BUILDING FROM STRENGTH

2020 Annual Results – 19 August 2020

The a2 Milk Company Limited

Disclaimer

This presentation dated **19 August 2020** provides additional comment on the Annual Report for the 12 months ended 30 June 2020 of The a2 Milk Company Limited (the "Company" or "a2MC") and accompanying information released to the market on the same date. As such, it should be read in conjunction with the explanations and views in those documents.

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All values are expressed in New Zealand currency unless otherwise stated.

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AGENDA

RESULTS HIGHLIGHTS

Strong results across all markets and product groups

FY20 Highlights

- Total revenue of $1.73 billion, an increase of 32.8%
- EBITDA of $549.7 million, an increase of 32.9%
- Net profit after tax of $385.8 million, an increase of 34.1%
- Basic earnings per share (EPS) of 52.39 cents, an increase of 33.5%
- EBITDA to sales margin of 31.7%
- Operating cash flow of $427.4 million and a closing cash balance of $854.2 million
- Marketing investment of $194.3 million targeting opportunities in China and the USA
- Group infant nutrition revenue of $1.42 billion, up 33.8%
- China label infant nutrition sales more than doubling to $337.7 million and distribution expanded to ~19.1k stores
- USA milk revenue growth of 91.2% and distribution expanded to ~20.3k stores

Notes:
All figures quoted in New Zealand Dollars (NZ$) and all comparisons are with the 12 months ended 30 June 2019 (FY19), unless otherwise stated.
All figures are quoted based on all operations of the Group, including discontinued operations, unless otherwise stated.
Earnings before interest, tax, depreciation and amortisation (EBITDA) is a non-GAAP measure. However, the Company believes that it assists in providing investors with a comprehensive understanding of the underlying performance of the business. A reconciliation of EBITDA to net profit after tax is shown on Slide 30.
Marketing investment only included continuing operations.

Significant earnings growth supported by healthy underlying gross margin

NZ$ million (including discontinued ops)	FY20	FY19	% change
Revenue (including discontinued operations)	1,732.5	1,304.5	+33%
EBITDA (including discontinued operations)	549.7	413.6	+33%
NPAT (including discontinued operations)	385.8	287.7	+34%

- Result including the loss from discontinued operations (i.e. fresh milk operations in the UK); revenue in line with outlook provided in April
- EBITDA margin of 31.7% (incl. discontinued operations) in-line with outlook provided in April

NZ$ million (continuing operations)	FY20	FY19	% change
Revenue	1,731.1	1,300.8	+33%
Gross margin	968.6	713.3	+36%
Distribution	(42.6)	(30.8)	+38%
Marketing	(194.3)	(133.9)	+45%
Employee costs	(74.2)	(52.6)	+41%
Admin & other	(105.5)	(75.8)	+39%
EBITDA	552.0	420.2	+31%
EBIT	547.7	418.1	+31%
NPAT	388.2	294.5	+32%
Loss from discontinued ops	(2.3)	(6.8)	nm
Reported profit for the period	385.8	287.7	+34%

[1] *Excludes UK discontinued operations.*

- Reflects strong growth across core markets and product categories
- GM of 56.0%[1] (up from 54.8% in FY19) reflects improved price yield and the positive effects of currency movements; partially offset by COGS increases related to infant nutrition
- Higher distribution costs is linked to growth of China label and USA business
- Marketing investment of $194.3 million[1] targeting opportunities in China and the USA
- Employee costs reflect continued capability build, especially in-market in China and USA
- The increase in Admin & other costs reflects investment in consumer insights and costs to support business expansion; as we improve internal capability, the composition and level of external resourcing should moderate over time

Strong growth across all regions and all products

Geographic segment revenue & EBITDA

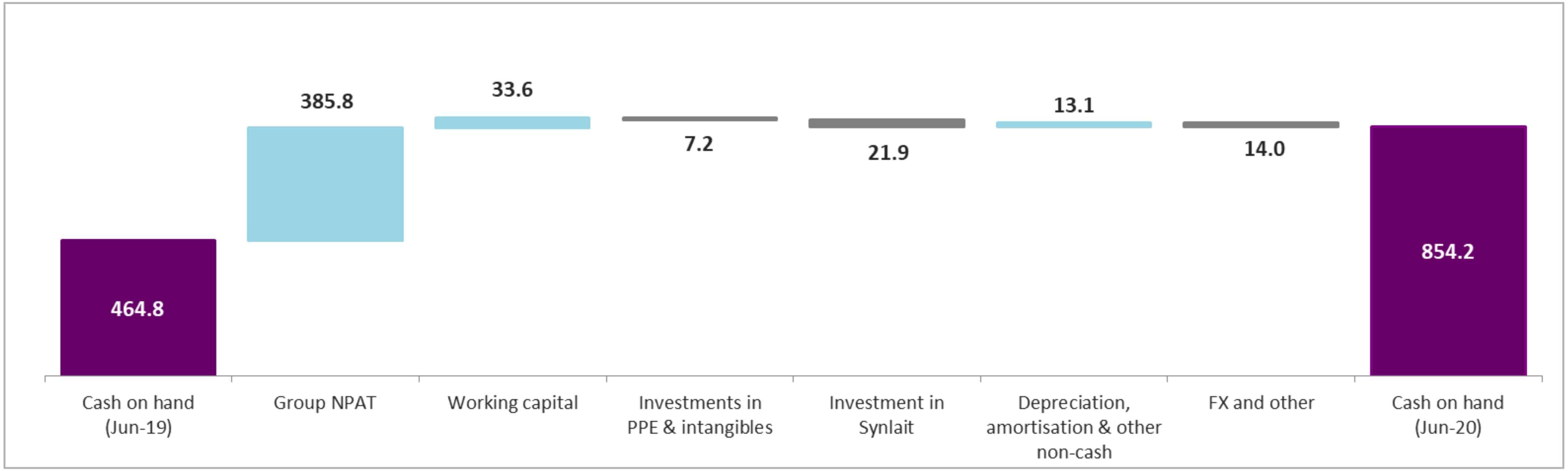
	NZ$ million	ANZ	China & Other Asia	USA	Corporate	Total Group	UK (discontinued ops)
FY20	Revenue	965.7	699.4	66.1	-	**1,731.1**	1.4
	EBITDA	465.6	224.8	(50.5)	(87.9)	**552.0**	(2.3)
	EBITDA %	48.2%	32.1%	NM	-	**31.9%**	NM
FY19	Revenue	842.7	423.5	34.6	-	**1,300.8**	3.7
	EBITDA	388.2	134.9	(44.0)	(58.9)	**420.2**	(6.6)
	EBITDA %	46.1%	31.9%	NM	-	**32.3%**	NM
% change	Revenue	+14.6%	+65.1%	+91.2%	-	**+33.1%**	NM
	EBITDA	+19.9%	+66.6%	+14.7%	+49.3%	**+31.4%**	NM

