



## UBS Australasia Conference

Sydney  
13 November 2017

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- Company overview
- Group strategy
- FY17 result highlights
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**“The Company’s continued growth reflects increasing consumer acceptance of the a2™ brand and the benefits of dairy-based products free from the A1 beta casein protein type”.**

**Geoffrey Babidge  
Managing Director & CEO**

# Company overview



# The a2 Milk Company at a glance

- The a2 Milk Company (“a2MC”) is in the business of producing, marketing and selling premium branded dairy nutritional products in targeted global markets
- All a2MC branded products contain only A2 beta casein protein type rather than both A1 and A2 types found in conventional cows’ milk products
- Uniquely focused on building a branded and differentiated business supported by an integrated IP portfolio and growing scientific evidence



Key metrics FY17		
	NZD million	AUD million <sup>1</sup>
<b>Market Capitalisation<sup>2</sup></b>	~5,470	~4,870
<b>Group Revenue</b>	549.5	495.7
<b>Group EBITDA<sup>3</sup></b>	141.2	127.3
<b>Group NPAT</b>	90.6	81.8
<b>EPS<sup>4</sup> (cents per share)</b>	12.7c	11.5c

<sup>1</sup> AUD metrics converted at 8 November 2017 (NZD/AUD = 0.902)

<sup>2</sup> Based on share price of NZD7.49/AUD6.73 as at 8 November 2017 (quoted securities only)

<sup>3</sup> EBITDA is a non-GAAP measure, representing earnings before interest, tax, depreciation and amortisation

<sup>4</sup> Basic Earnings Per Share





# The a2 Milk Company proposition

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**Single-minded company focus on A1 protein-free products (pioneers and experts)**



**Compelling and growing scientific evidence**



**Integrated IP portfolio and proprietary know-how**



**Unique and effective marketing approach**



**Clean and green Australia and NZ sourcing profile (strength in Asia)**



**Capital-smart investment model coupled with strong long-term supply partners**

# Group strategy





# Growth strategy

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## OUR PURPOSE

**As the a2 Milk™ pioneers we are determined to help people enjoy a better life**

## OUR VISION

**To be the innovative and smart choice for dairy nutrition**

## OUR AMBITION

**To be the most admired and commercially attractive dairy nutritional company**

## OUR STRATEGIC PRIORITIES



### **BROAD DAIRY NUTRITIONAL PRODUCT PORTFOLIO**

Across a continuum from the purity of fresh a2 Milk™ to customised A1 protein-free products

Targeting adults, children and infants to satisfy their growing digestive health needs



### **TARGETED ATTRACTIVE REGIONS**

Asia Pacific focus  
(ANZ, China, Other Asia)

USA

UK

Opportunistic new markets



### **PROPRIETARY KNOW-HOW, A2 PROTEIN EXPERTISE**

Integrated intellectual property portfolio

Leading operational & compliance capability

Sponsoring relevant scientific research

Differentiated brand development



# Dairy nutrition innovation continuum

Further scope for innovation in existing & adjacent product segments



# Strategic progress & agenda

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- Continued build of Board and senior management capability
  - Appointment of Warwick Every-Burns & Jesse Wu as non-executive Directors
  - Reorganisation of senior leadership team and new focus:
    - Chief Executive Asia Pacific
    - Executive Vice President China
    - Head of Business Development – Emerging Markets
    - UK, Europe & Strategic initiatives
- New hires across the Company to support regional growth and innovation needs
- Product innovation planned for FY18 targeting adults, children and infants
  - a2 Platinum® Stage 4 English label in market from August 2017
  - Further launches to follow
- Recent launch of Australian fresh milk into Singapore, first SEA initiative
- Further investment in IP portfolio, supported by targeted R&D
- New unifying brand identity



