



Half year interim results FY18

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21 February 2018



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Result highlights



1H18 highlights

- Group revenue \$434.7 million¹ and Operating EBITDA² \$143.0 million
- Group a2 Platinum® infant formula revenue of \$341.0 million, up 85% on pcg
- ANZ segment revenue +47% and EBITDA +65%
- China revenue and EBITDA more than trebled vs pcg
- Infant formula consumption market share in China of ~5.4%³
- Sales velocity growth and expansion of liquid milk distribution in the US and UK
- Continued focus on emerging markets and broader nutritional products strategy
- Operating cash flow of \$116.4 million; closing cash balance of \$240.2 million at period end
- CFDA infant formula registration achieved by Synlait Milk for a2MC infant formula⁴
- Admission to the S&P/ASX 100 and S&P/NZX 10 indices, effective December 2017
- Evolving shareholder composition: ~70% domestic (ANZ); ~30% offshore (North America, Asia, Europe)

¹ All figures quoted in New Zealand Dollars (NZD) unless otherwise stated

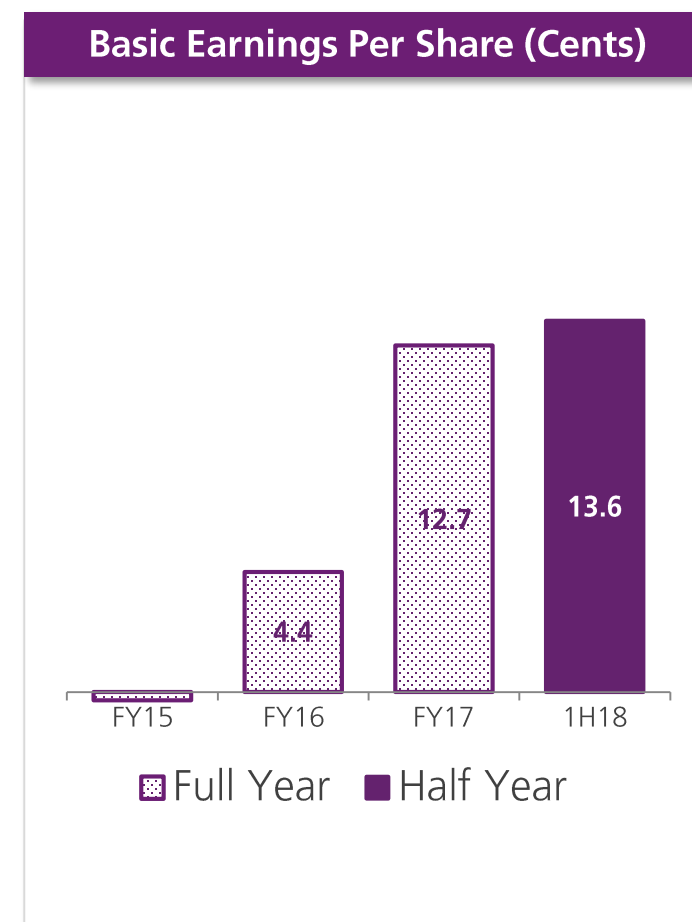
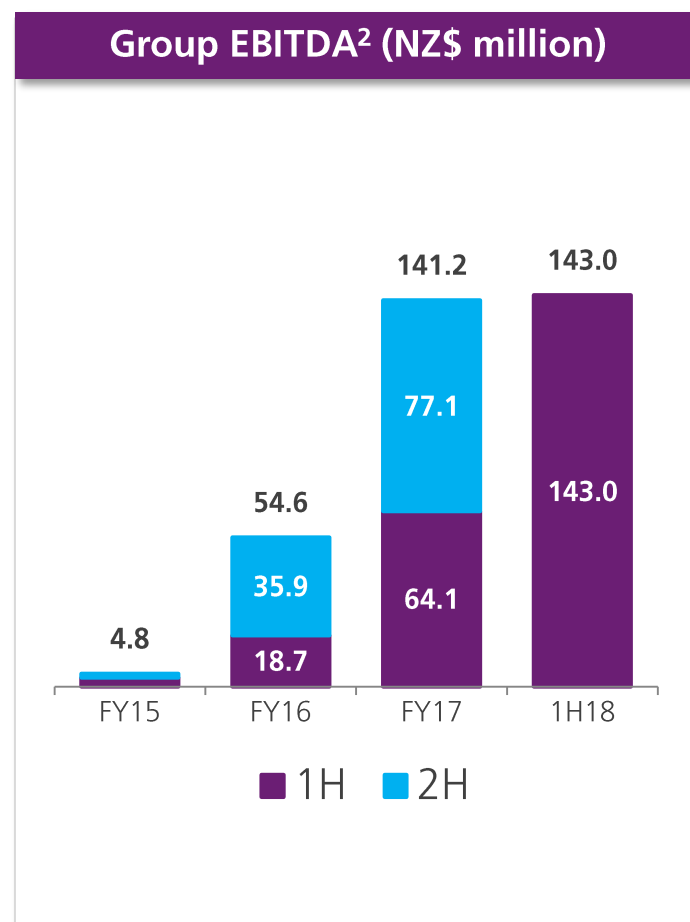
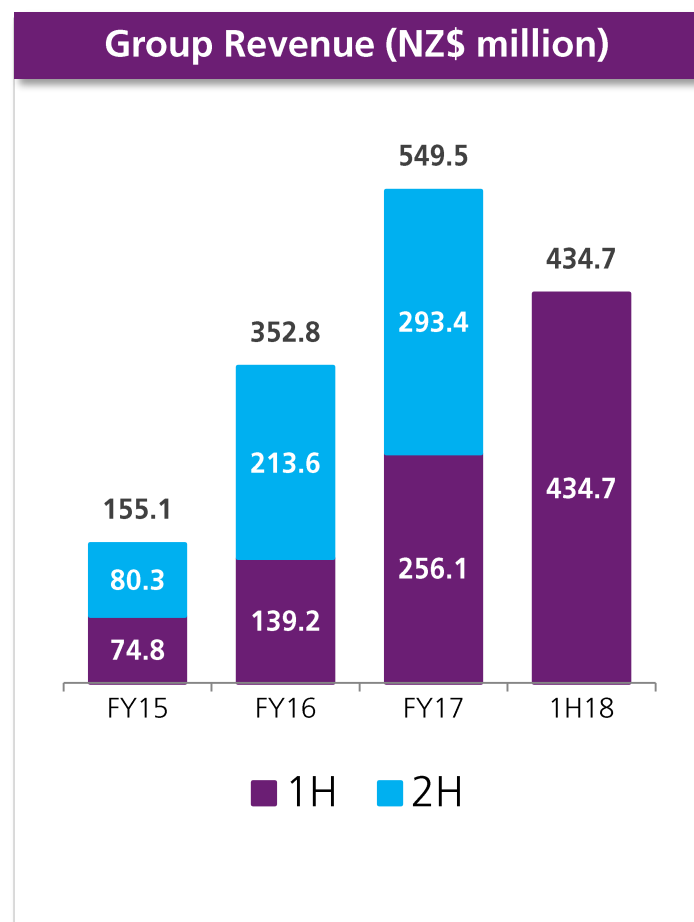
² Operating EBITDA is a non-GAAP measure and represents earnings before interest, tax, depreciation and amortisation

