

# *Synlait*

SYNLAIT MILK HALF YEAR RESULT FOR THE SIX MONTHS ENDED 31 JANUARY 2021  
CHAIR AND CEO LETTER

## FINANCIAL PERFORMANCE



**\$664.2M** ▲ 19%  
REVENUE



**18,085MT** ▽ 16%  
CONSUMER-PACKAGED INFANT  
FORMULA SALES

Infant Formula Base Powder production down 61%



**\$47.7M** ▽ 29%  
EBITDA



**13.6MT** ▲ 16%  
LACTOFERRIN PRODUCTION



**\$6.4M** ▽ 76%  
NPAT



**\$112.6M**  
DAIRYWORKS REVENUE

Comparisons are for the six months ended 31 January 2020 (HY20) unless stated otherwise.

## CHAIR AND CEO REVIEW

### Nau mai | Welcome

Our first half was challenging, and we continue to find ourselves in a period of significant uncertainty and volatility as Synlait faces into several headwinds. This is impacting our short-term operations and will impact our full year 2021 financial result (FY21).

We cannot control COVID-19 but we can control our response. This includes how we execute on our strategy. A strategy which was already positioning Synlait well for a sustainable, diverse, and recurring revenue base that comes from multiple customers, sites, markets, and categories in the future.

Our focus is now to mitigate the impact COVID-19 has had on our key customers as we manage costs and capacity and pull forward value creation initiatives to accelerate the

execution of our strategy.

We will need time to get through this, but we remain confident about our future. Our investment phase is complete. We have the capacity, capability, and customer base to generate significant value. COVID-19 hit us late, but we will emerge from the pandemic a stronger, more sustainable Synlait.

### COVID-19 impacts now being felt with our strategic partner

The revised demand forecast received from our cornerstone customer and shareholder, The a2 Milk Company™, in December 2020 was significant and sudden. It provided evidence that the delayed impacts of COVID-19 on consumer behaviour, channel dynamics and supply chain disruptions are real as the pandemic enters its

second year. The continuation of this uncertainty was one of several factors that resulted in the withdraw of our FY21 guidance earlier this month.

The knock-on effects of this demand change continue to play out in real time. While sales of consumer-packaged infant formula fell 16% to 18,085 MT, a larger impact was felt in our manufacturing recoveries with infant formula base powder (IFB) production dropping by 61% as we reset our outputs and inventory levels to a new forward outlook. We continue to take a conservative view on the recovery. While we remain highly confident it will occur, the timing and rate of recovery remains uncertain.

Despite this challenge, The a2 Milk Company™ remains a strong strategic partner. We are committed to supporting

Synlait CEO Leon Clement (right)  
Synlait Chair Graeme Milne (left)

them to restabilise local supply chains and protect market access in the critical China infant nutrition market.

Another factor contributing to this uncertainty is our ingredients business. The suddenness of the drop in infant nutrition demand, combined with rapidly rising Global Dairy Trade prices, foreign exchange, and a changing product mix, creates volatility. It means we have not been able to rely on our ingredients business to absorb this impact as much as we would have liked.

Finally, the pandemic continues to slow the arrival and departure of goods in and out of ports globally. While this is a timing issue, we expect delays to continue for some time and this will likely impact our FY21 result further.

### **We continue to move forward**

Our focus is now on mitigating the short-term impact by managing costs and capacity and pulling forward value creation initiatives to accelerate the

execution of our strategy. Progress is encouraging.

### **Our short-term focus: mitigating COVID-19 – cost and capacity changes**

Since our December 2020 downgrade approximately \$22 million worth of cost savings have been captured. These are in the following areas:

#### ***Operational cost savings: ~\$10.8 million***

An organisational restructure reduced salary costs by \$1.9 million and ensures our capabilities are better aligned with strategy. Year-to-date discretionary spending reduced \$3.5 million. The focus on cost control continues to help offset unavoidable spend.

