



17 February 2016

NZX/ASX Market Release

Outstanding growth in infant formula drives record results for The a2 Milk Company Full year forecast revised upward

Overview - financial results for the 6 months ended 31 December 2015 (NZ\$m)

- Total revenue of \$139.1 million, an increase of 86% over the prior corresponding period (pcp)
- Substantial growth in sales of a2 Platinum® infant formula across Australia and New Zealand (ANZ) and China with total revenue of \$73.9 million, up 340% on pcp. This compares with previously advised sales for the four months to 31 October 2015 of \$38.0 million
- Net profit after tax of \$10.1 million, compared to \$0.1 million in pcp
- Group operating EBITDA¹ of \$18.7 million, representing a 472%² increase on pcp. This result includes expensing establishment costs in the USA and UK markets of \$8.1 million, record operating performance in ANZ and significant growth in China
- Increased fresh milk performance in Australia with sales up 5% in AUD over the pcp
- Accordingly, the full year forecast has been revised upward with Group revenue in the range of \$335 million to \$350 million and Group operating EBITDA forecast to be in the range of \$45 million to \$49 million

The a2 Milk Company (“a2MC” or the “Company”) has delivered an outstanding result for the first half of the financial year to 31 December 2015, notwithstanding higher investment in our growth markets of \$8.1 million. The ANZ business continues to outperform with substantial growth in revenue and operating earnings as a consequence of exceptional growth in a2 Platinum® infant formula. The China and Other Asia business also recorded significant growth in revenue from infant formula and for the first time returned positive operating earnings. Growth initiatives in the USA focused on establishing broad distribution of a2 Milk™ in the state of California and in the UK our fresh milk business showed improvement following its repositioning into the specialty milk segment.

Managing Director Geoffrey Babidge says, “The Company’s strategic agenda has been focused on growing and broadening the ANZ milk business and developing growth opportunities in select international markets. Following a period of development, a2 Platinum® infant formula has become a significant contributor to growth and earnings in ANZ and China, which we see continuing. In addition, we see positive prospects for growth of a2 Milk™ whole milk powder, which was first launched late last financial year. We are pleased with the growing level of distribution for a2 Milk™ in the state of California and the repositioning of our brand in the UK during the period.”

¹ Earnings before interest, tax, depreciation and amortisation (EBITDA) is a non GAAP measure. However, the Company believes that it provides investors with a comprehensive understanding of the underlying performance of the business. A reconciliation of EBITDA to net profit after tax is shown at the end of this document

² Before non-recurring items in 1H15 of \$0.8 million relating to ASX listing costs



The first half FY16 result included:

- EBITDA before inter-company charges³ for the ANZ operations of \$34.5 million, an increase of 146% on the pcp
- EBITDA before inter-company charges for China and other Asia totalling \$1.2 million
- EBITDA before inter-company charges for UK and USA totalling (\$8.1) million
- Corporate and other costs before inter-company charges of \$8.9 million
- Group income tax charge of \$7.4 million⁴
- Basic earnings per share (EPS) of 1.52c; and diluted EPS of 1.50c

The increase in corporate and other costs in the half is primarily a result of higher employee share scheme expenses, increased research and development costs associated with a higher level of activity and legal expenses.

Cash on hand at half year end was \$36.4 million, reflecting positive cash inflows from equity raising activities, partially offset by an investment in working capital to fund the significant growth in infant formula. We are forecasting a significantly improved operating cash flow for the second half.

The Company undertook an equity raising in October comprising a placement to institutional investors and shareholders to raise NZ\$40 million and a Share Purchase Plan to raise a further NZ\$3 million, both of which were substantially oversubscribed. This raising was undertaken primarily to fund the increase in working capital associated with the significant growth in infant formula sales and to maintain the conservative approach to managing the Company's capital position.

The decision to gain admission to the Official List of the Australian Securities Exchange (ASX) in March 2015 has achieved the key objective of broadening investor participation alongside the existing NZX Main Board listing. As at 10 February 2016, the number of Australian investors has increased to over 22,000, representing ~64% of shares on issue.

