

DOING BUSINESS IN CHINA

27 OCTOBER 2017



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FY17 HIGHLIGHTS

DEBT DOWN

NET DEBT FY16
\$214m

NET DEBT FY17
\$83m

ADDITIONAL
CAPITAL RAISED

\$97.6m

SYNLAIT
ADDED TO
S&P/NZX
50 INDEX

PROFIT UP

NPAT FY16
\$34.4m

NPAT FY17
\$38.2m

NZDC ACQUIRED TO
DOUBLE CANNING CAPACITY

5 YEAR

NEW HOPE NUTRITIONALS
INFANT FORMULA SUPPLY
AGREEMENT IN PLACE

\$8.9m

IN PREMIUMS PAID
TO MILK SUPPLIERS

APPROVAL TO EXPORT
LACTOFERRIN TO THE U.S.

ASX DUAL LISTING COMPLETED

5

SIGNIFICANT
APPOINTMENTS
TO THE SENIOR
LEADERSHIP TEAM



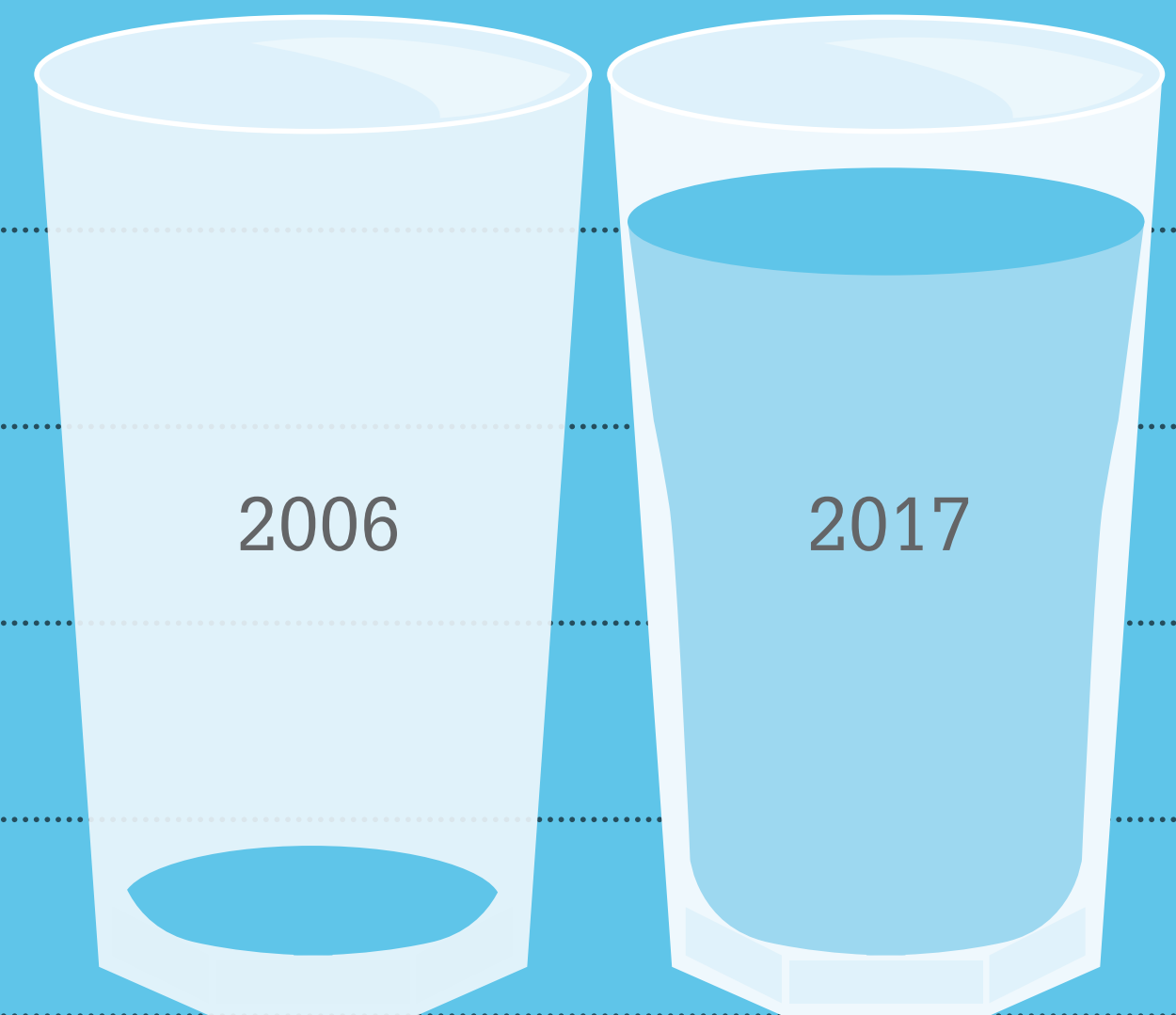
STRATEGIC UPDATE

2017

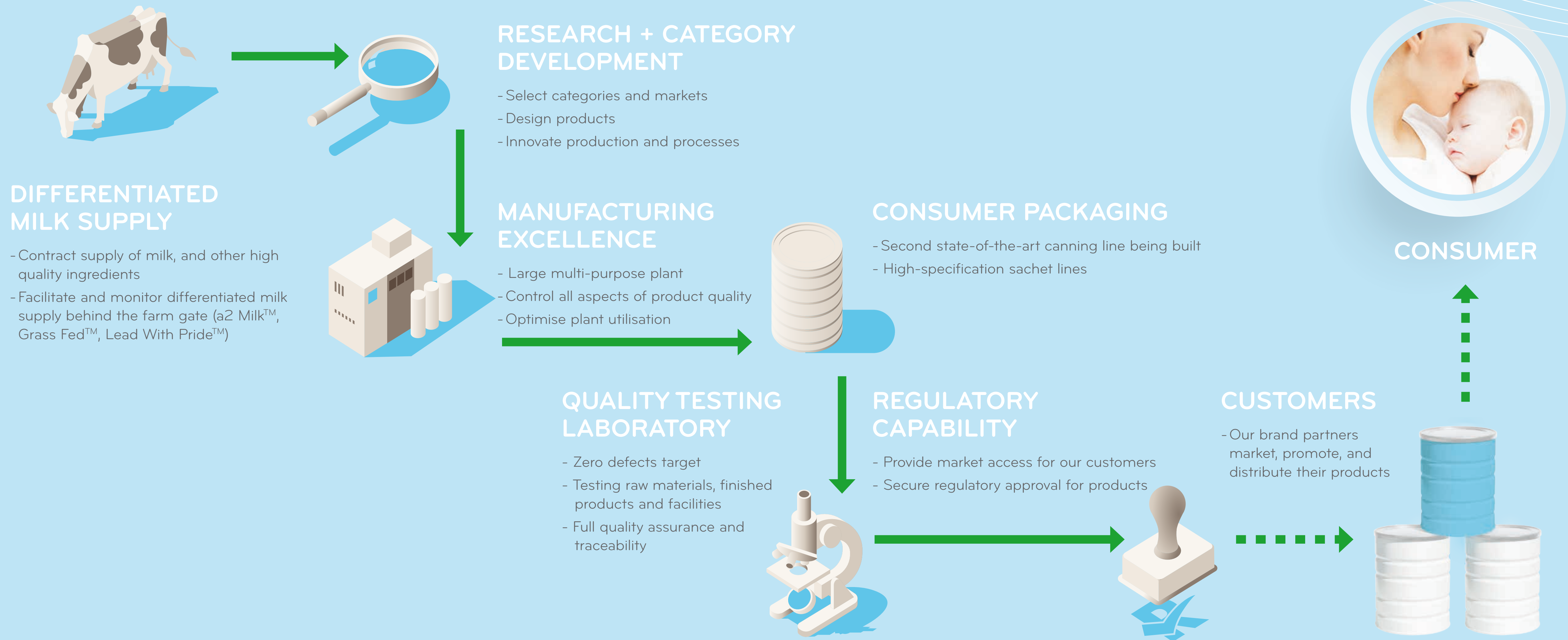
WE ARE A
GROWTH
COMPANY

SYNLAIT IS A B2B
MANUFACTURING
COMPANY FOCUSSED
ON MAKING THE MOST
FROM MILK.