Product segment revenue[1]

Liquid milk	Infant nutrition	Other nutritional
222.0	**1,423.9**	**85.2**
		
171.2	1,063.8	65.8
+29.7%	**+33.8%**	**+29.6%**

[1] *Excludes UK discontinued operations.*

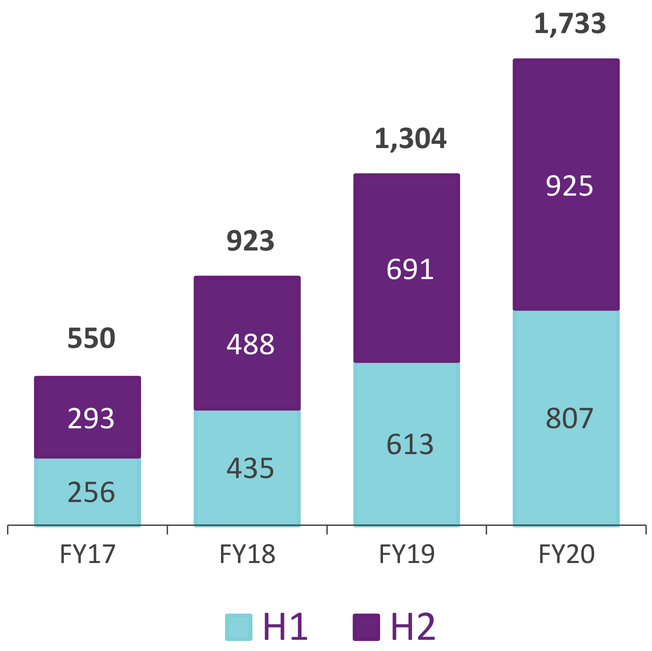
Robust balance sheet with substantial cash balance



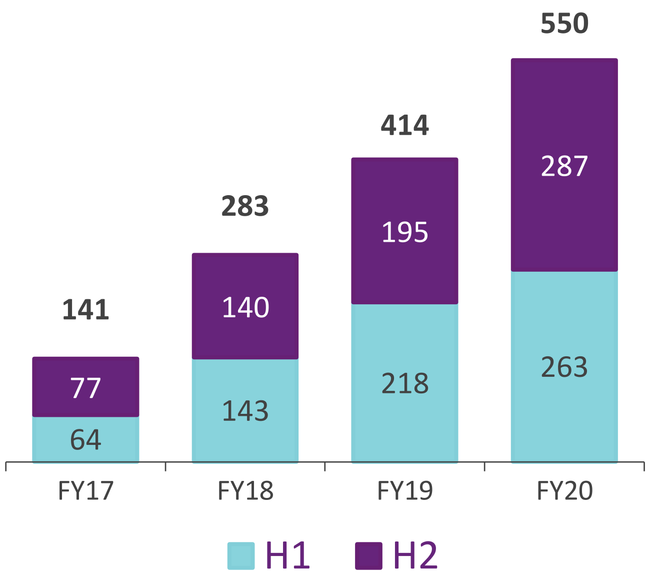
- Operating cash flow of $427.4 million and closing cash balance of $854.2 million
- Increase due to strong Group earnings
- Improvement in working capital of $33.6 million due to timing of supplier payments
- Increased shareholding in Synlait from 17.39% to 19.84%
- FX and other includes $12.7m relating to the purchase of treasury shares
- Balance sheet strength provides us options to fund future growth and potential participation in manufacturing

Key financial charts[1]

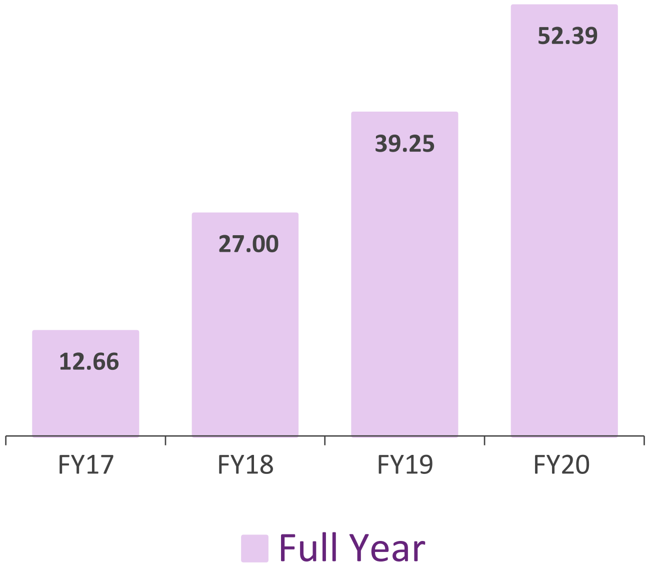
Group revenue (NZ$ million)



Group EBITDA (NZ$ million)



Basic earnings per share (cents)



[1] The company's financial year ends 30 June; H1 refers to the first half period from 1 July to 31 December; H2 refers to the second half period from 1 January to 30 June. Key financial charts include discontinued operations.
[2] EBITDA is a non-GAAP measure and represents earnings before interest, tax, depreciation and amortisation, and is shown before non-recurring items.

COVID-19 impact

- Staff safety, wellbeing programmes in place, and flexible and remote work practices enacted
- COVID-19 caused disruptions and changing consumer behaviour
  - Shift from offline to online, in particular in China in 3Q20
  - Pantry stocking of infant nutrition in 3Q20 across online and resellers, a proportion of which unwound in 4Q20, unable to estimate the full extent
  - Total USA market saw in-store foot traffic reduced, consumer purchasing limitations and we were unable to access stores with our in-store merchandisers
- Short term changes to our sales and marketing programme in China during 3Q20
  - In-store Mother Baby Store (‘MBS’) promotional people began a home-delivery service
  - Softening of retail daigou due to reduced tourism from China and international student numbers
  - Partial redeployment of in-store activation marketing into online live streaming events
- Other business implications:
  - Benefited from the support of our strategic partners in managing supply chain continuity, in particular during increases in demand
  - SG&A savings in the form of reduced travel, partial delays in recruitment and employee costs
  - Donations were made in relation to China Red Cross, China product donations and R&D donations for the development of a vaccine
- Estimated COVID-19 had a modest positive impact in FY20 on both revenue and EBITDA
- The company did not seek any COVID-19 related government funding or support

