



# Half year interim results FY18

**Geoffrey Babidge** | Managing Director & CEO

21 February 2018



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# Contents

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- Result highlights
- Financial overview
- Group strategy update
- Regional update
- Outlook



# Result highlights



# 1H18 highlights

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- Group revenue \$434.7 million<sup>1</sup> and Operating EBITDA<sup>2</sup> \$143.0 million
- Group a2 Platinum® infant formula revenue of \$341.0 million, up 85% on pcg
- ANZ segment revenue +47% and EBITDA +65%
- China revenue and EBITDA more than trebled vs pcg
- Infant formula consumption market share in China of ~5.4%<sup>3</sup>
- Sales velocity growth and expansion of liquid milk distribution in the US and UK
- Continued focus on emerging markets and broader nutritional products strategy
- Operating cash flow of \$116.4 million; closing cash balance of \$240.2 million at period end
- CFDA infant formula registration achieved by Synlait Milk for a2MC infant formula<sup>4</sup>
- Admission to the S&P/ASX 100 and S&P/NZX 10 indices, effective December 2017
- Evolving shareholder composition: ~70% domestic (ANZ); ~30% offshore (North America, Asia, Europe)

<sup>1</sup> All figures quoted in New Zealand Dollars (NZD) unless otherwise stated

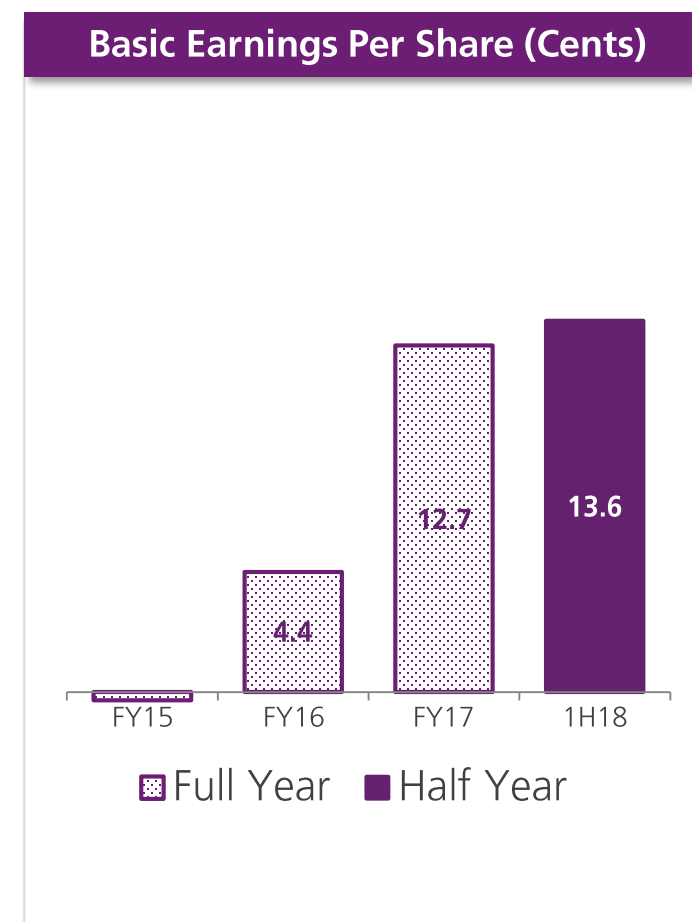
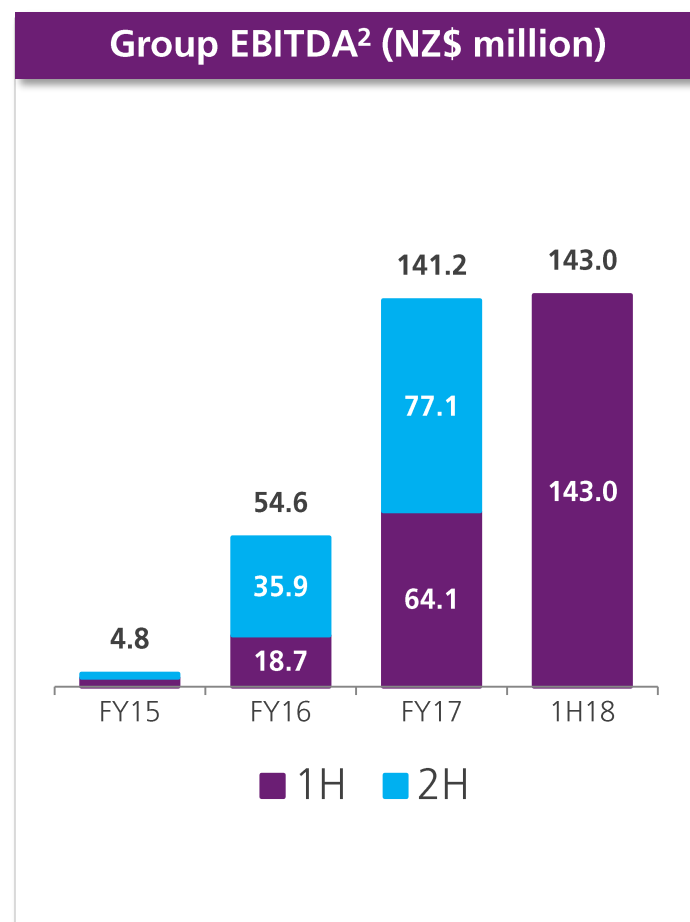
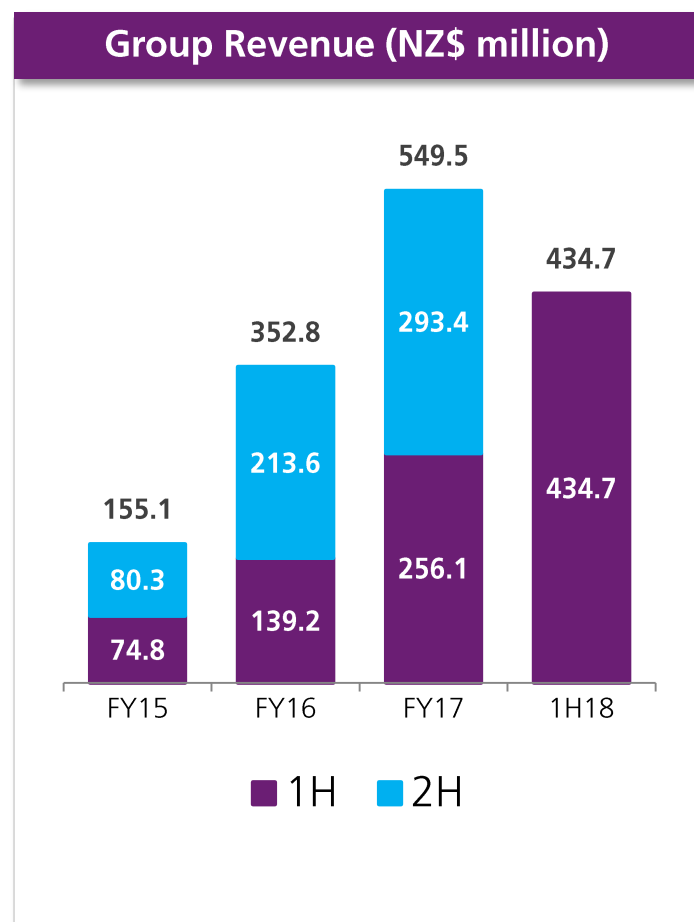
<sup>2</sup> Operating EBITDA is a non-GAAP measure and represents earnings before interest, tax, depreciation and amortisation

<sup>3</sup> Kantar Infant Formula market tracking of China Tier 1 and Key A cities for quarter ending 31/12/17 by value (Kantar track a substantial proportion of the total market)

<sup>4</sup> CFDA: China Food and Drug Administration; registration achieved by Synlait Milk for the importation of a2MC infant formula into China from 1 January 2018



# Key financial charts<sup>1</sup>



<sup>1</sup> The Company's financial year ends 30 June; 1H refers to the first half period from 1 July to 31 December; 2H refers to the second half period from 1 January to 30 June

<sup>2</sup> EBITDA is a non-GAAP measure and represents earnings before interest, tax, depreciation and amortisation, and is shown before non-recurring items

