



The a2 Milk Company Investor Briefing

9 December 2019

Transcript

Mark Sherwin:

Good morning and thank you for joining today's call. My name is Mark Sherwin and I am Head of Group Finance at The a2 Milk Company. On the call we have The a2 Milk Company Chairman of the Board, David Hearn, Interim Chief Executive Officer, Geoffrey Babidge, and Chief Financial Officer, Craig Louttit.

The agenda for today's call. Firstly, David will provide commentary on the CEO changes announced this morning and process for recruitment of a new CEO.

Secondly, Geoff and Craig will comment on the Company's performance, in particular, reaffirming guidance and strategic outlook.

Following this, the call will be opened up for a limited period of Q&A.

With that, thank you and I'll hand over to our Chairman, David Hearn.

David Hearn:

Thanks Mark. Good morning and thank you for joining us at short notice.

You will have seen this morning's Stock Exchange release announcing that Jayne Hrdlicka is stepping down. Let me begin by noting that there are confidentiality provisions in relation to Jayne's departure and I am therefore limited as to how much I can elaborate on the details of this matter.

The Board recruited Jayne primarily for her experience and ability to develop and implement strategy. a2MC's strategic plan has evolved well under the team led by Jayne and the Board fully endorses it. The implementation and optimization phase we have entered into will be the

intensive focus of the next 3-5 years. This will place significant time and increased travel demands on the CEO given that our core growth markets are China and the US.

During this phase, the Board considers it is highly desirable to have continuity and consistency of CEO leadership. It is clear that the demands of the business already involve more travel than Jayne had anticipated when she joined the Company. Considering this and her other commitments, Jayne has agreed with the Board that now is therefore the appropriate time to transition to new leadership.

The Board has also announced today that Geoff Babidge will be re-joining the Company as Interim CEO.

We are very fortunate to have Geoff who can step immediately into this role and focus on the key priorities whilst maintaining our momentum. Geoff has intimate knowledge of our markets and business and is energized following a 16-month break.

Geoff has committed to being the full time CEO until a CEO search process is completed and new CEO transitioned into the business. We are therefore under no time pressure to conclude a process and this will enable a comprehensive global search which will start immediately.

In addition, I'm pleased to advise that Mr Jesse Wu, our Shanghai based Non-Executive Director will assume an oversight role of our China business to support the China management team and Geoff in implementing and optimizing our strategic plans in China. Jesse has already played a valuable part in the development of our China strategy with his unique insights and connections in China.

The Board continues to believe that at the same time we are investing for future growth we should also focus on strong cost management so that we optimize and preserve the underlying healthy gross margin and profitability of the business. This resolve was evident in the half and full year guidance contained in the Annual Meeting commentary. The Board considers it is appropriate for the Company to target an EBITDA margin of at least 30% in the medium term. We consider this can be achieved without detriment to the opportunity to capture our desired long term market position in China and USA.

It's now my pleasure to hand over to Geoff Babidge.

Geoffrey Babidge:

Thank you David. Good morning, it's great to reconnect with many of you and I look forward to seeing and speaking to you as I again lead a2MC into this next chapter. Firstly, I would like to say I am pleased to be back at a2MC. The organization has strong momentum and is positioned to capitalize on the huge opportunity in front of it. Since my retirement in July 2018, I have closely monitored the Company and its progress. I have also had some time off to recharge and I'm excited to be back and working with the team.

I have already had the benefit of reviewing the Company's strategy and position and can say I don't envisage any material change to the plan that the Board and senior management have in place. In particular, a2MC's commitment to building a China and US business with multi-channel distribution capability will not change. I regard the present strategy and a natural extension of the work we have been doing over the last 5 years.

Our China team is continuing to develop and its capability is building. The US team is now well established and the business growing strongly. Both businesses will continue to require significant investment which is incorporated in our most recent results and outlook.

I'll now hand over to Craig to talk to the financial information.

Craig Louttit:

Thanks Geoff. Good morning everyone. I don't envisage saying too much given our announcements at the Annual Meeting a few weeks ago and the other announcements this morning.

However in view of the announcement today I do want to take this opportunity to unequivocally reaffirm the guidance we provided at the Annual Meeting.

Overall, for FY20 we anticipate continued strong revenue growth across our key regions consistent with our plan and supported by significant brand and marketing investment.

For 1H20, we anticipate revenue in the range of \$780 million to \$800 million with growth demonstrating strong performance against strategy. EBITDA margin % in 1H20 is expected to be in the range of 31-32% whilst the FY20 EBITDA margin is expected to be in the range of 29-30%.

All other key financial performance and balance sheet metrics remain strong and within our expectations.

I'll now pass back to the operator for the question and answer session.