³ Kantar Infant Formula market tracking of China Tier 1 and Key A cities for quarter ending 31/12/17 by value (Kantar track a substantial proportion of the total market)

⁴ CFDA: China Food and Drug Administration; registration achieved by Synlait Milk for the importation of a2MC infant formula into China from 1 January 2018



Key financial charts¹



¹ The Company's financial year ends 30 June; 1H refers to the first half period from 1 July to 31 December; 2H refers to the second half period from 1 January to 30 June

² EBITDA is a non-GAAP measure and represents earnings before interest, tax, depreciation and amortisation, and is shown before non-recurring items

Financial overview



Financial summary

NZ\$ million	1H18	1H17	% change	
Revenue	434.7	256.1	+70%	• Reflects market share gains in key products across all regions
Gross margin	216.5	119.0	+82%	• GM% of 49.8% benefitted from growth in infant formula and favourable currency movements
Distribution	(13.0)	(9.5)	+37%	• Increase relates primarily to distribution costs
Marketing	(26.0)	(16.0)	+62%	• Increased marketing investment primarily to support growth in China and US
Employee costs	(16.4)	(9.9)	+65%	• Employee cost increases reflect capability build in core markets
Administration & other	(18.0)	(19.5)	-8%	• Administration & other includes ~NZ\$2.9 million net gains on foreign denominated cash holdings and working capital
EBITDA	143.0	64.1	+123%	
EBIT	141.9	62.5	+127%	
NPAT	98.5	39.4	+150%	• Effective tax rate reduced from ~37% to ~31% reflecting lower weighting of international tax losses (not tax effected) and non-deductible expenses

NZ\$ million	Dec-17	Jun-17	% change	
Cash on hand	240.2	121.0	+98%	• Cash on hand reflects strong NPAT contribution; improvements in working capital benefitted from timing of supplier payments
Inventory	53.6	28.4	+88%	• Planned infant formula build

Segment financial performance

NZ\$ million		Australia & New Zealand	China & other Asia	Corporate	UK & USA ²	Total Group
1H18	Revenue	304.2	114.4	-	16.1	434.7
	EBITDA ¹	116.4	48.3	(13.3)	(8.4)	143.0

