



The
a2 Milk
Company

FY17 HALF YEAR INTERIM RESULTS

GEOFFREY BABIDGE
MANAGING DIRECTOR & CEO

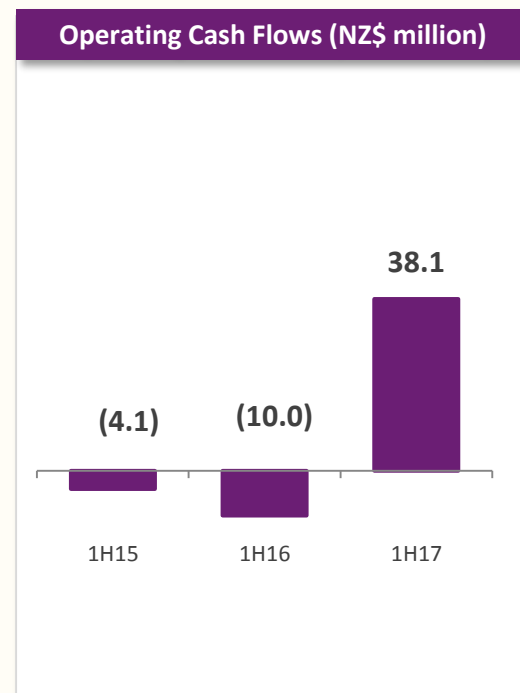
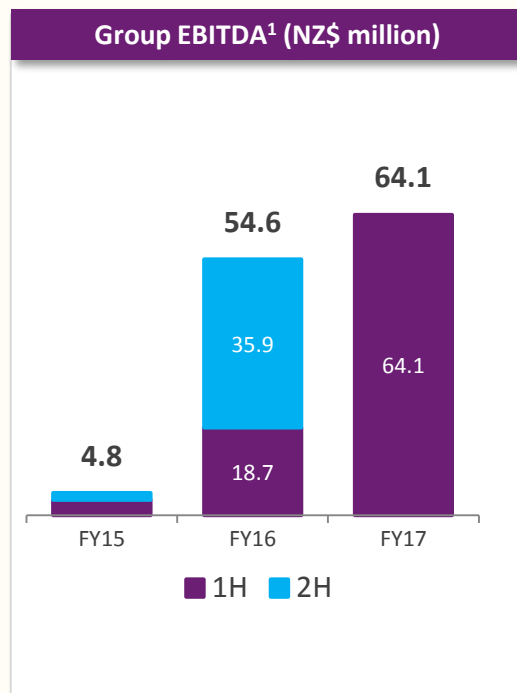
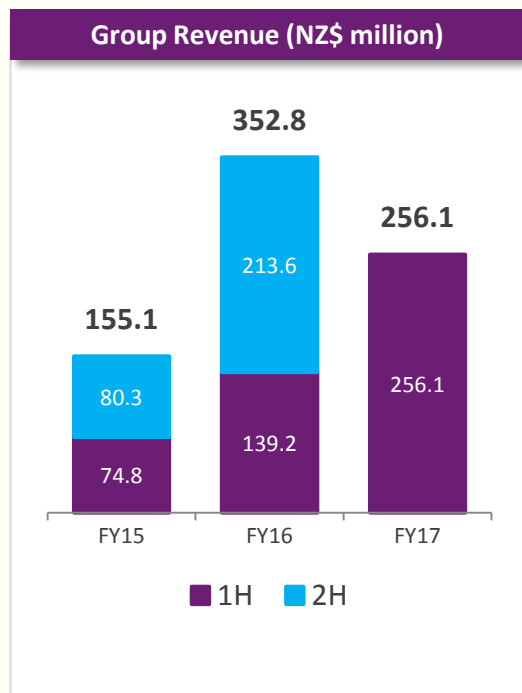
15 FEBRUARY 2017

Agenda

- Financial highlights
- Strategic agenda update
- Regional update
- Research and development
- Conclusions and outlook



Key financial charts



¹ EBITDA is a non-GAAP measure and represents earnings before interest, tax, depreciation and amortisation, and is shown before non-recurring items

