



Market Announcement

29 May 2024

Q3 business update and FY25 Farmgate Milk Price

- Continuing operations* earnings per share: 61 cents
- Reported earnings per share: 58 cents
- Continuing operations' profit after tax: NZ \$1,013 million up \$20m, or 2%
- Reported profit after tax: NZ \$973 million down 27% with the prior period including Soprole performance and net gain on divestments
- Continuing operations' EBIT: NZ \$1,440 million down 6%
- Return on Capital: 11.9% up from 11.7% year on year
- Lift in forecast FY24 continuing operations' earnings range: from 50-65 cents per share to 60-70 cents per share
- Opening forecast Farmgate Milk Price for 2024/25 season: \$7.25-\$8.75 per kgMS with a mid-point of \$8.00 per kgMS
- Current season forecast Farmgate Milk Price: midpoint maintained at \$7.80 per kgMS, range narrowed to \$7.70-\$7.90 per kgMS

Fonterra Co-operative Group Ltd today provided its Q3 business update, announcing profit after tax from continuing operations* of \$1,013 million, up \$20 million or equivalent to 61c per share. This result is driven by continued strong earnings across all three of the Co-op's product channels.

CEO Miles Hurrell says the Co-op's Foodservice and Consumer channels in particular had a strong third quarter with a lift in earnings compared to the same time last year.

"As a result of this performance, we have lifted our forecast FY24 continuing operations' earnings range to 60-70 cents per share, up from 50-65 cents per share" says Mr Hurrell.

Fonterra also announced an opening 2024/25 season forecast Farmgate Milk Price of \$7.25-8.75 per kgMS with a midpoint of \$8.00 per kgMS.

Farmgate Milk Price

Global Dairy Trade (GDT) prices have lifted over the past couple of months, back to levels seen around the start of the calendar year.

"Our current season forecast Farmgate Milk Price midpoint remains unchanged at \$7.80 per kgMS and as we are nearing the end of the season, we have narrowed the range to \$7.70-\$7.90 per kgMS.

"Looking to the 2024/25 season, milk supply and demand dynamics remain finely balanced and China import volumes have not yet recovered to historic levels.

"Given the early point in the season, the uncertainty in the outlook and ongoing risk of volatility in global markets, we are starting the season with a cautious approach. Our opening forecast range is \$7.25-\$8.75 per kgMS with a midpoint of \$8.00 per kgMS," says Mr Hurrell.

Business Performance

Fonterra's earnings from continuing operations* year to date equates to 61 cents per share, up 1 cent on prior year.

"Fonterra's sales volumes were up slightly on last year by 38kMT, or 1%, due to higher sales volumes in our Foodservice and Consumer channels.

"We also saw price relativities ease over the quarter, and we anticipate them to narrow further in Q4 as they return to more historic levels.

"Gross margins remain strong across all three channels as our in-market teams continue to drive pricing and volume. Foodservice and Consumer volumes are up 4% and 7% respectively year on year, with margins consistent with Q2.

"Our EBIT of \$1,440 million reflected improved performance in Foodservice and Consumer, with Ingredients down year on year following record highs in FY23.

"Our increased earnings range assumes softer earnings in Q4 due to the seasonality of our milk collections, the higher cost of inputs in the Foodservice and Consumer channels, and the impact of the investments in modernising our IT systems.

"Across Fonterra, operating expenses are up due to inflation, upfront costs of driving efficiency improvements and increased IT spend. Historically, some of this IT spend would have been treated as capex and capitalised on the balance sheet.

"We are heading into year end with a strong balance sheet, with Fonterra's underlying performance and lower debt position helping to further reduce our financing costs.

"For the 12 months rolling Return on Capital we are sitting at 11.9%, in line with our forecast. This is expected to be in our 10-11% target range for end of year," says Mr Hurrell.

Strategy update

"Following our announcement earlier this month of a step-change in our strategic direction, we have received a high volume of interest from parties looking to be involved in the potential divestment of our Consumer and associated businesses.

"It's still early days in this process, and we commit to providing farmer shareholders, unit holders, our people and the market updated on new developments as they occur.

"We are also progressing work on our updated strategy and expect to share further detail over the coming months," says Mr Hurrell.

*Continuing operations' earnings excludes earnings from discontinued operations. In FY24 discontinued operations were DPA Brazil and in FY23 discontinued operations were DPA Brazil, Soprole and China Farms.

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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.