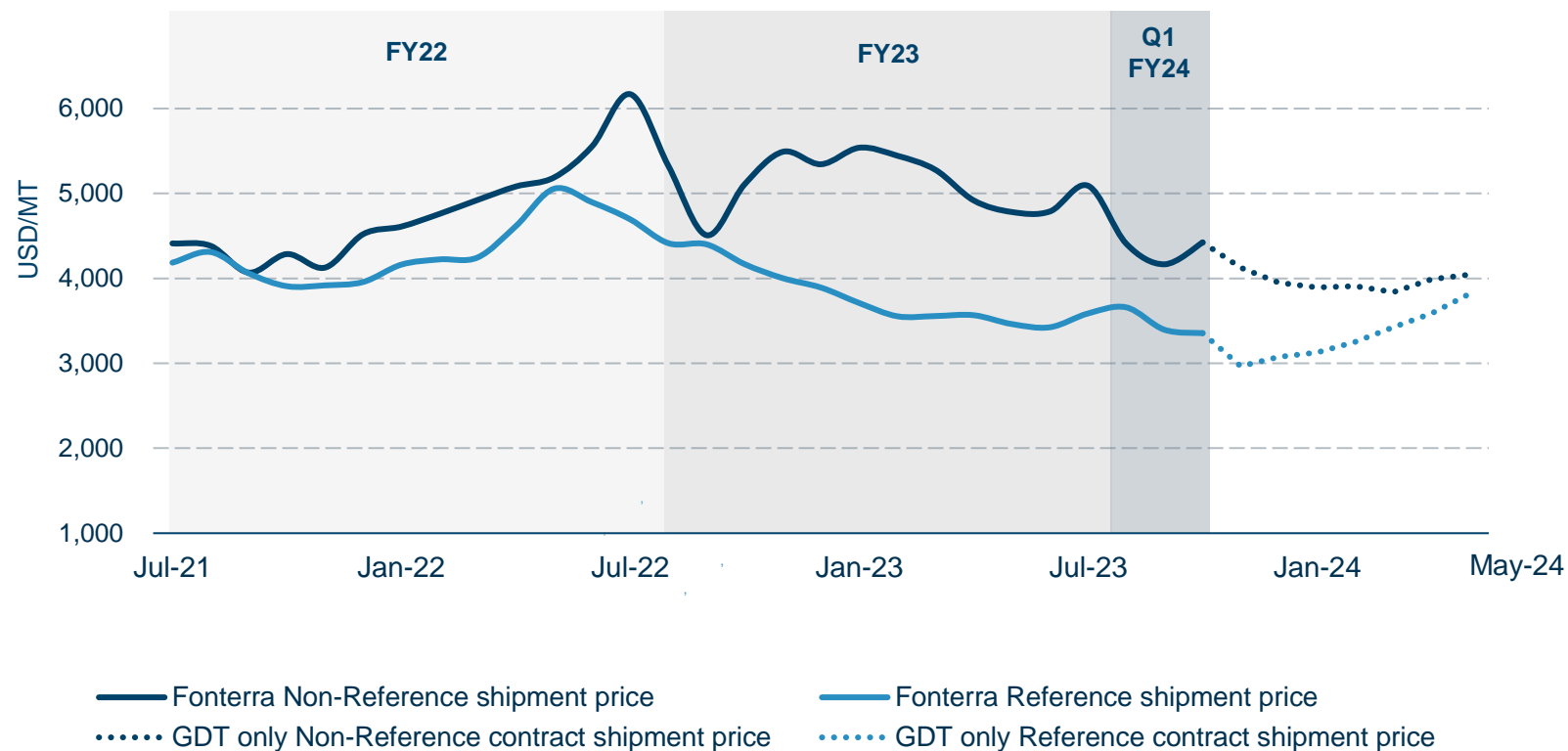
FY24 forecast earnings<sup>6</sup>

**50 – 65c**  
per share

Increased earnings range reflects:

- well contracted sales book, locking in higher margins for the first half of the year
- improved Foodservice and Consumer margins during first half, but tightening in second half
- the impact of narrowing price relativities on Ingredients' margins in the second half