Appointment of director

The Board of a2MC is pleased to advise the appointment of Mr Peter Hinton as a non-executive Director of the Company with effect 16 February 2016. Mr Hinton is a partner at law firm Simpson Grierson in New Zealand and is a highly regarded commercial lawyer with substantial experience in this market and international markets. Mr Hinton has provided legal advice to the Company over many years and this background together with his very strong commercial skills is highly relevant and complementary to the make-up of the Board. This is particularly so given the increasing complexity of the business and the breadth of activities in international markets. The Board has determined that Mr Hinton is an independent director.

The Board will continue its process of renewal with the appointment of an additional director with appropriate international skills and experience planned for some time during the calendar year.

³ Inter-company charges include licence fees payable to the Parent, and marketing and herd testing costs payable by the Parent

⁴ The high income tax charge represents non-deductible expenses largely related to the Company's employee share scheme and international losses not fully tax effected



Strategic Agenda Update

The Company continues to execute on its strategy of growing the ANZ and China businesses and developing growth opportunities in the UK and USA markets.

Infant formula has emerged as a significant contributor to growth and earnings for the Group as a whole. The Company has also identified a significant growth opportunity in a2 Milk™ branded milk powder which was launched in limited release from June 2015. For the first half period to 31 December 2015, revenue from infant formula in ANZ and China grew to NZ\$73.9 million, representing an increase of 340% on the pcp and accounted for 53% of total Group turnover. The majority of sales occurred within the Australian grocery and pharmacy channels. In addition, direct sales into China increased significantly with strong growth in the cross border e-commerce channels and mother & baby retail stores (MBS).

Our infant formula business in both ANZ and China is being well supported by our manufacturing partner in New Zealand, Synlait Milk Limited. We experienced stock shortages, in particular during the first four months of the half. However we have increased our production schedule with Synlait to meet increased demand. The Company is in the process of further building milk supply in New Zealand to facilitate further increases in infant formula production during FY17.

The infant formula regulatory environment in China continues to evolve however the Company considers itself well placed to respond to changes in regulation in conjunction with its manufacturing partner.

ANZ

The ANZ business continued to perform extremely well, with sales growth and operating earnings in Australia substantially ahead of budget and the corresponding period last year. Total revenue in AUD across all product categories increased by 77% on pcp to \$117.5 million, and Operating EBITDA before intercompany charges totalled NZ\$34.5 million, an increase of 146% on pcp.

Fresh milk sales of a2 Milk™ continue to grow and recorded an increase on the pcp of 5% in AUD. A new creative advertising campaign, “Believe in better”, was launched in October across a number of advertising platforms and is assisting in further building brand awareness and scale. This positioning is being rolled out across other product categories in Australia. Market share of a2 Milk™ fresh milk in Australia by value has remained stable at approximately 9.3% (Australian Grocery Weighted Scan 20 December 2015 MAT).

Sales of a2 Platinum® infant formula in both grocery and pharmacy channels in Australia showed exceptional growth, in particular in the months of November and December when increased levels of finished product were received and delivered to customers. As previously advised, the Company has been progressively increasing the size of its production orders from its supplier to match the continually increasing demand. However retailers continue to experience out of stocks on shelf and we have yet to build a meaningful level of inventory on hand.

a2 Platinum® has been the fastest growing infant formula brand in the Australian market in the last four quarterly periods. The brand achieved a 16.7% grocery/pharmacy scan market share for the 13 weeks ending 20 December 2015 by value with two products ranked in the category’s top five.

The Company has commented previously on its plans to broaden the product portfolio in Australia beyond liquid milk and Infant Formula. a2 Milk™ whole milk powder was launched in June 2015 and sales are building in this market and into China, albeit limited in the short term by supply constraints. a2 Ice Cream™ was launched in two major retailers from August, and distribution has been broadened into a third major retailer from January 2016.