# Financial overview



# Financial summary

NZ\$ million	1H18	1H17	% change	
Revenue	434.7	256.1	+70%	• Reflects market share gains in key products across all regions
Gross margin	216.5	119.0	+82%	• GM% of 49.8% benefitted from growth in infant formula and favourable currency movements
Distribution	(13.0)	(9.5)	+37%	• Increase relates primarily to distribution costs
Marketing	(26.0)	(16.0)	+62%	• Increased marketing investment primarily to support growth in China and US
Employee costs	(16.4)	(9.9)	+65%	• Employee cost increases reflect capability build in core markets
Administration & other	(18.0)	(19.5)	-8%	• Administration & other includes ~NZ\$2.9 million net gains on foreign denominated cash holdings and working capital
EBITDA	143.0	64.1	+123%	
EBIT	141.9	62.5	+127%	
NPAT	98.5	39.4	+150%	• Effective tax rate reduced from ~37% to ~31% reflecting lower weighting of international tax losses (not tax effected) and non-deductible expenses

NZ\$ million	Dec-17	Jun-17	% change	
Cash on hand	240.2	121.0	+98%	• Cash on hand reflects strong NPAT contribution; improvements in working capital benefitted from timing of supplier payments
Inventory	53.6	28.4	+88%	• Planned infant formula build



# Segment financial performance

NZ\$ million		Australia & New Zealand	China & other Asia	Corporate	UK & USA <sup>2</sup>	Total Group
1H18	Revenue	304.2	114.4	-	16.1	434.7
	EBITDA <sup>1</sup>	116.4	48.3	(13.3)	(8.4)	143.0

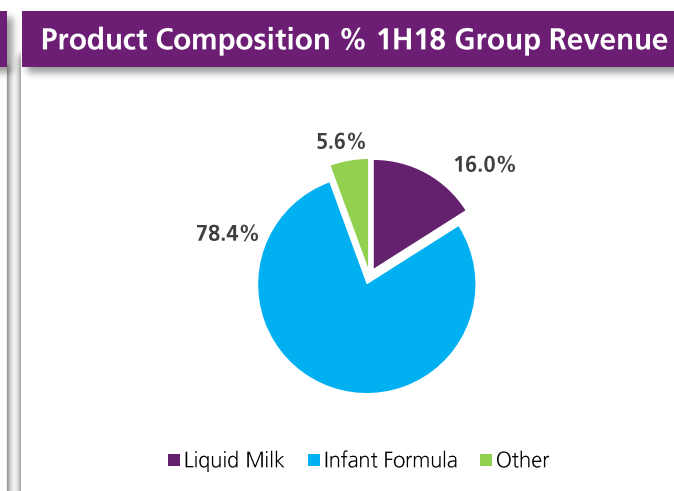
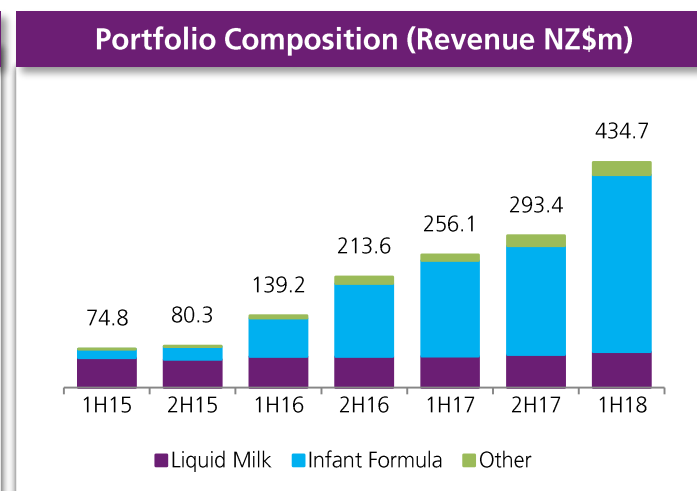
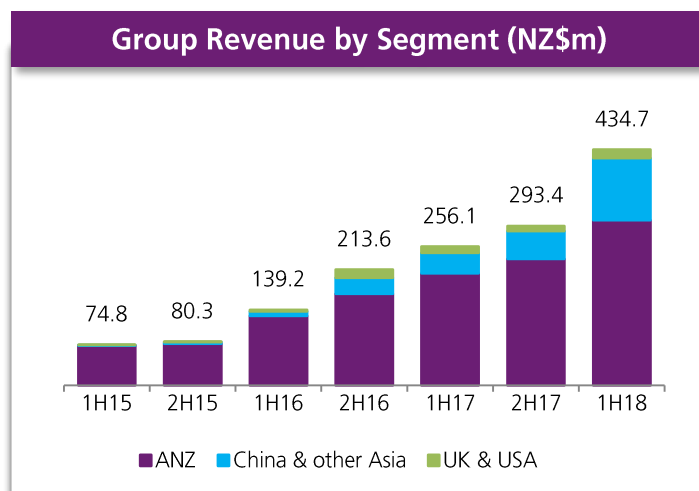
Infant Formula
341.0

