



# DELIVERING ON 2018

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Annual Meeting of Shareholders 28 November 2018

# AGENDA

- WELCOME AND INTRODUCTIONS
- CHAIRMAN'S ADDRESS
- CHIEF EXECUTIVE OFFICER'S ADDRESS
- CHIEF FINANCIAL OFFICER'S ADDRESS
- OUR FUTURE
- OUR PURPOSE AND IDENTITY
- QUESTIONS
- FORMAL RESOLUTIONS
- ANY OTHER BUSINESS
- ANNUAL MEETING CONCLUDES

# CHAIRMAN'S ADDRESS



Graeme Milne

CHAIRMAN



# BOARD OF DIRECTORS



**Graeme Milne**

CHAIR (INDEPENDENT)



**John Penno**

MANAGING DIRECTOR



**Hon. Ruth Richardson**

NON-EXECUTIVE, BRIGHT DAIRY  
APPOINTED DIRECTOR,  
CHAIR OF REMUNERATION AND  
GOVERNANCE COMMITTEE



**Bill Roest**

NON-EXECUTIVE DIRECTOR  
(INDEPENDENT), CHAIR OF THE  
AUDIT AND RISK COMMITTEE.



**Sam Knowles**

NON-EXECUTIVE DIRECTOR  
(INDEPENDENT)



**Sihang Yang**

BRIGHT DAIRY APPOINTED DIRECTOR



**Oikai (Albert) Lu**

BRIGHT DAIRY APPOINTED DIRECTOR



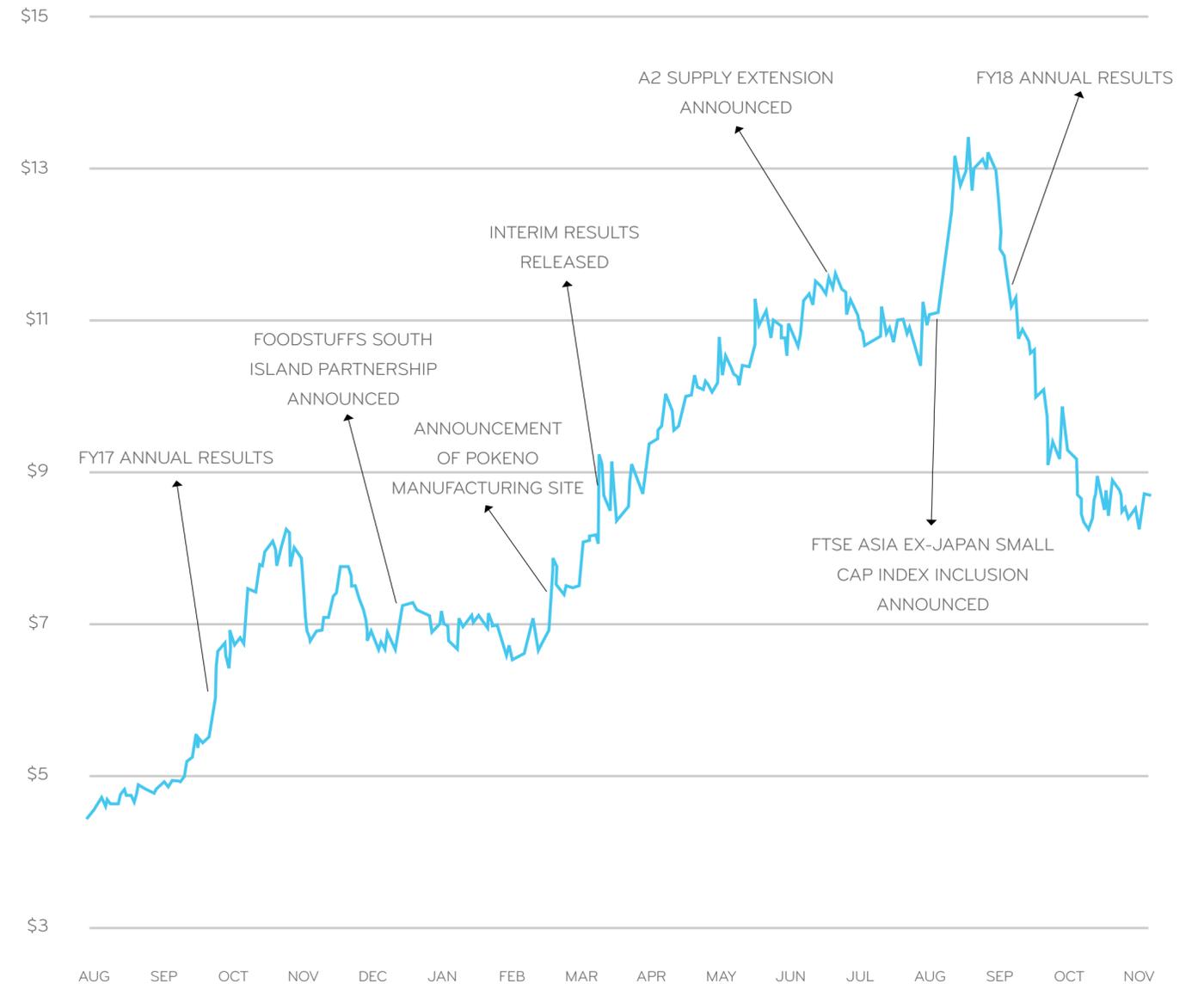
**Min Ben**

BRIGHT DAIRY APPOINTED DIRECTOR

# FY18 HIGHLIGHTS

- Celebrated Synlait's first decade at our staff and supplier conferences
- Sales increased from \$759.0 million to \$879.0 million
- Profit increased from \$39.5 million to \$74.6 million
- Infant Nutrition sales almost doubled, to 35,580 MT
- Announced appointment of Leon Clement as CEO
- Joined the MSCI Global Small Cap and FTSE Asia ex-Japan Small Cap Indexes
- Strong share price return of 148% in FY18 but has weakened in FY19

SML.NZ SHARE PRICE PERFORMANCE



# STRATEGIC UPDATE

- Strengthened relationship with The a2 Milk Company™ with extended supply agreement
- Infant Nutrition strategy has created concentration risk, hence investment in Everyday Dairy
- Manufacturing diversification begun with ground breaking on Synlait Pokeno
- Future focus around new Infant Nutrition and Everyday Dairy customers
- Bold sustainability targets announced