China

Following a number of years of establishment and investment, the China business performed well ahead of plan, and returned a positive EBITDA for the first time.

The new arrangements whereby a2MC assumed responsibility for direct sales and distribution together with an expansion of our local Shanghai team have been positive for the business. We have implemented a multi-product, multi-channel strategy to achieve growth in both China label and cross-border ANZ label infant formula, with a strong focus on e-commerce channels and MBS. We also commenced building sales in a2 Milk™ branded whole milk powder. Our Shanghai based team has been broadened beyond marketing and health care professional capabilities to include sales management and e-commerce.

The Company's China e-commerce strategy is centred on building multiple strong relationships with profile providers such as Tmall and JD.com (China's largest online direct sales platform), and a number of other strategic platforms. Our participation in the November "11/11" key annual sales event was considered by our main partners to be very successful. Tmall data showed sales from The a2 Milk Company™ flagship store were in the top three cross border infant formula brands. We are confident that these relationships will deliver increasing sales and assist with consumer education around the A2 protein proposition.

With our new sales management capability we have increased our bricks and mortar distribution network to over a thousand MBS stores served by 32 distributors, with particular strength in East and West China and with further growth planned in the second half. To assist building this network, a2 Platinum® was showcased at the annual Children Baby Mother Expo (CBME) in Shanghai in July 2015. In October we entered into an exclusive distributor agreement for five key provinces in China with DKSH (China) Co., Ltd, a well credentialed distributor in key Asian markets.

UK

The UK business is on track to achieve monthly breakeven by year end, owing to the revised business model involving the repositioning of our fresh milk offering into the premium specialty milk segment, along with a broadening of the product portfolio. We continue to explore opportunities to more quickly build scale in this relatively small business.

We are pleased with the support from our customers with ranging in four of the top five retailers. Distribution grew to around 1,200 stores during the half and our selling team is highly focused on building rate of sale in each customer account. We have developed improved point of sale presence and digital marketing executions, undertaken targeted promotional events and we continue to build relationships and activities with the health care professional community. A new advertising and shopper marketing campaign is to be run during the second half with a focus on the unique benefits of a2 Milk™ products.

The plan to extend the product portfolio is progressing positively with UHT long life milk launched from September in selected channels and the commencement of a trial for a2 Platinum® infant formula. The Company continues to be well supported by our fresh milk supply partner, our newly appointed UHT contract packer and our committed local farmers.

USA

Our plan for the USA liquid milk market has involved a launch of a2 Milk™ into the West Coast region and the achievement of agreed milestones prior to extending distribution into additional state markets. Our launch into Southern California commenced from April 2015 and extended into Northern California from September. The product is positioned in the specialty milk section, which remains the fastest growing segment of the total milk category and our product is available in four variants.

We are pleased with the progress achieved in building retail distribution in California during the half. Whilst the rate of growth in store numbers and therefore sales performance has been a slower build than we originally



targeted, we have now achieved broad trade acceptance and our retail weighted distribution has been progressively building. Our sales focus has been and will continue to be in building unit sales per store per week (UPSW) relevant to the speciality milk category and we are on track to deliver the target of 30 UPSW for the range, by the end of FY16. Following presentations to the final remaining major retailer group in California during December, we expect to achieve retail weighted distribution across the state of over 85% during February. This retail coverage is ahead of our original plan.

In parallel with building retail distribution we have been further developing our launch marketing and communication activities. This has included digital and social media platforms and activities, establishing promotional programs with retailers and a public relations program. We are to commence our first television advertising campaign focused on the Los Angeles market beginning mid-February. The TV campaign will be across both broadcast and cable TV networks and be supported by a social, digital, and shopper marketing campaign which will extend across all of California given the increased level of distribution in place by that time.

We have successfully established our milk sourcing, processing and logistics supply chain to service California, with ready capability to extend into further markets. Our farmer base is currently in Nebraska and the North-East and we have initiated a best practice on-farm management program with our suppliers. In addition, we have been very pleased with the operational support received from our contract processor Byrne Dairy during this establishment phase.