YEAR IN REVIEW

Strengthening execution

Continued progress on strengthening our execution

MAXIMISE SUSTAINABLE GROWTH FROM CORE PRODUCTS IN CORE MARKETS

BROADEN PORTFOLIO IN CORE MARKETS

EXPAND IN OTHER TARGETED MARKETS

BUILDING TOWARDS SUSTAINABLE BRAND LEADERSHIP

DELIVERING THE ORGANISATION OF THE FUTURE

Asia Pacific business delivering strong growth

Asia Pacific in total

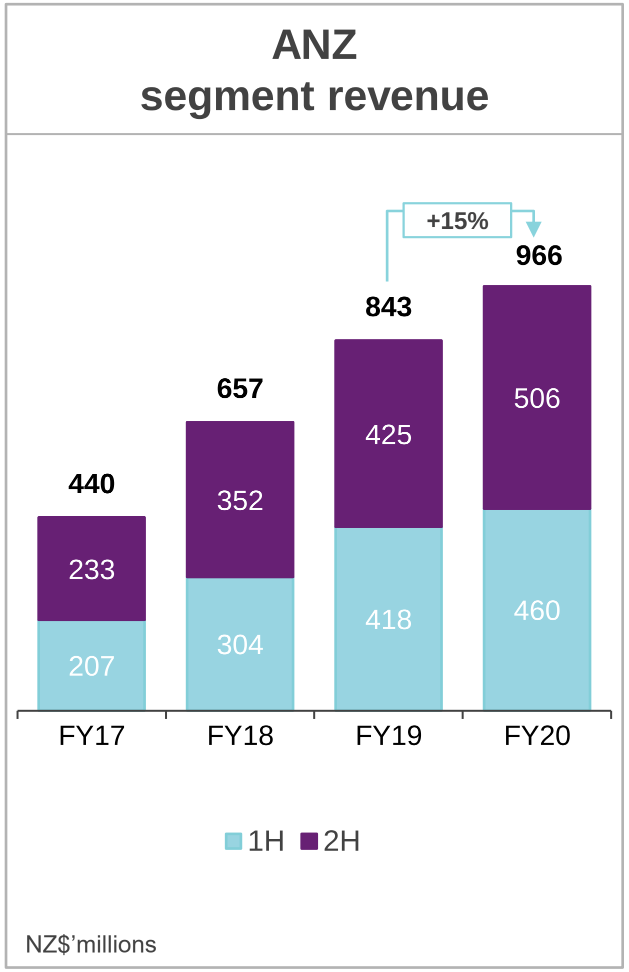
- Revenue $1.66 billion, up 31.5% and EBITDA of $690.5 million, up 32.0%
- 33.8% growth in infant nutrition revenue across APAC, driven by 65.1% increase in China – strong growth in all channels
- Revenue growth benefitted from favourable pricing and product mix