1H17 result highlights¹

- Total Group revenue of \$256.1 million, an increase of 84% on pcp (prior corresponding period)
- Group a2 Platinum[®] infant formula revenue of \$184.5 million, up 150% on pcp
- Operating EBITDA² of \$64.1 million, up 243% on pcp
- Net profit after tax of \$39.4 million, an increase of 290% on pcp
- Continuing strong growth in sales and share for a2 Platinum[®] infant formula in ANZ and China
- Growing sales and broader distribution of liquid milk in the United States
- Increased sales and positive operating earnings in the United Kingdom
- Operating cash flow of \$38.1 million, a \$48.1 million increase on pcp
- Cash on hand at 31 December 2016 of \$108.4 million
- Conservative management of infant formula production and inventory

¹ All figures quoted in New Zealand Dollars (NZD) unless otherwise stated

² Operating EBITDA is a non-GAAP measure and represents earnings before interest, tax, depreciation and amortisation



Financial overview

NZ\$ million	1H17		1H16		Movement %	
	Segment Revenue	Operating EBITDA ¹	Segment Revenue	Operating EBITDA	Segment Revenue	Operating EBITDA
ANZ	206.6	70.4	127.9	34.5	+62%	+104%
China and other Asia	37.7	13.7	8.4	1.2	+348%	+1,021%
Corporate and other	-	(12.3)	-	(8.9)	-	+38%
Total excluding UK & USA	244.3	71.8	136.3	26.8	+79.2%	+168%
UK & USA ²	11.8	(7.7)	2.9	(8.1)	+310%	-5%
Total Group	256.1	64.1	139.2	18.7	+84%	+243%
EBITDA / Sales %		25%		13%		+12%

Infant formula (included in Group total)	184.5
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73.9

+150%

¹ Operating EBITDA is a non-GAAP measure and represents earnings before interest, tax, depreciation and amortisation

² UK & USA Operating EBITDA includes \$2.2 million in impairment charges



Financial summary

NZ\$ million	1H17	1H16	% change
Revenue	256.1	139.2	+84%
Gross margin	119.0	57.0	+109%
Sales & Distribution	(11.2)	(7.2)	+56%
Marketing	(16.0)	(10.0)	+60%
Employee Costs	(9.9)	(9.6)	+3%
Admin & Other	(17.8)	(11.5)	+55%
EBITDA	64.1	18.7	+243%
EBIT	62.5	17.4	+258%
NPAT	39.4	10.1	+290%
NZ\$ million	Dec-16	Jun-16	% change
Cash on hand	108.4	69.4	+56%

- Gross margin reflects increased contribution from infant formula sales
- Continued investment in marketing and brand development - reflects targeted spend in ANZ, China and USA
- Increases to 'administration and other' reflects increased spend on business development (+\$1.9m) and R&D (+\$0.9m) and write-down of intangibles (+\$2.4m)
- NPAT reflects high effective tax rate due to international losses not tax effected, and other non-deductibles including employee share scheme costs and write-down of intangibles. The effective tax rate of 37.4% is expected to reduce as results improve in the US business
- Cash on hand reflects strong 6-month NPAT contribution