# REGULATORY UPDATE

- The ASCIQ, CNCA, and CFDA have now been integrated into the China State Administered Market Authority (SAMR)
- Dunsandel site inspected in September and expecting approval soon
- SAMR is focused on renewal of existing sites, hence delay on Auckland site approval
- Brand approvals for Akara and Pure Canterbury hopeful of being received in FY19
- Munchkin currently selling Stage 2 Grass Fed™ formula in United States and resubmitting USFDA application for Stage 1 to include additional supporting evidence



# CAPITAL PROJECTS

- \$450 million of growth capital expenditure under construction to be funded through cash flow and existing debt facilities:
  - Pokeno site to be commissioned for 2019/2020 milk season
  - Advanced Liquid Dairy Facility on track for March 2019 commissioning
  - Lactoferrin expansion commissioned in November 2018
  - Talbot Forest Cheese conditional acquisition to be completed August 2019
- No need to raise capital, but no dividend while on strong growth trajectory
- Guidance for FY19 remains an increase in profit but not as substantial as this year's increase



# CEO'S ADDRESS



Leon Clement

CHIEF EXECUTIVE OFFICER



INGREDIENTS



INFANT NUTRITION



EVERYDAY DAIRY



ADULT NUTRITION



OUR CATEGORIES

# TO: SUCCEED

WE WILL LEVERAGE OUR UNIQUE SUSTAINABLE VALUE CHAIN IN EACH CATEGORY TO BUILD SUCCESSFUL BUSINESSES THAT CONTRIBUTE TO OUR LONG-TERM SUCCESS

SUSTAINABLE VALUE CHAIN

ENVIRONMENT



PEOPLE



ENTERPRISE



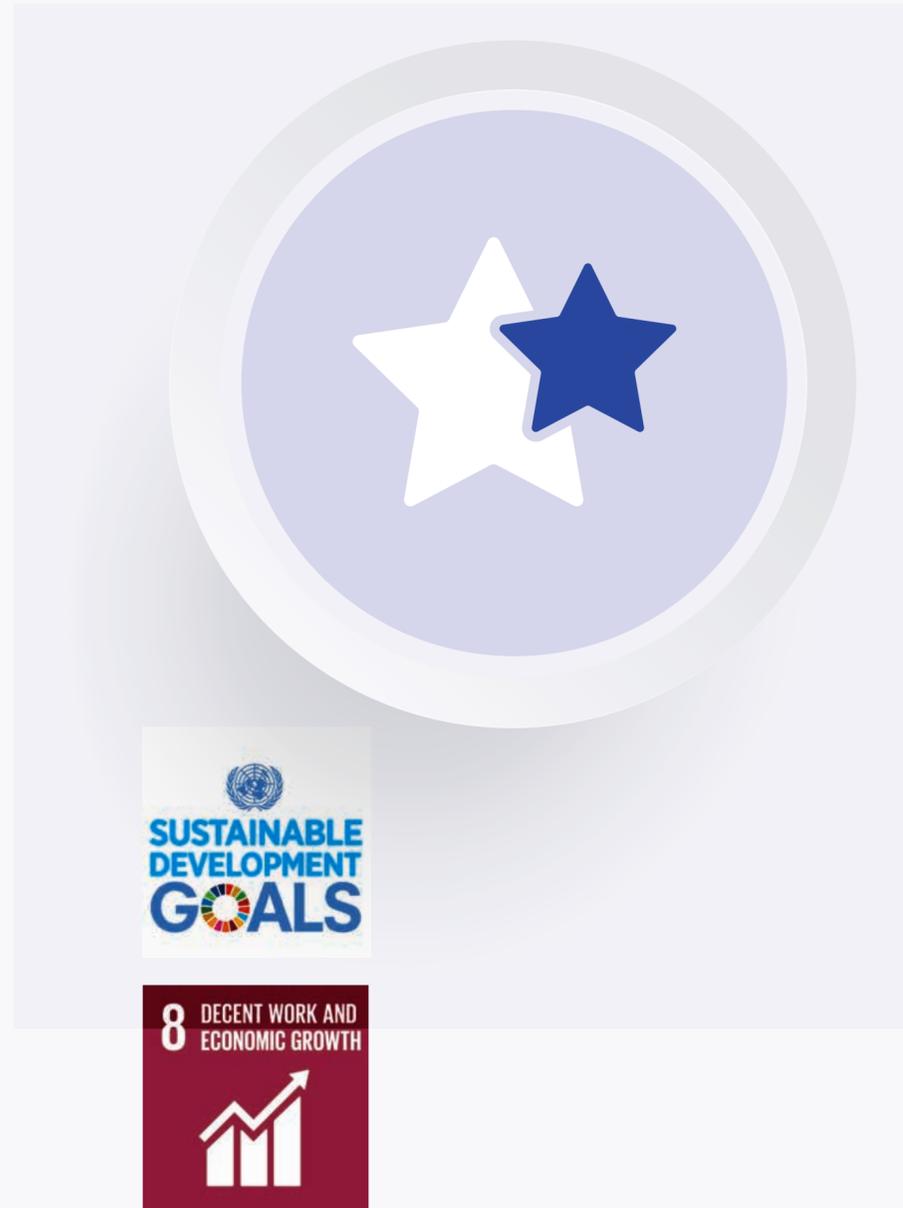
# ENVIRONMENT



**Our Ambition:** Synlait's net business impact is positive for the planet. Restorative and regenerative agriculture, manufacturing and supply chain

- **Sustainability commitments established**, including:
  - On-farm GHG emissions down 35% per kgMS by 2028
  - Off-farm GHG emissions down 50% per kgMS by 2028
  - Water use down 20% per kgMS by 2028
  - Nitrogen loss down 45% per kgMS by 2028
- Joined as a Founding Partner of the Aotearoa Circle
- New Lead With Pride™ incentive programme is in place, which includes a **PKE-free incentive**
- 38 new farms currently undergoing **Lead With Pride™ certification**
- **Methane inhibitor programme** is underway with encouraging early results
- **New Zealand's first electrode boiler is in place**, due for commissioning ahead of schedule in January 2019

# PEOPLE



**Our Ambition:** To build a better Synlait – a world class organisation aligned around a common purpose, executing with excellence, driven by innovation and creative thinking