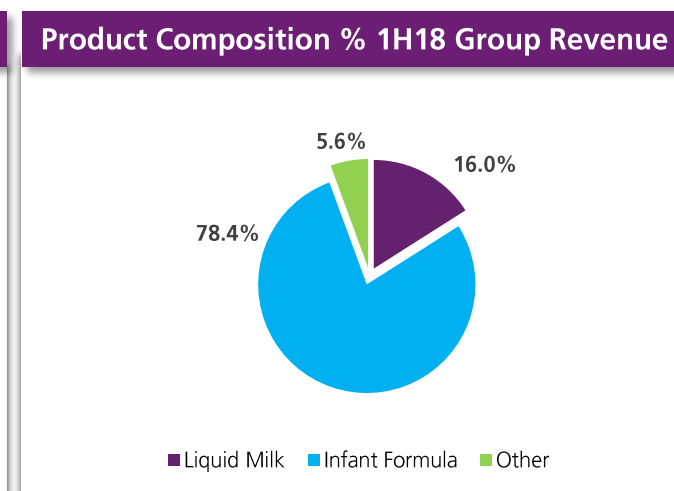
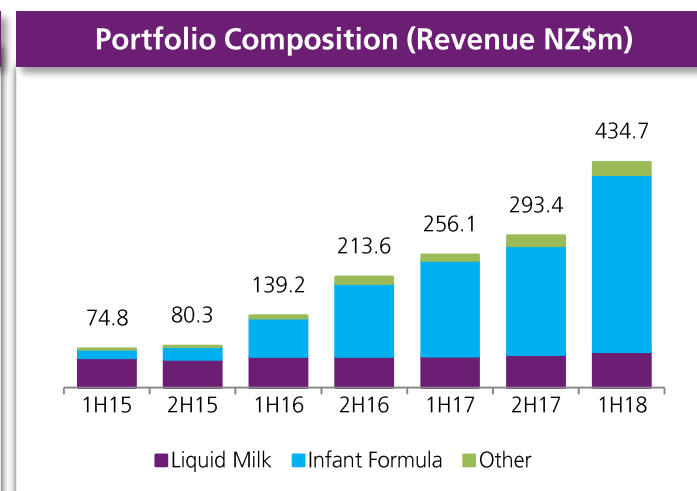
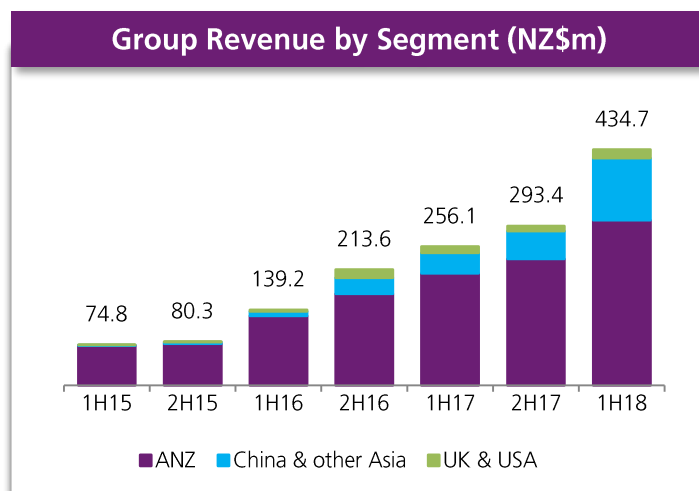
Infant Formula
341.0

1H17	Revenue	206.6	37.7	-	11.8	256.1
	EBITDA	70.4	13.7	(12.3)	(7.7)	64.1

184.5

% Change	Revenue	47.3%	203.8%	-	35.7%	69.7%
	EBITDA	65.4%	252.0%	8.4%	8.6%	123.2%

84.8%



¹ EBITDA is a non-GAAP measure and represents earnings before interest, tax, depreciation and amortisation