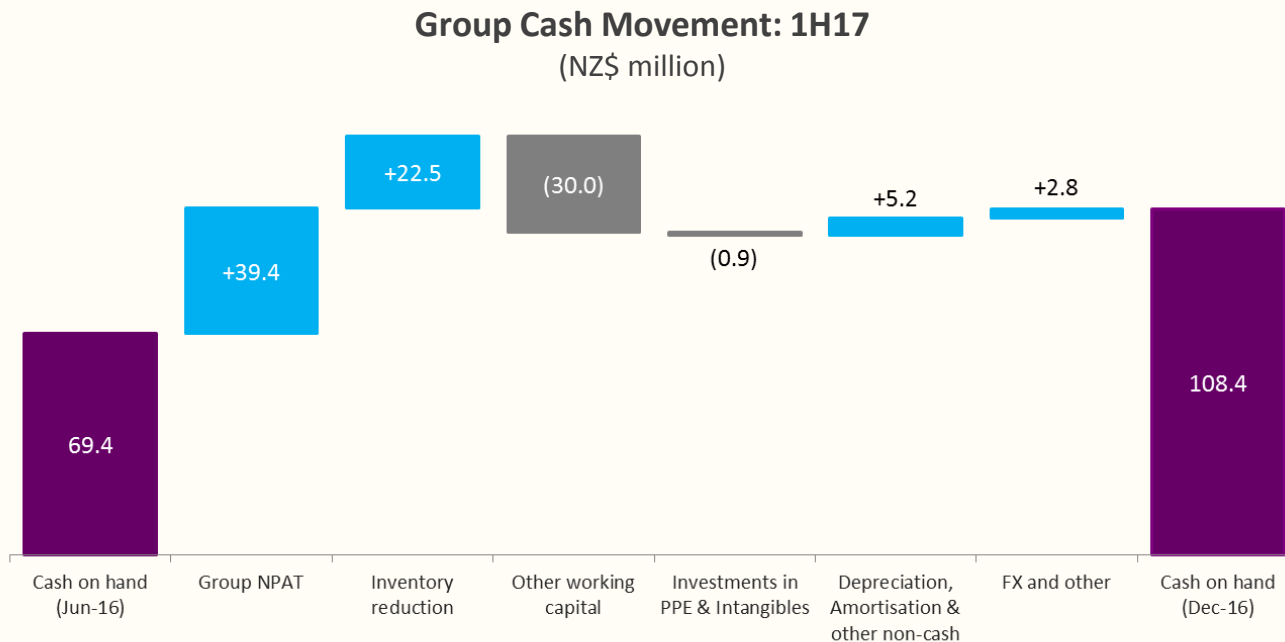


Reconciliation of non GAAP measures

NZ\$ million	1H17	1H16
Australia & New Zealand Segment EBITDA	70.4	34.5
China & other Asia Segment EBITDA	13.7	1.2
UK & USA Segment EBITDA	(7.7)	(8.1)
Corporate & other Segment EBITDA	(12.3)	(8.9)
EBITDA ¹	<u>64.1</u>	<u>18.7</u>
Depreciation/Amortisation	<u>(1.6)</u>	<u>(1.3)</u>
EBIT ¹	62.5	17.4
Net interest income	0.4	0.1
Income tax expense/income	<u>(23.5)</u>	<u>(7.4)</u>
Net Profit/(Loss) for the Period	<u>39.4</u>	<u>10.1</u>

¹EBITDA and EBIT are non GAAP measures. However, the Company believes they assist in providing investors with a comprehensive understanding of the underlying performance of the business

Cash position

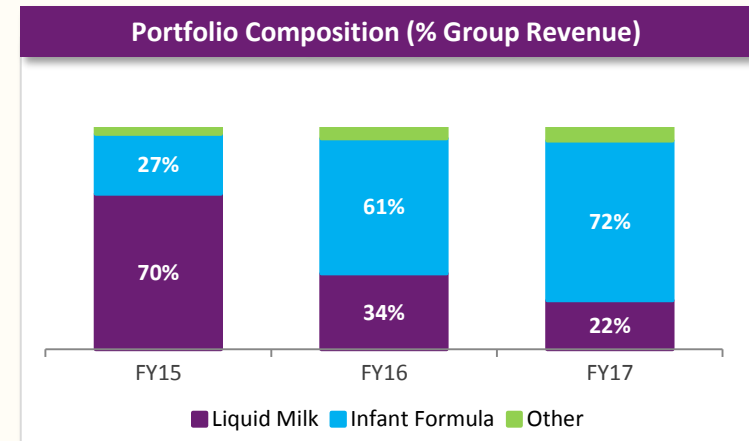
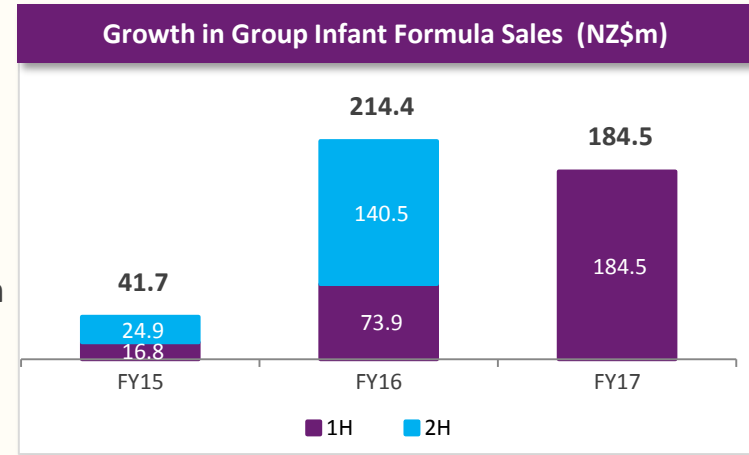