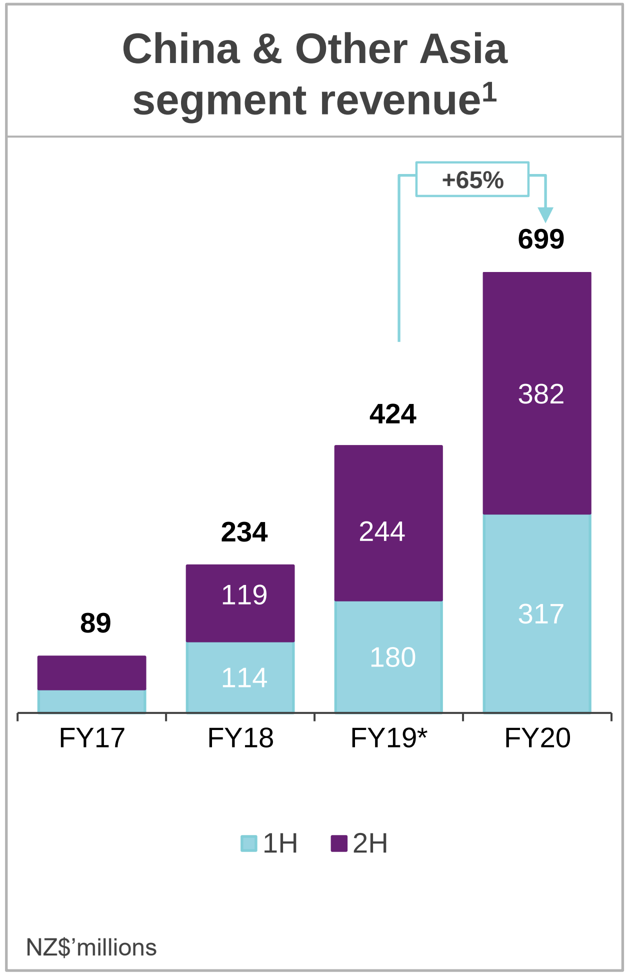
ANZ segment

- Revenue $965.7 million, up 14.6%
- EBITDA $465.6 million, up 19.9%

China & Other Asia segment

- Revenue $699.4 million, up 65.1%
- EBITDA $224.8 million, up 66.7%

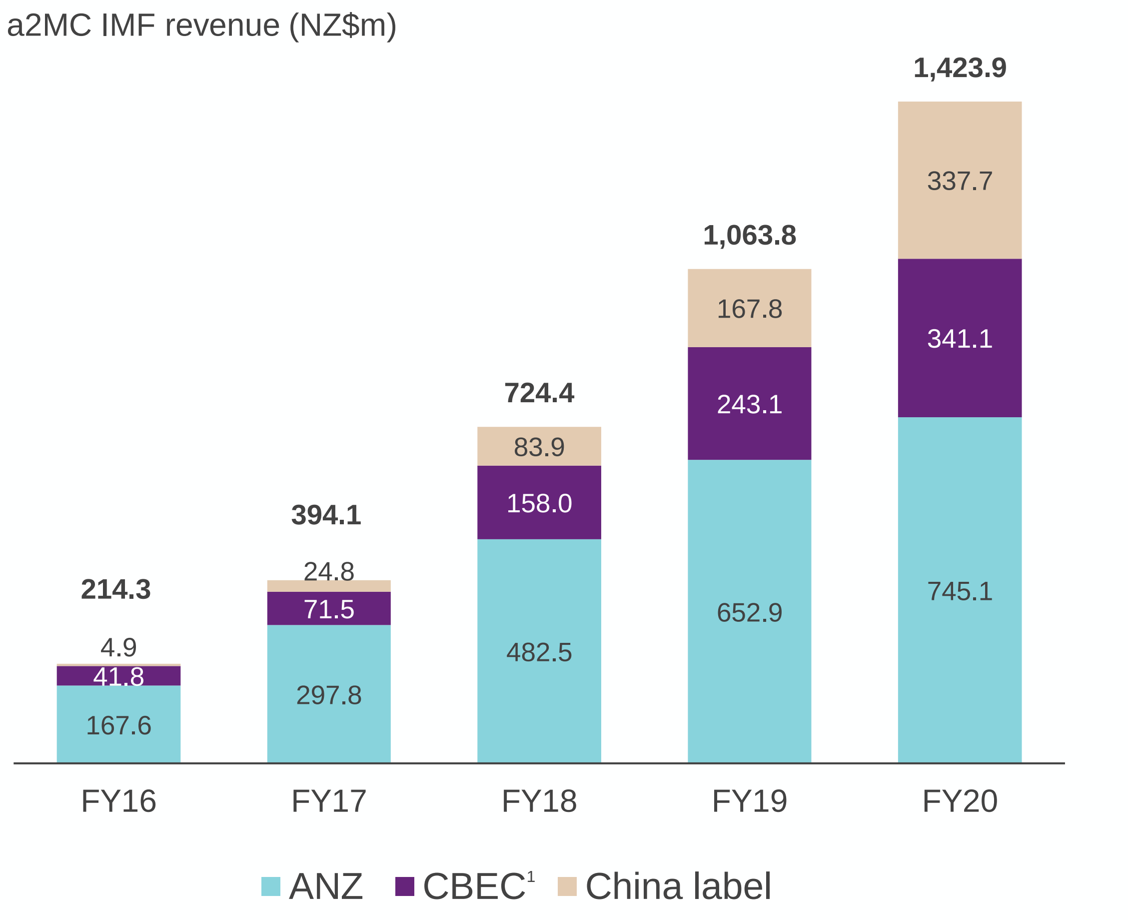




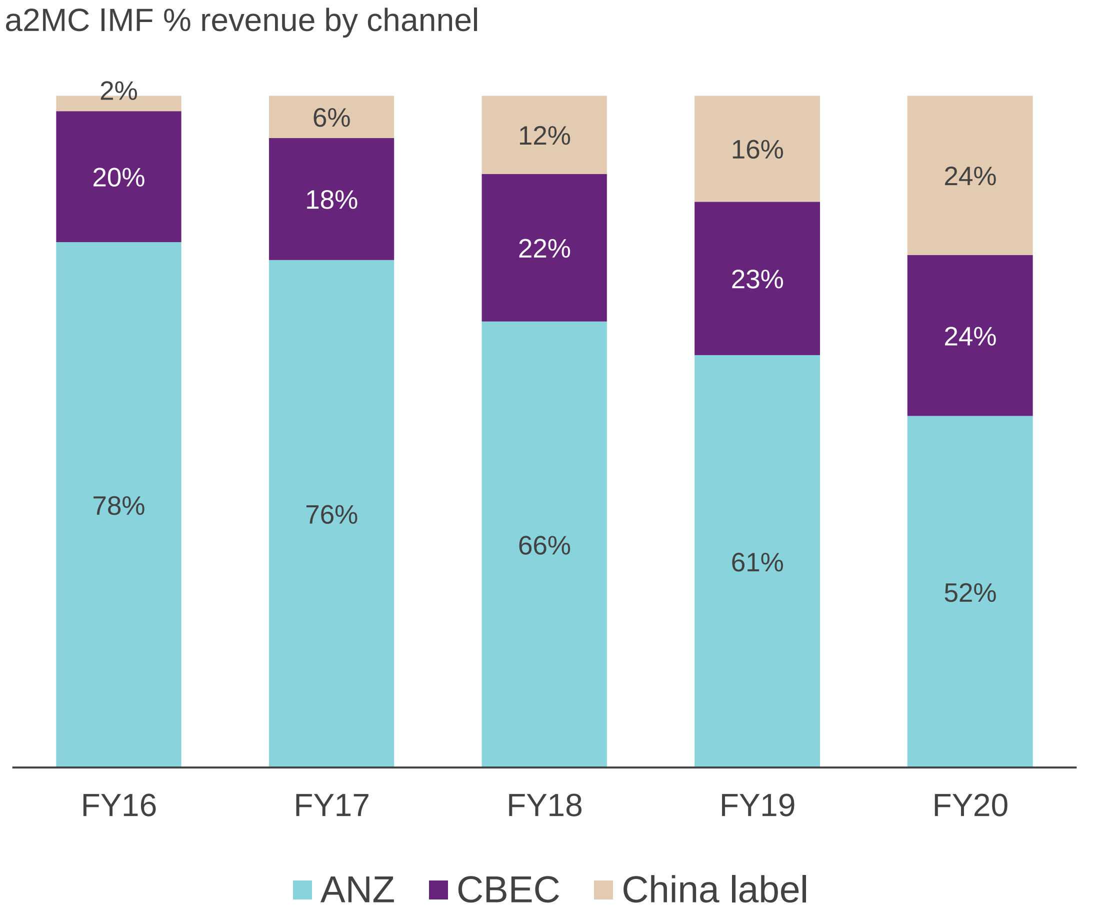
[1] UK infant formula for FY19 has been reclassed and shown in China & Other Asia segment.

China-based retail channels now account for 48% of total infant nutrition

Revenue growing across all channels



China-based channels strengthening



[1] *CBEC = Cross border e-commerce.*

Focused on our “one brand, two labels” strategy for infant nutrition

- Portfolio approach to developing ‘one brand with two labels’ across key consumer retail channels: MBS, CBEC and resellers in ANZ
- China label range delivers our super premium positioning, in particular in higher tier cities and MBS; whilst our English label which is premium priced within the reseller and online channels, is more accessible for some consumers
- Our focused portfolio strategy has engaged strongly with our consumers and still has significant growth potential
- China based channels now account for 48% of total infant nutrition sales

Significant growth in marketing investment supporting "one brand, two labels"

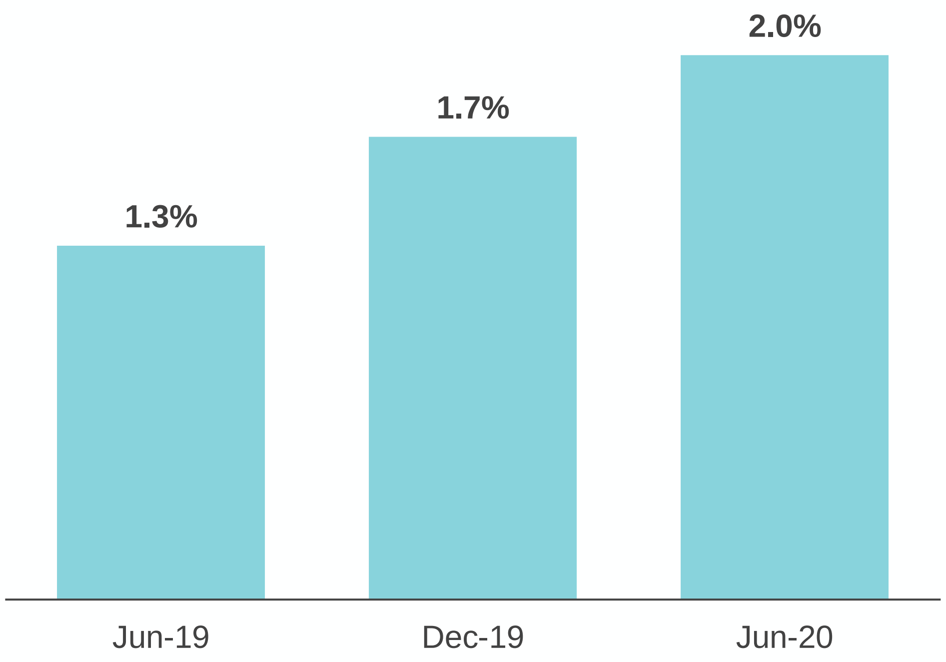
- Marketing investment split between mass media to build awareness, and heavy localised activations (incl. in-store) to drive conversion to trial – the combination has driven strong sales growth, in particular in MBS and CBEC