## CULTURE AND ENGAGEMENT

- Gallup Q12 Engagement Score continues to improve, from 31st to 60th percentile of peer group in the previous twelve months

## SYSTEMS AND PROCESSES

- Enterprise resource planning system partner selected

## HEALTH, SAFETY AND WELLNESS

- Total Recordable Injury Frequency Rate (TRIFR) decreased by 44%, reporting is increasing, and severity is reducing
- Critical risks project is progressing

## DIVERSITY AND INCLUSION

- Action Plan launched to attract, equip, and empower talented leaders

# ENTERPRISE



**Our Ambition:** To establish a world class value chain. With our heart in New Zealand and our head in the world, we're returning an economic glow for New Zealand

- Lactoferrin expansion completed on schedule in November
- Advanced Liquid Dairy Facility structure is near completion as we begin installing manufacturing lines
- Pokeno site is on schedule, with milk supplier recruitment progressing well and key operations staff appointed
- Integrated Work System (IWS) Programme has been in place for a year and is enabling considerable improvements in asset utilisation and efficiency
- Dunsandel quality team is midway through FSSC22000 accreditation

# CFO'S ADDRESS



Nigel Greenwood  
CHIEF FINANCIAL OFFICER

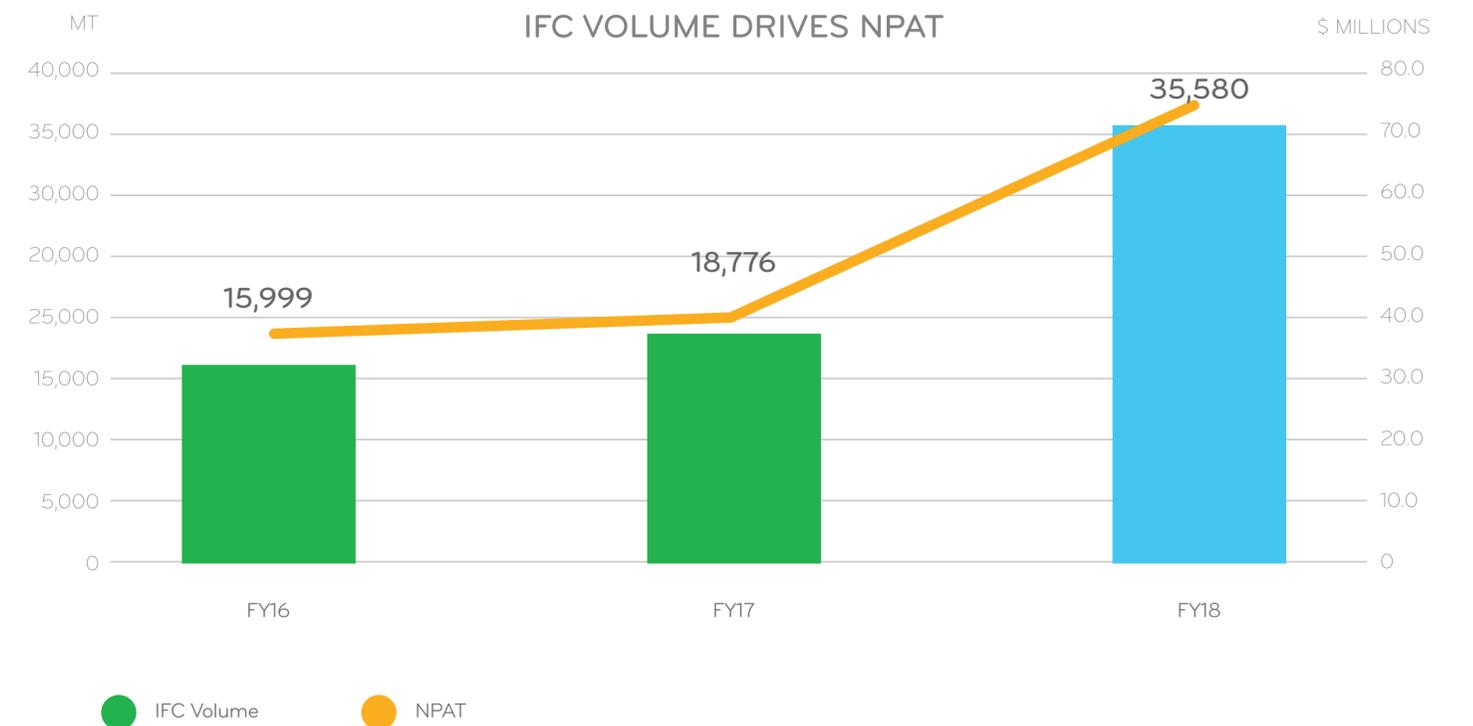
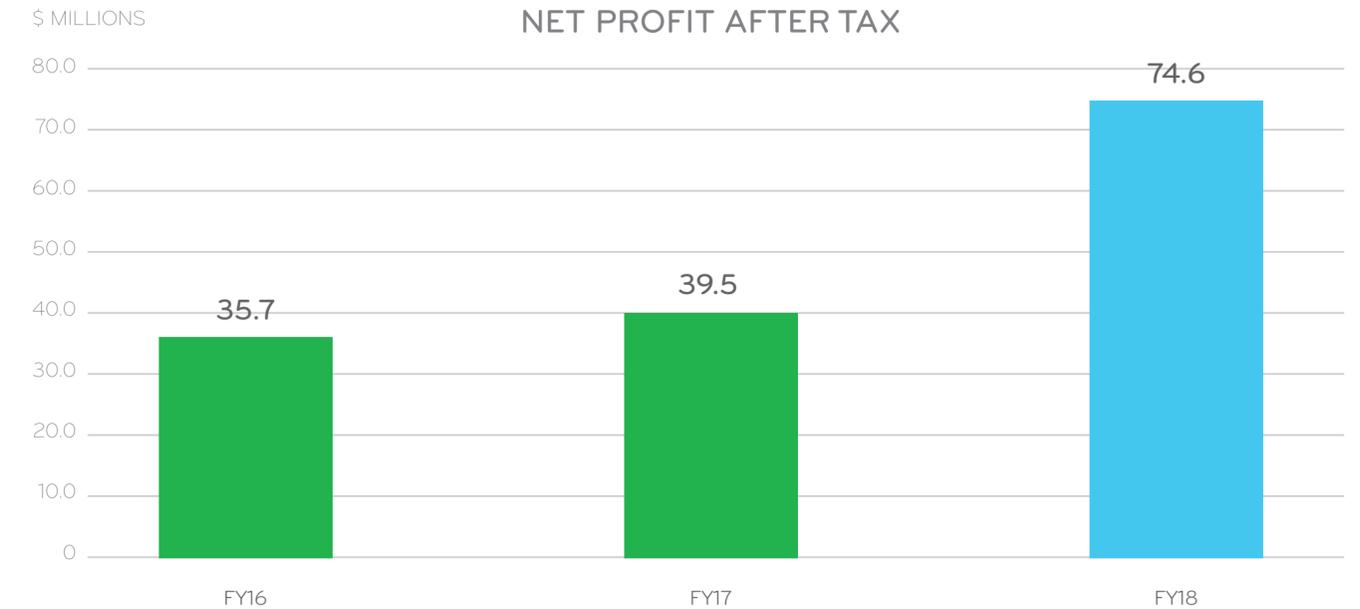