1H17	Revenue	206.6	37.7	-	11.8	256.1
	EBITDA	70.4	13.7	(12.3)	(7.7)	64.1

184.5
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% Change	Revenue	47.3%	203.8%	-	35.7%	69.7%
	EBITDA	65.4%	252.0%	8.4%	8.6%	123.2%

84.8%
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<sup>1</sup> EBITDA is a non-GAAP measure and represents earnings before interest, tax, depreciation and amortisation

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

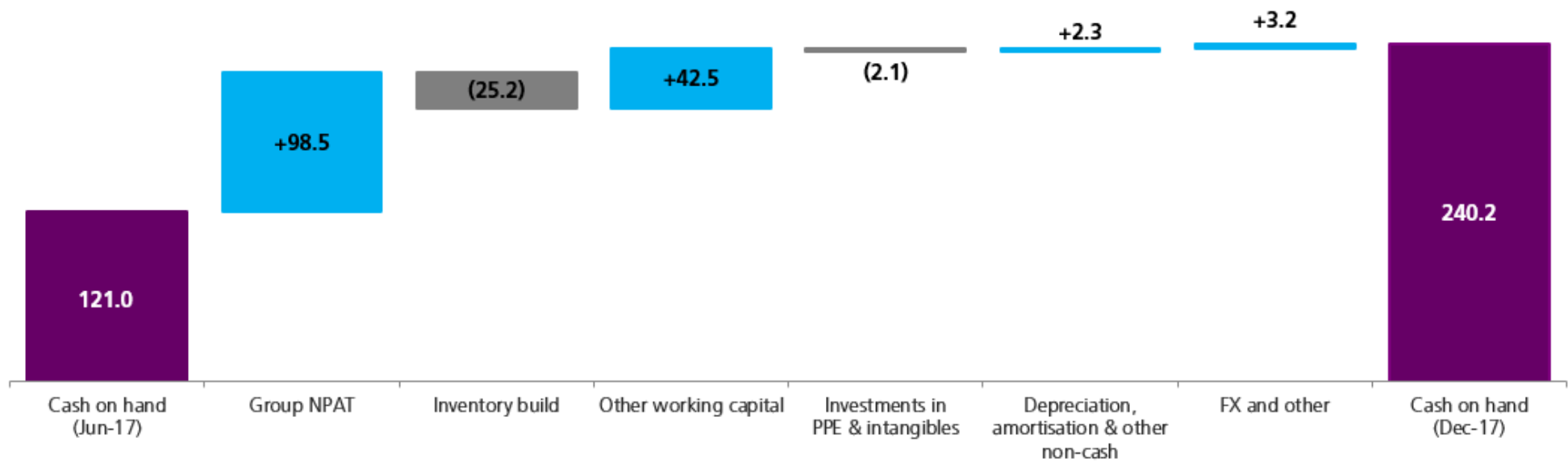
# Reconciliation of non-GAAP measures

NZ\$ million	1H18	1H17
Australia & New Zealand Segment EBITDA	116.4	70.4
China & other Asia Segment EBITDA	48.3	13.7
UK & USA Segment EBITDA	(8.4)	(7.7)
Corporate EBITDA	(13.4)	(12.3)
EBITDA <sup>1</sup>	<u>143.0</u>	<u>64.1</u>
Depreciation/Amortisation	(1.1)	(1.6)
EBIT <sup>1</sup>	<u>141.9</u>	<u>62.5</u>
Net interest income	0.8	0.4
Income tax expense	(44.2)	(23.5)
Net Profit for the Period	<u>98.5</u>	<u>39.4</u>

<sup>1</sup>EBITDA 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

Group Cash Movement: 1H18  
(NZ\$ million)



- Inventory build reflects increase in infant formula inventory towards more appropriate levels to support sales growth
- Other working capital benefited from timing of supplier payments ~\$20 million (expected to reverse in 2H18) and improved debtor days
- FX and other includes positive movements on foreign currency cash holdings due to weakening of NZD



# Group strategy update



# Progress made on 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  
Potential new markets



## PROPRIETARY KNOW-HOW, A2 PROTEIN EXPERTISE

Integrated intellectual property portfolio  
Leading operational & compliance capability  
Sponsoring relevant scientific research  
Differentiated brand development