OVER THE PAST 11 YEARS
WE HAVE GROWN FROM
START-UP TO ANNUAL
PRODUCTION VOLUMES OF
140,000 METRIC TONNES (MT)



SYNLAIT ADDS VALUE FROM FARM TO CONSUMER



REGISTERING BRANDS IN CHINA

INFANT FORMULA IS THE MOST REGULATED FOOD PRODUCT IN THE WORLD - IT IS THE ONLY FOOD PROVIDED TO SOME INFANTS IN THEIR FIRST MONTHS OF LIFE.

- CFDA registration of The a2 Milk Company's infant formula was granted in September 2017.
- Because the manufacturer controls quality, the manufacturer is registered alongside the product in most markets. Synlait registers the brands its B2B customers sell.
- The Chinese Food and Drug Administration (CFDA) will grant selected factories licences to manufacture up to three brands for the Chinese market.
- We recruited Ying Jin as our Regulatory and Science Affairs Director, China, to support market access and business development. Experienced in managing regulatory affairs for multi-national infant formula companies, Ying has a PhD in food safety and a medical degree.
- The expanded New Hope Nutritionals supply agreement will underpin applications to register New Hope Nutritionals infant formula brands.
- In October 2017 we submitted an application to register New Hope Nutritionals Akara brand with the CFDA.



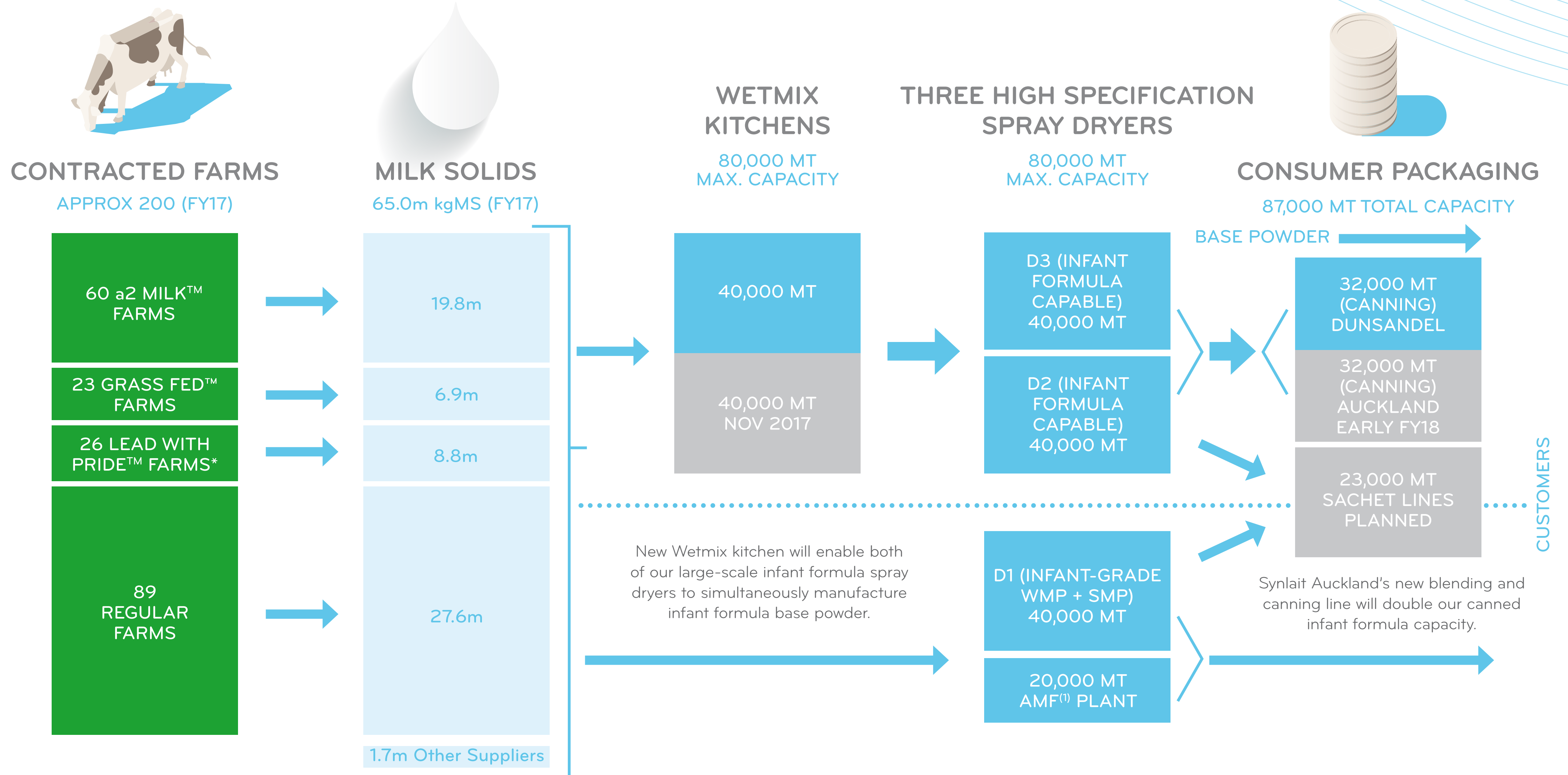
INCREASING OUR CAPACITY AND REDUCING RISK

GIVEN STRONG CURRENT AND EXPECTED CUSTOMER DEMAND, WE CHOSE TO ACQUIRE 100% OF THE SHARES IN THE NEW ZEALAND DAIRY COMPANY LIMITED (NZDC). NZDC WAS CONSTRUCTING AN INFANT FORMULA-CAPABLE BLENDING AND CONSUMER PACKAGING OPERATION IN AUCKLAND.

- The acquisition will enable us to supply more consumer packaged products to customers faster than a new development would have done.
- Having a second blending and consumer packaging site mitigates single site risk.
- With an additional manufacturing site in Auckland, Synlait's potential number of brands in China has expanded.
- We will be seeking both Ministry for Primary Industries and CNCA (Certification and Accreditation Administration of the People's Republic of China) registration for the new facility.
- In total, including acquisition, Synlait expects to spend \$52m in Auckland by the time the plant is commissioned early in FY18.



UNLOCKING INFANT FORMULA DRYER CAPACITY



IMPROVING A WORLD CLASS TEAM

- **Our team has grown** from 436 to 500 in FY17
- **Two additional shifts** in the consumer packaging facility
- **Technical roles** for the quality testing laboratory
- **New roles** to support Integrated Business Planning (IBP)
- **Lifting the experience profile of our people** in Projects, Technology and Finance