# OVERVIEW

- Full-year profit up 89% year-on-year to \$74.6 million, ahead of all previous results
- Profit growth primarily driven by 89% increase in consumer packaged infant formula sales volumes
- Earnings before interest, tax, depreciation and amortization (EBITDA) increased 56% to \$138.6 million

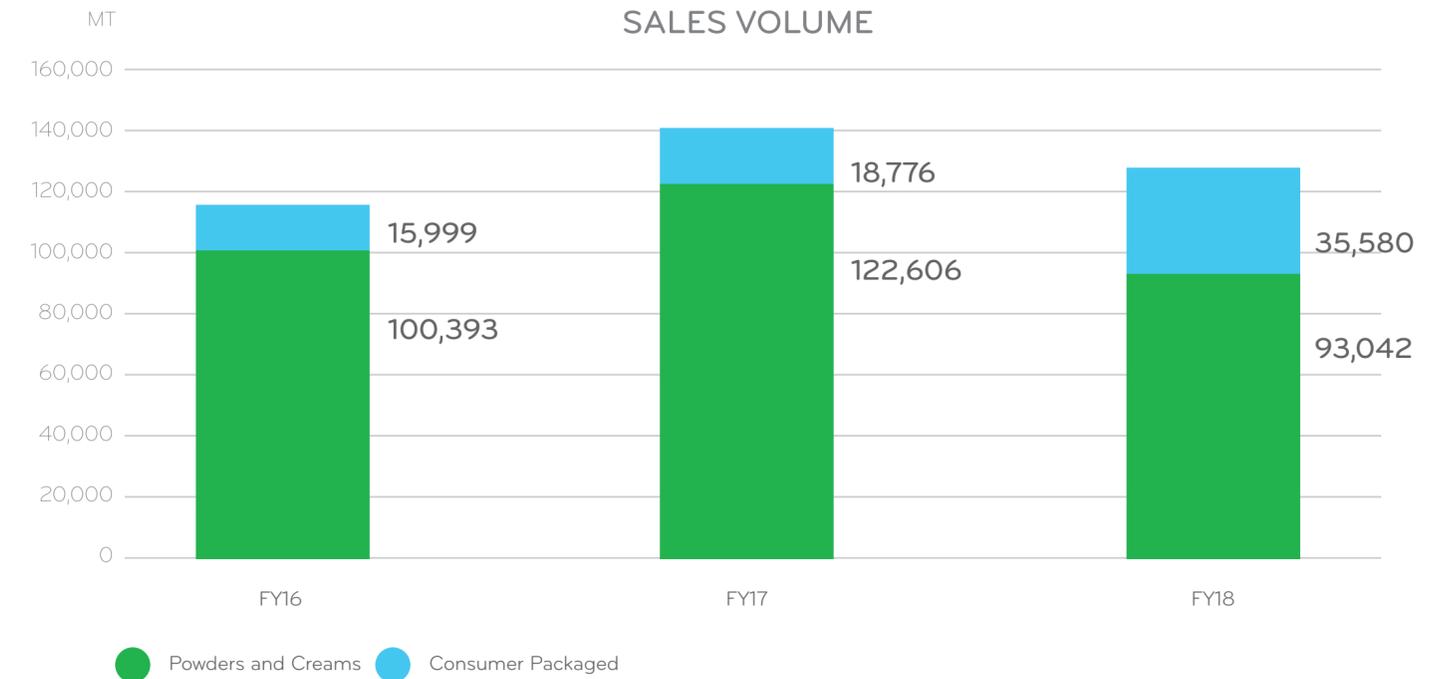
EBITDA INCREASED TO **\$138.6m**  
(FY17: \$88.8m)

CONSUMER PACKAGED INFANT FORMULA **SALES OF 35,580 MT**



# SALES VOLUME

- Revenue increase of \$120.0 million to \$879.0 in FY18 is due to a combination of higher value consumer packaged infant formula sales and an uplift in dairy commodity prices
- Total sales volumes down 9.0% over FY17 to 128,637 MT, due to shift toward consumer packaged products that restricts the amount of milk we can process in peak production months
  - Powders and Cream sales down 24% to 93,042 MT, in line with H1 FY18 guidance
- Finished goods inventory increased by \$55.1 million to \$122.6 million, the majority of which is due to a buildup of bulk infant formula manufactured to meet forecast FY19 consumer packaged infant formula sales