## Reference and Non-Reference Product Prices







# Footnotes

1. FY24 Q1 includes \$23 million attributable to non-controlling interests. Prior year comparative was \$5 million
2. Excludes amounts attributable to non-controlling interests
3. Source: Fonterra Free Alongside Ship (FAS) prices of the New Zealand Ingredients Portfolio
4. Total Group profit after tax includes \$5 million attributable to non-controlling interests
5. Total Group profit after tax includes \$23 million attributable to non-controlling interests
6. Full year FY24 forecast earnings per share range is based on Continuing operations



**Appendix**



# Continuing and discontinued operations

NZD Million	2023	2024	%Δ <sup>1</sup>
Sales volume ('000 MT)	727	735	1%
Revenue	5,325	4,972	(7)%
Cost of goods sold	(4,499)	(3,908)	13%
Gross profit	826	1,064	29%
Gross margin (%)	15.5%	21.4%	
Operating expenses	(492)	(525)	(7)%
Other <sup>2</sup>	19	36	90%
EBIT	353	575	63%
Net finance costs	(64)	(36)	44%
Tax expense	(77)	(147)	(91)%
<b>Profit after tax from continuing operations</b>	<b>212</b>	<b>392</b>	<b>85%</b>
Profit after tax from discontinued operations	2	(46)	
<b>Total Group profit after tax<sup>3</sup></b>	<b>214</b>	<b>346</b>	<b>62%</b>
<b>Earnings per share (cents)</b>	<b>13</b>	<b>20</b>	<b>54%</b>

- Gross margin up across all three channels
  - Foodservice and Consumer channels achieved higher sales prices. Foodservice also benefitted from lower input costs
  - Ingredients – New Zealand Ingredients benefitting from more favourable price relativities, partially offset by tighter margins in Australia Ingredients reflecting higher milk prices
- Operating expenses up, reflecting increased storage and distribution costs to facilitate the higher sales volumes in Foodservice and Consumer; and upfront costs of driving efficiency initiatives
- Other up \$17 million due to favourable net foreign exchange movements
- EBIT up 63% driven by improved gross margins and higher sales volumes in Foodservice and Consumer
- Net finance costs decreased 44% due to reduced average borrowings
- Discontinued operations has decreased due to the loss on sale of DPA Brazil (\$72 million) which includes a loss of \$68 million released from the Foreign Currency Translation Reserve, offset by the FY23 divestments of Soprole and the Hangu China Farm

Note: Total Group figures are for the three months ended 31 October

1. Percentages as shown in table may not align to the calculation of percentages based on numbers in the table due to rounding of figures

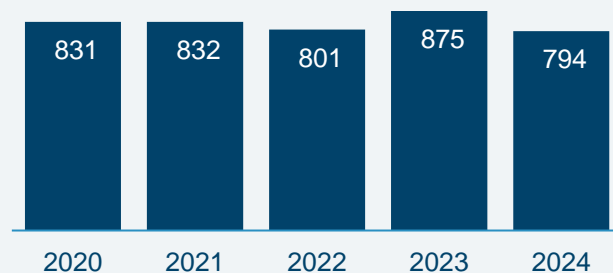
2. Consists of other operating income, net foreign exchange gains/(losses) and share of equity accounted investees

3. Includes amounts attributable to non-controlling interests

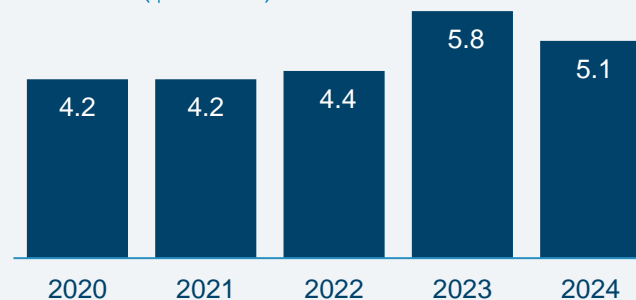


# Key financial metrics for Total Group Q1

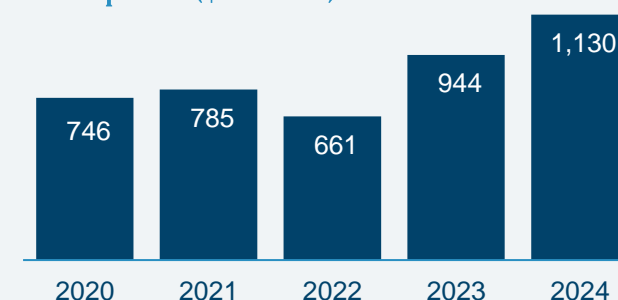
Sales volume (000' MT)