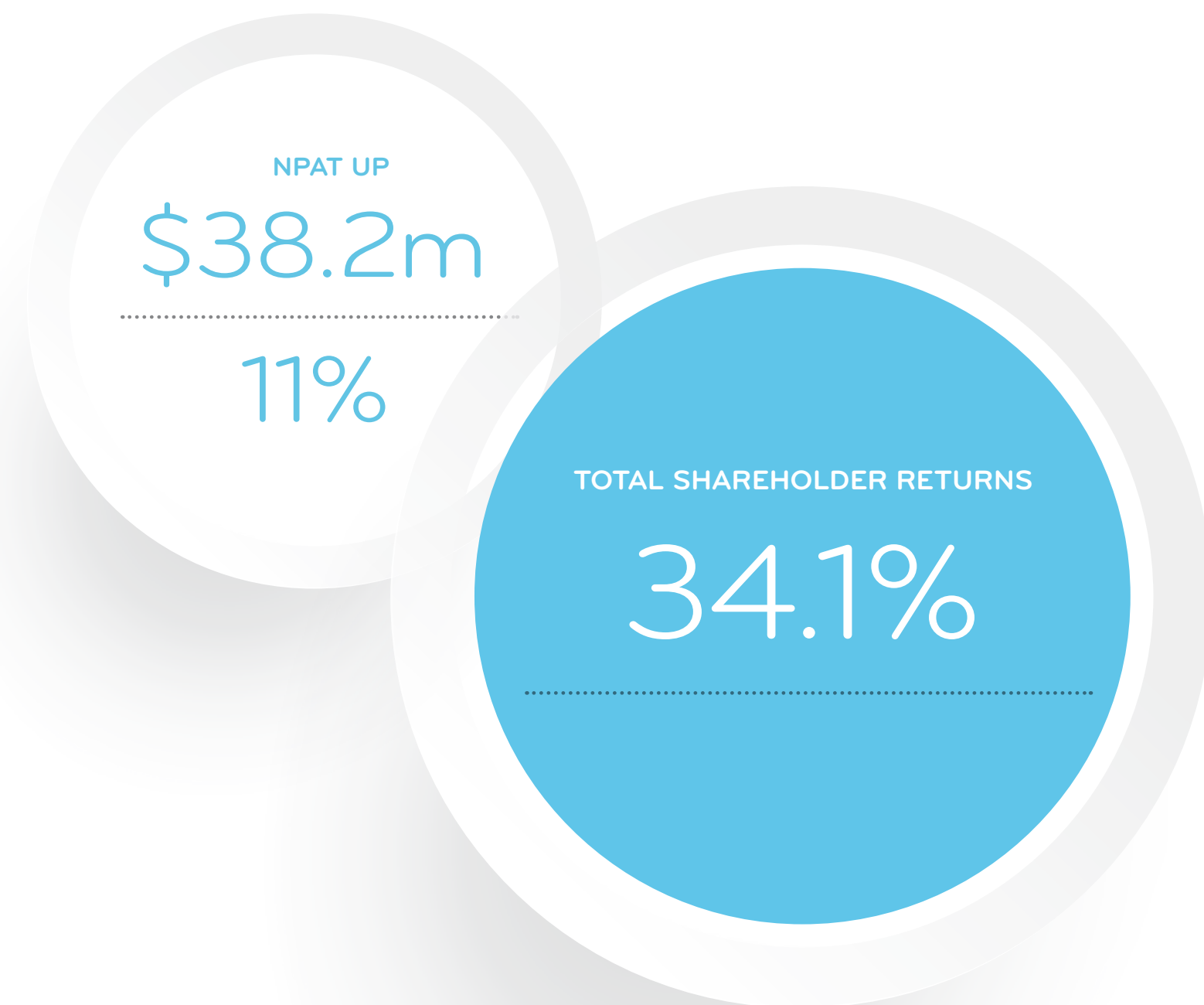




OUR FINANCIAL RESULTS

FY17

FINANCIAL SUCCESS



EBIT INCREASED TO
\$65.8m
(FY16: \$61.1m)

NET DEBT DECREASED FROM
\$214m
TO \$83m

LEVERAGE FROM
2.6X DOWN TO 0.9X⁽¹⁾

GEARING DOWN FROM
46.8%
TO 18.0%⁽³⁾

ROCE OF 13.9% (FY16: 13.5%)⁽²⁾

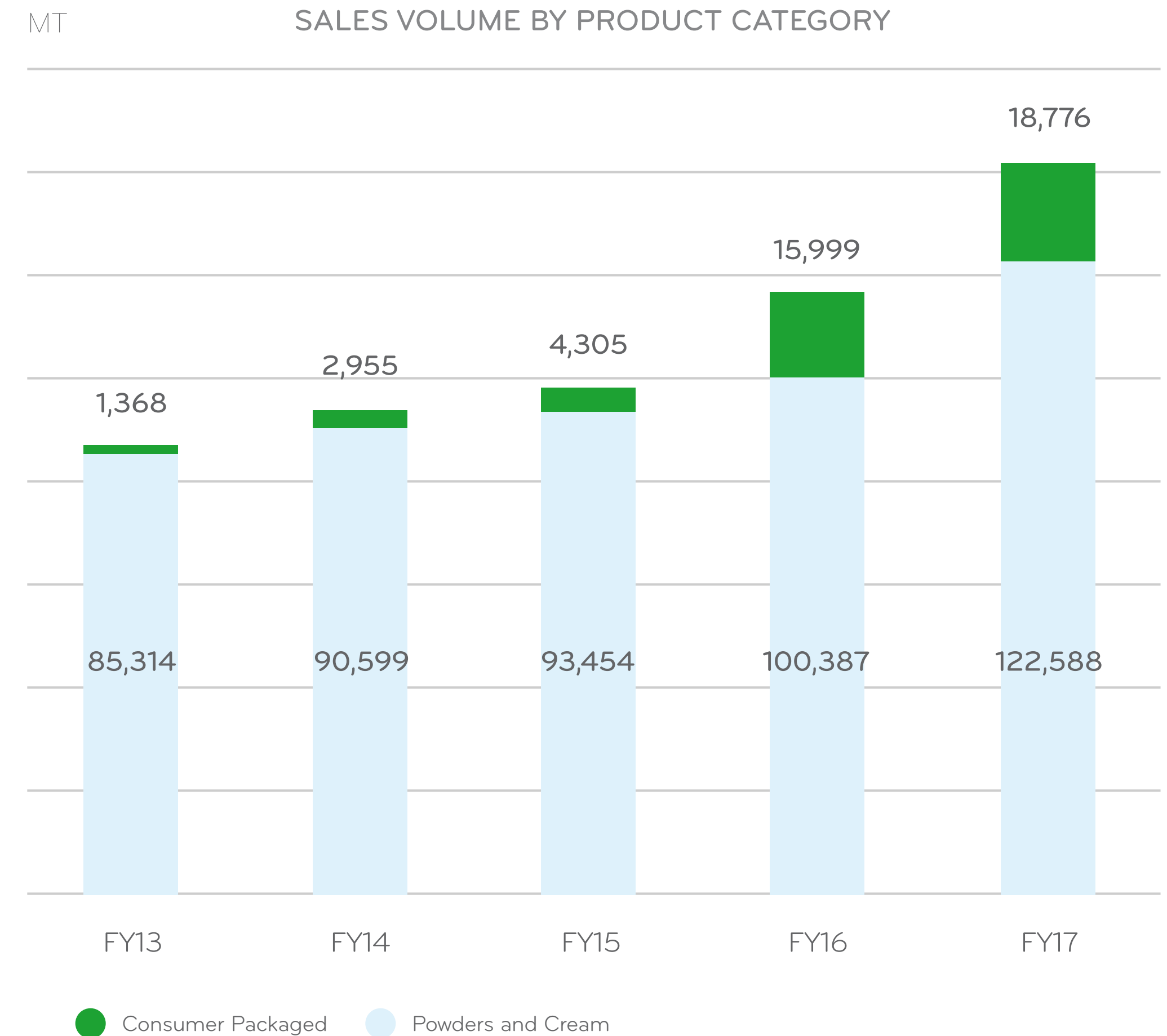
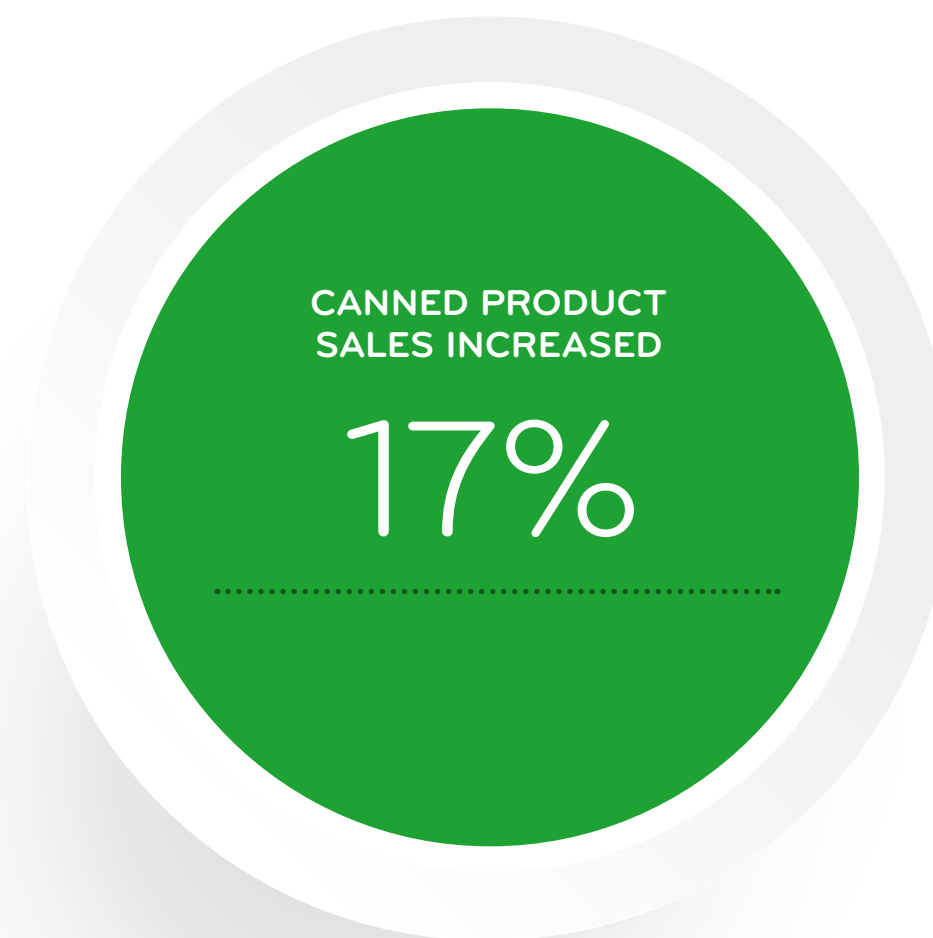
Notes: (1) Leverage = net debt / EBITDA;