# FY17 result highlights



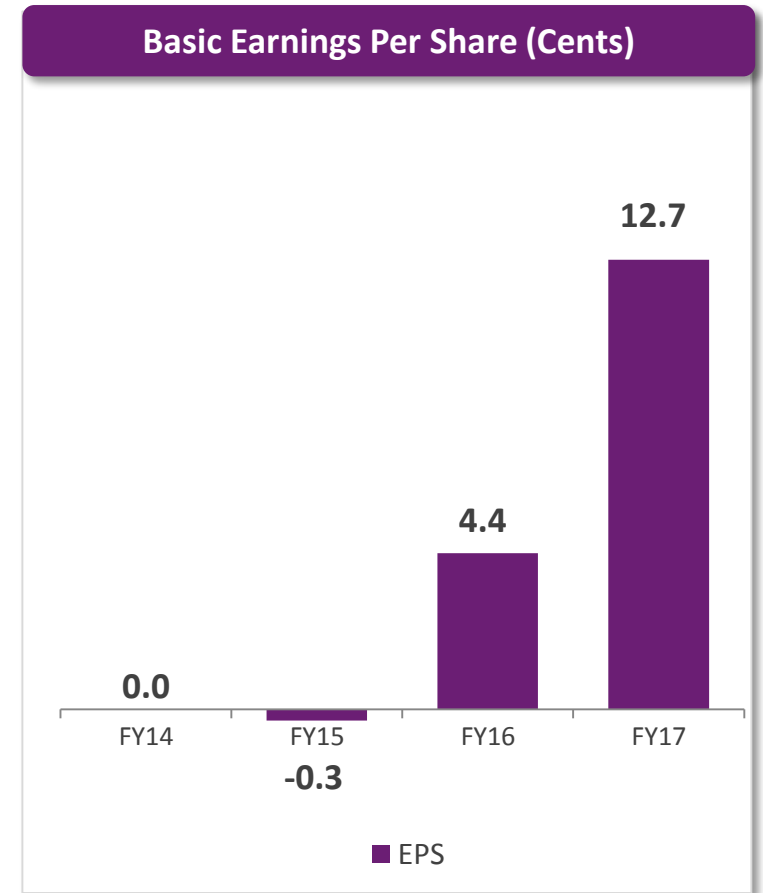
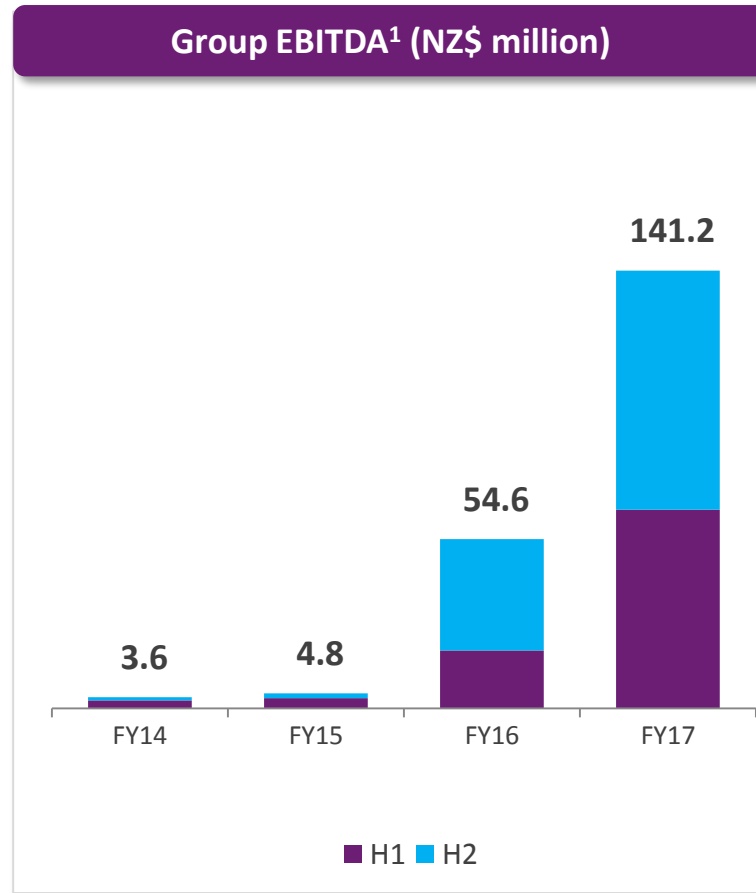
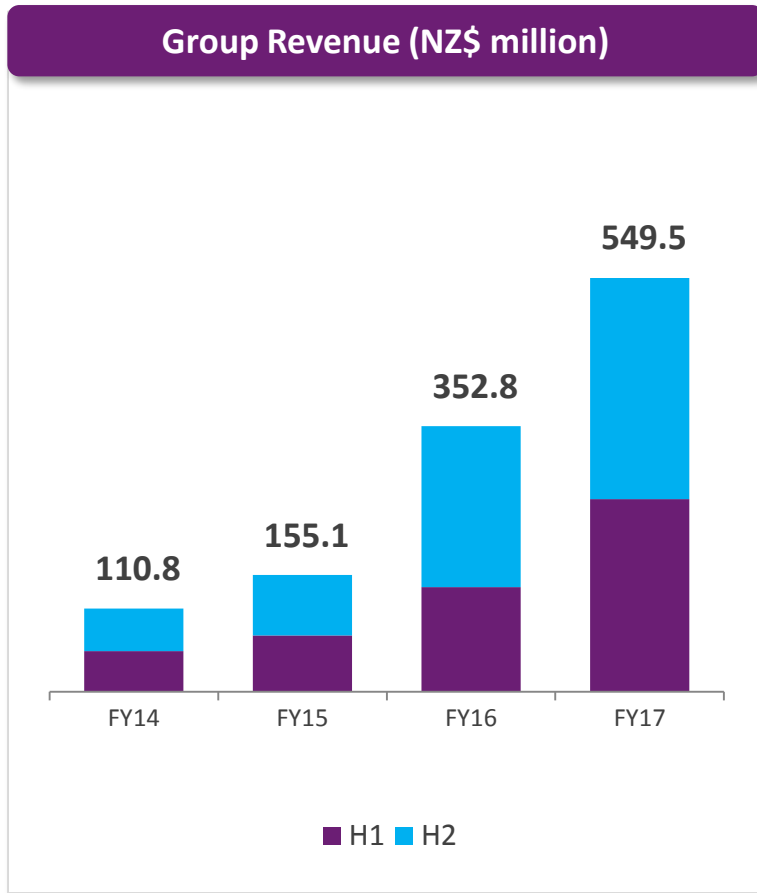
## Financial summary