While we are still at an early stage of development, our monthly sales performance continues to build and feedback from both consumers and customers is positive and encouraging. Given the build in retail distribution, the Board has agreed additional marketing spend above the original budget of US\$3 million during the second half.

Research and Development (R&D) and Intellectual Property (IP)

The Company continues to enhance and extend the scope of its brand assets, further develop its comprehensive IP portfolio and participate in R&D programs characterising the benefits of the A2 beta casein protein and absence of the A1 beta casein protein.

Research published during the first half demonstrates the mechanisms underpinning the digestive benefits of A1 protein free milk products on human health. This published work is complemented by a second completed human clinical trial in China that supports the digestive advantages of a2 Milk™, which has been submitted for publication.

The Company has commissioned two additional human clinical trials – the first will be led by Professor Peter Gibson in association with Monash University, Australia. The second will be with a leading biomedical research centre in the USA. Further clinical trials to assess the benefits in adults, pre-schoolers, and infants have also commenced in China.

In December 2015, the New Zealand Government awarded the Company a NZ\$1.1 million research grant in partnership with AgResearch and The University of Auckland to validate the digestive benefits of A2 beta casein protein. The three year grant, was one of seven grants issued as part of a government push to invest funds into areas of High-Value Nutrition.

The Company's action against the Australian Broadcasting Corporation for misleading and deceptive conduct was successfully settled in the Federal Court in November.



Revised full year forecast FY16

An update on the Group's revenue and operating earnings forecast for FY16 was provided on 18 December 2015. The Company has since delivered a strong first half and an exceptional performance in January. Based on this, and our assessment of the reasonable risks relating to potential changes in infant formula regulations, the Company has determined it appropriate to further revise its full year outlook upward. Group revenue is now forecast to be in the range of \$335 million to \$350 million and Group operating EBITDA in the range of \$45 million to \$49 million for the 2016 financial year⁵.

For further information contact:**The a2 Milk Company Limited****Geoffrey Babidge****Managing Director and CEO****+61 2 9697 7000**

⁵ Please refer to the comments in relation to forward looking information which appear on the last page of this release



Reconciliation of EBITDA to net profit after tax (NPAT)

	Half year ended 31-Dec-15 NZ \$000's	Half year ended 31-Dec-14 NZ \$000's	Movement %
EBITDA	18,683	2,504	646%
EBITDA before non-recurring items	18,683	3,266	472%
Depreciation/amortisation	(1,255)	(912)	38%
EBIT before non-recurring items	17,428	2,354	640%
Non-recurring items ⁶	-	(762)	
Interest income	142	88	61%
Interest expense	(38)	-	
Income tax/(expense)	(7,425)	(1,555)	377%
Net profit after tax (NPAT)	10,107	125	7,986%

Forward Looking Information

Certain statements in this release constitute forward looking statements and comments about future events, including the Company's expectations about the performance of its businesses as at the date of this release. By their nature, forward-looking statements involve known and unknown risks, uncertainties, assumptions and other important factors, many of which are beyond the control of the Company and which may cause actual results, performance or achievements to differ materially from those expressed or implied by such statements. Forward looking statements are provided as a general guide only, and should not be relied on as an indication or guarantee of future performance. No assurances can be given that any forward looking statements referred to in this release will be realised. Any forward looking information speaks only as of the date of this release. Past performance is not indicative of future performance and no guarantee of future returns is implied or given. Nothing contained in this release is a promise, representation, warranty or guarantee as to the past, present or the future performance of the Company. The Company makes no representation, and gives no assurance or guarantee that the occurrence of the events expressed or implied in any forward looking statements in this release will occur or that any assumption that underpins any forward looking information is reasonable.

Nothing in this release is a solicitation, invitation, advice or encouragement to buy, sell or hold shares in the Company.

⁶ Non-recurring items in 2015 relate to costs associated with the Company's listing on the ASX