² UK & USA Operating EBITDA includes \$2.2 million in impairment charges in FY17

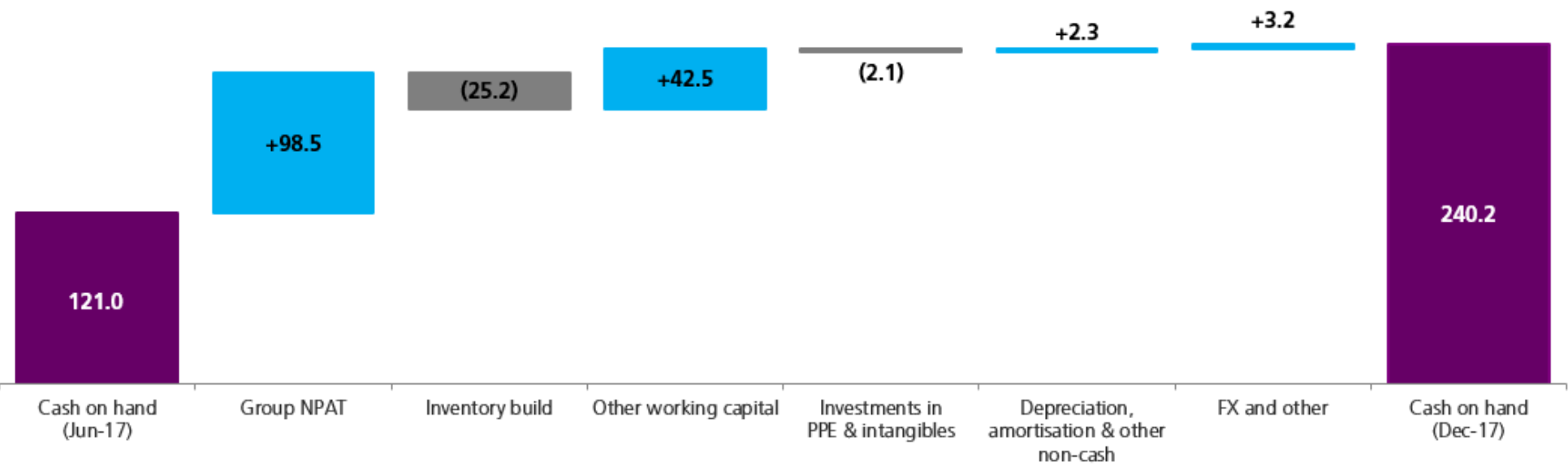
Reconciliation of non-GAAP measures

NZ\$ million	1H18	1H17
Australia & New Zealand Segment EBITDA	116.4	70.4
China & other Asia Segment EBITDA	48.3	13.7
UK & USA Segment EBITDA	(8.4)	(7.7)
Corporate EBITDA	(13.4)	(12.3)
EBITDA ¹	<u>143.0</u>	<u>64.1</u>
Depreciation/Amortisation	(1.1)	(1.6)
EBIT ¹	<u>141.9</u>	<u>62.5</u>
Net interest income	0.8	0.4
Income tax expense	(44.2)	(23.5)
Net Profit for the Period	<u>98.5</u>	<u>39.4</u>

¹EBITDA and EBIT are non-GAAP measures. However, the Company believes they assist in providing investors with a comprehensive understanding of the underlying performance of the business

Cash position

Group Cash Movement: 1H18
(NZ\$ million)



- Inventory build reflects increase in infant formula inventory towards more appropriate levels to support sales growth
- Other working capital benefited from timing of supplier payments ~\$20 million (expected to reverse in 2H18) and improved debtor days
- FX and other includes positive movements on foreign currency cash holdings due to weakening of NZD



Group strategy update



Progress made on strategic priorities



BROAD DAIRY NUTRITIONAL PRODUCT PORTFOLIO

Across a continuum from the purity of fresh a2 Milk™ to customised A1 protein-free products

Targeting adults, children and infants to satisfy their growing digestive health needs



TARGETED ATTRACTIVE REGIONS

Asia Pacific focus
(ANZ, China, Other Asia)
USA
UK
Potential new markets



PROPRIETARY KNOW-HOW, A2 PROTEIN EXPERTISE

Integrated intellectual property portfolio
Leading operational & compliance capability
Sponsoring relevant scientific research
Differentiated brand development

FY18 STRATEGIC PROGRESS

- Continued growth of a2 Platinum® infant formula and a2 Milk™ branded milk (powder and liquid) across all markets
- Launched a2 Platinum® Stage 4 junior milk in ANZ (August), China label to follow
- Nutritional products developed for launch calendar 2018 including a2 Platinum® pregnancy formula in 2H18
- Increased investment in marketing and capability across Asia Pacific
- a2 Milk™ branded fresh milk launch, Singapore; Vietnam milk powder test market
- Liquid milk expansion and increased marketing investment, Northeast USA
- Ongoing assessment of opportunities in other markets, in particular Asia
- New unifying brand identity
- Ongoing investment in strengthening intellectual property portfolio
- Considering investment in nutritionals blending and canning capability
- Findings released from new human clinical research studies (China and New Zealand); further progress on existing studies across infants, pre-schoolers and adults
- Expecting broader interest in the A1 protein-free category and well positioned to respond



Global strategic supply partnerships

Multi-site, multi-product and geographic diversification

Synlait Milk Limited

- Foundation infant nutrition partnership
- Multiple New Zealand manufacturing sites
- Exclusive supply rights for infant nutrition into key markets
 - Australia
 - New Zealand
 - China
- New product innovation

Fonterra Co-operative Group Limited

- Emerging markets, multi-product partnership
- Australia and New Zealand manufacturing sites
- Exclusive supply rights for infant formula and other products into new priority markets:
 - South East Asia, Middle East
 - ANZ and China (non-infant formula products)



Strategic relationship with Fonterra

a2MC has entered into a comprehensive strategic relationship with Fonterra Co-operative Group Limited (Fonterra):