- Inventory reduction reflects strong 1H infant formula sales and conservative management of production and inventory
- Working capital movement driven largely by increase in trade debtors and prepayments relating to infant formula
- Other non-cash includes employee share scheme costs and write-down of intangibles
- FX and other includes movements on foreign currency cash holdings due to strengthening of NZD



Strategic agenda update

- The growth of infant formula has driven the shift to a broader nutritional products strategy
- Additional nutritional products are planned for launch during calendar 2017
- Comprehensive strategic review of China infant formula market concluded in December - deepened understanding and assisted in development of medium term plans
- a2 Milk™ brand to expand distribution into South East USA from March 2017
- Review of growth opportunities in SE Asia progressing
- Enhanced Synlait Nutritional Powders Supply agreement completed August 2016



Australia and New Zealand

- **ANZ Segment Total Revenue \$206.6 million (62% increase), Operating EBITDA \$70.4 million (104% increase)**
- ANZ continued to show strong momentum - sales and earnings well ahead of plan and pcp
- Significant growth in a2 Platinum® infant formula
 - Continues to be fastest growing infant formula brand for latest year¹ with market share growing to ~25% for latest quarter¹
 - Close management of supply chain - production, owned inventory, inventory in distribution
 - Infant formula growth in part reflects inventory shortages experienced during pcp
 - A flexible strategy to best meet changing distribution trends in ANZ including managing the “Daigou” channel
- Fresh milk revenue continued to grow, market share stable at 9.3%². The only dairy brand distributed in all six major retailers
- Investment in a2 Milk™ and a2 Platinum® brand advertising continues to increase. The highest spend of any brand within their respective categories for the latest 12 months ending 31 October 2016
- a2 Milk™ whole milk powder revenue grew ~75% on the pcp
- Continuing to pursue Lion Group over what a2MC believes are misleading and deceptive packaging and advertising claims; case scheduled to be heard in November 2017, a2MC confident in its position

¹ Aztec Australian grocery/supermarket infant formula value share for 52 weeks and 13 weeks ending 01/01/17

² Aztec Australian weighted grocery (Woolworths, Coles, Independents) dairy milk value share for 52 weeks ending 01/01/07