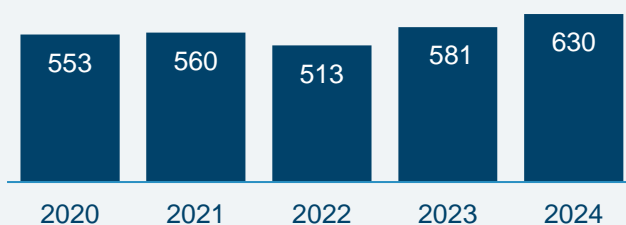
Revenue (\$ billion)



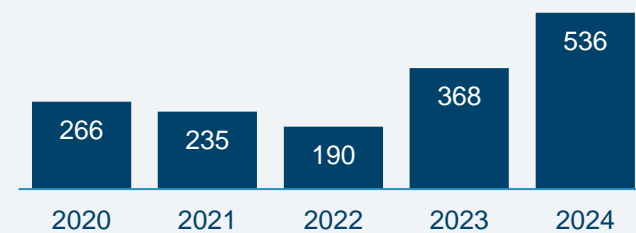
Gross profit (\$ million)



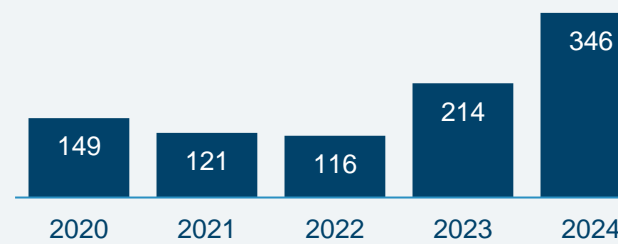
Operating expenses (\$ million)



EBIT (\$ million)



Profit after tax (\$ million)



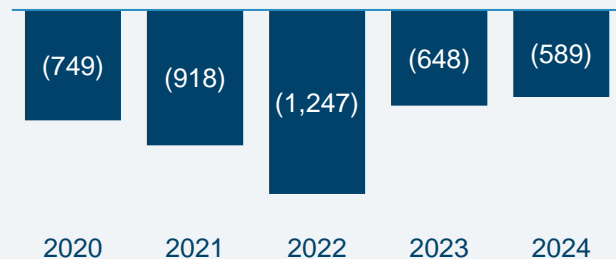
Note: Total Group figures are for the three months ended 31 October. This includes continuing and discontinued operations



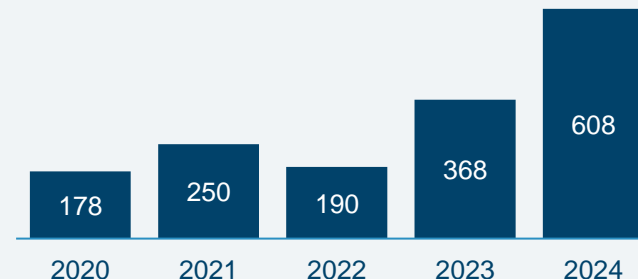


# Key financial metrics for Total Group Q1

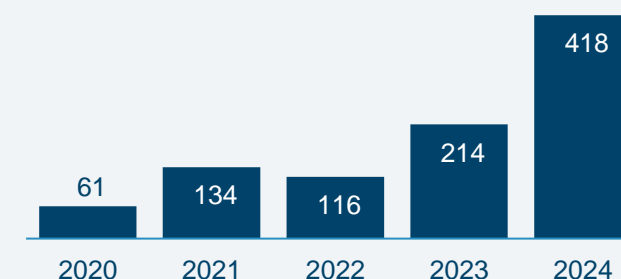
Free cash flow<sup>1</sup> (\$ million)