(2) Return on capital employed (ROCE) is calculated by dividing earnings before interest and tax (EBIT) by the average capital employed (equity + net debt);

(3) Gearing = net debt / (net debt + equity), excluding derivatives. See our 2017 Annual Report for further details, available at: <http://www.synlait.com/investors/>

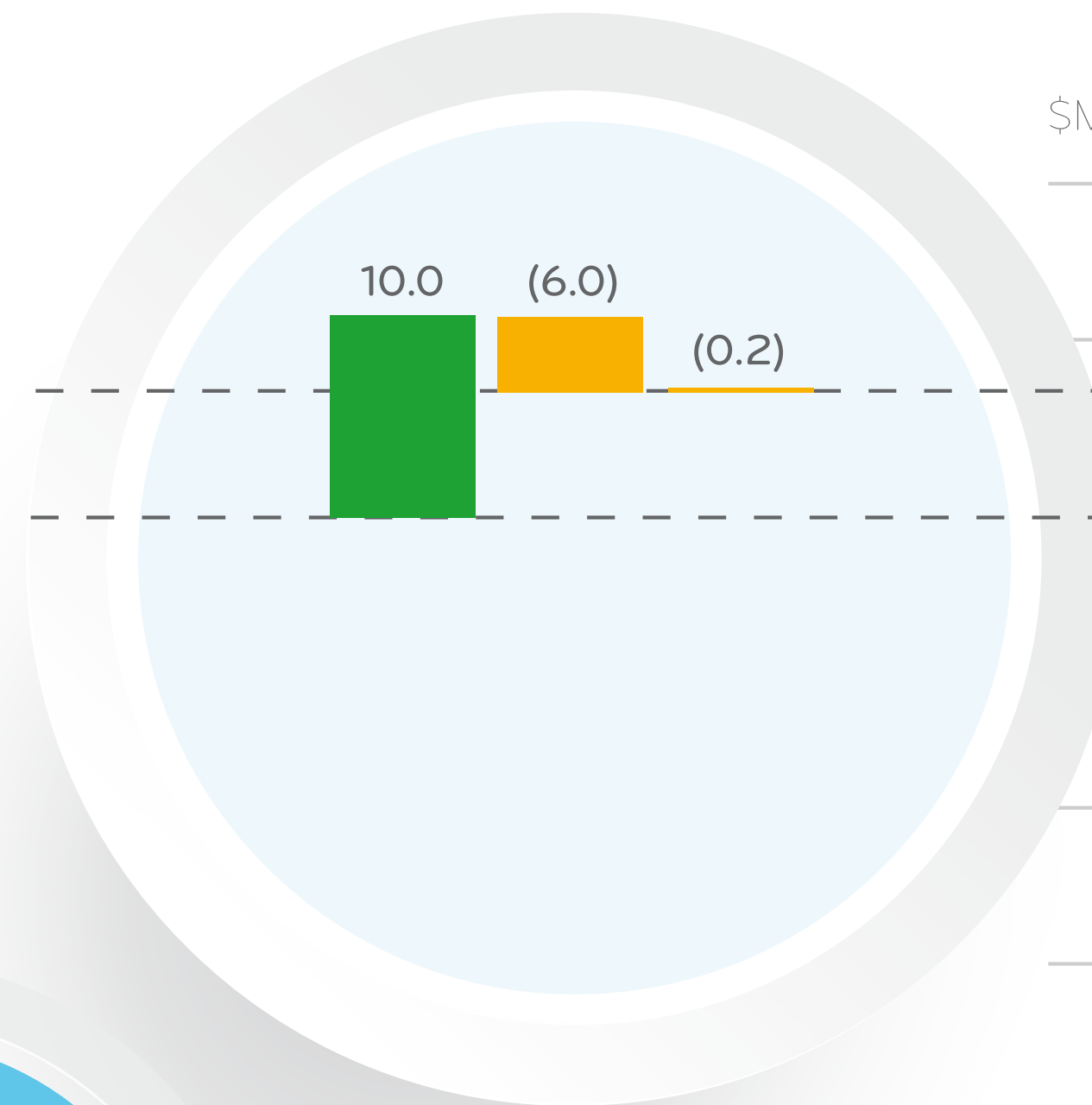
HIGHER VOLUMES DRIVE REVENUE GROWTH

- **Revenue at \$759.0m was up 39% on last year's \$546.9m**, driven by increased sales volumes and improved dairy commodity prices.
- **Total sales volume at 141,393 MT was 21% above last year's 116,402 MT**, due to increased milk supply and carry over stock from FY16 sold through.
- **Canned infant formula volumes increased 17% to 18,776 MT.**
- **11 MT of lactoferrin sold in FY17 (FY16: 10 MT)**. We also used 1.7 MT of lactoferrin internally in producing infant formula.

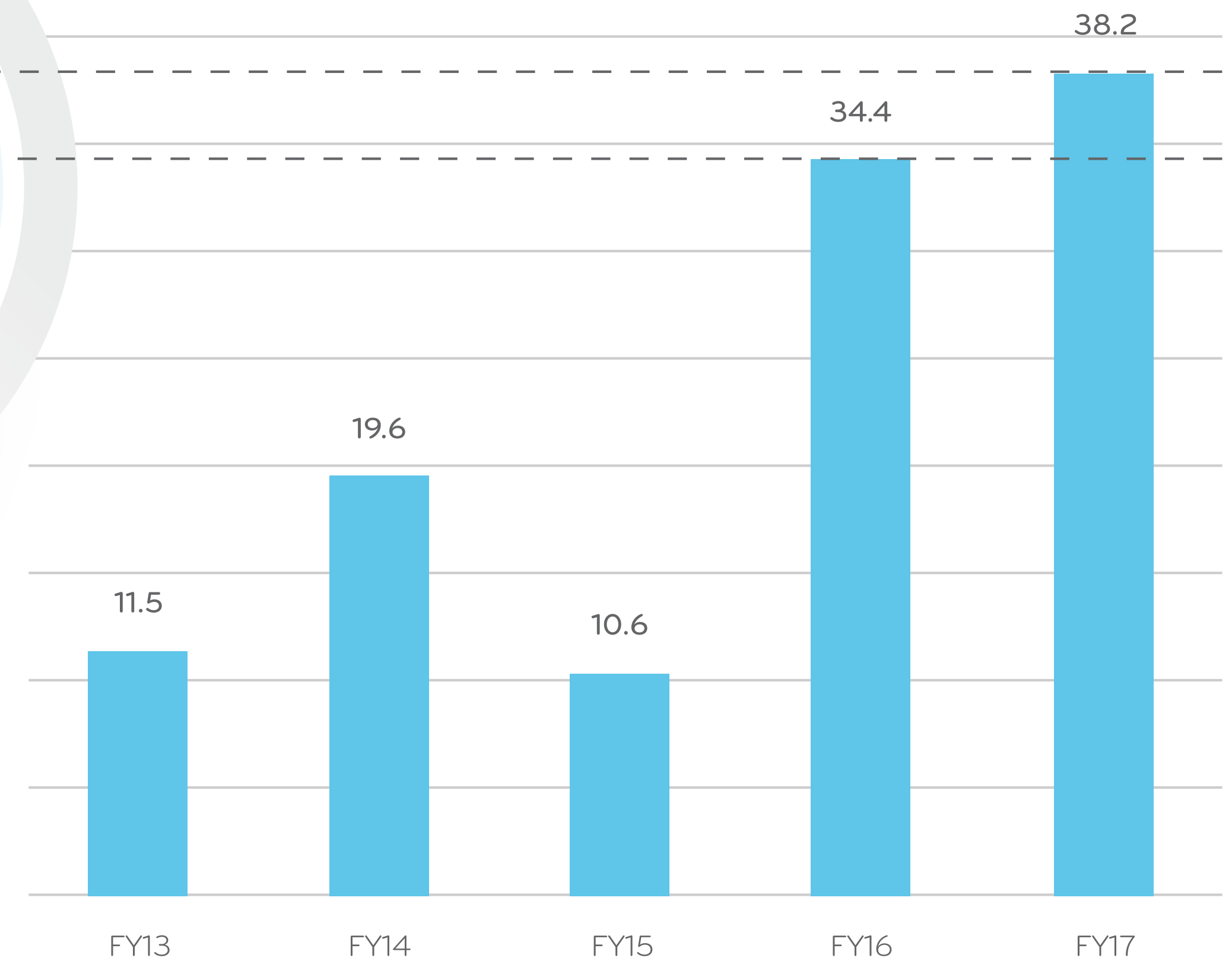


PROFIT GROWTH

- **Net profit after tax** was \$38.2m, up from \$34.4m in FY16.
- **Increased infant sales** volumes drove gross profit growth of \$10.0m (before tax).
- **\$6.0m was reinvested** into business development and planning capabilities for future growth.