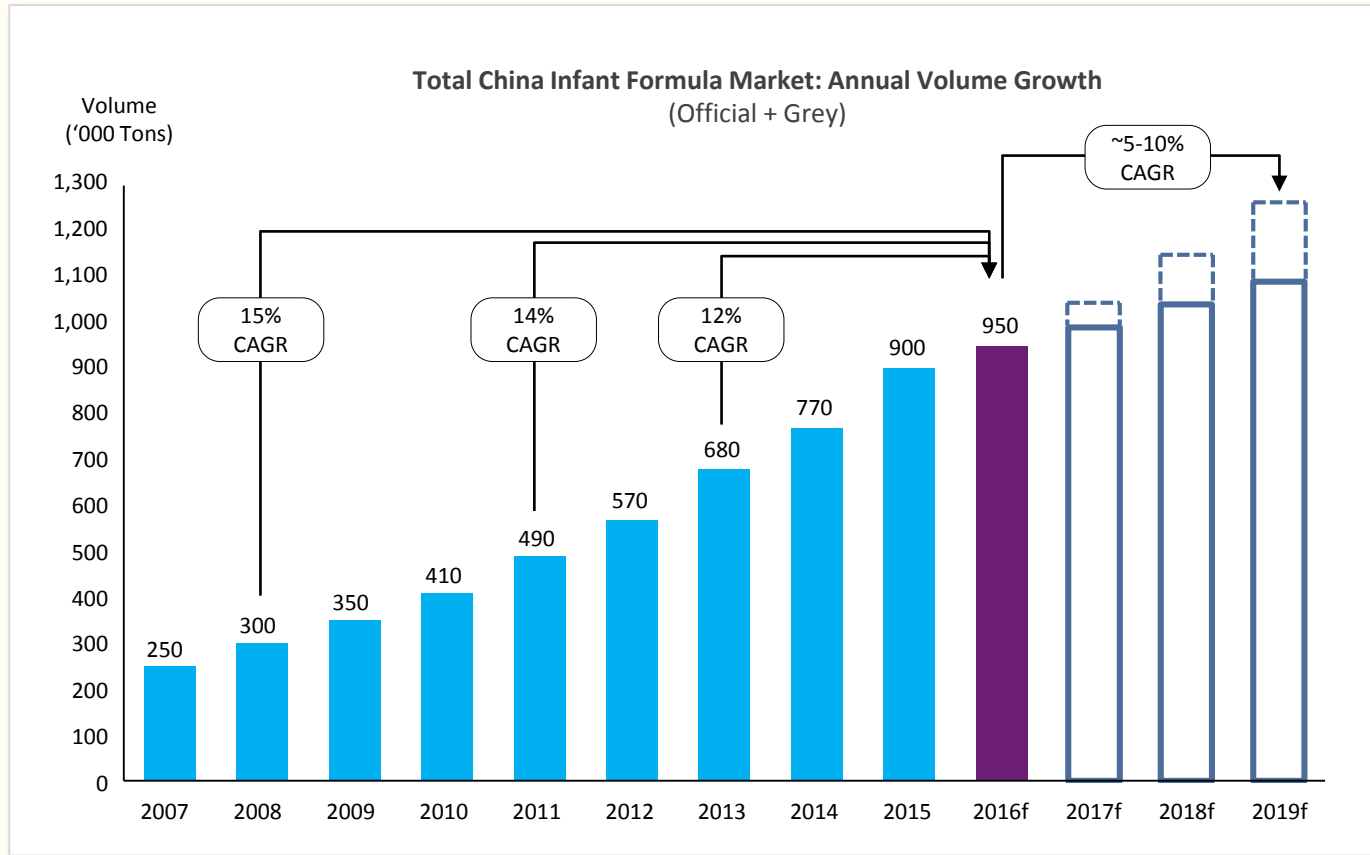
China and other Asia

- **China Segment Total Revenue \$37.7 million (348% increase), Operating EBITDA \$13.7 million (1,021% increase)**
- Sales and earnings grew strongly on pcp
- Brand awareness and IF market share growing rapidly from ~0.7% to ~2.6% value share of defined market for latest quarter¹
- Online strategy centres on building strong relationships with profile providers and participating in key annual selling e-commerce events
 - a2 Platinum® “11/11” singles day volume sales grew more than double vs prior year and #1 IMF brand on JD.com
 - Sales momentum continued with “12/12” sales event and initial build for Chinese New Year (28 January 2017)
- Offline strategy based on building sustainable Mother & Baby store sales through growth in distribution and in-store marketing activities and sales personnel at store level
- Engaged a leading China-based consultancy to further assist building market intelligence and medium term scenario planning, including:
 - Improved understanding of the market, including activities of competitors
 - Refining product, pricing and route-to-market strategies
 - Potential impact of known and anticipated regulatory changes

¹ Kantar Infant Formula market tracking of Tier 1 and A cities for quarter ending 31/12/16 (Kantar track a substantial proportion of the total market)



a2MC expects annual category growth ~5-10% over next three years



Source: Euromonitor, Literature review, China-based consultancy derived analysis

Brand awareness and understanding is building in China¹

Brand perception ~July 2015

Brand knowledge

- Mainly premium Australian image driven
- Little knowledge and understanding of A2 protein proposition



Brand perception ~ Sept 2016

- Premium image remains
- A2 protein understanding emerging
- Strong perception of uniqueness

Communication touch points

- Mainly from cross-border online
- Very low awareness of China label



- Significant increase in media touchpoints for both ANZ and China label consumers
- Greater breadth of channels for cross-border online
- Greater awareness of Chinese label product
- Growing awareness of presence in Mother & Baby stores as a way to review the brand (both labels) and purchase China label
- Health care professional education starts to emerge in some cities