Normalised EBIT (\$ million)



Normalised profit after tax (\$ million)

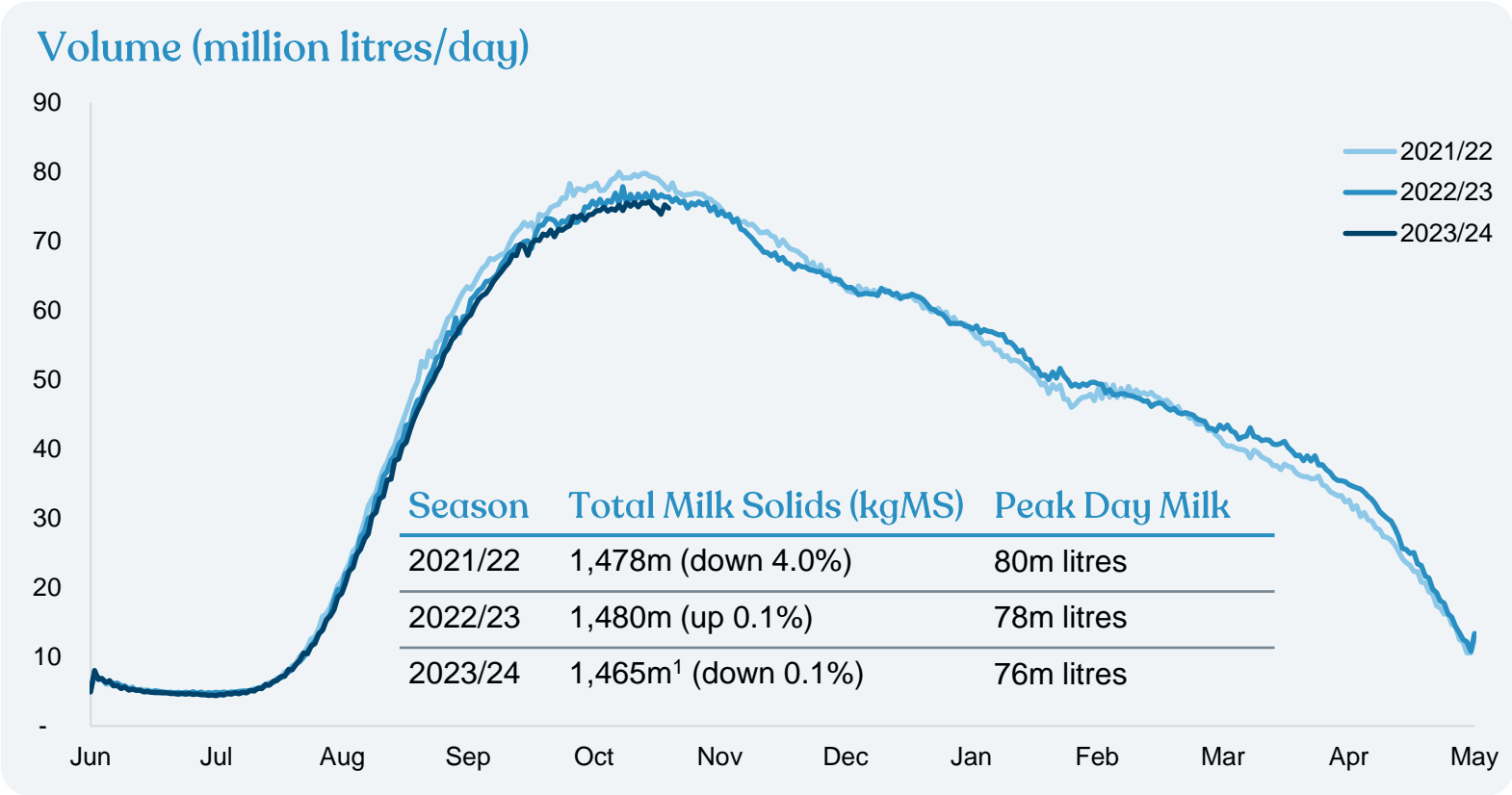


Note: Total Group figures are for the three months ended 31 October. This includes continuing and discontinued operations