New mass media advertising campaign:
TV, digital TV, outdoor

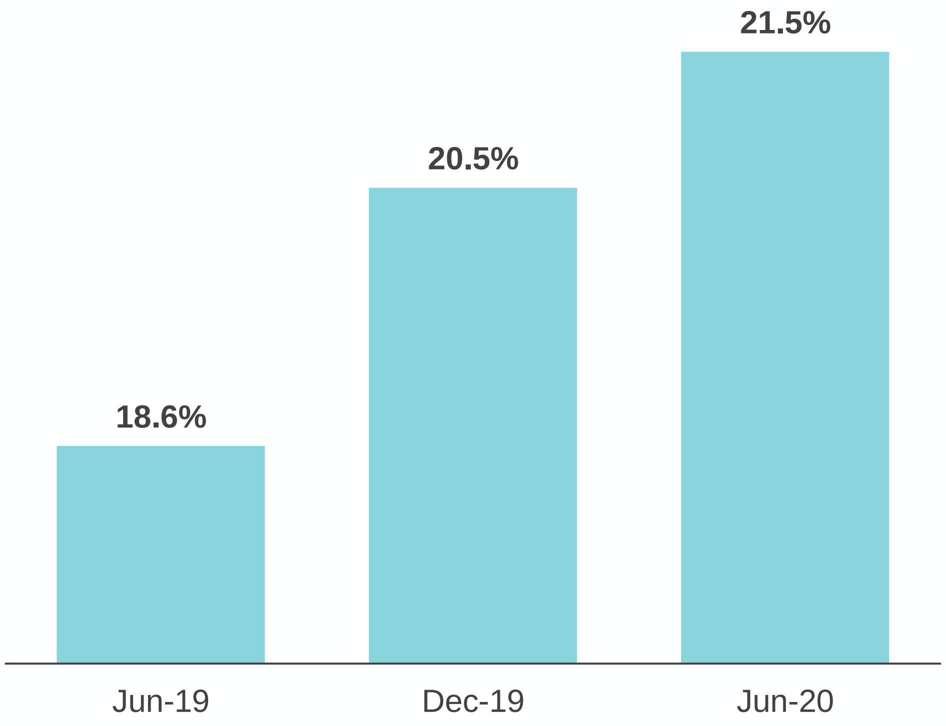
Stepped up brand activations:
In-store, live events, digital activations (incl live streaming)

Growing market share positions in our key China-based retail channels

Nielsen MBS value share (%)[1]



Smartpath CBEC market share (%)[2]



[1] Nielsen MBS 12 month value share.
[2] Smartpath CBEC 12 month value share.

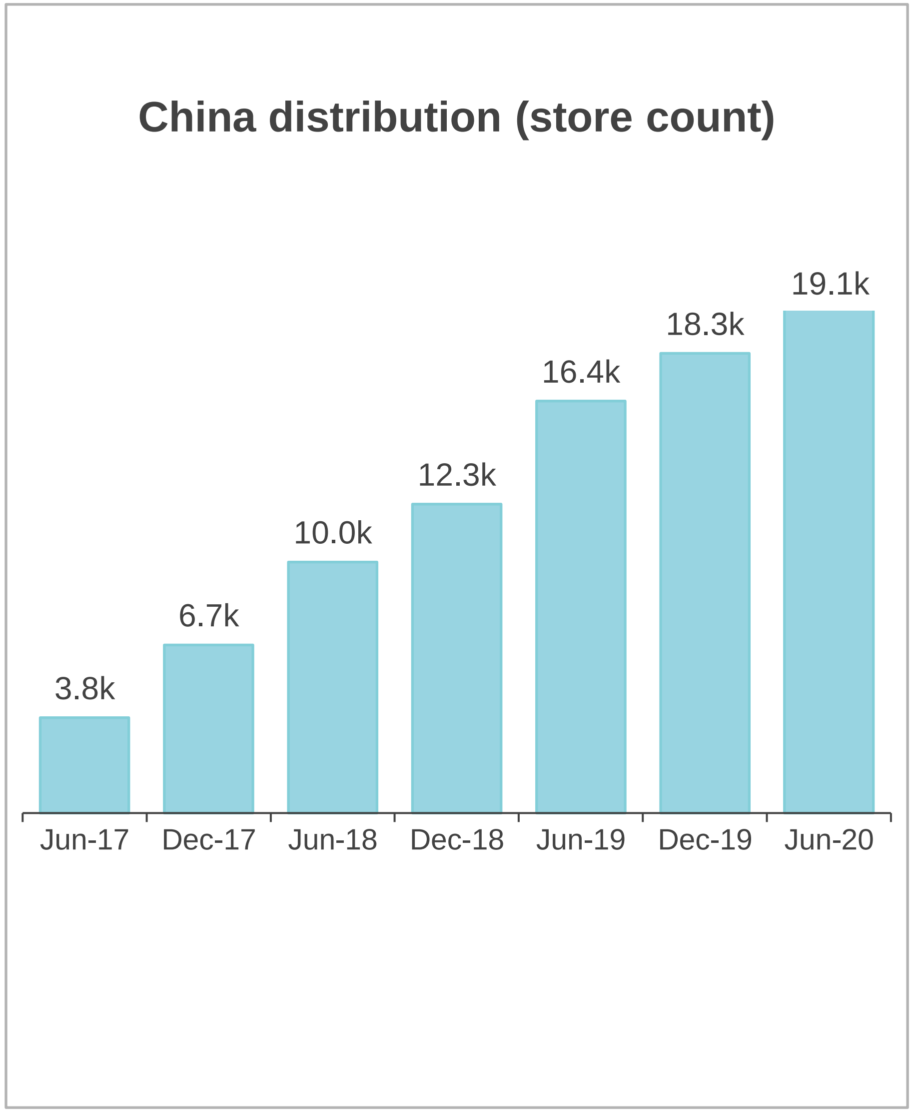
Impressive China label infant nutrition growth in line with strategy

- Sales of *a2 至初*® China label infant nutrition of $337.7 million, more than doubled the sales in the prior corresponding period, now accounting for 24% of portfolio

