21 August 2023
NZX/ASX Market Release

The a2 Milk Company
FY23 Results Commentary and Outlook

Group financial performance[1,2,3]

The a2 Milk Company ("the Company", "a2MC") today announces its financial results for the year ended 30 June 2023. Key results are as follows:

	FY23 ($m)	FY22 ($m)	Variance (%)
Revenue	1,592.9	1,446.2	10.1%
EBITDA[4]	219.3	196.2	11.8%
Net profit after tax *- Attributable to owners of the Company*	155.6	122.6	26.9%
Basic earnings per share (EPS) (cents)	21.2	16.5	28.7%
Net cash[5]	757.2	816.5	(7.3)%

The Company's revenue for FY23 was up 10.1% driven by strong growth in the China & Other Asia segment up 37.9%, with the USA and MVM segments also up 27.1% and 9.2% respectively, partially offset by a 30.2% decrease in the ANZ segment mainly due to an intentional change in English label distribution strategy. Revenue growth slowed to 3.0% in 2H23 mainly due to a sharp decline in English label IMF Daigou market value in 2H23 and cycling higher lockdown-driven sales in 4Q22. Higher revenue growth of 18.6% in 1H23 was mainly due to China label IMF sales cycling lower sales in 1H22 due to channel rebalancing and USA sales benefiting from 2H22 new product launches. Notwithstanding, an important milestone was achieved in FY23 with China & Other Asia segment revenue exceeding $1 billion (representing 62.9% of total revenue) for the first time demonstrating the importance of the Company's China focused growth strategy.

Gross margin percentage[6] of 46.5% was 0.5 ppts higher reflecting benefits from a2 *Platinum®* English label refresh positioning and distribution model changes and the cycling of other nutritional stock write-downs recognised in the prior year, partially offset by unfavourable foreign exchange on cost of goods sold. Increases in farmgate milk pricing, raw materials, and other inflationary pressures were mitigated by price rises and other cost saving initiatives. Gross margins in 2H23 were also impacted by the timing of MVM sales which were weighted to the second half.

EBITDA increased by 11.8% to $219.3 million, primarily reflecting higher revenue and gross margin improvements. EBITDA margin as a percentage of revenue increased to 13.8% (up 0.2ppts), with margin expansion achieved notwithstanding an increase in marketing investment by 13.1% and Administrative and Other expenses increasing by 9.0%. Administrative and Other expenses increased due to continued capability building (particularly in China and Supply Chain teams), further investment in product innovation and science research projects, the timing of long-term incentives and increased travel costs post COVID-19.

Foreign exchange rates were volatile during the year. Group revenue benefited from favourable foreign exchange movements in the order of $40 million, primarily in 1H23. However, the combined realised and unrealised foreign exchange impact on cost of goods sold, administrative and other expenses on EBITDA was not material in part due to hedging.

Depreciation and amortisation was similar to prior year at $18.2 million, net interest income increased to $21.6 million due to higher interest rates and the effective tax rate reduced to 35.0% primarily driven by the alignment of the accounting and tax treatment of foreign exchange contracts. NPAT including amounts attributable to non-controlling interests was $144.8 million, an increase of 26.2%. The non-controlling interests represent China Animal Husbandry Group's (CAHG's) 25% interest in MVM. Excluding this loss of $10.8 million, NPAT attributable to owners of the Company was $155.6 million.

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[1] All references to full year (FY), halves (H) and quarters (Q) relate to the Company's financial year, ending 30 June.
[2] All figures are in New Zealand Dollars (NZ$), unless otherwise stated.
[3] All comparisons are with the 12 months ended 30 June 2022 (FY22), unless otherwise stated.
[4] EBITDA is a non-GAAP measure and does not have a standardised meaning prescribed by GAAP. However, the Company believes that in combination with GAAP measures, it assists in providing investors with a comprehensive understanding of the underlying operational performance of the business. A reconciliation of EBITDA to net profit after tax is shown in the Company's FY23 Investor Presentation (slide 55) dated 21 August 2023.
[5] Including term deposits and borrowings, excluding subordinated non-current shareholder loans.
[6] Gross margin percentage is calculated as sales less cost of goods sold, divided by sales.

The balance sheet remains in a strong position with closing cash and term deposits of $802.2 million and net cash of $757.2 million. The lower cash balance compared to June 2022 mostly reflects the $149 million used to execute the on-market share buyback. In accordance with the Company's Capital Allocation Framework, a2MC has decided to prioritise investment in growth opportunities (focused on Supply Chain transformation) and balance sheet strength, ahead of returning further capital to shareholders at this point in time but will continue to review this on a regular basis.