Consumer types

- Early adopters



- Early adopters with fast followers emerging

Purchase channels

- Mainly C2C



- Greater channel variety (ANZ and China label)

¹ Three-city brand qualitative research study, October 2016

China infant formula regulatory environment

- A number of regulatory changes announced during calendar 2016 are being implemented
- a2MC continues to adjust its manufacturing and distribution model in response to evolving market conditions

1. CBEC¹ grace period extended



The May 2017 CBEC grace period for English label infant formula extended to end of December 2017

2. Infant formula registration



Registration for China label infant formula products

- Approved application requirements issued by CFDA² in November 2016
- Registration required by 1 January 2018
- a2MC supporting Synlait Milk application process

3. New infant formula labelling guidelines



New labelling guidelines on China label infant formula issued by CFDA in December 2016

- Limitations on product naming descriptions
- Brand owners to proactively review and amend pack labels as required
- a2MC to continue to use “Platinum[®]” in English on both China and English labels

¹ CBEC: Cross border e-commerce platforms

² CFDA: China Food and Drug Administration

United States of America

- **USA & UK Segment Total Revenue \$11.8 million (310% increase), Operating EBITDA \$(7.7) million (5% decrease)**
- The USA business continued to build distribution and sales of liquid milk in California
 - Distribution in ~1,800 stores in California, Pac NW and Colorado
- Sales focus on building average UPSW relevant to the speciality milk category (> 30 for range)¹
- Marketing and communication increased over the pcp across digital and social media, retail promotions and PR
- Supply chain efficiency enhanced with a second processor from the West Coast appointed
- Non-exclusive fresh milk licence with procurement partner Prairieland Dairy into Kansas, Missouri and Nebraska
- A clearer view of the key success factors is emerging and accordingly the Company intends to:
 - Significantly expand into the South East through Publix, with ~1,100 stores primarily in Florida, Georgia and the Carolinas
 - Expand product range to include chocolate flavoured milk
 - Increase marketing spend in 2H17 to support market expansion
- Level of total investment during FY17 and subsequent 2 years, before achieving positive monthly EBITDA, expected to be in the range of US\$30 – \$35 million

¹ Refers to the units per store per week for the total range



United Kingdom

- **USA & UK Segment Total Revenue \$11.8 million (310% increase), Operating EBITDA \$(7.7) million (5% decrease)**
- Positive operating earnings for the half year for the first time
- Average rates of sale in-store improved by ~40% on pcp
- Sales of a2 Milk™ branded fresh milk grew >45% on pcp aided by increased distribution
- Recent changes in ranging with the semi-skimmed variant increasing at the expense of whole milk
- ‘a2tonishing’ marketing campaign continued with positive momentum
- Long life UHT milk launched in one account in September
- Growth of infant formula sales in non-grocery segment, opportunity within the retail market to be assessed



IP and R&D

- The Company continues to initiate and support R&D around the benefits of A1 protein-free products and develop its Intellectual Property portfolio (including brand assets and proprietary know-how)
- New studies initiated across China, USA and ANZ with a focus on human research
 - Significant clinical study undertaken in China (n=600) completed and submitted for publication
 - Concurrent study in China amongst pre-schoolers completed; results align with adult findings around digestive and cognitive responses
 - USA and Australian human clinical research underway at Pennington Biomedical Facility and Monash University
 - First study funded by the New Zealand High Value Nutrition Government grant underway
- Scientific publication in October reports consumption of a2 Milk™ increases the body's production of a key antioxidant (glutathione or GSH) in study participants relative to conventional dairy
- As the product portfolio continues to evolve the Company has partnered with Ken Cato AO (Cato Design) to further evolve the brand design identity

Conclusions and outlook

- Exceptional 1H result, reflecting continued strong growth in nutritional products
- First half a2 Platinum® performance includes sales build for key China selling events
- Remaining agile in response to evolving market conditions for infant formula continues to inform a prudent approach to inventory management
- Anticipating infant formula sales in 2H17 to be lower relative to 1H17 (but materially higher than 2H16)
- Marketing spend likely to be ~\$15 million higher in 2H17 given phasing, in particular for USA and China
- Assuming current trends in earnings and cash flow continue and in the absence of significant capital demands, the Board expects to adopt a dividend policy following completion of the financial year

Disclaimer

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