



# Market Announcement

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16 May 2024

## Fonterra announces step-change in strategic direction

Fonterra Co-operative Group Ltd has today announced a step-change in its strategic direction, as it commits to deepening its position as a world-leading provider of high-value, innovative dairy ingredients.

As part of this, the Co-op has announced it is exploring full or partial divestment options for some or all of its global Consumer business, as well as its integrated businesses Fonterra Oceania and Fonterra Sri Lanka.

Chairman Peter McBride says this is a significant move for the Co-op which will set it up to grow long-term value for farmer shareholders and unit holders.

“We have conducted a strategic review which has reinforced the role of our core business. This is working alongside farmers to collect a sustainable supply of milk and efficiently manufacture products valued by customers, to deliver strong returns to farmer shareholders and unit holders,” says Mr McBride.

CEO Miles Hurrell says the review has also given the Co-op confidence in the role it plays in the dairy nutrition value chain, with one of its greatest strengths being the production of world-class, innovative ingredients for customers to take to consumers.

“We believe we can grow further value for the Co-op by focusing on being a B2B dairy nutrition provider, working closely with customers through our high-performing Ingredients and Foodservice channels.

“This will be enabled by strong relationships with farmers, a flexible manufacturing and supply chain footprint, deeper partnerships with strategic ingredients customers, further investment in our Foodservice channel, continued delivery on our sustainability commitments and investment in innovation.

“In this context, we are exploring divestment options for our global Consumer business as well as our integrated businesses Fonterra Oceania and Fonterra Sri Lanka,” says Mr Hurrell.

### **Fonterra’s Consumer and associated businesses**

Fonterra’s global Consumer business has grown over the years since Fonterra was formed and is performing well. It includes a portfolio of market leading brands such as Anchor, Mainland, Kāpiti, Anlene, Annum, Fernleaf, Western Star, Perfect Italiano and others.

Fonterra Oceania is a fully integrated business, recently created through merging Fonterra Brands New Zealand and Fonterra Australia. It comprises Consumer, Foodservice and Ingredients businesses. Fonterra Sri Lanka comprises Consumer and Foodservice businesses.

Collectively, the businesses in scope for potential divestment utilised approximately 15% of the Co-op’s total milk solids and represented approximately 19% of Fonterra’s group operating earnings in the first half of FY24, with our Consumer businesses delivering strong underlying earnings.

“A divestment of these assets would help create a simpler, higher performing Co-op with our focus on our core Ingredients and Foodservice business and doing what we do best,” says Mr Hurrell.

“While these are great businesses with recent strengthening in performance and potential for more, ownership of these businesses is not required to fulfil Fonterra’s core function of collecting, processing and selling milk. Due to our co-operative structure, we believe prioritising our Ingredients and Foodservice channels and releasing capital in our Consumer and associated businesses would generate more value.

“At the same time, we believe Fonterra is not the highest-value owner of the Consumer and associated businesses in the longer term and a divestment could allow a new owner with the right expertise and resources to unlock their full potential.

“This presents a great opportunity for these brands and businesses. While I recognise there’s a strong connection to brands such as Anchor, a new owner could help these businesses to flourish.

“We have also received unsolicited interest in parts of these businesses, making now a good time to consider their ownership,” says Mr Hurrell.

### **Next steps**

As a next step, Fonterra will appoint advisors to assist with assessing divestment options.

“We recognise a divestment of this scale would be significant for Fonterra. Throughout this process we will be considering how best to maximise overall returns to our farmer shareholders and unit holders.

“The choices we make when considering divestment options will be driven by a clear-eyed view of the best value creating pathway for the Co-op – both in terms of the potential proceeds from a sale and the ability for Fonterra to generate consistent economic returns over the long-term.

“Any decisions about use of net proceeds from a sale will be guided by our Resource Allocation Framework, which allocates funds to debt repayment, investment to support our strategy and distributions to shareholders and unit holders.

“We expect a divestment process to take at least 12 to 18 months. If we were to proceed with a divestment of this size we would seek shareholder support,” says Mr Hurrell.

### **Fonterra’s long-term strategy**

In 2021, Fonterra released its long-term strategy *Our Path to 2030* which included financial targets out to 2030.

These targets were based on a strategy which included the businesses that are now in scope for potential divestment and, in these circumstances, it is appropriate for Fonterra to withdraw these financial targets.

It is also appropriate for Fonterra to terminate its on-market share buyback programme, which was expected to run until 13 August 2024.

“At all times, we remain committed to maximising returns through the Farmgate Milk Price and dividends, and achieving a strong return on capital that is greater than farmers’ cost of capital.

“Fonterra will continue to provide updates on our forecast Farmgate Milk Price and earnings guidance as part of our quarterly reporting process or as required. Our FY24 forecast earnings are not impacted by this announcement.

The Co-op’s sustainability targets and associated investment plans remain unchanged. Fonterra also remains committed to improving cost efficiency across the Co-op and will continue to report progress against efficiency measures annually.

“Through our work to date, Fonterra has strong foundations which puts us in the position to consider where we will next invest for long-term growth.

“We intend to provide a further update on our revised long-term strategy in due course. This will include further detail on our plans to grow the long-term value of Fonterra and the measures through which we will track our progress,” says Mr Hurrell.

**Notes:**

- In FY23, Fonterra’s Ingredients business represented ~80% of the Co-op’s New Zealand milk solids sold and returned \$17.4 billion in revenue by selling a range of products, from high quality powders to premium proteins through GDT, resellers, and direct to strategic customers. It has a global sales footprint and customer base, with growing demand in developed economies such as North America.
- In FY23, Fonterra’s Foodservice business represented ~13% of the Co-op’s New Zealand milk solids sold and returned \$3.9 billion in revenue by selling products such as UHT cream, cream cheese and mozzarella to customers including restaurants, bakeries and hospitality businesses. It has a strong position in Greater China with further growth potential in other markets seeing economic growth, such as in Southeast Asia.
- In FY23, Fonterra’s Consumer business represented ~7% of the Co-op’s New Zealand milk solids sold and returned \$3.3 billion in revenue. It sells everyday dairy products such as fresh milk, cheese and butter enjoyed in homes around the world. It has a global footprint with brands most prominent in New Zealand, Australia, Sri Lanka, China and Southeast Asia.

Please find appended to this announcement an information pack with further detail on the scope, revenue and allocation of milk solids to these businesses.

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***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.*