Inventory at the end of the period was $193.4 million, higher than at the end of 1H23, mainly due to stock building of China label IMF inventory to accommodate the timing of new China GB registration and product transition, as well as a sharp decline in the Daigou channel and the timing of Synlait supply which resulted in higher English label inventory at year end. Channel inventory and product freshness remained at target levels across the business. The Company's China label inventory levels and product freshness at 30 June 2023 (96% of expiry dates >18 months from manufacturing date) were in line with Company's plans for the new GB product transition.

Excluding interest and tax, operating cash inflow was $127.4 million, representing cash conversion of 58%[7] which was, as anticipated, lower than the prior period due to the catch-up of FY22 payments in China which were impacted by COVID-19 delays (outside the Company's control) as well as prepayments for China label stock build to support transition.

China market update[8]

The overall China IMF market declined 12.1% in volume and 14.4% in value in FY23. The decline in BCD cities exceeded Key&A cities particularly in the second half, with Key&A market value decreasing by 13.1% in 2H23 and BCD market value decreasing by 18.3% in 2H23. The market decline reflected the decrease in newborns overall, socio-demographic differences between Key&A and BCD cities, challenging macroeconomic conditions impacting retail sales, and increased competitive intensity and promotional activity driven by excess industry capacity and the commencement of the market-wide transition to new GB standards.

The number of newborns in China declined by 10.0% in CY22 to 9.6 million[9] which is likely to decline further in CY23 having regard to various factors and data points, including socio-demographics, prevailing youth unemployment rates, recent marriage numbers and pregnancy indicators. The Company still expects a post COVID-19 recovery in birth rates in the medium-term with the longer-term birth rate inherently uncertain. The lower birth rate in CY22 along with the rolling impact of fewer births in prior years reduced China IMF market Stage 3 sales (the biggest segment of the IMF market) in particular which declined by 20.6% in 2H23 and accelerated to be down 23.5% in 4Q23.

China label market value declined 14.9% in FY23 with 2H23 down 17.3%. The mother and baby stores MBS channel was down 12.7% in FY23 and domestic online (DOL) was down 4.5%. Within China label channels, a2MC continues to be supported by a mix shift to the ultra-premium price segment (although this segment also declined in absolute terms in FY23), rapid growth of the A2 protein segment and increasing brand concentration with the top-10 brands now accounting for 77% of the total China label market.

English label market value decline stabilised in FY23 down 14.0% with 2H23 down 11.5%. Within English label channels, the Daigou channel experienced a sharp decline of 39.5% in FY23, while offline-to-online (O2O) was down 17.9% in FY23 and cross-border e-commerce (CBEC) experienced sustained growth up 8.3%[10], continuing the significant mix shift across English label channels. a2MC's distribution strategy is focused on continuing to develop the CBEC and O2O channels where it continues to gain share.

In the context of challenging socio-demographic, macroeconomic and IMF market conditions, a2MC's growth in FY23 in China label IMF of 27.8% and total IMF of 8.4% was very encouraging.

Regional performance

1. China & Other Asia

Growth in value and volume of the China & Other Asia segment was driven by continued execution of the Company's growth strategy particularly in China label. Revenue of $1,002.2 million was up 37.9%, with EBITDA of $254.1 million up 75.1%. The combination of increased investment and higher impact marketing campaigns had a positive impact on key brand health metrics in 2H23, which in turn supported increased sales and market share. New highs in overall China brand health metrics were achieved with total a2MC IMF prompted brand awareness increasing from 52% to 63%, unprompted brand awareness increasing from 17% to 23% and top of mind brand awareness increasing from 7% to 9%, and trial and loyalty metrics increasing as well[11].

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[7] Operating cash conversion defined as net cash flow from operating activities before interest and tax divided by EBITDA.
[8] Kantar Worldpanel 0-6 years old Baby & Kids panel: National IMF market tracking (Key&A + BCD cities); unless otherwise stated.
[9] China National Bureau of Statistics.
[10] Smart Path China IMF online market tracking: for CBEC only retail sales (by value).
[11] a2MC internal data based on the Company's brand health tracking. Average brand health metrics for each financial year based on 3 surveys in FY21 and FY22, and 2 surveys in FY23. Sample skews to a2MC target consumers ie higher income earners based in provinces / cities that are the focus of sales and marketing activities.

China label IMF

The strong performance in China label IMF sales in 1H23 continued into 2H23 despite the declining market and heightened volatility with the market transitioning to new GB products. Consumer demand for *a2 至初®* remained strong with market value share improvement both in-store and online. Sales for *a2 至初®* China label IMF increased 27.8% to $559.3 million, with 2H23 sales up 16.0%. Growth was supported by continued strong execution of the Company's growth strategy through same store sales volume growth and favourable pricing and foreign exchange.