### FY18 STRATEGIC PROGRESS

- Continued growth of a2 Platinum® infant formula and a2 Milk™ branded milk (powder and liquid) across all markets
- Launched a2 Platinum® Stage 4 junior milk in ANZ (August), China label to follow
- Nutritional products developed for launch calendar 2018 including a2 Platinum® pregnancy formula in 2H18
- Increased investment in marketing and capability across Asia Pacific
- a2 Milk™ branded fresh milk launch, Singapore; Vietnam milk powder test market
- Liquid milk expansion and increased marketing investment, Northeast USA
- Ongoing assessment of opportunities in other markets, in particular Asia
- New unifying brand identity
- Ongoing investment in strengthening intellectual property portfolio
- Considering investment in nutritionals blending and canning capability
- Findings released from new human clinical research studies (China and New Zealand); further progress on existing studies across infants, pre-schoolers and adults
- Expecting broader interest in the A1 protein-free category and well positioned to respond



# Global strategic supply partnerships

## Multi-site, multi-product and geographic diversification

### Synlait Milk Limited

- Foundation infant nutrition partnership
- Multiple New Zealand manufacturing sites
- Exclusive supply rights for infant nutrition into key markets
  - Australia
  - New Zealand
  - China
- New product innovation

### Fonterra Co-operative Group Limited

- Emerging markets, multi-product partnership
- Australia and New Zealand manufacturing sites
- Exclusive supply rights for infant formula and other products into new priority markets:
  - South East Asia, Middle East
  - ANZ and China (non-infant formula products)



# Strategic relationship with Fonterra

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**a2MC has entered into a comprehensive strategic relationship with Fonterra Co-operative Group Limited (Fonterra):**

## Nutritional products manufacturing and supply agreement

- Provides a2MC with a highly credentialed second manufacturing partner
- Fonterra to supply A1 protein-free nutritional products in bulk and consumer packaged formats exclusively to a2MC
- Powder products to be manufactured at Darnum facility in Victoria, Aust; blending and canning at Canpac facility in Hamilton, NZ
- Product supply from Darnum expected to commence during calendar 2019
- a2MC granted strategic customer rights:
  - committed capacity arrangements, with offtake flexibility
- Fonterra granted exclusive supply rights:
  - for specific new priority markets in Southeast Asia and the Middle East for certain nutritional products to a specified volume
- New A1 protein-free milk pool to be developed in New Zealand and Australia by Fonterra and a2MC
- Provides access to large scale manufacturing performance and competitive terms within on a global basis context
- Rolling three year term

# Strategic relationship with Fonterra

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## New Zealand fresh milk licence

- Fonterra granted an exclusive licencing agreement:
  - Launch of a2 Milk™ branded fresh milk for end sale in New Zealand covering production, distribution, sale and marketing
  - Fonterra to access a2MC's systems and know-how relating to the sourcing, processing and marketing of a2 Milk™

## Distribution and sales arrangements

- The parties will seek to establish distribution and sales arrangements in new priority markets where Fonterra has capabilities
- Services may relate to importation, registration, warehousing and sales and distribution

## Other strategic arrangements

- The parties will evaluate potential commercial arrangements for the sale of certain a2MC branded A1 protein-free products in Australia, New Zealand and China
- Relates to dairy products not presently marketed by a2MC, such as butter and cheese

## A1 protein-free milk pools

- Fonterra to establish A1 protein-free milk pools in New Zealand and Australia in conjunction with a2MC