*Sales volumes for specialty ingredients are not shown on the graph.*

# PRODUCTION VOLUME

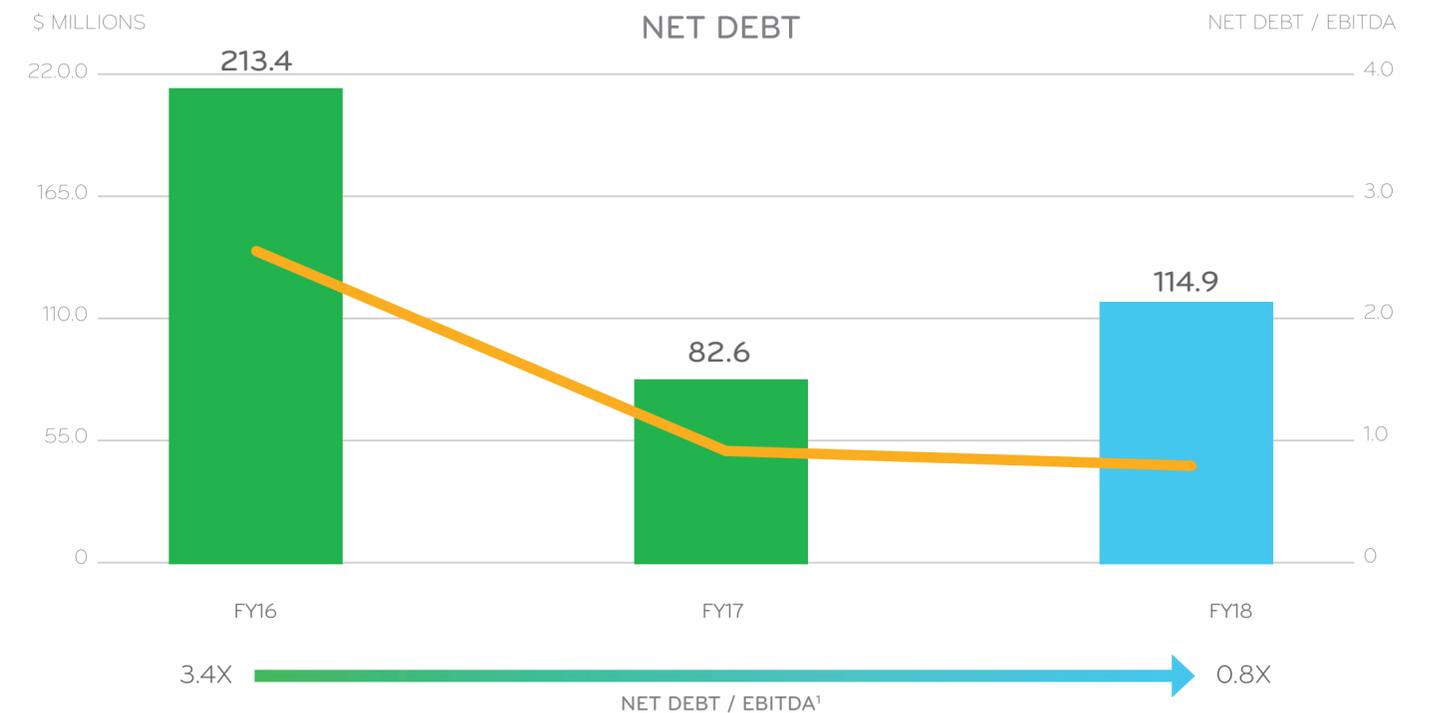
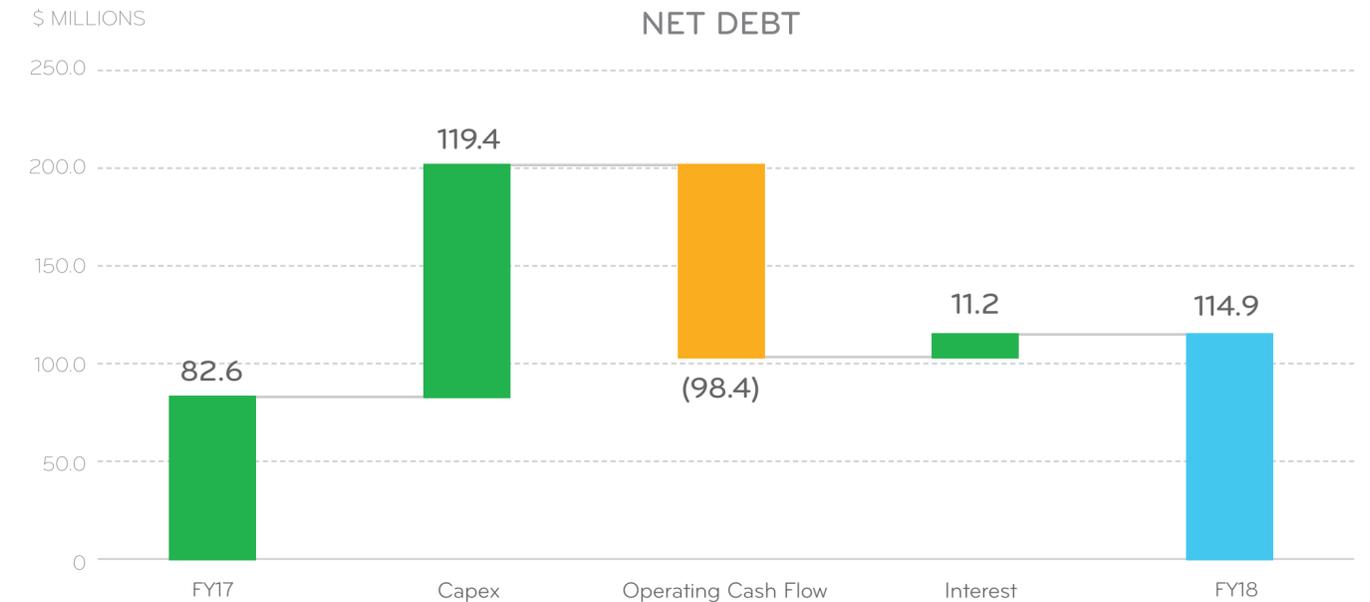
- Milk purchases remain our most significant cost when determining gross profit, with a final milk price paid in FY18 of \$6.65 per kgMS, compared to \$6.16 per kgMS in FY17
- Shift toward consumer packaged products led total milk processed to fall from 65.0 million kgMS in FY17 to 60.8 million kgMS