NZ\$ million	FY17	FY16	% change
Revenue	549.5	352.8	56%
Gross margin	263.5	151.0	75%
Sales & distribution	(21.3)	(19.0)	12%
Marketing	(42.0)	(33.0)	27%
Employee costs	(23.0)	(19.1)	20%
Administration & other	(36.0)	(25.3)	42%
EBITDA	141.2	54.6	159%
EBIT	138.5	51.8	167%
NPAT	90.6	30.4	198%
	<b>Jun-17</b>	<b>Jun-16</b>	<b>% change</b>
Cash on hand	121.0	69.4	74%
Inventory	28.4	52.6	(46%)

- Group revenue growth of +56% on pcp, a2 Platinum® infant formula revenue +84%
- EBITDA to sales margin of 26% (up from 15% in pcp)
- Gross margin primarily reflects increased contribution from infant formula sales and lower infant COGS in FY17
- Increased marketing and brand development spend of \$9.0m vs pcp, primarily in US and China
- Increases to 'administration and other' reflects write-down of intangibles (+\$2.4m), increased spend on patents, trademarks and R&D (+\$2.0m) and others costs associated with business expansion
- Effective tax rate reduced from ~42% to ~35% reflecting lower weighting of non-deductible expenses and international losses not tax effected
- Cash on hand reflects strong NPAT contribution offset by \$48.7m investment in Synlait
- Inventory reduction reflects strong demand for infant formula
- Refer Appendix for geographic performance, cash position and a reconciliation of non-GAAP measures