# New unifying brand identity rolling out across regions and innovation

## Asia Pacific



## USA



## Pregnancy, infant and toddler nutrition



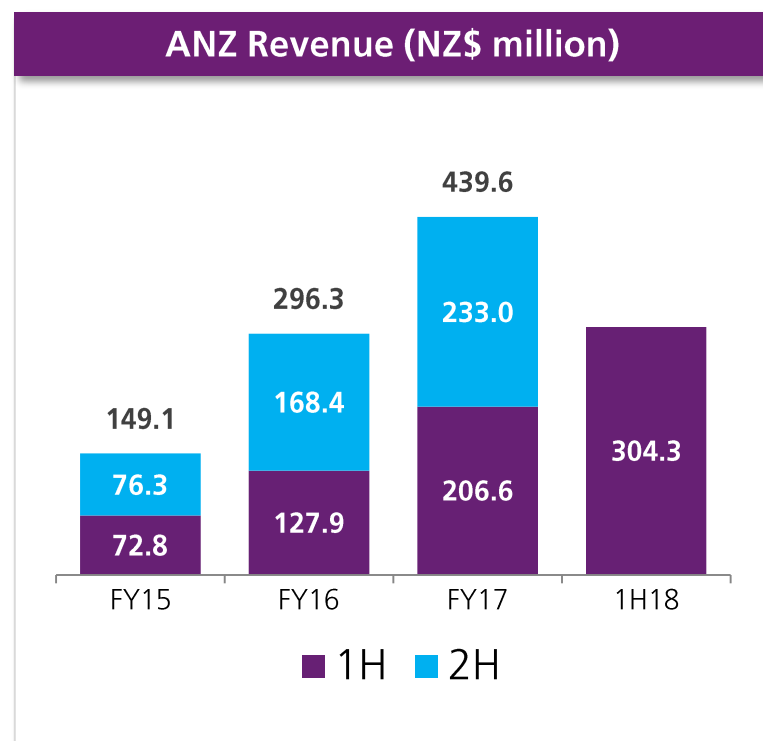
2H18 launch



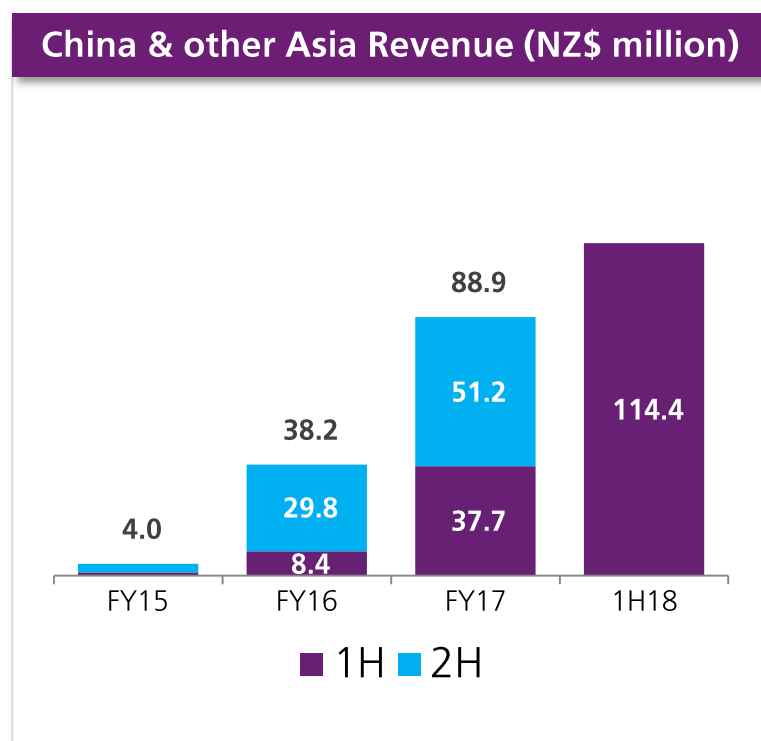
**Regional update**



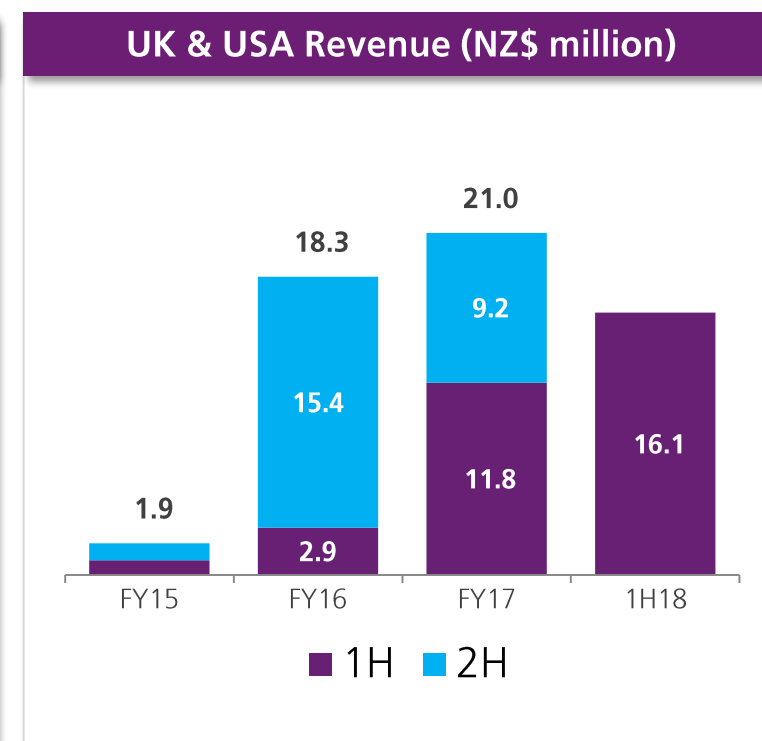
# 1H18 regional performance overview<sup>1</sup>