- Increased investment behind in-store activation, mama classes and promotional people in particular in 1H20

- Stage 4 launched in December and new tamper evident lid across Stages 1-4 China label

- Expanded our footprint to ~19.1k stores, up from ~16.4k stores at the end of 2H19



Continued strong growth of English label infant nutrition

Cross border e-commerce (CBEC)

- Sales of *a2 Platinum*® English label infant nutrition of $341.1 million, up 40.3%
- Positive results across the key e-commerce selling events throughout the year, including “11/11 singles day” in November and “6/18” in June

Australian retailers and resellers

- Sales of *a2 Platinum*® English label infant nutrition of $745.1 million, up 14.1%
- Seeing a channel shift from traditional retail daigou to corporate daigou, in particular in 2H20
- We remain the market brand leader in Australian grocery and pharmacy channels
- We continue to invest behind our brand, with our level of advertising being the highest in the category

Asia Pacific liquid milk & other nutritional products growing strongly

Australian liquid milk

- Achieved double-digit revenue growth in Australian fresh milk, our most mature category – revenue totalling $152.5 million, growth of 14.1%
- Achieved a record market share of 11.3%[1] and continued to be the market leading brand in fresh milk
- The *a2 Milk*™ brand continues to be the only fresh milk brand ranged in all major supermarket chains
- Largest brand advertiser in the fresh milk category, maintaining very high brand awareness and loyalty that benefits the portfolio as a whole

Other nutritional products and other markets

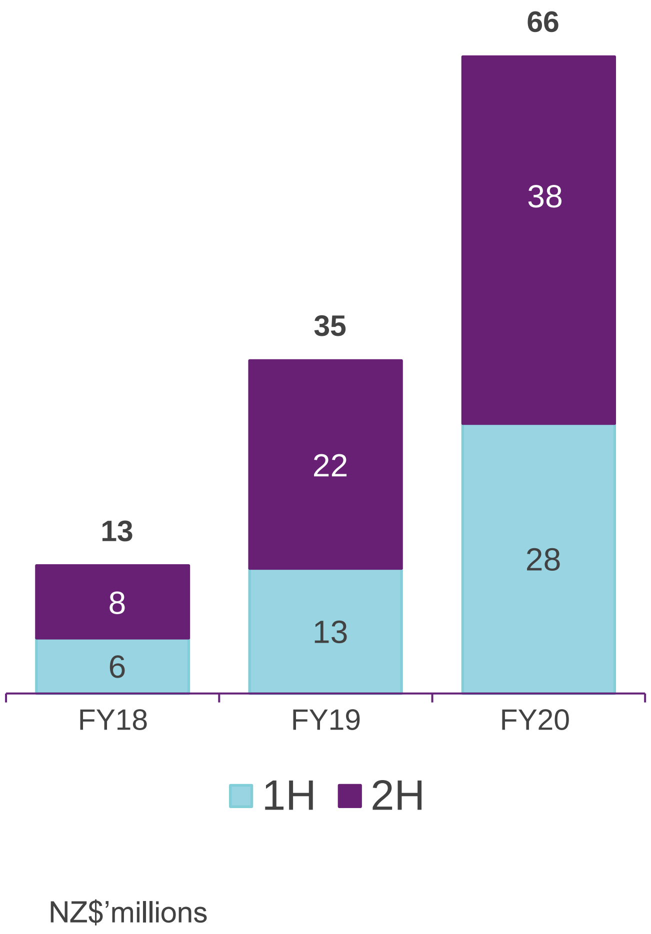
- Overall revenue growth of 29.6% to $85.2 million the majority of which is recorded in our ANZ segment
- *a2 Smart Nutrition*™ showing positive signs, China label launched in January 2020 and 200mL UHT launching 1H21
- Successful re-launch of our nutritional product targeting mothers under new branding of *a2 Nutrition for Mothers*™
- We continue to target growth opportunities for other nutritional products in China
- Continuing to develop infant nutrition in Korea

[1] *IRI Australian Grocery Weighted Scan 12 months ending 30 June 2020.*

USA driving towards meaningful scale

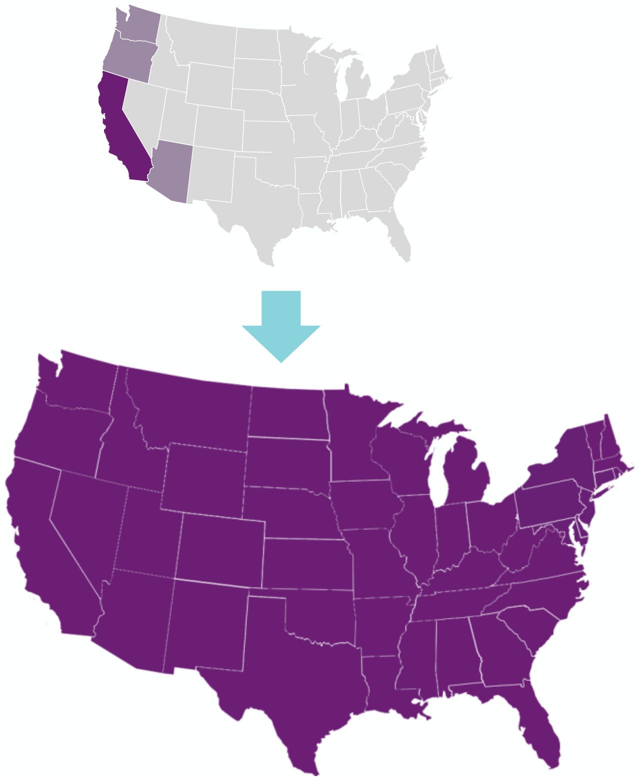
- Gaining momentum in the USA market
  - Revenue up 91% to NZ$66.1 million
  - Increased marketing investment and distribution growth delivered EBITDA losses of NZ$50.5 million
  - Brand awareness more than doubling and conversion rates up significantly
- Liquid milk growth driven by combination of existing stores and new distribution
  - Encouragingly 51% of total growth is from existing stores
  - The top 12 major retailers across all retail channels accounted for ~70% of growth
- Impact of COVID-19 on USA market overall will see consumers become more value conscious
  - Shifting from broadcast advertising to greater emphasis on in-store activation, account specific pricing and promotional activity
  - The change will lead to gross revenue growth, however net revenue will be broadly consistent with FY20 and we expect an improved EBITDA result for FY21
- USA continues to be a strategically important market
  - Largest global milk market with significant and growing premium segment
  - Significant growth in awareness will create a platform for future product innovation
  - Initial milestone continues to be US$100 million of annualised sales
- Launched in Canada via a licensing agreement with Agrifoods in July FY21