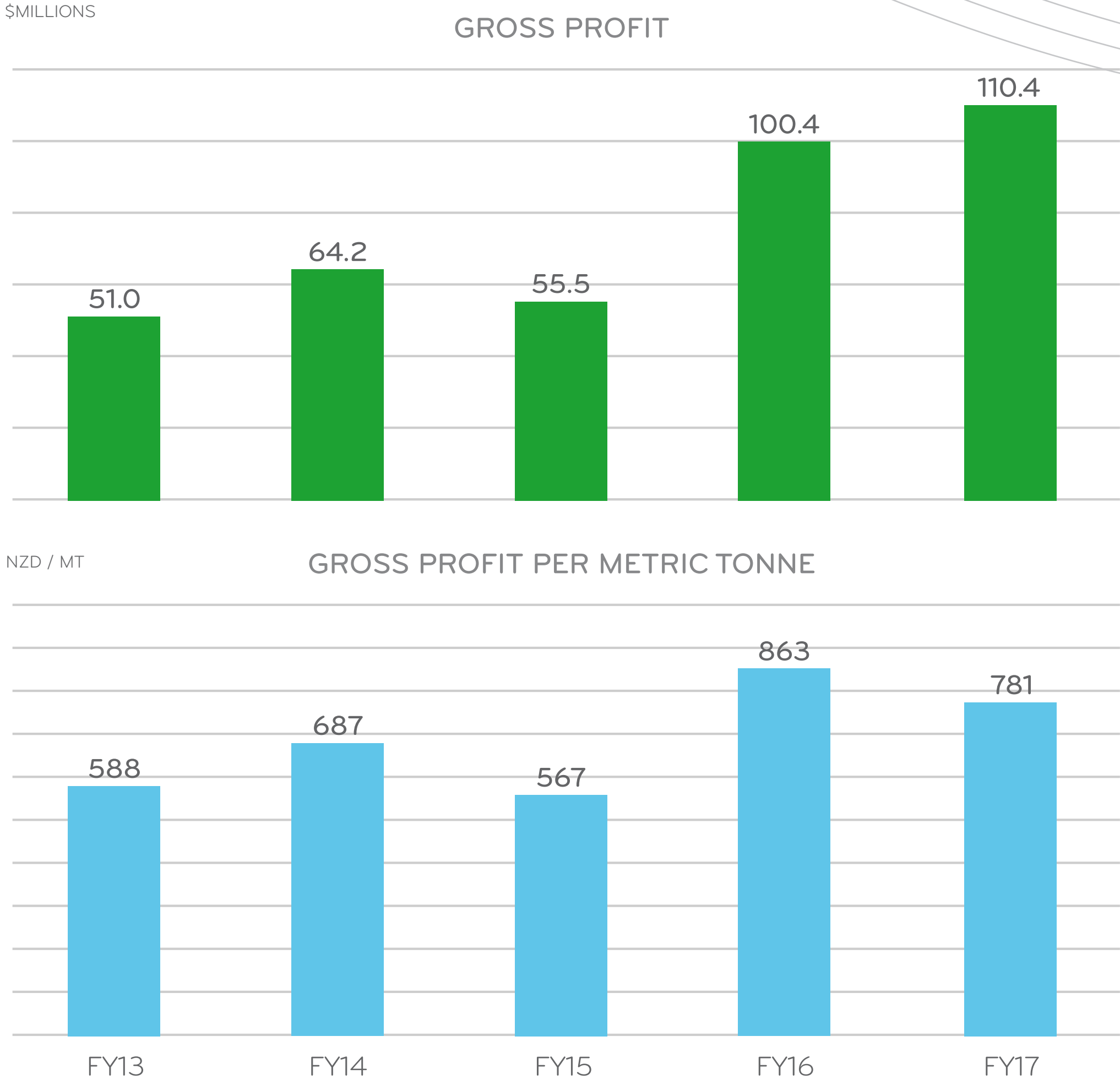


\$MILLIONS



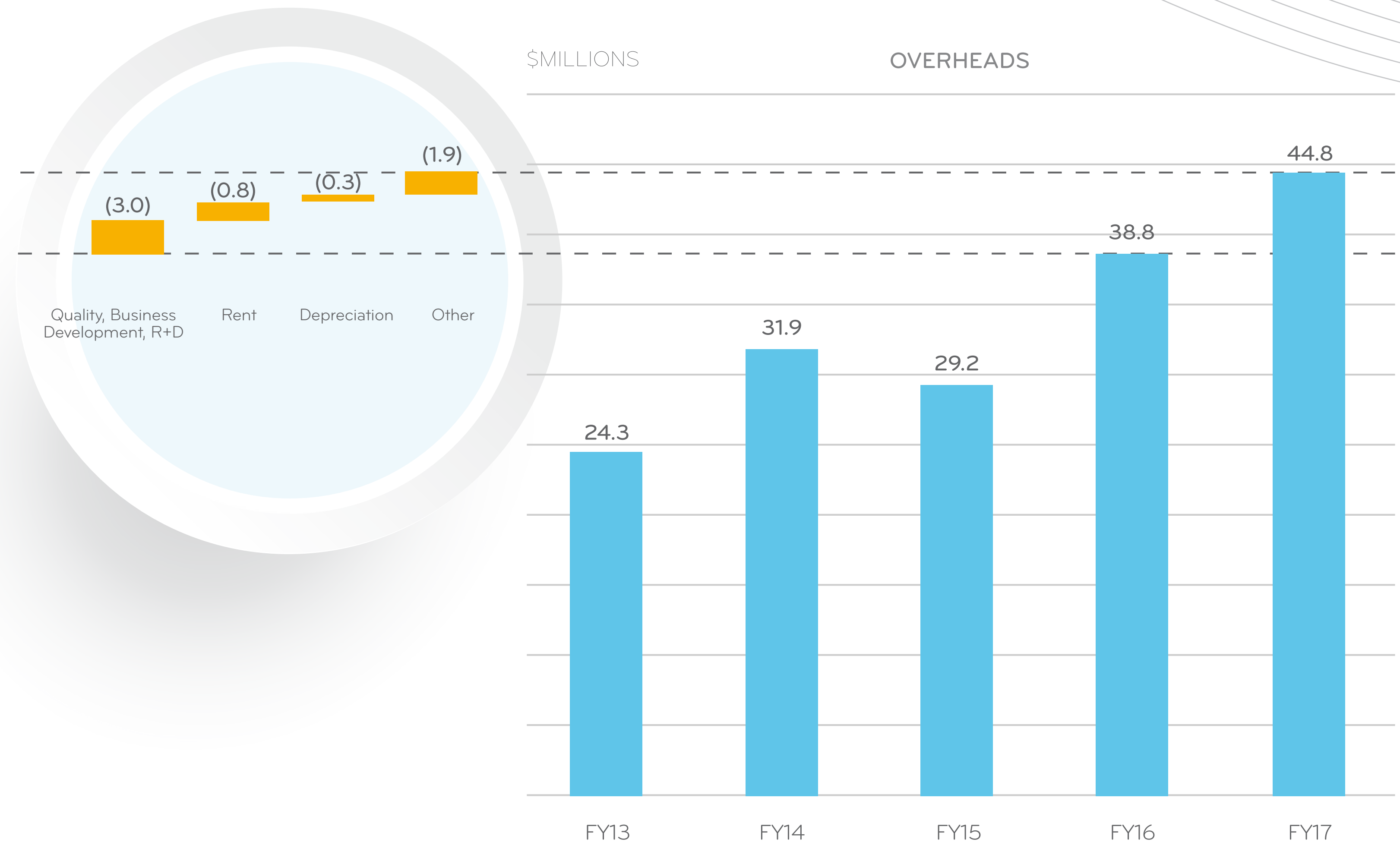
GROSS PROFIT PER MT MARGINALLY LOWER

- Continued growth in earnings driven by improved volumes. **Gross profit was up 10% to \$110.4m.**
- **Our overall gross profit per MT at \$781 was \$82 per MT down on last year.**
This was due to higher growth in ingredient sales, which is dilutive to margin.
- In addition, 3,939 MT of carry over inventory was sold at net realisable value (no margin).
- Consumer packaged gross profit per MT improved, with higher utilisation at our Dunsandel blending and canning facility.