*Sales volumes for specialty ingredients are not shown on the graph.*

# NET DEBT

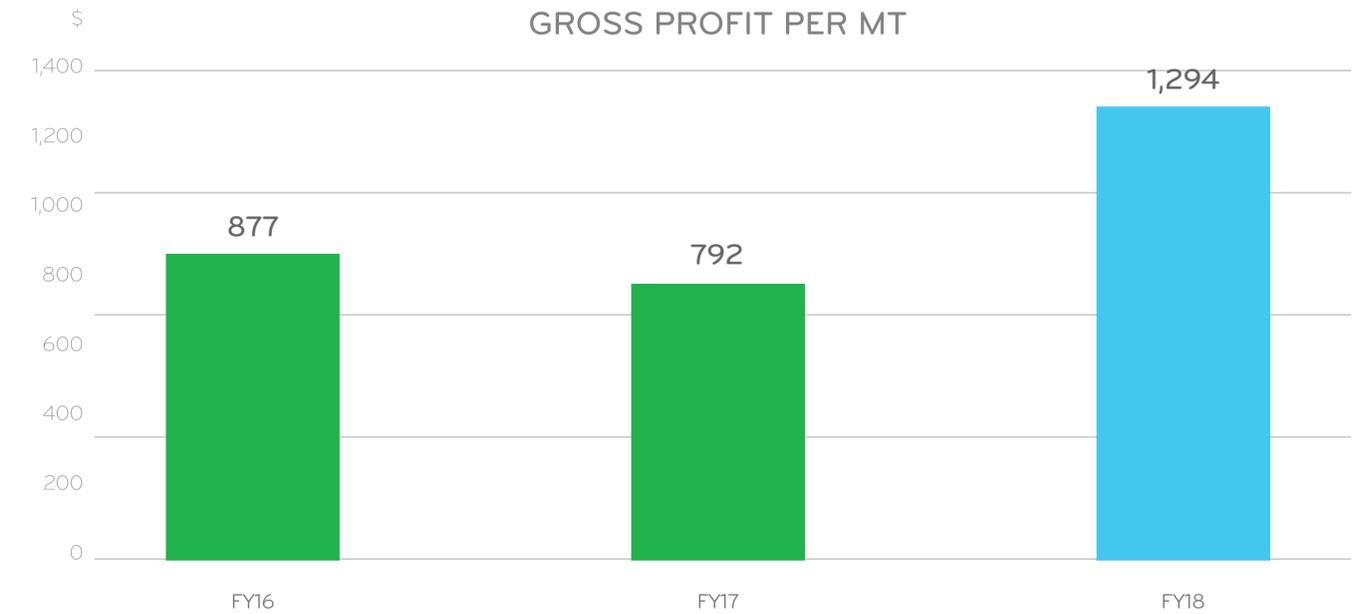
- Total net debt increased by \$32.3 million to \$114.9 at year end from \$82.6 million last year
- \$103.8 million was deployed into five growth initiative projects financed through a combination of operating cash flow and debt facilities
- Despite these significant expenditures Synlait has maintained a low ratio of net debt to EBITDA of 0.8x (0.9x in FY17), leaving the balance sheet well equipped to fund further growth



<sup>1</sup> Based on trailing 12 month EBITDA

# PROFITABILITY

- Total gross profit per MT up \$502 to \$1,294, primarily due to consumer packaged infant formula volumes as a percentage of total product sales growing from 13% in FY17 to 28% in FY18
- We also achieved an improved gross margin performance on our ingredients products
- Consumer packaged gross profit per MT improved by \$44 million, on a combination of higher utilisation of the Dunsandel canning facility that was largely offset by the costs of commissioning the Auckland canning facility
- Lactoferrin sales increased by 44% over FY17 to 16 MT, while margin per MT increased to \$285,757, contributing \$4.4 million to gross profit



*Includes product internally transferred to blending and consumer packaging*

# OUR FUTURE



## TO:DAY

INITIAL OBSERVATIONS

SYNLAIT IS FAST

SYNLAIT IS STRONG

SYNLAIT IS STRATEGIC

## TO:DO

WHAT ARE WE TRYING  
TO ACHIEVE

WHAT:

- Maintain growth and rapidly diversify

HOW:

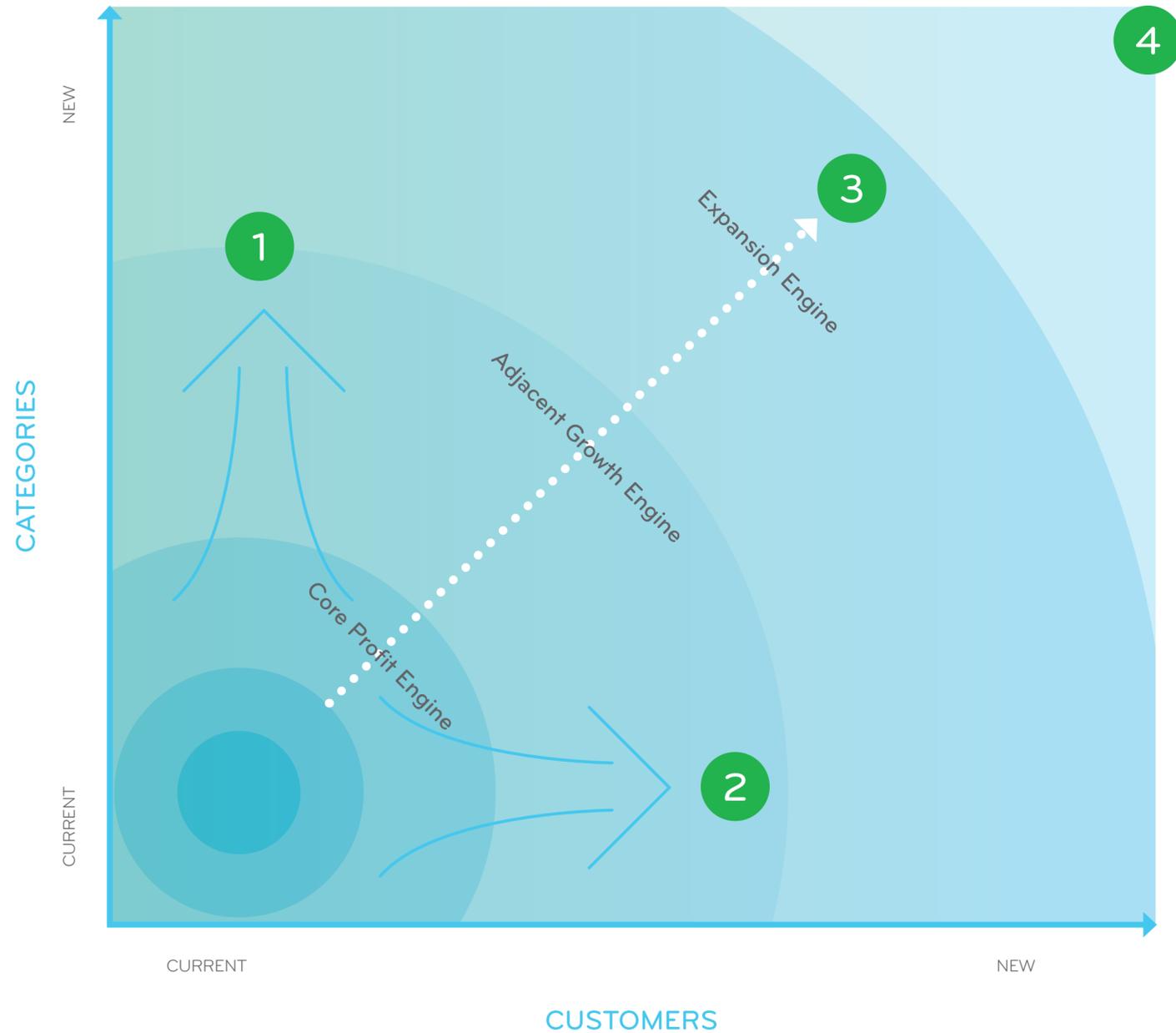
- Shore up our existing profit engine whilst we broaden into new profit pools