Nutritional products manufacturing and supply agreement

- Provides a2MC with a highly credentialed second manufacturing partner
- Fonterra to supply A1 protein-free nutritional products in bulk and consumer packaged formats exclusively to a2MC
- Powder products to be manufactured at Darnum facility in Victoria, Aust; blending and canning at Canpac facility in Hamilton, NZ
- Product supply from Darnum expected to commence during calendar 2019
- a2MC granted strategic customer rights:
 - committed capacity arrangements, with offtake flexibility
- Fonterra granted exclusive supply rights:
 - for specific new priority markets in Southeast Asia and the Middle East for certain nutritional products to a specified volume
- New A1 protein-free milk pool to be developed in New Zealand and Australia by Fonterra and a2MC
- Provides access to large scale manufacturing performance and competitive terms within on a global basis context
- Rolling three year term

Strategic relationship with Fonterra

New Zealand fresh milk licence

- Fonterra granted an exclusive licencing agreement:
 - Launch of a2 Milk™ branded fresh milk for end sale in New Zealand covering production, distribution, sale and marketing
 - Fonterra to access a2MC's systems and know-how relating to the sourcing, processing and marketing of a2 Milk™

Distribution and sales arrangements

- The parties will seek to establish distribution and sales arrangements in new priority markets where Fonterra has capabilities
- Services may relate to importation, registration, warehousing and sales and distribution

Other strategic arrangements

- The parties will evaluate potential commercial arrangements for the sale of certain a2MC branded A1 protein-free products in Australia, New Zealand and China
- Relates to dairy products not presently marketed by a2MC, such as butter and cheese

A1 protein-free milk pools

- Fonterra to establish A1 protein-free milk pools in New Zealand and Australia in conjunction with a2MC