# The year in charts

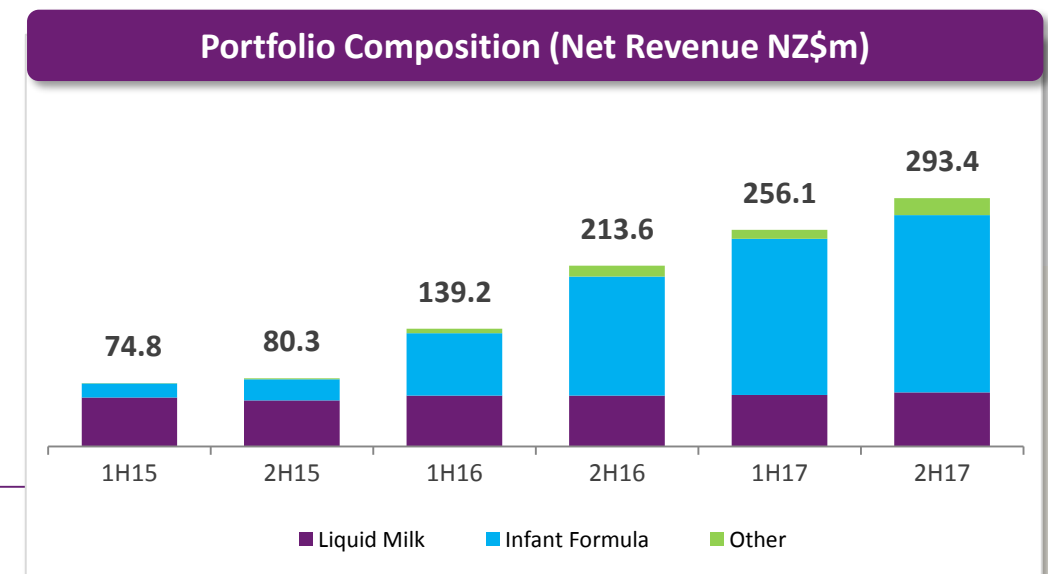
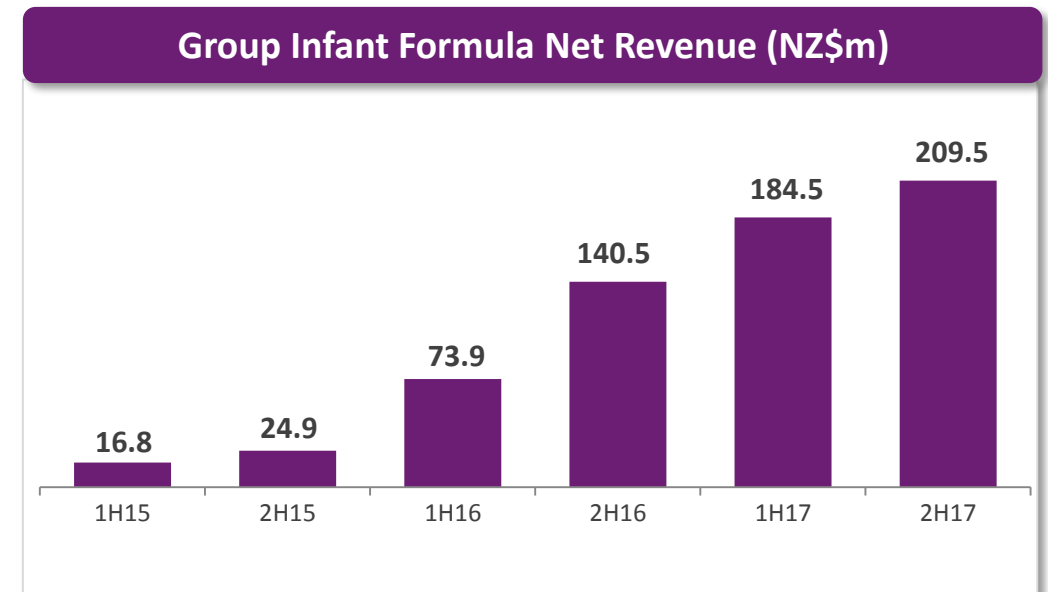


<sup>1</sup>EBITDA is a non-GAAP measure and represents earnings before interest, tax, depreciation and amortisation, and is shown before non-recurring items



# Continued strong growth in sales and market share for a2 Platinum®

- Group infant formula revenue of NZ\$394.0 million, compared to NZ\$214.4 million for FY16
- Infant formula accounts for 72% of Group revenue
- Significant growth in Australian marketplace:
  - Fastest growing Australian infant formula brand by value<sup>1</sup>
  - Number 2 infant formula brand in the Australian market<sup>1</sup>
  - Value market share growing from ~16% to ~26% (MAT)<sup>1</sup>
- Continued success of a2 Platinum® in China a function of our multi-product, multi-channel strategy:
  - Direct sales into China increased significantly in cross border e-commerce channels (CBEC) and mother baby retail stores (MBS)
  - China achieved ~150% growth of infant formula sales from FY16
  - China Label accounted for ~6% of Group infant formula sales in FY17, strengthening to ~8% in 2H17
- Synlait Milk Limited:
  - Enhanced supply agreement completed in August 2016 provides surety of supply
  - a2MC acquired 8.2% shareholding (March 2017)