- **Revenue:** \$304.3
- **EBITDA:** \$116.4



- **Revenue:** \$114.4
- **EBITDA:** \$48.3



- **Revenue:** \$16.1
- **EBITDA:** (\$8.4)

<sup>1</sup> The Company's financial year ends 30 June; 1H refers to the first half period from 1 July to 31 December; 2H refers to the second half period from 1 January to 30 June

# Australia and New Zealand

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- Outstanding performance for the ANZ business
- Strong growth in a2 Platinum® infant formula:
  - Australian market value share increased from ~26% to 30%<sup>1</sup>
  - Remains the fastest growing infant formula brand by value in Australia<sup>1</sup>
- a2 Milk™ branded fresh milk revenue grew ~3% on pc; market share growth to ~9.5%<sup>2</sup>
- Sales of a2 Milk™ branded milk powder products significantly higher on pc
- a2 Platinum® Stage 4 (launched August 2017) performed above expectations
- Successfully launched on-line e-commerce platform to improve access to a2 Platinum® for Australian consumers
- Continued to actively support and closely manage the personal shopper (“Daigou”) channel
- Maintained highest national advertising spend in both infant formula and fresh milk categories
- a2 Milk™ named top brand of choice for Australian ‘millennials’<sup>3</sup>
- Settlement reached with Lion Dairy & Drinks Pty Limited
- Very well supported by nutritionals manufacturing partner, Synlait Milk, in meeting increased demand

<sup>1</sup> Aztec Australian Grocery and Pharmacy Scan 31/12/17 Moving Annual Total (MAT) vs 30/06/17 MAT

<sup>2</sup> Aztec Australian Grocery Weighted Scan 31/12/17 MAT

<sup>3</sup> Number 1 brand on millennial shopping lists, The Urban List, Food & Drink Survey May 2017



# China and other Asia

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- Exceptional performance for the China and other Asia business
- Flexible multi-channel infant formula strategy in China delivering success:
  - Kantar consumption market share by value increased from ~3.5% to ~5.4%<sup>1</sup>
  - Successful participation in key seasonal online sales events in China
  - Distribution in China Mother Baby Stores (MBS) now totalling ~6,700 stores
  - China Label now represents ~12% of Group infant formula sales, up from ~8% in 2H17
- Growing brand awareness driven by increased sales and marketing investment
  - Commenced new brand campaign activation including live streaming events and significant digital TV media
  - Extensive video billboard campaign launch in Hong Kong
- CFDA registration achieved by Synlait Milk for a2MC China label infant formula in September 2017
  - 1H18 inventory includes build of China label in advance of registration
  - Transition to registered product during 2H18
- a2 Platinum® infant formula launched in Hong Kong through ~350 high-end pharmacy outlets
- Whole milk powder introduced into Vietnam following Australian fresh milk launch in Singapore
- Size and capability of China and emerging markets teams continues to strengthen

<sup>1</sup> Kantar Infant Formula market tracking of Tier 1 and Key A cities for quarter ending 31/12/17 vs quarter ending 30/06/17 by value (Kantar track a substantial proportion of the total market)





# China: a2 Platinum® new marketing campaign and activations

- National live streaming of pop-up event in Chengdu<sup>1</sup> with life size a2 Platinum® can filled with interactive activities for visitors and hosted by celebrity mum *Huke* (胡可) and her son *An Ji* (安吉)
  - 250k live visitors, 23 million online viewers
  - Generating significant social media content
- Digital TV and outdoor advertising support for a2 Platinum® toddler milk
- Stepped up in-store promotions in MBS linked to activity