New unifying brand identity rolling out across regions and innovation

Asia Pacific



USA



Pregnancy, infant and toddler nutrition



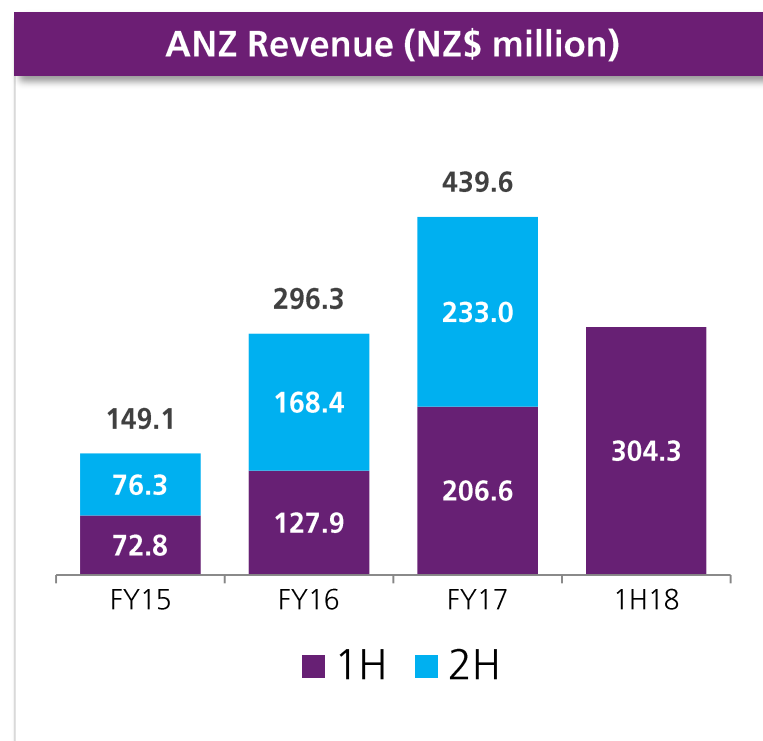
2H18 launch



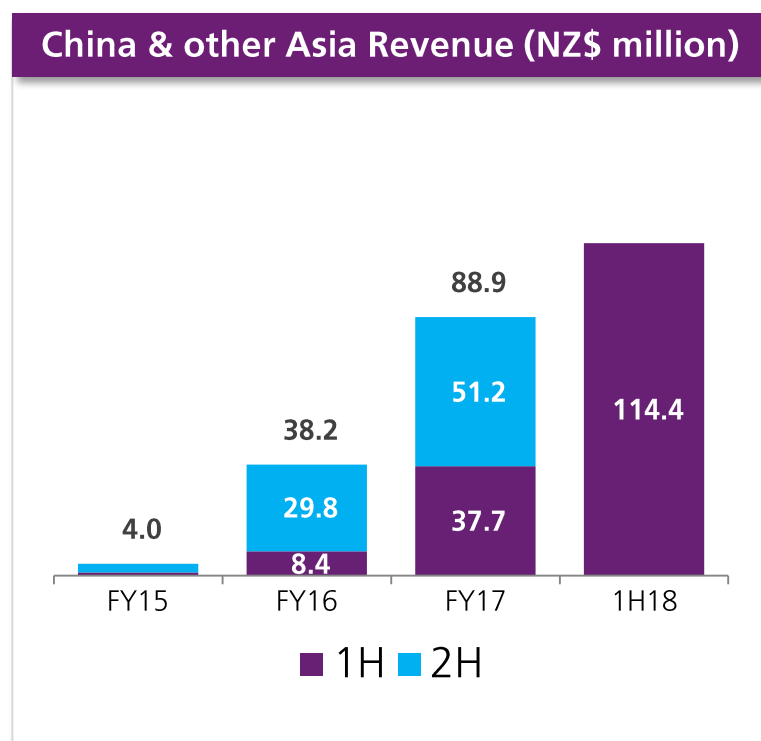
Regional update



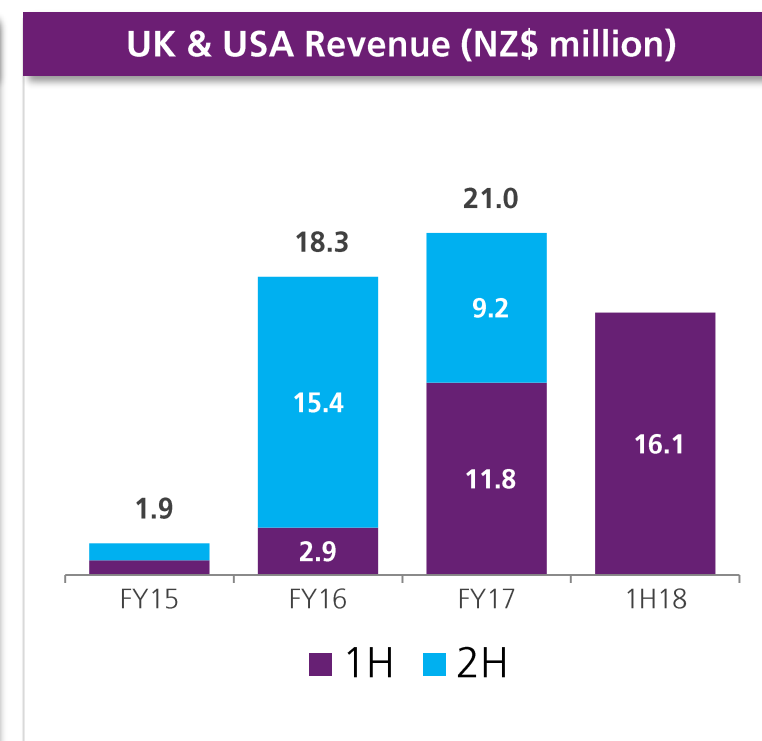
1H18 regional performance overview¹



- **Revenue:** \$304.3
- **EBITDA:** \$116.4



- **Revenue:** \$114.4
- **EBITDA:** \$48.3



- **Revenue:** \$16.1
- **EBITDA:** (\$8.4)

¹ The Company's financial year ends 30 June; 1H refers to the first half period from 1 July to 31 December; 2H refers to the second half period from 1 January to 30 June

Australia and New Zealand

- Outstanding performance for the ANZ business
- Strong growth in a2 Platinum® infant formula:
 - Australian market value share increased from ~26% to 30%¹
 - Remains the fastest growing infant formula brand by value in Australia¹
- a2 Milk™ branded fresh milk revenue grew ~3% on pc; market share growth to ~9.5%²
- Sales of a2 Milk™ branded milk powder products significantly higher on pc
- a2 Platinum® Stage 4 (launched August 2017) performed above expectations
- Successfully launched on-line e-commerce platform to improve access to a2 Platinum® for Australian consumers
- Continued to actively support and closely manage the personal shopper (“Daigou”) channel
- Maintained highest national advertising spend in both infant formula and fresh milk categories
- a2 Milk™ named top brand of choice for Australian ‘millennials’³
- Settlement reached with Lion Dairy & Drinks Pty Limited
- Very well supported by nutritionals manufacturing partner, Synlait Milk, in meeting increased demand

¹ Aztec Australian Grocery and Pharmacy Scan 31/12/17 Moving Annual Total (MAT) vs 30/06/17 MAT

² Aztec Australian Grocery Weighted Scan 31/12/17 MAT

³ Number 1 brand on millennial shopping lists, The Urban List, Food & Drink Survey May 2017