<sup>1</sup>Australian Grocery and Pharmacy Scan 52 weeks to 30 June 2017



# FY17 regional performance

## ANZ

- Exceptional ANZ business performance; revenue \$439.6m (+48.3%)
- ~78% growth in a2 Platinum® infant formula
- a2 Milk™ fresh milk revenue up ~5.5%
- Strong growth in whole milk powder
- Skim milk powder introduced (May 17)
- a2MC highest brand advertising spend<sup>1</sup>
- Continued to pay a premium to farmers

## China

- Strong sales and earnings momentum; revenue \$88.9m (+132.9%)
- Infant formula consumption value share of 3.5%<sup>2</sup>
- Strong growth across mother baby retail and CBEC channels
- Increased local China team capability
- Managed expansion in structured way, supported by in-market consultants

## USA

- Progress in building brand awareness, growing rate of sale and expanding footprint region-by-region
- Distribution to ~3,000 stores
- ‘Love Milk Again’ campaign launched
- Continued focus on return on investment
- Financial outlook now assumes ~US\$25M forward investment before positive monthly EBITDA in FY20

## UK

- Achieved first annual operating profit
- ‘a2tonishing™’ marketing campaign continued
- Distribution gains to ~1,600 stores and growth in rate of sale
- Assessing incremental opportunities in Europe and Middle East

<sup>1</sup> Highest brand advertising spend for both infant formula and fresh milk categories for FY17

<sup>2</sup> Kantar Infant Formula market tracking of China Key and A cities for quarter ending 30/06/17 vs prior year of 2.1% (Kantar track a substantial proportion of the total market)



# Intellectual property and R&D

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- The Company recognises increased interest in A1 protein-free products
  - Focus on patents, trade marks and proprietary know-how across chosen markets, building on first mover advantage
  - a2MC will continue to actively enforce its intellectual property rights
- Research projects progressed during FY17:
  - Significant human study in China (n=600) builds upon digestive benefit findings from an earlier study published in FY16 – now published
  - Clinical study in China amongst pre-school children examining digestive and cognitive function submitted for publication; results consistent with recent adult findings
  - Human clinical study in association with Monash University Australia examining the benefits of a2 Milk® on irritable bowel syndrome
  - Clinical examination of benefits of A1 protein-free milk to gut and systemic inflammation at USA Pennington Biomedical Research Centre
  - First acute human study supported by New Zealand Government grant now complete, a second study building on initial findings has been initiated
- In September 2016 the *Nutrition Journal* reported that consumption of a2 Milk™ increases natural production of the body's key antioxidant, Glutathione (GSH) in self diagnosed milk-intolerant Chinese consumers
  - GSH is widely recognised for its association with a range of health benefits



**FY18 update**



# FY18 regional performance<sup>1</sup>

## ANZ

- a2 Milk™ fresh milk performing well, pleasing 1Q18<sup>2</sup> growth on pcp
- a2 Platinum® infant formula continues to be significant contributor
- Successful launch of a2 Platinum® Stage 4, strong consumer take-up
- Strong growth in a2 Milk™ branded milk powders (skim, whole milk)
- The Australian Federal Court action remains in progress; a2MC remains confident of achieving a successful outcome. The scheduled hearing date has been vacated from November 2017 until the New Year with a date to be determined

## USA

- Continuing distribution build in core regions and natural channel
- Rate of sale build in Publix and other key retailers backed by earned media and “Love Milk Again” advertising campaign
- Achieving national earned media including “CBS This Morning” national TV news feature during October and strong press coverage
- Investigating new product opportunities for this market

## China and other Asia

- Building local team to support ongoing sales growth
- Remain focussed on distribution expansion through MBS<sup>3</sup> (offline)
- Consumption share for a2 Platinum® infant formula brand continues to strengthen; ~4.1% Kantar value share up from ~3.5%<sup>4</sup>
- China Food and Drug Administration (CFDA) registration achieved for China label infant formula
- Recent launch of Australian fresh milk into Singapore, first SEA initiative progressing well

## UK

- Pleasing progress in rate of sale for fresh milk
- Continued growth in distribution footprint
- Results include a2 Platinum® infant formula sales in the wholesale channel in line with pcp
- Continuing to assess incremental opportunities in Europe and the Middle East

