Market Announcement

4 December 2020

Fonterra provides update on its forecast Farmgate Milk Price range and first quarter performance

Fonterra Co-operative Group Limited today narrowed its 2020/21 forecast Farmgate Milk Price range, reported a solid start to the 2021 financial year and reconfirmed its forecast earnings guidance.

Fonterra CEO Miles Hurrell says as a result of strong demand for New Zealand dairy, the Co-op has narrowed and lifted the bottom end of the forecast Farmgate Milk Price range from NZD $6.30 - $7.30 per kgMS to NZD $6.70 - $7.30 per kgMS.

"This means the midpoint of the range, which farmers are paid off, has increased to NZD $7.00 per kgMS.

"China is continuing to recover well from COVID-19 and this is reflected in recent Global Dairy Trade (GDT) auctions with strong demand from Chinese buyers, especially for Whole Milk Powder, which is a key driver of the milk price.

"The impact of COVID-19 continues to play out globally, and we continue to have a watchful eye on the increasing Northern Hemisphere milk production and New Zealand dollar.

"However, we have contracted a good proportion of our sales book for this time of the season, which has given us the confidence to narrow and lift the bottom end of the forecast Farmgate Milk Price range.

"Our forecasts would see the Co-op contribute around NZD $10.5 billion to the New Zealand economy this year."

First quarter business update

Mr Hurrell says the Co-operative has continued to make progress on implementing its strategy and had a solid start to the first quarter, delivering total Group normalised Earnings Before Interest and Tax (EBIT) of NZD $250 million, up NZD $72 million on last year.

"Despite ongoing market disruptions from COVID-19, we are continuing to build on the momentum achieved in the last financial year and this can be seen in the progress we are making against our 2021 priorities:

- Our Co-operative, which is about supporting farmers and employees;
- Performance, which is about hitting our financial targets; and
- Community, which is about exceeding customer expectations, supporting communities through our nutrition programmes and making our low carbon farming model a powerful point of differentiation.

“These priorities are helping us take another step this year towards our goals of Healthy People, Healthy Environment and Healthy Business.”

From a performance perspective, Mr Hurrell says he is pleased with the progress the Co-op has made in the first quarter.

“Sales volumes are in line with the same period last year, which was before we felt the impact of COVID-19. This reflects strong demand for dairy and careful management of our supply chain.

“We’ve seen improvements right across our business, which has resulted in a 40% increase in our normalised earnings. There’s been a couple of exceptions to this – Europe, which has been impacted by higher costs, and Africa, which has been impacted by lower volumes as we have shifted product to meet strong demand across Asia.

“Our Greater China Foodservice business has been the stand-out performer so far as demand for dairy in China continued to recover strongly from COVID-19.

“We expanded our Foodservice business into another 13 cities in China, bringing the total number of cities we operate in to more than 360.

“And our teams are helping to drive demand by continuously releasing new innovative ways of using our products in local cuisine as they pursue the next big food trend in China.

“Demand in our Southeast Asia (SEA) Consumer business has improved year-on-year, while our SEA Foodservice business has started to recover as COVID-19 restrictions eased in some markets.”

Mr Hurrell says the Co-op remains focused on financial discipline and reducing debt.

“We continue to divest non-core assets with the announcement that we’ve agreed to sell our China Farms for NZD $555 million, which will further reduce debt.

“The sale of this asset reinforces our strategy of prioritising New Zealand milk.”

Fonterra’s reported EBIT was down NZD $31 million on last year to NZD $235 million mainly due to the one-off gain on sale of foodspring® which occurred in the first quarter of last year.

Commenting on the Co-op’s progress against its other priorities for the year, Mr Hurrell says Fonterra has made tangible progress against its environmental targets and on supporting employees, customers and communities. Some initiatives include:

- Supporting the NZ Government’s skills initiatives by increasing the number of apprenticeship roles in engineering and dairy processing over the next two years and working to double the number of on-the-job training hours we provide our employees by 2025.
- Accelerating demand for our Foodservice products in the US by partnering with Land O’Lakes, which will give us access to a larger customer base.
- Working with more Fonterra farms in New Zealand to develop Farm Environment Plans and we’re well on the way to our target of 100% by 2025.
- Installing solar panels at two of our sites in Malaysia and Indonesia, which will power up to a quarter of the sites’ energy needs.
- Launching the Anchor plant-based bottle as part of our goal to have all packaging reusable, recyclable or compostable by 2025.

Outlook

Commenting on the outlook for the rest of the year, Mr Hurrell says the Co-operative is confident in its performance and is on track to deliver on its earnings guidance.

“However, there are still a number of risks we are keeping a close eye on and for this reason we have made the decision to maintain our current forecast earnings range.

“COVID-19 related challenges remain, including how the global recession and new waves of the virus will impact customer demand, and there is some congestion in global supply chains that we are actively managing. There is also continued uncertainty around what could happen to the price difference between the products that determine our milk price and the rest of our product range in the second half of the year.

“We will continue to monitor the situation and, as the year progresses and we have more certainty, we would expect the forecast earnings range to narrow.”

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