China and other Asia

- Exceptional performance for the China and other Asia business
- Flexible multi-channel infant formula strategy in China delivering success:
 - Kantar consumption market share by value increased from ~3.5% to ~5.4%¹
 - Successful participation in key seasonal online sales events in China
 - Distribution in China Mother Baby Stores (MBS) now totalling ~6,700 stores
 - China Label now represents ~12% of Group infant formula sales, up from ~8% in 2H17
- Growing brand awareness driven by increased sales and marketing investment
 - Commenced new brand campaign activation including live streaming events and significant digital TV media
 - Extensive video billboard campaign launch in Hong Kong
- CFDA registration achieved by Synlait Milk for a2MC China label infant formula in September 2017
 - 1H18 inventory includes build of China label in advance of registration
 - Transition to registered product during 2H18
- a2 Platinum® infant formula launched in Hong Kong through ~350 high-end pharmacy outlets
- Whole milk powder introduced into Vietnam following Australian fresh milk launch in Singapore
- Size and capability of China and emerging markets teams continues to strengthen

¹ Kantar Infant Formula market tracking of Tier 1 and Key A cities for quarter ending 31/12/17 vs quarter ending 30/06/17 by value (Kantar track a substantial proportion of the total market)



China: a2 Platinum® new marketing campaign and activations

- National live streaming of pop-up event in Chengdu¹ with life size a2 Platinum® can filled with interactive activities for visitors and hosted by celebrity mum *Huke* (胡可) and her son *An Ji* (安吉)
 - 250k live visitors, 23 million online viewers
 - Generating significant social media content
- Digital TV and outdoor advertising support for a2 Platinum® toddler milk
- Stepped up in-store promotions in MBS linked to activity



¹Chengdu is capital of Southwestern China's Sichuan province

Hong Kong: new video billboards in high traffic zones¹



[View billboard video here](#)

¹ Advertisement runs January 2018 through February 2018, and continues post Chinese New Year

United States

- Further positive progress in building sales per store and distribution footprint
- Progressive improvement in gross margin and distribution costs
- Brand awareness continues to grow supported by;
 - ‘Love Milk Again’ free-to-air and subscription TV campaign
 - Editorial and digital media programmes
- Distribution in the Southeast extended to further key grocery retailers following successful Publix launch
- Velocity build in California and Southeast regions approaching or exceeding 30 UPSW¹ in key accounts
- Expansion into Northeast region announced January 2018:
 - Northeast is home to ~60 million consumers and accounts for ~20% of total USA milk category volume
 - Key accounts now include Wegmans, Whole Foods, Ahold (Stop & Shop and Giant), ShopRite, Safeway, H-Mart, Fairway Market and Market Basket
 - Achieved national earned media, including “CNBC Squawk Box” and strong press coverage
- Northeast expansion to increase total distribution from ~3,600 to ~5,000 stores across the USA
- Planned increased marketing investment supporting Northeast launch and other markets of ~US\$7 million in 2H18
- Named in the Top 10 Most Innovative Companies in Food for 2018 by US-based [Fast Company](#)²
- Investigating new product opportunities to further capitalise on expanded distribution and awareness

¹Refers to the units per store per week for the total range

²11th edition of the Fast Company World's Most Innovative Companies, announced 20 February 2018 (US EST)



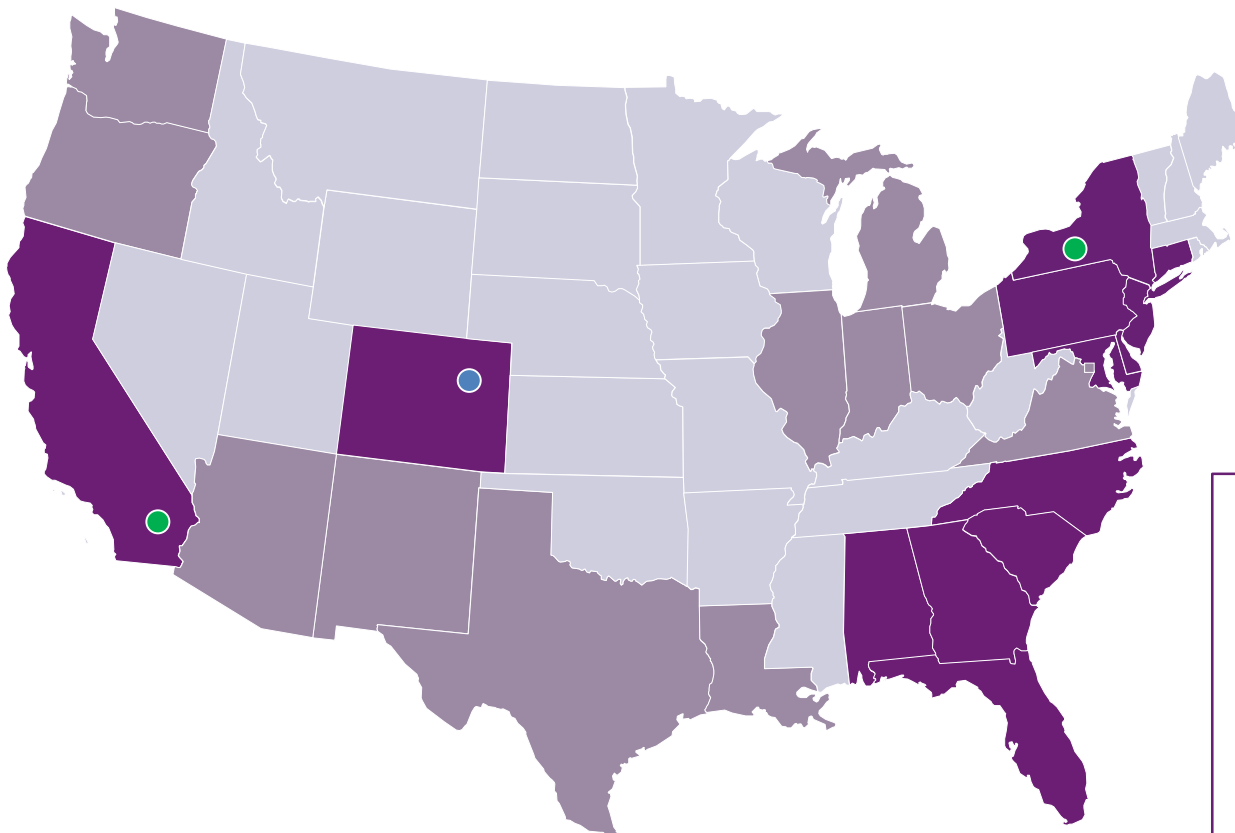
Distribution expanded to Northeast from January