USA segment revenue



Strong growth in distribution and national footprint of over 20k stores

Broad national distribution occurred from FY19

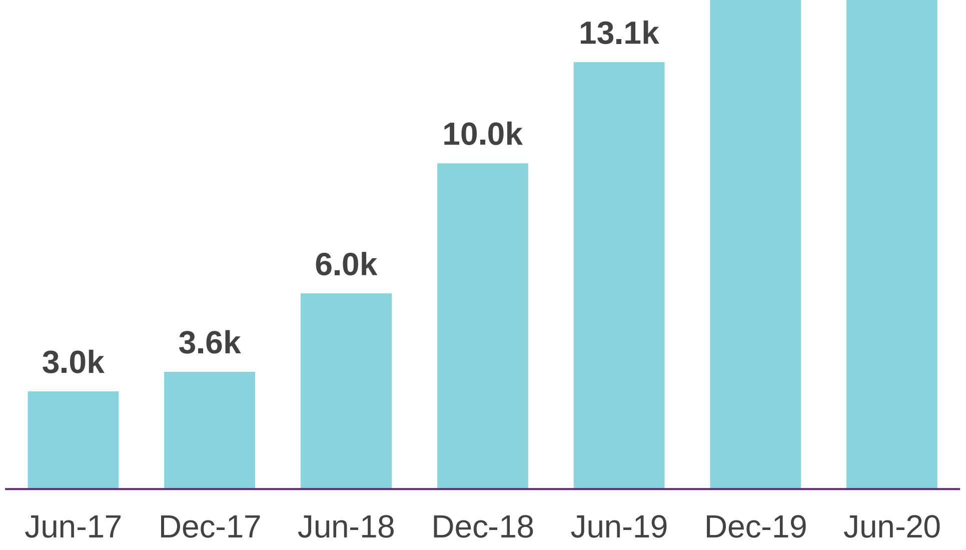


April 2015:
Launch into the USA via California region (~500 stores in FY15)

From FY19:
Broad national distribution (~20.3k stores in FY20)

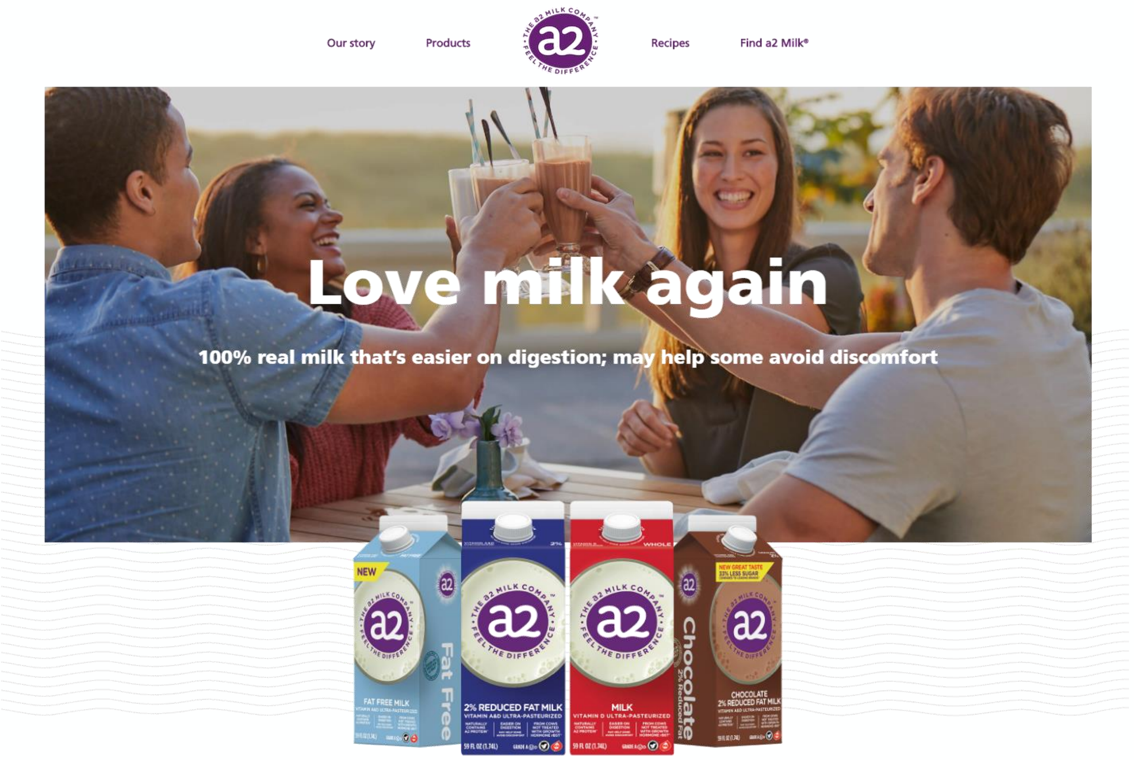
Legend
- Broad distribution
- Limited distribution
- No distribution

USA distribution over time (store count)