<sup>1</sup> 4-month FY18 (4M18) update to be provided at the Company's Annual Meeting, 21 November 2017

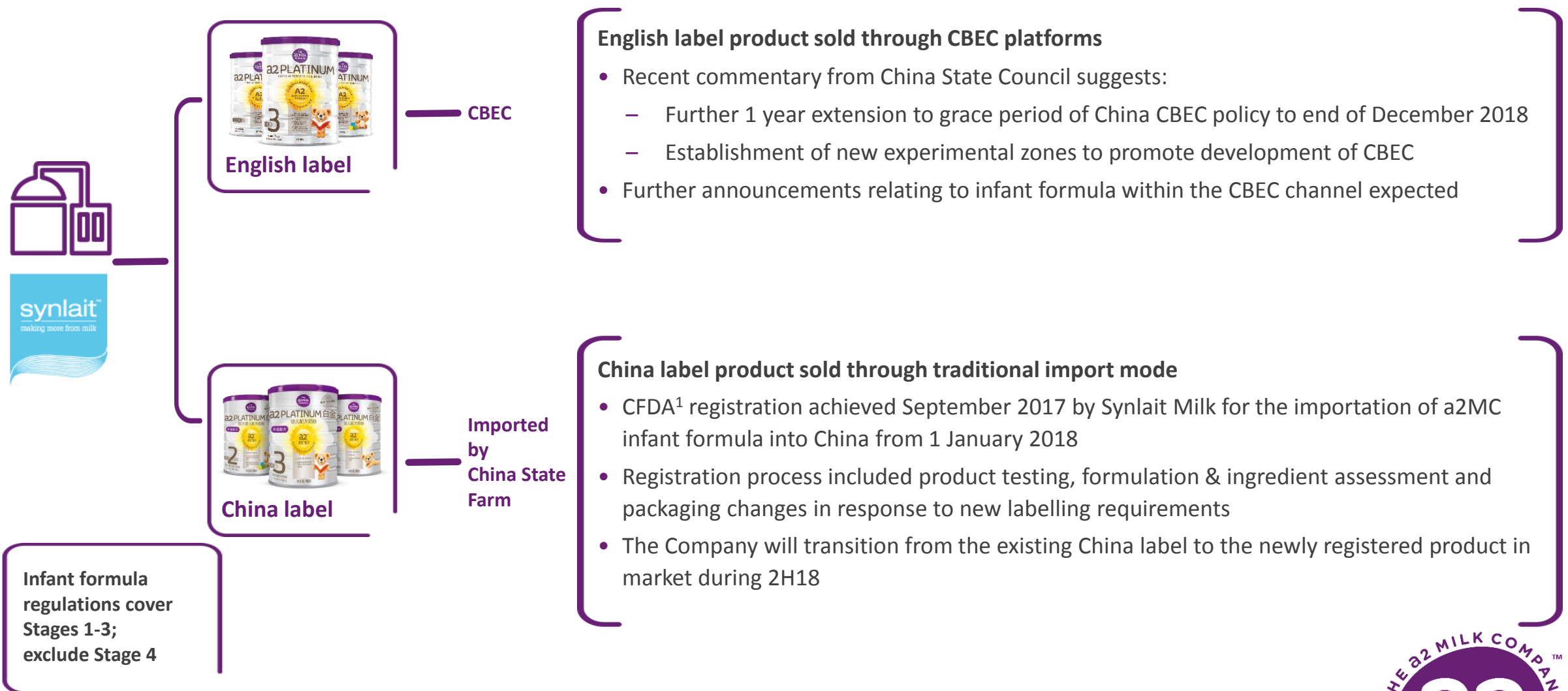
<sup>2</sup> 1st Quarter FY18

<sup>3</sup> Mother Baby Store (MBS)

<sup>4</sup> Kantar Infant Formula market tracking of China Key and A cities for latest quarter ending 08/09/17, up from 3.5% quarter ended 30/06/17 (Kantar track a substantial proportion of the total market)