Reviewing our production approach generated savings of \$5.4 million and sees Synlait Pokeno manufacture ingredients only as it focuses on preparing for our new multinational

customer. Staff shift levels have also been reduced at Synlait Auckland and Dunsandel.

#### ***Value chain cost savings: ~\$11 million annualised***

Dry Store 4 will be complemented by a 30-wagon rail siding in May. This extends Synlait's highly integrated manufacturing facility from farm-to-can to farm-to-port with containerised goods sent via rail between Synlait Dunsandel and Lyttelton Port. This project generates a permanent annualised EBITDA savings of \$8 million from FY22 onwards.

We have not lost sight of waste reduction and yield improvement initiatives either which have an annualised benefit of \$3 million.

### **Our long-term focus: pulling forward value and accelerating strategy execution**

Having completed a phase of

Milk reception bay,  
Synlait Dunsandel



significant investment to create new growth opportunities, we are now well placed to focus on delivery. It therefore makes sense to refine and focus our growth strategy. Our purpose and ambition remain the same, but our strategic focus has narrowed from five growth pathways to two value add growth pathways. These are:

- **Nutrition, Food Service and Ingredients** have a business-to-business focus. They consolidate our Food Service and Infant Nutrition categories and include opportunities our new multinational customer will bring to Synlait. We have also acknowledged the role our ingredients business plays in optimising our assets.
- **Consumer Foods** has a business-to-consumer focus. It will pursue branded opportunities. Dairyworks is our mainstay as we build a product portfolio to support New Zealand and Australian consumers and explore further offshore growth.

Our enabling strategy (Net Position

For The Planet, World Class Value Chain and Building A Healthier Synlait) remains the same and continues to serve us well.

Despite the short-term challenges, the fundamentals of our purpose, ambition and strategy remain the same – and the opportunities ahead are exciting. Our team is mobilising around new opportunities that generate growth, value, and efficiencies. Examples include a differentiated ingredient offering which commercialises our Lead With Pride™ programme, the launch of functional creams and Synlait branded consumer products, and the on-boarding of our new multinational customer at Synlait Pokeno which supports our diversification as our infant nutrition business recovers.

We also see opportunities to keep reducing waste and improving yields and efficiencies as we work to keep capturing more value from the milk we collect. And, the good thing is we have already completed a large part of the investment required to tap these opportunities.

### Outlook

As signalled earlier this month, Synlait is continuing to experience significant uncertainty and volatility within its business. This is due to:

- Ongoing uncertainty in The a2 Milk Company's expected demand for the remainder of FY21 and FY22. Synlait does not currently have sufficient confidence to forecast when this recovery will occur. The resulting impact of this on Synlait's business is two-fold: demand for consumer-packaged infant formula remains uncertain, which in turn impacts forward infant base powder production and asset use.
- Synlait's ingredients business. The sudden drop in consumer-packaged infant formula demand, combined with rapidly rising Global Dairy Trade prices, foreign exchange, and a changing product mix, creates volatility which limits returns.
- Our expectation is that global shipping delays will continue and further impact the FY21 result.

Board and management have considered the above factors and how they will impact Synlait's FY21 profitability. There is still a range of scenarios contributing to the company's profitability, and our current outlook suggests a broadly breakeven FY21 NPAT result.

While all banking covenant ratios were met during HY21, Synlait has proactively engaged with its banking syndicate to increase its leverage ratios to manage any risk at the end of FY21. The company's FY21 business plan is fully funded by its current banking syndicate.

### Thank you

Thanks to our employees, suppliers, and customers for your commitment, energy, and engagement. Thanks also to our shareholders for your loyalty, and belief in Synlait's purpose, ambition, and strategy. Despite the adversity, we remain committed to being open and honest with you. Our belief and commitment to *Doing Milk Differently For A Healthier World* remains unchanged.

Ngā manaakitanga.



**Graeme Milne ONZM**  
Synlait Chair



**Leon Clement**  
Synlait CEO