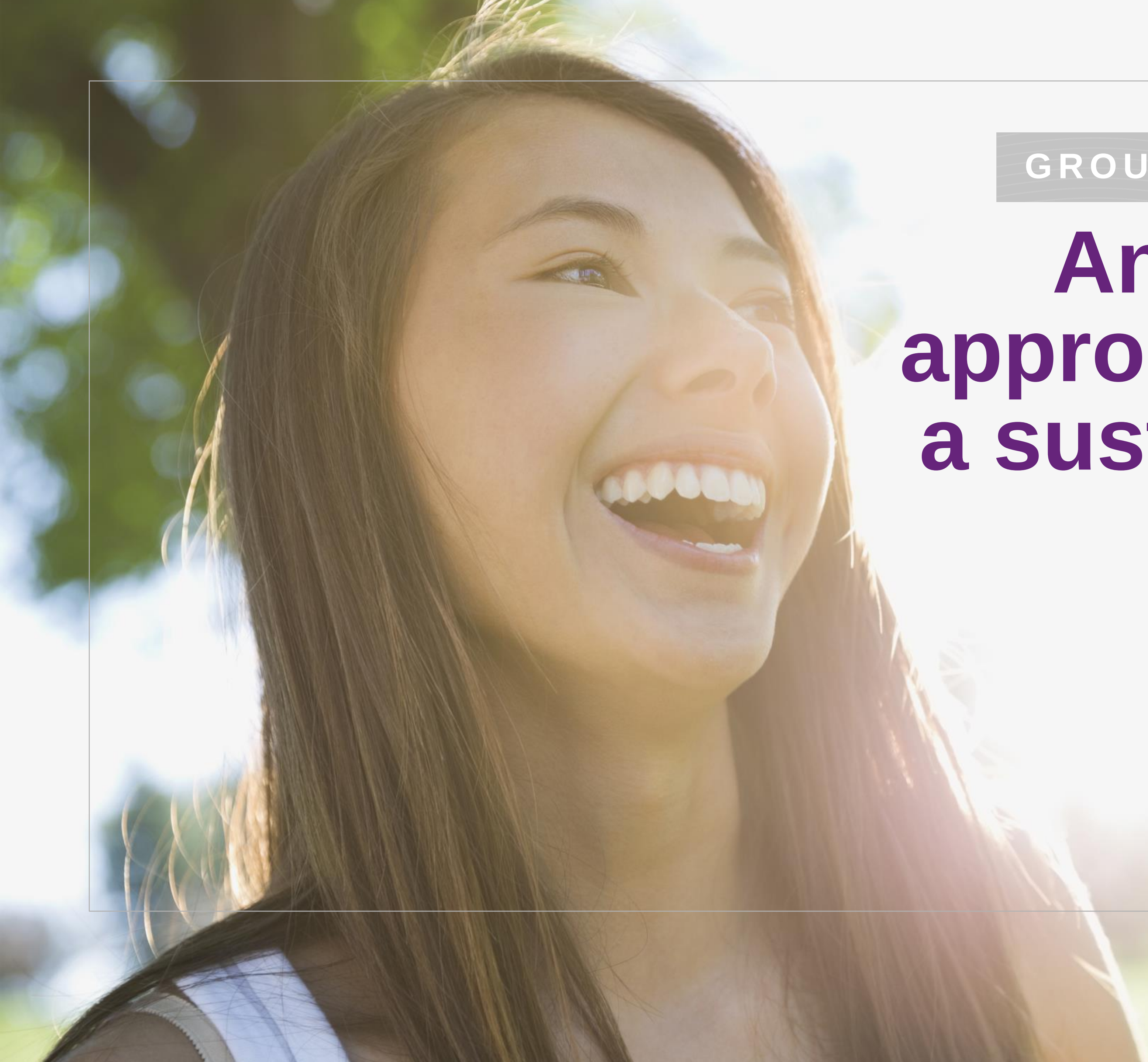


New advertising, packaging and products

New advertising campaign building strong brand awareness foundation and growth



New packaging design and launch of Coffee Creamers driving impact and growth



GROUP STRATEGIC UPDATES

An integrated approach to building a sustainable future

Capital allocation framework prioritises investment in growth initiatives ahead of returning capital to shareholders

Operating cash flow generation

Capital funding

Grow the core business in existing markets	Expand the boundaries	Balance sheet strength & flexibility
• Investment in building our business in China • Assess participation in IMF manufacturing • Enabling investment in systems, infrastructure, quality, safety and expertise • Organic growth – existing and new products / new retail channels	• Adjacent new product categories in existing markets • Geographic expansion of existing products into new markets • Assess complementary M&A to drive further growth within core markets	• Capacity to support business growth and risk management initiatives • Maintain a conservative cash reserve to manage in an uncertain environment

Excess cash flow

Shareholder returns

Building a sustainable business for the future

- Progress in FY20 included:
  - Preliminary impact assessment as part of our commitment to the objectives under the Taskforce on Climate-related Financial Disclosure (TCFD)
  - Series of assessments regarding ethical supply chain and responsible sourcing
  - Continued roll out of animal welfare programmes and development of our farm environmental plans
  - Increased investment in our people and the communities in which we operate

- In FY21 we are creating *The a2 Impact Fund*™ as our vehicle to fund and manage our intended investments in pursuit of our sustainability goals
  - In FY21 we will be redirecting the value of our indirect GHG emissions into *The a2 Impact Fund*™ for investment in tangible climate-related programmes that will create a positive impact on the planet, and will also benefit our business over time
  - We are committed to measuring and reducing our direct and indirect emissions, and will continue to report on all our GHG emissions as we progress towards our 2050 net zero emissions target
  - We will invest additional funds to support our animal welfare, people and community programs

a2 THE IMPACT FUND

- Protecting and improving our **environment** for future generations
- Enabling happy and healthy **cows**
- Advancing wellness with scientific, **health- related research and IP**
- Supporting our **communities**
- Creating a **workplace** where our people are passionate and thrive

OUTLOOK

FY21 and medium-term target

Outlook

FY21

- Globally, there continues to be uncertainty resulting from COVID-19, and the potential for moderation of economic activity. This could impact consumer behaviour in our core markets, as well as participants within the supply chain, most notably in China
- Notwithstanding these uncertainties, overall for FY21, we anticipate continued strong revenue growth supported by our continued investment in marketing and organisational capability
- FY21 EBITDA margin is expected to be in the order of 30% to 31% reflecting
  - Higher raw and packaging material costs partially offset by price increases
  - Increase of marketing investment
  - FX benefit of prior year not expected to be replicated
  - 3Q20 COVID-19 benefit not replicated
- FY21 Capex is currently expected to be $50 million due to our ERP investment and capital projects supporting fresh milk processing in Australia

Medium-term target

- As previously announced, the Board considers it appropriate that the Company target an EBITDA margin in the order of 30% in the medium-term. This assumes the market performance and mix of our products remains broadly consistent and the competitive environment evolves as anticipated. We will keep the balance between growth and investment under constant review

APPENDIX

Reconciliation of non-GAAP measures

NZ$ million	FY20	FY19
Australia & New Zealand EBITDA	465.6	388.2
China & Other Asia segment EBITDA	224.9	134.9
USA segment EBITDA	(50.5)	(44.0)
Corporate EBITDA	(88.0)	(58.9)
UK EBITDA	(2.3)	(6.6)
EBITDA[1]	549.7	413.6
Depreciation/amortisation	(4.4)	(2.2)
EBIT[1]	545.3	411.4
Net interest income	5.7	4.3
Income tax expense	(165.2)	(128.0)
Net profit for the period	385.8	287.7

[1]EBITDA 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.

Geographic and product segment revenue performance

Revenue (NZ$ million)		ANZ	China & Other Asia	USA	Total Group	UK (discontinued operations)
FY20	Liquid milk	152.5	3.4	66.1	**222.0**	1.4
	Infant nutrition	745.1	678.8	-	**1,423.9**	-
	Other nutritional	68.1	17.2	-	**85.2**	-
	TOTAL	965.7	699.4	66.1	**1,731.1**	1.4
FY19	Liquid milk	133.7	2.9	34.6	**171.2**	3.7
	Infant nutrition	652.9	411.0	-	**1,063.8**	-
	Other nutritional	56.1	9.6	-	**65.8**	-
	TOTAL	**842.7**	**423.5**	**34.6**	1,300.8	3.7
% Change	Liquid milk	14.1%	17.0%	91.0%	**29.7%**	nm
	Infant nutrition	14.1%	65.2%	-	**33.9%**	nm
	Other nutritional	21.3%	78.0%	-	**29.6%**	nm
	TOTAL	**14.6%**	**65.1%**	**91.0%**	**33.1%**	nm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