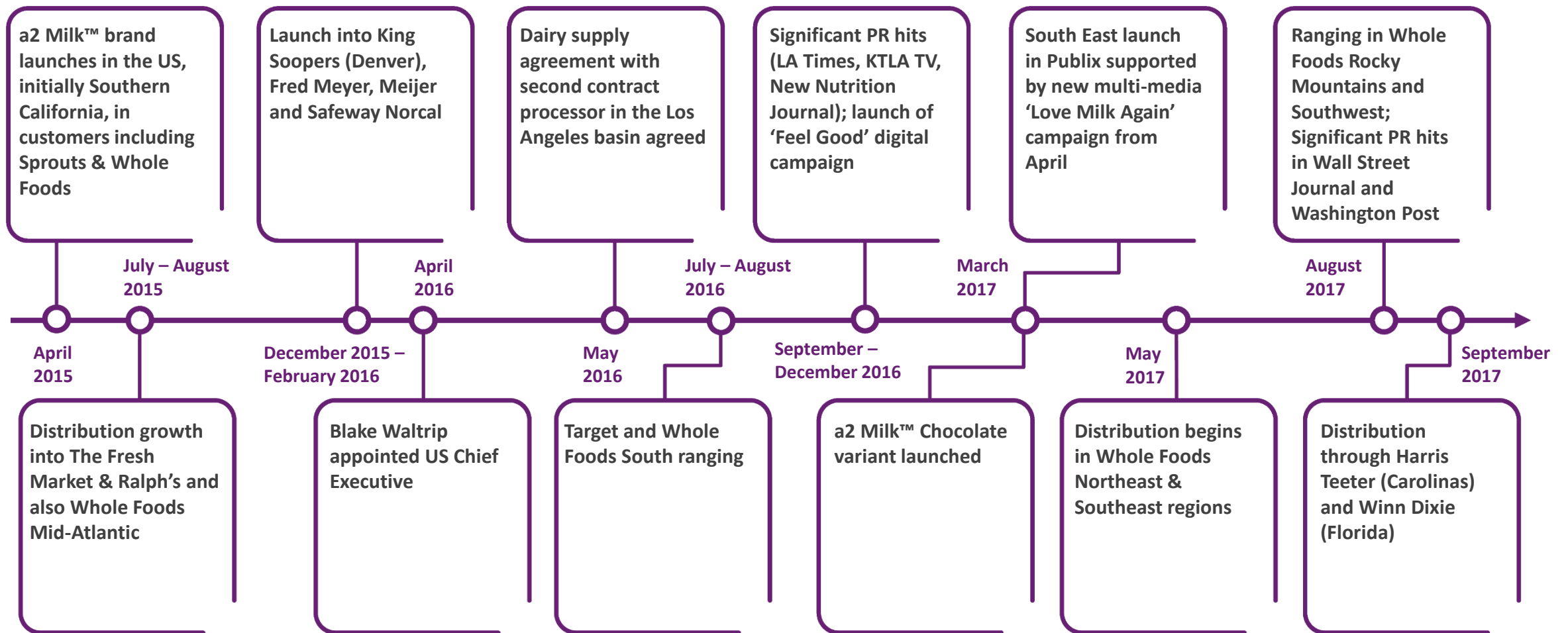
# China infant formula regulatory environment



<sup>1</sup> CFDA: China Food and Drug Administration



# Momentum has continued to build in the US since launch



## Public relations coverage USA

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<https://www.cbsnews.com/videos/a2-milk-draws-consumer-praise-dairy-industry-skepticism/>





# Appendix



## Geographic financial performance

NZ\$ million	FY17		FY16		Movement %	
Operating Segment	Segment Revenue	Operating EBITDA <sup>1</sup>	Segment Revenue	Operating EBITDA <sup>1</sup>	Segment Revenue	Operating EBITDA <sup>1</sup>
Australia & New Zealand	439.6	155.3	296.3	84.7	48.3%	83.4%
China & other Asia	88.9	32.8	38.2	9.2	132.9%	257.6%
Corporate and other	-	(24.4)	-	(18.8)	-	30.2%
<b>Total excluding US &amp; UK</b>	<b>528.5</b>	<b>163.7</b>	<b>334.5</b>	<b>75.1</b>	<b>58.0%</b>	<b>118.0%</b>
US & UK <sup>2</sup>	21.0	(22.5)	18.3	(20.5)	15.1%	9.8%
<b>Total Group</b>	<b>549.5</b>	<b>141.2</b>	<b>352.8</b>	<b>54.6</b>	<b>55.8%</b>	<b>158.6%</b>

Infant formula (included in Group total)