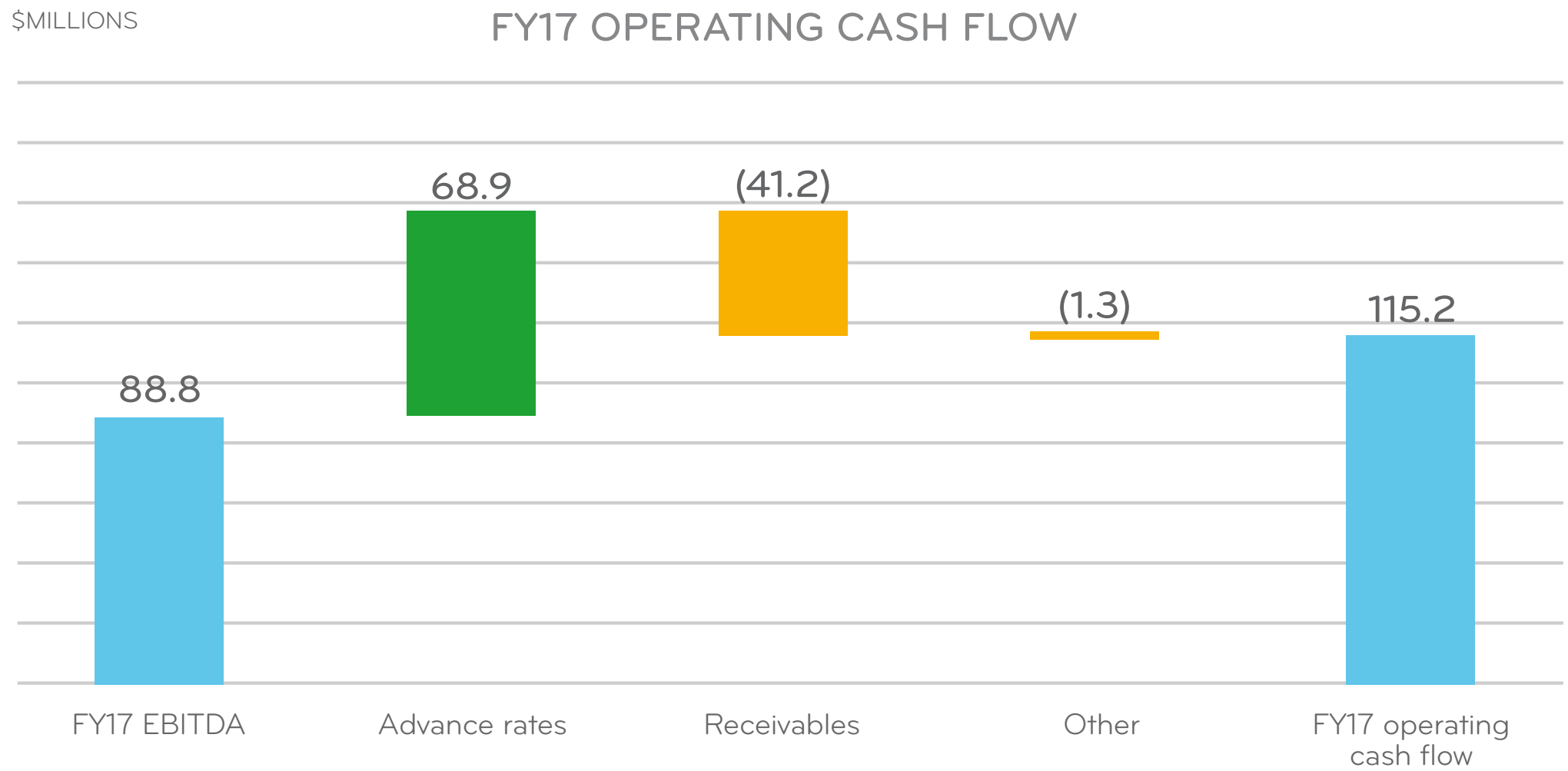
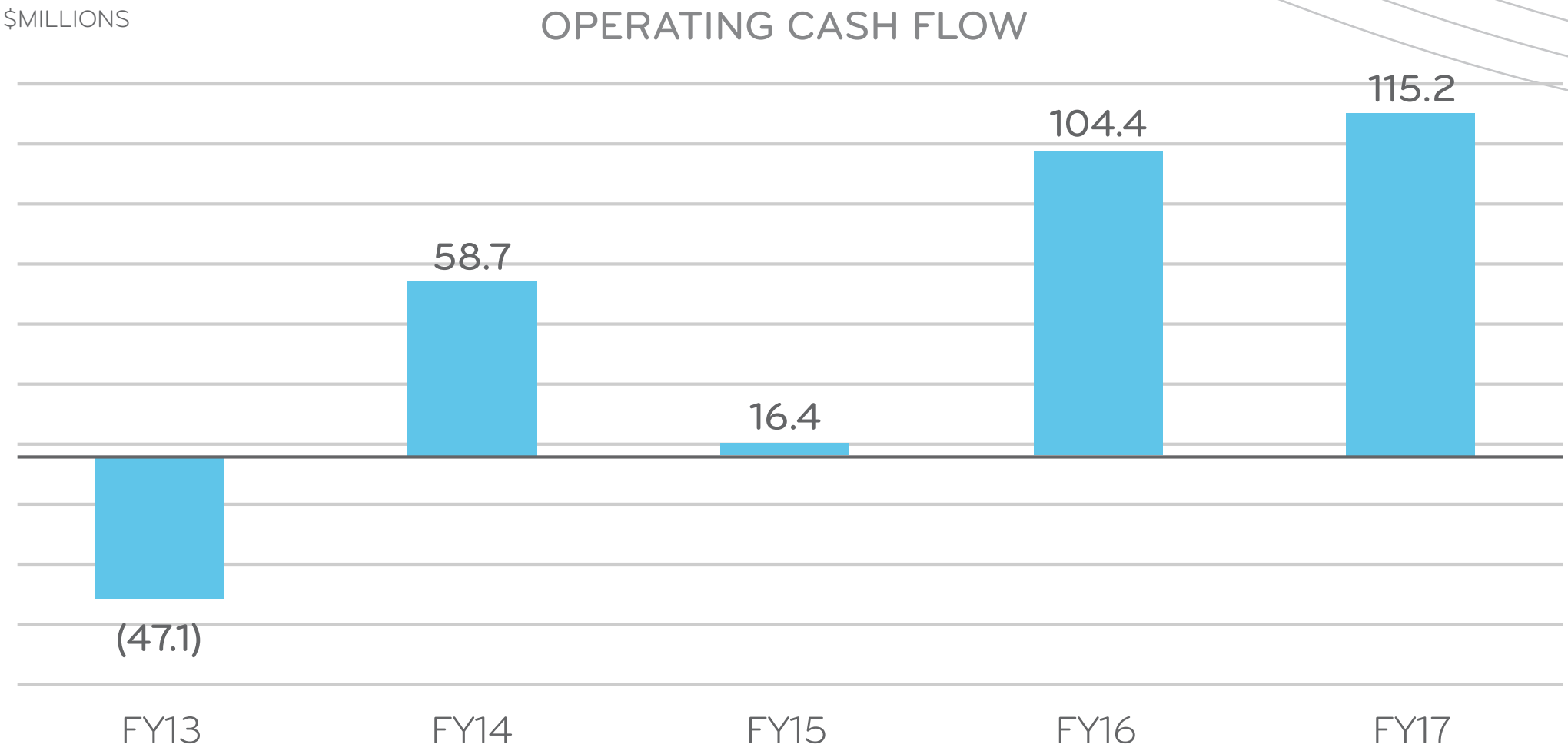
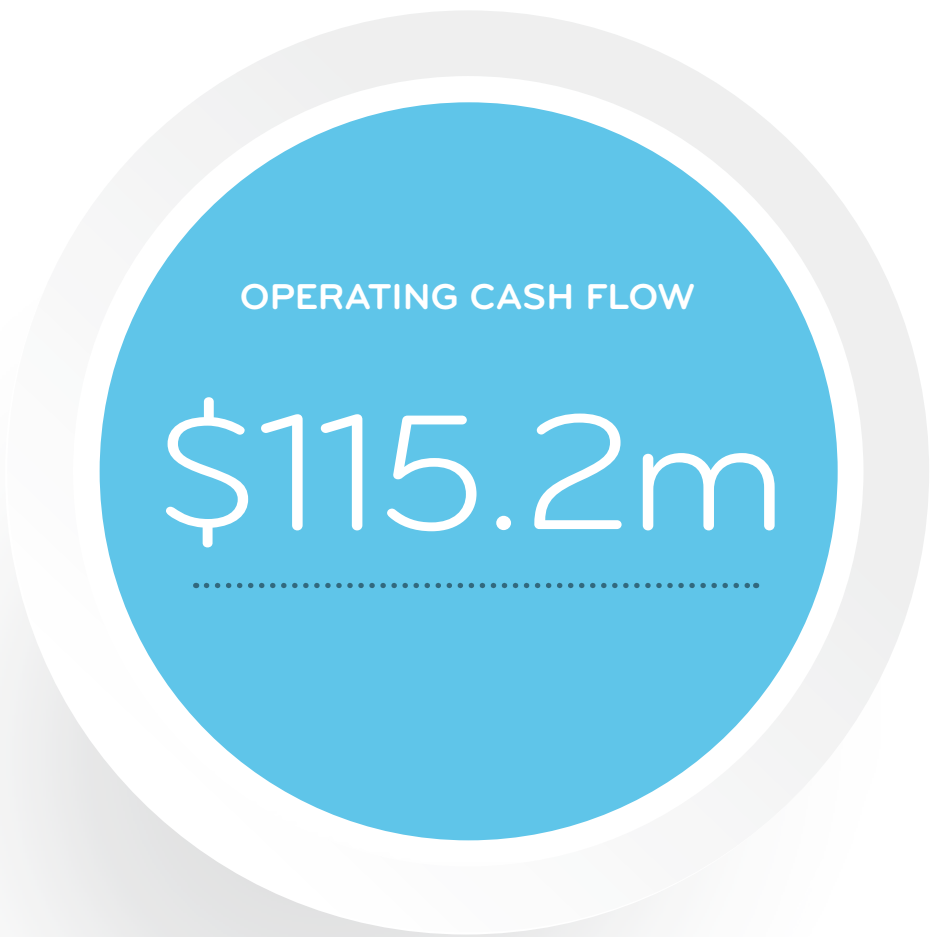
REINVESTING MARGIN INTO BUSINESS DEVELOPMENT