Legend

-  Broad distribution
-  Limited distribution
-  No current distribution
-  Processing and milk supply
-  US office, Boulder, Colorado

California

- Launched April 2015
- High levels of acceptance from retailers including Sprouts, Whole Foods, Kroger & Safeway
- Distribution has further grown to include Target & independent retailers



Northeast

- Entered market Jan 2018
- Initially Whole Foods Northeast
- Major Rollout to over 1400 stores in Jan 2018 including ShopRite, Wegmans, Fairway, H-Mart, Market Basket, Giant and Stop & Shop



Southeast

- Entered March 2017
- Initially through Publix into 1,100 Stores
- Distribution expanded into Winn Dixie, Harris Teeter, Ingles and Earthfare



United Kingdom

- Progressive growth of revenue and operating earnings
- Volume sales of a2 Milk™ branded fresh milk increased by more than 50% against pcp
- *'a2tonishing'* marketing campaign continues to resonate with consumers
- Sales growth reflects improvements in merchandising, in-store facings and point of sale presence
- Distribution increased from ~1,600 stores to over 2,000 stores
- Further ranging gains achieved in three largest supermarket chains - Tesco, Sainsbury and Asda
- Results include a2 Platinum® infant formula sales in the wholesale channel, in line with pcp



Science developments

Studies published:

- Human clinical research study¹ involving 600 Han Chinese participants reported benefits of a2 Milk™ with respect to milk intolerance
 - A1 protein² found in conventional milk may trigger symptoms associated with milk intolerance¹

Studies completed and submitted for publication:

- Pilot human study at the University of Auckland under New Zealand Government High Value Nutrition grant; further studies now progressing
- Clinical trial involving 75 Chinese pre-schoolers demonstrating digestive benefits

Ongoing studies:

- Clinical examination at Pennington Biomedical Research Centre with regard to digestive function, inflammation and aspects of metabolic function progressing
- Human clinical study in association with Monash University Australia examining the benefits of a2 Milk™ on irritable bowel syndrome progressing

¹ <https://nutritionj.biomedcentral.com/track/pdf/10.1186/s12937-017-0275-0?site=nutritionj.biomedcentral.com>

² A1 and A2 protein refers to the A1 and A2 beta-casein protein types

Outlook



1H18 trading performance and outlook

1H18 trading performance

- Group revenue of NZ\$434.7 million:
 - Reflects market share gains in nutritional products and liquid milk
 - Includes seasonal sales from key China selling events, particularly in November and December
- Group EBITDA of NZ\$143.0 million:
 - GM% improvement reflects:
 - higher proportion of infant formula sales, currency movements and favourable net selling prices relative to plan;
 - partially offset by product cost increases and margin mix within nutritional
 - Benefited from phasing of marketing spend (2H18 to exceed 1H18)

FY18 outlook

- Expecting marketing investment in 2H18 to exceed 1H18 by ~NZ\$35 - \$40 million, driven by increased spend in China and USA
- Inventory levels have improved during 1H18; forecasting further build in 2H18
- Subject to currency movements and realisation of throughput efficiencies, GM% expected to be broadly consistent in 2H18

Capital management

- Board continues to consider the appropriate use of the Company's available capital including a review of opportunities to invest directly in blending and canning capability





thea2milkcompany.com

