



Market Announcement

3 December 2021

Fonterra provides Milk Price, earnings and Q1 update

Fonterra Co-operative Group today lifted its 2021/22 forecast Farmgate Milk Price range, reported a solid start to the 2022 financial year and revised its earnings guidance.

The Co-op has lifted and narrowed the forecast Farmgate Milk Price range to NZD \$8.40 - \$9.00 per kgMS, up from NZD \$7.90 - \$8.90 per kgMS. This increases the midpoint of the range, which farmers are paid off, to NZD \$8.70 per kgMS. The higher milk price has seen the Co-op revise its earnings guidance to 25-35 cents per share from 25-40 cents per share.

Fonterra CEO Miles Hurrell says the lift in the 2021/22 forecast Farmgate Milk Price range is good news and is an important boost to New Zealand communities. With a midpoint of \$8.70 per kgMS, it would contribute more than \$13.2 billion to the New Zealand economy.

“It’s the result of consistent strong demand for dairy at a time of constrained global supply.

“We’ve seen the impact of a number of events play out this first quarter. That includes the high price of feed in the US which has seen milk production growth stall and a lower-than-expected supply picture in Europe.

“Fonterra’s New Zealand milk supply is down around 3% on this time last season. While we expect that milk supply will be less than last season’s 1,539 million kgMS, the improving weather conditions and forecast milk collections for the balance of this season that are generally on par with last season support our current season forecast of 1,525 million kgMS.

“While we’ve seen demand soften slightly in China, global demand remains strong, and we think that will remain the case for the short to medium term.

“A higher forecast Farmgate Milk Price at this level can put pressure on our margins and therefore our earnings, which is why we’ve reduced the top end of our earnings guidance.”

First quarter business update

Fonterra has delivered a Total Group EBIT of \$190 million for the three months ending 31 October 2021. This was achieved at a time when input costs are significantly higher than the same period last year. These have been driven by a 30% increase in Whole Milk Powder prices.

Mr Hurrell says there have been a number of factors at play in the first quarter. “We’re seeing stable sales volumes in our Foodservice channel, but a milk price at these high levels has squeezed margins. Our Chilean business continues to improve but tightening margins and weaker local currency in other markets have impacted our Consumer channel overall.

“In our Ingredients channel, we’re seeing margins in our longer-term pricing contracts return to more normal levels, which has helped push Total Group gross margin up from the last quarter last year.

“We continue to see the benefit of our focus on financial discipline with lower interest expense, and operating expenditure down 2% on the same quarter last year.

“Looking at the whole picture, I’m proud of what we’ve achieved. With EBIT of \$190 million and a strong Farmgate Milk Price, we are starting to consistently deliver solid commercial outcomes.”

Outlook

While the impacts of COVID-19 continue to be felt around the world, Mr Hurrell says the Co-op is working hard to deliver for farmer owners, unit holders and customers and supporting employees.

“The resilience of our people and our supply chain means we continue to stay on top of the strong demand for our New Zealand milk.”

“However, it is concerning to hear about new variants, which are potentially more resistant to vaccines. There is also the ongoing question of whether economies can rebound from the pandemic and then sustain their financial health.

“That’s why we have a 60-cent range on our forecast Farmgate Milk Price range.”

Supporting our people

Globally, teams are starting to return to the office following extended COVID-19 lockdowns. Mr Hurrell says it’s been a challenging time for employees.

“In some of our regions, our people have spent more than 18 months working from home. We’ve supported them during this time and continue to support their safe return to the office. I want to acknowledge the extra effort from our employees that is helping us deliver good results for the Co-op.

“Here in New Zealand, we recently completed the rollout of our vaccination programme in partnership with the Ministry of Health, which saw more than 8,000 doses administered.”

Path to 2030

Fonterra set out the next phase of its long-term strategy in September, with three key strategic choices guiding the Co-op – a continued focus on New Zealand milk and to lead in sustainability and dairy innovation and science.

Mr Hurrell says the Co-op is confident in its strategy and 2030 targets and is already showing early signs of progress.

“As we continue to focus on New Zealand milk, work is underway on the divestment of our Chilean business and the ownership review of our Australian business, with the appointment of advisors to assist with both processes. Dependent on the outcome of these processes, we intend to return around \$1 billion of capital to our shareholders and unit holders by FY24.

Mr Hurrell says the focus on New Zealand milk is paying off with customers. “We recently launched our Mainland cheese range in Dubai’s largest supermarket chain. The range completely sold out, with customers using social media sites to track down the cheese in-store. Our in-region team is now looking at launching the range into other countries.

“We’re also focused on delivering innovative new solutions for our customers. Our new Ingredients ecommerce platform, myNZMP™, is being embraced by customers across China, Latin America, South East Asia and the Middle East.”

Mr Hurrell says the Co-op is also using innovative technology to make the most of the natural goodness found in our New Zealand dairy.

“A transformative dairy science collaboration with Vitakey will explore how we can further unlock the benefits of our probiotic strains. Our goal is to design dairy products that incorporate targeted and time-controlled release of specific dairy nutrients in a way that locks in the freshness for longer and allows the nutrients to be more active and beneficial in the body.”

New Zealand is already the most carbon-efficient dairy producing nation on the planet and Mr Hurrell says the Co-op is making strides in its intention to retain a significant advantage by being a leader in sustainability.

“By treating water at our Maungatūroto site using a natural wetland, we can reduce water use on site by up to 25%. On-farm, we’ve just introduced Farm Insights Reports, which give farmers a comprehensive picture of their overall farm from an environmental performance and animal health perspective. This enables them to focus on the improvements which will have the biggest impact.

“We’re also working to find a solution to the challenge of on-farm emissions and one of the exciting projects we’ve been working on is Kowbucha™, a probiotic which could switch off the bugs that create methane in cows. Initial results have been promising, showing a reduction of up to 50% in methane, and we’re now at the stage of trialling it on farm.

“This is just some of the great work underway in the Co-op that will enhance our New Zealand sustainable nutrition story.”

ENDS

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