- **In total our overhead expenses** for FY17 at \$44.8m **were up \$6.0m** on FY16 (\$38.8m).
- **Our strong focus on quality, strategic initiatives and Research and Category Development comprised half of our increase in overheads.**
Our investments in employees was planned, as we noted in our FY16 full year and interim presentations.
- Partly due to increased infant volumes, Synlait has carried higher average inventory through FY17 compared with FY16. This has required additional warehousing space.



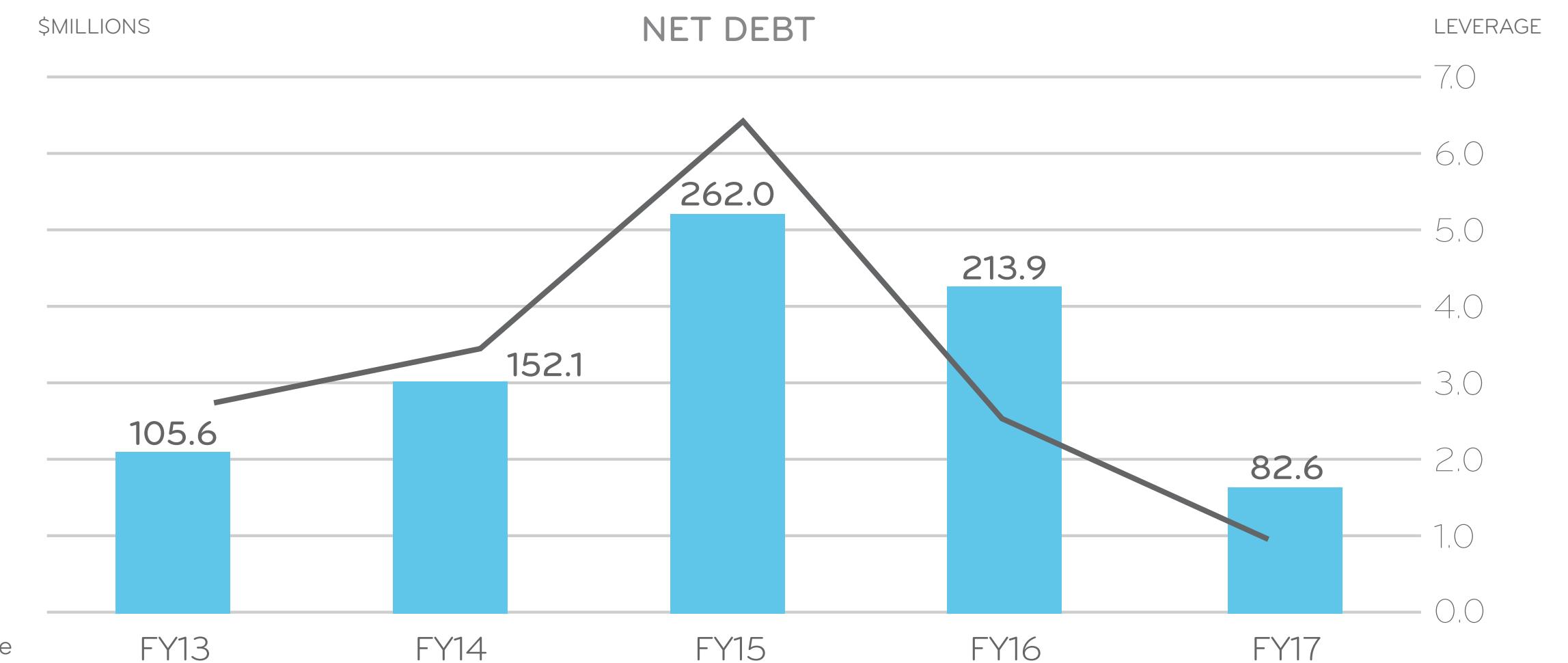
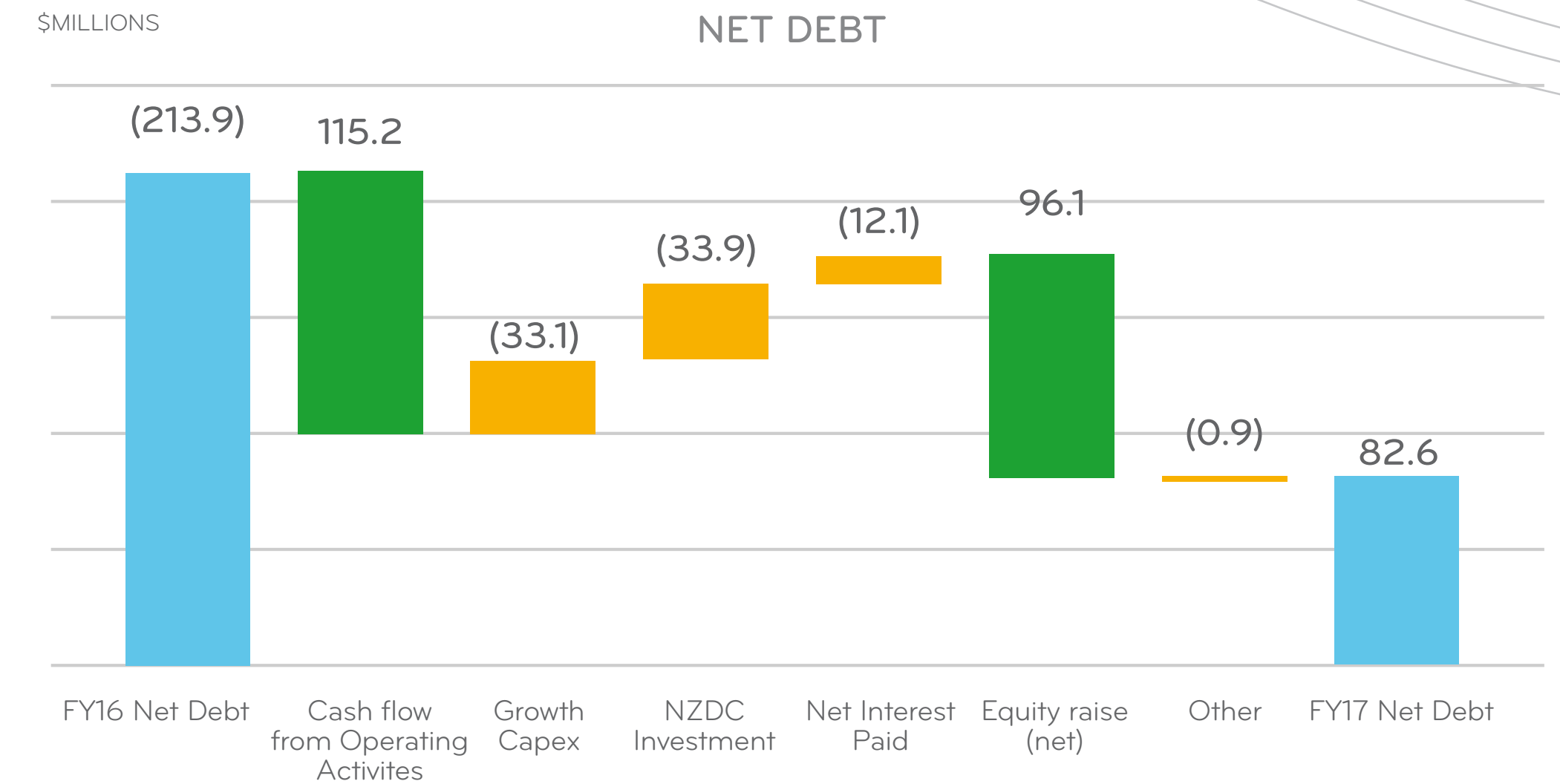
CONTINUED CASH FLOW GROWTH