1. Refer to glossary for definition



# Fonterra’s New Zealand milk collections



- Season to date collections June – October were 489.4 million kgMS, 0.7% behind last season
- The decrease in collections is due to lower collections in the North Island partially offset by improved collections in the South Island
  - Unfavourable weather conditions in the North Island have impacted pasture quality and growth
  - Favourable weather conditions in the South Island have resulted in strong milk flows in the central south
- On-farm costs remain elevated, putting pressure on margins for some farmers and influencing spending decisions

1. Current full season forecast



# Glossary

## Consumer

Represents the channel of branded consumer products, such as powders, yoghurts, milk, butter, and cheese.

## Continuing operations

means operations of the Group that are not discontinued operations.

## Core Operations

represents core operating functions including New Zealand milk collection and processing operations and assets, supply chain, Group IT and Sustainability; Fonterra Farm Source™ retail stores; and the Strategy and Optimisation function.

## Earnings per share (EPS)

Is calculated as profit after tax attributed to equity holders of the Co-operative divided by the weighted average number of shares on issue for the period.

## Discontinued operations

means a component of the Group that is classified as held for sale (or has been sold) and represents, or is part of a single co-ordinated plan to dispose of, a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

## Earnings before interest and tax (EBIT)

Is profit before net finance costs and tax

## Farmgate Milk Price

Means the average price paid by Fonterra for each kilogram of milk solids (kgMS) supplied by Fonterra's farmer shareholders under Fonterra's standard terms of supply. The season refers to the 12-month milk season of 1 June to 31 May. The Farmgate Milk Price is set by the Board, based on the recommendation of the Milk Price Panel. In making that recommendation, the Panel provides assurance to the Board that the Farmgate Milk Price has been calculated in accordance with the Farmgate Milk Price Manual.

## Foodservice

Represents the channel selling to businesses that cater for out-of-home consumption; restaurants, hotels, cafés, airports, catering companies etc. The focus is on customers such as; bakeries, cafés, Italian restaurants, and global quick-service restaurant chains. High performance dairy ingredients including whipping creams, mozzarella, cream cheese and butter sheets, are sold alongside our business solutions under the Anchor Food Professionals brand.

## Free cash flow

Is the total of net cash flows from operating activities and net cash flows from investing activities.



# Glossary

## Ingredients

Represents the channel comprising bulk and specialty dairy products such as milk powders, dairy fats, cheese and proteins manufactured in New Zealand, Australia, Europe and Latin America, or sourced through our global network, and sold to food producers and distributors.

## kgMS

Means kilograms of milk solids, the measure of the amount of fat and protein in the milk supplied to Fonterra.

## Non-Reference Products

means all NZ milk solids processed by Core Operations, except for Reference Commodity Products.

## Normalisation adjustments

means adjustments made for certain transactions that meet the requirements of the Group's Normalisation Policy. These transactions are typically unusual in size and nature. Normalisation adjustments are made to assist users in forming a view of the underlying performance of the business. Normalised is used to indicate that a measure or sub-total has been adjusted for the impacts of normalisation adjustments. E.g. 'Normalised EBIT'.

## Price relativities

refers to the difference in the weighted average price (in USD) between the Co-op's Reference Product portfolio and Non-reference Product portfolio. The difference between these two weighted average prices is a key driver of the Co-op's gross margin.

## Product channel

Fonterra has three product channels, Ingredients, Foodservice and Consumer.

## Reference Commodity Products (or Reference products)

is commodity specifications of the five Reference Commodity Products (RCPs) which are Whole Milk Powder (WMP) and Skim Milk Powder (SMP), and their by-products Butter, Anhydrous Milk Fat (AMF) and Buttermilk Powder (BMP). These commodity groups are included in the calculation of the Farmgate Milk Price.

## Season

New Zealand: A period of 12 months from 1 June to 31 May  
Australia: A period of 12 months from 1 July to 30 June.

## Total Group

Is used to indicate that a measure or sub-total comprises continuing, discontinued operations and non-controlling interests. E.g. 'Total Group EBIT'.





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Please refer to the Glossary for definitions of non-GAAP measures referred to by Fonterra.