## TO:MORROW

WHAT ARE OUR  
CHALLENGES

- Concentration risk
- Focus and implementation risk
- Need for inorganic growth
- Unpredictable environment and regulatory climate

# OUTLOOK



## GROWTH: DEEPER AND BROADER = CHASE PROFIT POOLS

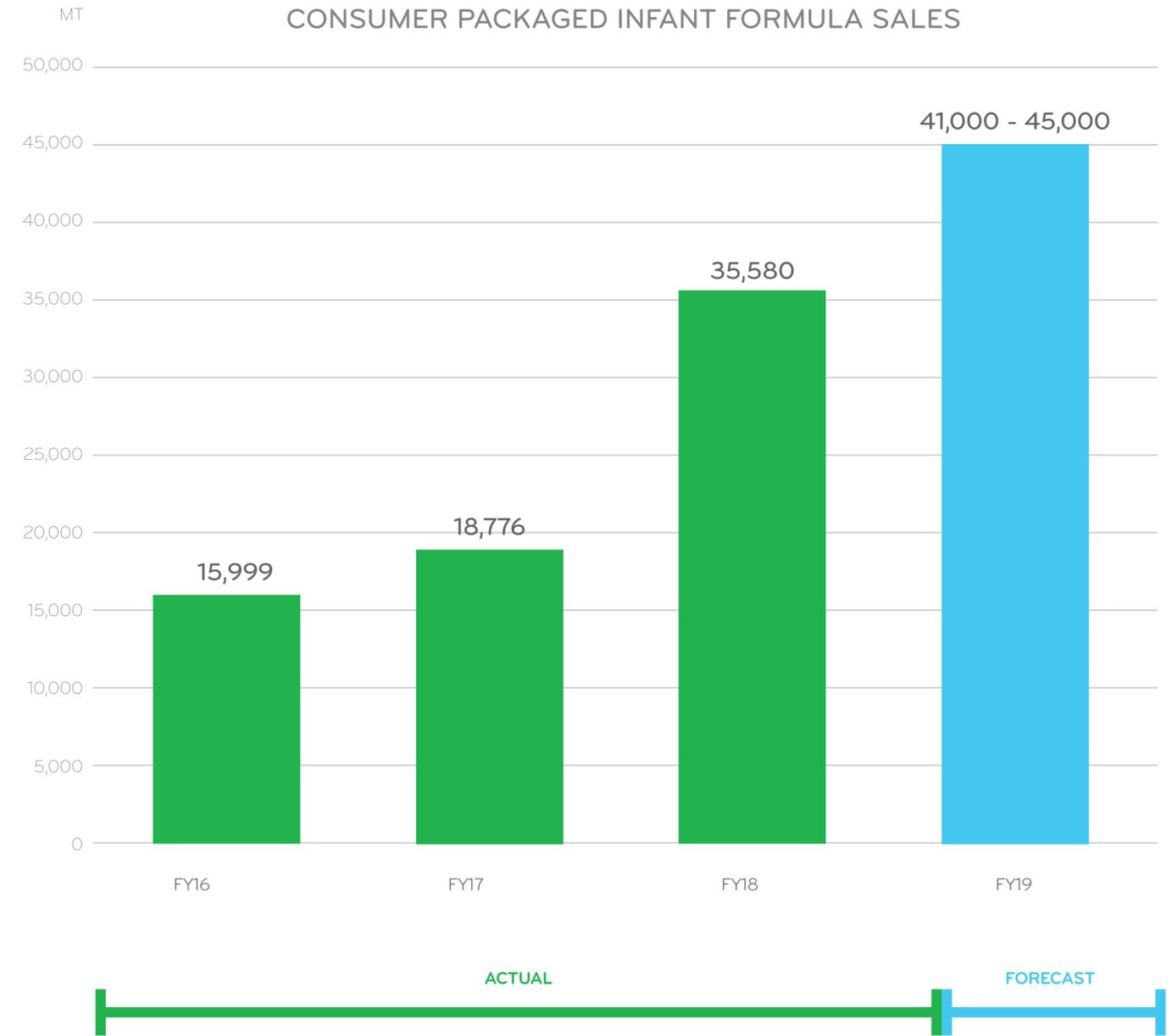
- 1 Deepen relationships with existing customers and build into new categories
- 2 Broaden customer base in core categories
- 3 Accelerate development of new profit pools with new customers and categories

## CAPABILITIES: LEAPFROG = CREATE LONG TERM VALUE

- 4
  - Research and development + innovation
  - Sustainability as a purpose-led differentiator
  - World class quality
  - Low-cost manufacture (IWS)
  - Continue to differentiate milk supply
  - Great place to grow - engagement, talent, strategic capabilities

# FY19 OUTLOOK

- Continued growth in a2MC volumes
- Brand approvals for Akara and Pure Canterbury hopeful of being received in FY19
- Expect future growth in Munchkin's Grass Fed™ ANZ sales through both domestic and cross-border channels



# OUR PURPOSE AND IDENTITY



The power of purpose

**“To be truly successful, companies need to have corporate mission that is bigger than making a profit.” Marc Benihoff, Salesforce**

**“Make meaning, not money.” Brian Scudamore, O2E Brands**

**“We have to bring this world back to sanity and put the greater good ahead of self-interest.” Paul Polman, Unilever**

**“When you’re surrounded by people who share a passionate commitment around a common purpose, anything is possible.”  
Howard Schultz, Starbucks**

Doing milk differently for a healthier world.