- **Operating cash flow increased by \$10.8m from FY16, to \$115.2m in FY17.**
- **Operating cash flow was greater than EBITDA given rising milk prices, relative to the advance rates paid.**
- **An offsetting factor was an increase in receivables (up \$41.2m on FY16).**
This was driven equally by increased dairy commodity prices and increased sales volumes in the last two months of the financial year (phasing).



DEBT REDUCTION

- **Net debt has decreased from \$213.9m in FY16 to \$82.6m.**
- **The capital raise of \$97.6m** completed in October 2016 and strong **operating cash flows of \$115.2m** were the main drivers.
- These factors vastly outweighed the **investment in our Wetmix kitchen (\$33.1m)**, the **acquisition of NZDC (\$33.9m)** and **other capital expenditure of \$12.1m**.
- Synlait continued generating free cash flow in FY17, producing \$55.0m (being operating cash flow less investing cash flow). Our leverage ratio improved substantially, from 2.6x to 0.9x.






OUR EXPECTATIONS AND FUTURE

GOING FORWARD

- We see considerable opportunities to solidify our current ingredient and infant formula positions and to enter new categories.
- To date our strategy has been exclusively business to business. In future, we may consider the establishment of branded positions, where
 - there is no conflict with our existing partner relationships; and
 - we feel we have significant consumer benefits.
- It is likely that to achieve this strategy we will also establish further manufacturing sites over time. Our current balance sheet and projected earnings are sufficient to fund our strategy.
- In summary our strategy is to continue to grow both top and bottom lines at pace.
- A more profitable, more diversified and lower risk business is the goal.



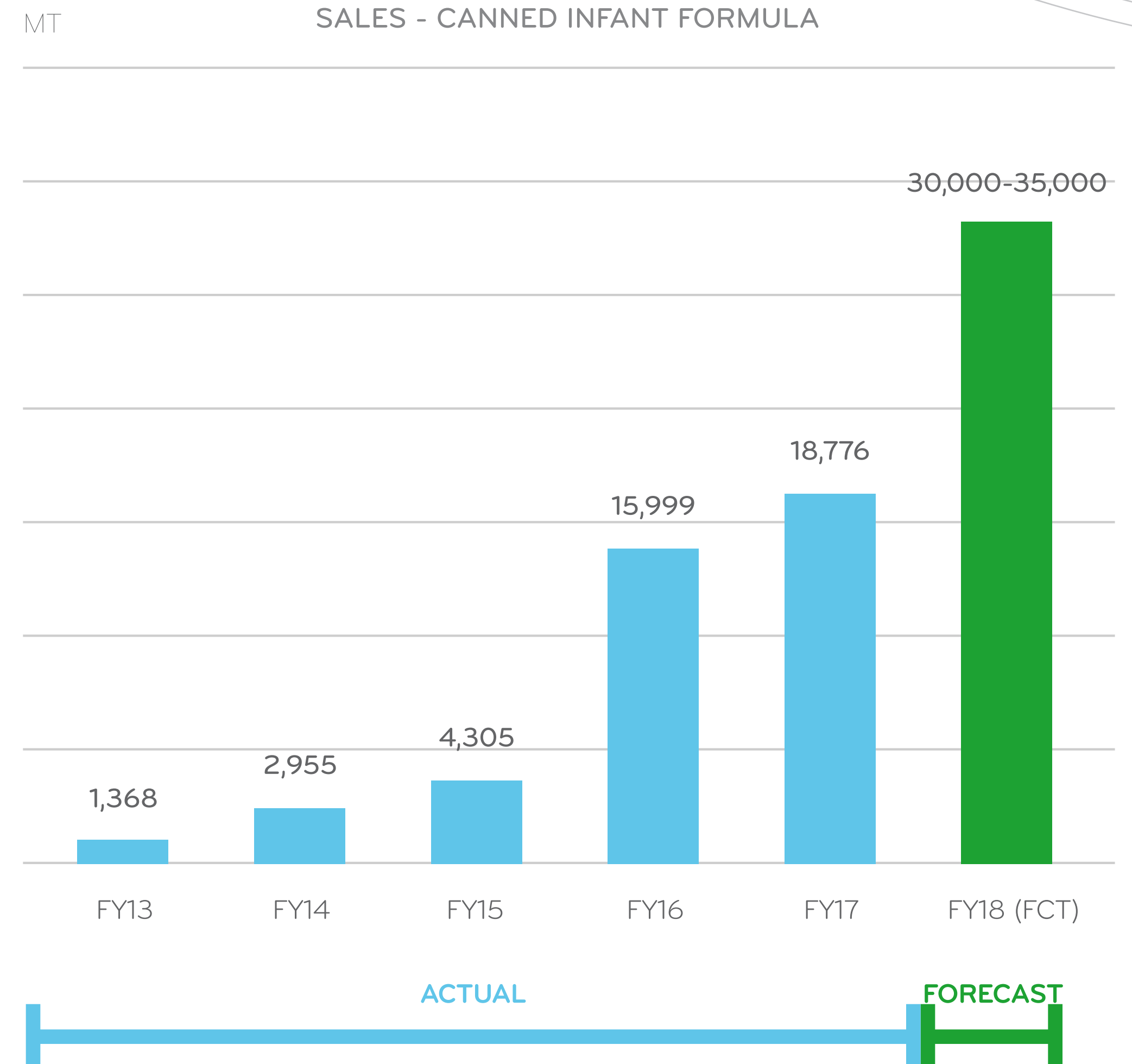
WE MAY ESTABLISH
FURTHER
MANUFACTURING
SITES OVER TIME



WE MAY
CONSIDER THE
ESTABLISHMENT
OF BRANDED
POSITIONS

EXPECTATIONS OF GROWTH

- **We expect Chinese infant formula demand to continue to grow, particularly with the relaxing of the one child policy.**
- The regulatory change targeting rationalisation of brands may boost demand in the second half of FY18, post registration.
- Registration of The a2 Milk Company's and New Hope Nutritional's infant formulas in China are expected to support demand growth.
- Investment in customer and market development (e.g. Munchkin Inc.) is also expected to support our sales growth.
- As a result, we expect demand to increase significantly for Synlait consumer packaged products.
- Increased infant formula sales drives margin growth.
- Increased volume from 18,776 MT to approximately 30,000 to 35,000 MT.
- 16,000 MT forecast for H1 FY18.
- We will continue to grow our investment in business development and technical capability.





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