Market Announcement

7 December 2023

Fonterra lifts forecast FY24 earnings and Farmgate Milk Price after strong Q1

Fonterra Co-operative Group Ltd today increased its forecast Farmgate Milk Price and earnings guidance for FY24 following a strong start to the year.

The forecast Farmgate Milk Price midpoint for the 2023/24 season is up 25 cents to $7.50 per kgMS, with the forecast range moving from $6.50-$8.00 per kgMS to $7.00-$8.00 per kgMS.

Fonterra CEO Miles Hurrell says the revised forecast reflects recent strengthening in demand for reference commodity products from key importing regions, including improvement in demand from China during the first quarter.

“Global Dairy Trade prices have lifted, and our sales book is also well contracted for this time of year, giving us confidence to increase our forecast Farmgate Milk Price.

“It’s still early in the year, with potential for further volatility in commodity prices, so we will continue to watch market dynamics closely and provide updates as needed,” says Mr Hurrell.

The Co-op also reported strong earnings for the first quarter due to improved performance in all three of its sales channels.

“As a result, we have lifted the midpoint of our forecast earnings for the year up 5 cents per share, with the range moving from 45-60 cents per share to 50-65 cents per share,” says Mr Hurrell.

Business performance

Fonterra's profit after tax is up 85% on this time last year to $392 million, equivalent to 24 cents per share. EBIT is up 63% to $575 million.

These earnings are from continuing operations and exclude the performance and impact of selling DPA Brazil[1].

Mr Hurrell says higher margins across the Co-op's Ingredients, Foodservice and Consumer channels have driven the lift in earnings, with gross margin up from 15.5% this time last year to 21.4%.

“Our Foodservice and Consumer channel performance is due to improved margins as well as the Co-op allocating more milk to these higher returning channels.

“We've also seen continued strong performance in New Zealand Ingredients, but lower margins in Australia Ingredients.

“Looking ahead, we expect these higher margins to continue throughout the first half of the year, before tightening across all three sales channels in the second half of the year, due to higher input costs and the gap between reference and non-reference product prices narrowing.

“Our increased forecast earnings guidance of 50-65 cents per share reflects this and we are on track for a strong interim dividend,” says Mr Hurrell.

During the first quarter of FY24, the Co-op also continued to make progress against its strategy.

“In August, we returned 50 cents per share and unit following the completion of the sale of Soprole. We also recently completed the divestment of DPA Brazil, as part of our plan to focus on our New Zealand farmers’ milk.

“Our in-market teams are continuously working on new ways to commercialise our innovation expertise.

“This includes partnering with a customer in Japan to launch an adult milk powder containing our protein and designed to target muscle loss, and partnering with a customer in Greater China to develop a cake containing our probiotics in response to rising consumer interest in the health benefits of probiotics.

“As part of our plan to be a leader in sustainability, we introduced a target of a 30% reduction in on-farm emissions intensity by 2030 (from a 2018 baseline) and have since been meeting with farmers to discuss how the Co-op can collectively achieve it.

“We are pleased with the results for the first quarter of FY24 and see positive momentum across our business as we work towards our 2030 goals,” says Mr Hurrell.

[1] Including discontinued operations, FY24 Q1 Total Group profit after tax was $346 million.

ENDS

Non-GAAP financial information
Fonterra uses several non-GAAP measures when discussing financial performance. Non-GAAP measures are not defined or specified by NZ IFRS.

Management believes that these measures provide useful information as they provide valuable insight on the underlying performance of the business. They may be used internally to evaluate the underlying performance of business units and to analyse trends. These measures are not uniformly defined or utilised by all companies. Accordingly, these measures may not be comparable with similarly titled measures used by other companies. Non-GAAP financial measures should not be viewed in isolation nor considered as a substitute for measures reported in accordance with NZ IFRS.

Non-GAAP measures are not subject to audit unless they are included in Fonterra’s audited annual financial statements.

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