Doing **milk** differently



The market in which we operate:  
We are the 21st century milk nutrition company

ng milk **differentl**y for a he



Our approach: We were born disruptive,  
it's in our DNA

Doing milk differently fo



It's our attitude

ntly for a healthier world.



The benefit our products bring:  
essential nutrition

for a healthier world.



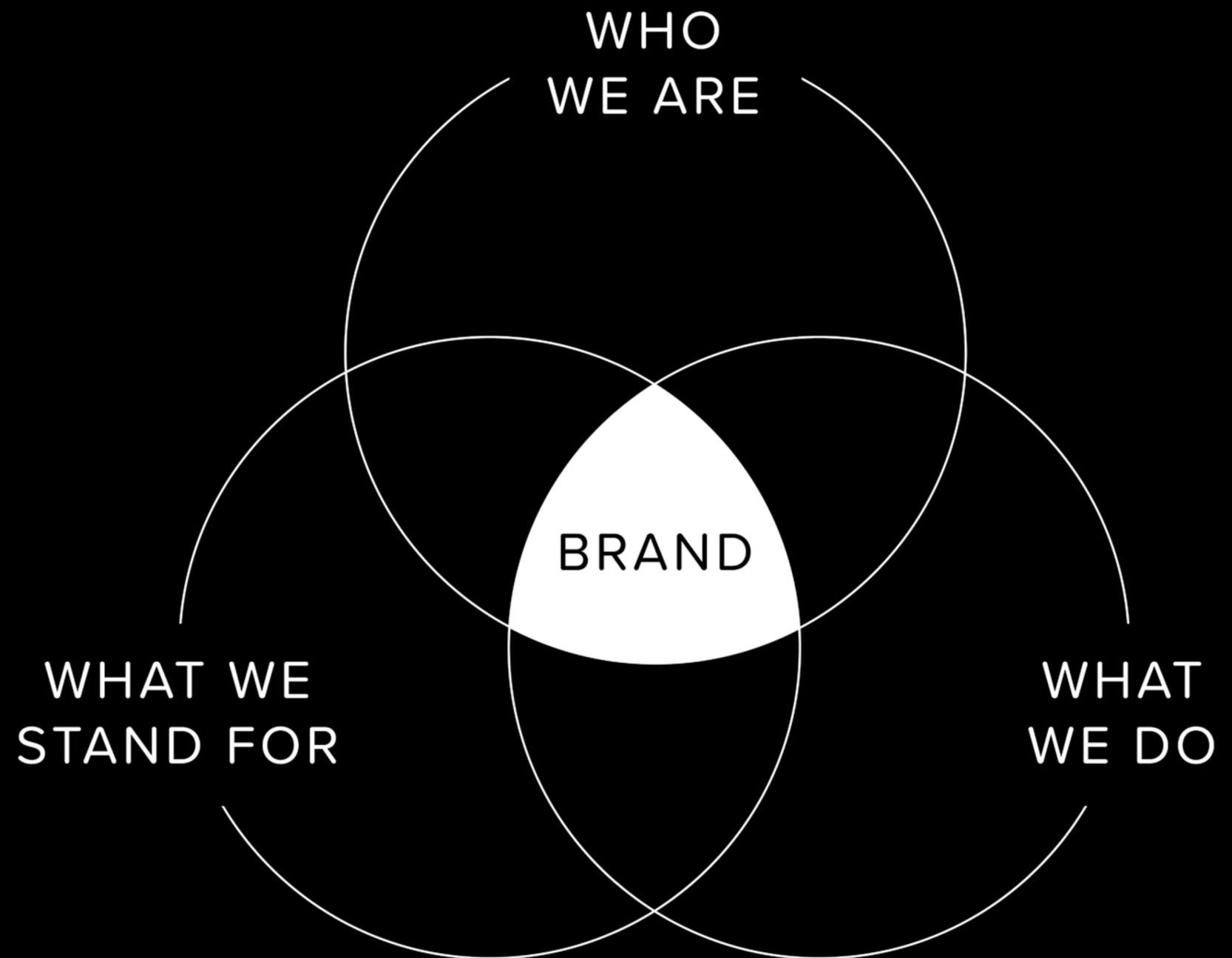
It's our belief: Net positive for the planet  
Opportunities for all to thrive

healthier world.



Our focus: Heart in NZ, head in the world

Doing milk differently for a healthier world.





**Pink** = Disruptive, Modern

**Font** = Food, Milk

**Synlait**

**Word Mark** = Straightforward no nonsense





# Synlait

ANNUAL REPORT 2018



**Synlait**

***Synlait***



QUESTIONS?

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# FORMAL RESOLUTIONS



Graeme Milne

CHAIRMAN



## FORMAL RESOLUTIONS

### RESOLUTION 1: AUDITOR'S REMUNERATION

To consider and, if thought fit, pass the following as an ordinary resolution:

“That the Board be authorised to determine the auditor’s fees and expenses for the 2019 financial year.”

# FORMAL RESOLUTIONS

## RESOLUTION 2: RE-ELECTION OF DIRECTOR

To consider and, if thought fit, pass the following as an ordinary resolution:

“That Graeme Milne be re-elected as a Director.”

## FORMAL RESOLUTIONS

### RESOLUTION 3: DIRECTORS' REMUNERATION

To consider and, if thought fit, pass the following as an ordinary resolution:

“That the annual fee for each Director be \$85,000, except for the annual fees of each of the two Committee Chairs, which will be \$97,000 and the Chairman of the Board, which will be \$169,000. All these increases apply from 1 April 2019.”

## FORMAL RESOLUTIONS

### RESOLUTION 4: CONSTITUTION AMENDMENT

To consider and, if thought fit, pass the following as an ordinary resolution:

“That Synlait Milk Limited’s Constitution be amended, with effect from the close of the Annual Meeting, as set out in Appendix 1 to the Notice of the Annual Meeting.”

## FORMAL RESOLUTIONS

### RESOLUTION 5: JOHN PENNO'S BOARD APPOINTMENT

To consider and, if thought fit, pass the following as an ordinary resolution:

“That John Penno be re-elected as a Director, and, if Resolution 4 is passed, that John Penno is elected as the Board Appointed Director.”

# ANY OTHER BUSINESS

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