<sup>1</sup>Chengdu is capital of Southwestern China's Sichuan province

# Hong Kong: new video billboards in high traffic zones<sup>1</sup>



[View billboard video here](#)

<sup>1</sup> Advertisement runs January 2018 through February 2018, and continues post Chinese New Year



# United States

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- Further positive progress in building sales per store and distribution footprint
- Progressive improvement in gross margin and distribution costs
- Brand awareness continues to grow supported by;
  - ‘Love Milk Again’ free-to-air and subscription TV campaign
  - Editorial and digital media programmes
- Distribution in the Southeast extended to further key grocery retailers following successful Publix launch
- Velocity build in California and Southeast regions approaching or exceeding 30 UPSW<sup>1</sup> in key accounts
- Expansion into Northeast region announced January 2018:
  - Northeast is home to ~60 million consumers and accounts for ~20% of total USA milk category volume
  - Key accounts now include Wegmans, Whole Foods, Ahold (Stop & Shop and Giant), ShopRite, Safeway, H-Mart, Fairway Market and Market Basket
  - Achieved national earned media, including “CNBC Squawk Box” and strong press coverage
- Northeast expansion to increase total distribution from ~3,600 to ~5,000 stores across the USA
- Planned increased marketing investment supporting Northeast launch and other markets of ~US\$7 million in 2H18
- Named in the Top 10 Most Innovative Companies in Food for 2018 by US-based [Fast Company](#)<sup>2</sup>
- Investigating new product opportunities to further capitalise on expanded distribution and awareness

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<sup>1</sup>Refers to the units per store per week for the total range

<sup>2</sup>11th edition of the Fast Company World's Most Innovative Companies, announced 20 February 2018 (US EST)







# United Kingdom

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- Progressive growth of revenue and operating earnings
- Volume sales of a2 Milk™ branded fresh milk increased by more than 50% against pcg
- *'a2tonishing'* marketing campaign continues to resonate with consumers
- Sales growth reflects improvements in merchandising, in-store facings and point of sale presence
- Distribution increased from ~1,600 stores to over 2,000 stores
- Further ranging gains achieved in three largest supermarket chains - Tesco, Sainsbury and Asda
- Results include a2 Platinum® infant formula sales in the wholesale channel, in line with pcg



# Science developments

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## Studies published:

- Human clinical research study<sup>1</sup> involving 600 Han Chinese participants reported benefits of a2 Milk™ with respect to milk intolerance
  - A1 protein<sup>2</sup> found in conventional milk may trigger symptoms associated with milk intolerance<sup>1</sup>

## Studies completed and submitted for publication:

- Pilot human study at the University of Auckland under New Zealand Government High Value Nutrition grant; further studies now progressing
- Clinical trial involving 75 Chinese pre-schoolers demonstrating digestive benefits

## Ongoing studies:

- Clinical examination at Pennington Biomedical Research Centre with regard to digestive function, inflammation and aspects of metabolic function progressing
- Human clinical study in association with Monash University Australia examining the benefits of a2 Milk™ on irritable bowel syndrome progressing

<sup>1</sup> <https://nutritionj.biomedcentral.com/track/pdf/10.1186/s12937-017-0275-0?site=nutritionj.biomedcentral.com>

<sup>2</sup> A1 and A2 protein refers to the A1 and A2 beta-casein protein types

# Outlook



# 1H18 trading performance and outlook

## 1H18 trading performance

- Group revenue of NZ\$434.7 million:
  - Reflects market share gains in nutritional products and liquid milk
  - Includes seasonal sales from key China selling events, particularly in November and December
- Group EBITDA of NZ\$143.0 million:
  - GM% improvement reflects:
    - higher proportion of infant formula sales, currency movements and favourable net selling prices relative to plan;
    - partially offset by product cost increases and margin mix within nutritional
  - Benefited from phasing of marketing spend (2H18 to exceed 1H18)

## FY18 outlook

- Expecting marketing investment in 2H18 to exceed 1H18 by ~NZ\$35 - \$40 million, driven by increased spend in China and USA
- Inventory levels have improved during 1H18; forecasting further build in 2H18
- Subject to currency movements and realisation of throughput efficiencies, GM% expected to be broadly consistent in 2H18

## Capital management

- Board continues to consider the appropriate use of the Company's available capital including a review of opportunities to invest directly in blending and canning capability







[thea2milkcompany.com](http://thea2milkcompany.com)