394.0

214.4

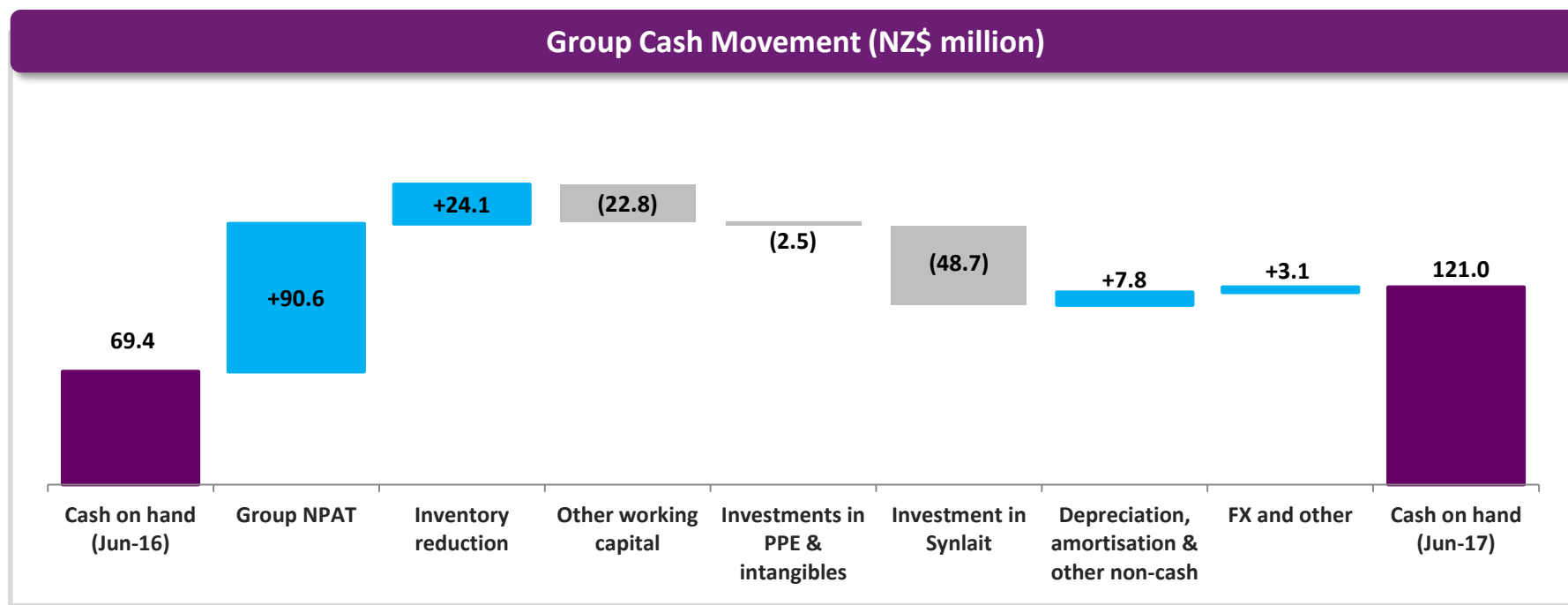
83.8%

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

<sup>2</sup>UK & US Operating EBITDA includes \$2.2 million in impairment charges in FY17



# Cash position



- Cash on hand reflects continued earnings momentum
- Inventory reduction reflects strong infant formula demand exceeding stock availability
- Working capital movement driven largely by increase in trade debtors and prepayments relating to infant formula
- Includes acquisition of shareholding in Synlait
- Working capital outlook assumes a planned increase in infant formula inventory in FY18



## Reconciliation of non-GAAP measures

NZ\$ million	FY17	FY16
ANZ segment EBITDA	155.3	84.7
China & other Asia segment EBITDA	32.8	9.2
US & UK segment EBITDA	(22.5)	(20.5)
Corporate & other segment EBITDA	(24.4)	(18.8)
EBITDA <sup>1</sup>	141.2	54.6
Depreciation & amortisation	(2.7)	(2.8)
EBIT <sup>1</sup>	138.5	51.8
Net interest income	0.8	0.5
Income tax expense	(48.7)	(21.9)
Net profit for the period	90.6	30.4

<sup>1</sup>EBITDA and EBIT are non-GAAP measures, but the Company believes they provide investors with a comprehensive understanding of the underlying performance of the business