The strong performance was supported by significant marketing investment in brand building campaigns as well as innovative consumer campaigns such as caravan tour roadshow events to drive brand awareness and trial in BCD cities, and a corporate social responsibility campaign with Operation Smile to engage consumers with impact.

MBS weighted distribution increased as well as same store sales, driving growth in Key&A and BCD cities. Offline distribution declined slightly to 25.9k stores at the end of June 2023 from 26.5k at the end of June 2022[12]. A significant number of store closures occurred in the market during the period reflecting challenging retail and category conditions. The Company is building share in national key accounts, pursuing regional key accounts, as well as targeting greater penetration of BCD cities, whilst developing new strategies for accelerated growth in certain prioritised provinces.

Retail market value for the MBS channel was down 12.7% in FY23[13], with 2H23 down 15.9%, reflecting challenging China IMF market dynamics including store closures and increased discounting of old GB product prior to transitioning to new product. a2MC's market value share in MBS increased to 3.4% at the end of June 2023 compared with 3.0% at the end of June 2022, making *a2 至初®* one of the fastest growing international brands within MBS in FY23.

Accelerating online growth is a strategic priority for China label IMF and performance in DOL is a key measure of success. Retail market value for the DOL channel was down 4.5% in FY23[14], with 2H23 down 13.6% cycling 4Q22 lockdown impacts. a2MC's market value share in DOL increased to 3.3% at the end of June 2023 compared with 2.5% at the end of June 2022, and was the number 2 share gainer in the channel. Within this channel the Company's share of early-stage product sales has increased significantly as more users shift to online channels at all stages of their IMF lifecycle.

English label IMF[15]

The China & other Asia segment benefited from continued execution of the Company's English label IMF distribution strategy, resulting in a further sales mix shift towards the CBEC channel, as well as improved brand health metrics following increased investment as part of the *a2 Platinum®* English label refresh. Overall, English label IMF sales of $386.2 million were up 51.0%, with 2H23 growing 37.3% on prior year.

a2MC continued to prioritise overall channel economics as part of its inventory management plan and promotional activity in CBEC. English label sales during key sales events were up moderately, with market pricing across CBEC platforms and reseller channels at target levels, and emerging platforms seeing stronger growth from a lower base. Platform rankings on mainstream platforms were maintained or improved in the Double 11 and 618 sales events, and a2MC ranks as one of the leading IMF players on Douyin (TikTok).

The Company is focused on CBEC growth and building digital marketing and e-commerce capability to further improve its execution which is having an impact, particularly on new user recruitment. Retail sales for the overall CBEC channel were up 8.3% in FY23[16]. Despite market value growth in 2H23 slowing to 2.9% from 13.8% in 1H23, a2MC's was the number 1 share gainer in CBEC with market value share increasing to 22.6% at the end of June 2023 compared with 19.4% at June 2022. Similar to DOL, a2MC's share of early-stage product sales also increased significantly in CBEC which is becoming increasingly important relative to the Daigou channel.

Liquid milk and other nutritional products

Sales of liquid milk in China & Other Asia segment were up 36.7% to $15.2 million and revenue from other nutritional products was also up 87.9% to $41.4 million, benefitting from stronger execution, brand awareness and mix shift from ANZ channels to CBEC. The strong performances in these categories were supported by increased marketing investment through brand building campaigns.

2. Australia and New Zealand

The Australia and New Zealand (ANZ) segment result was driven by lower IMF sales to ANZ resellers / Daigou due to an intentional change in a2MC's distribution strategy, partially offset by the positioning and pricing benefit associated with the *a2 Platinum®* refresh. Overall, ANZ sales volumes were down with segment revenue of $371.7 million, down 30.2%, and EBITDA of $93.5 million, down 46.0%.

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[12] a2MC internal data tracking of stores with active sales in the past 6 months.
[13] Nielsen MBS retail measurement service: mother and baby stores only retail sales (by value). FY23 versus FY22.
[14] Smart Path China IMF online market tracking: domestic online platform sales (by value). FY23 versus FY22.
[15] English label IMF includes sales via CBEC, Korea, and Hong Kong Resellers.
[16] Smart Path China IMF online market tracking: for CBEC only retail sales (by value). 12-month rolling share. FY23 versus FY22.

IMF resellers and retail

With Daigou channel market value down 39.5% in FY23[17] and the change to the Company's English label distribution strategy in 2H22, IMF reseller and retail sales decreased 50.6% to $162.5 million. The Company has proactively changed its English label distribution model to more controlled channels and to more transparent and performance-based distribution partnerships in all channels. These declines were partially offset by a significant increase in sales to CBEC (see commentary in China & Other Asia above). Whilst the Company's English label IMF focus going forward is likely to be on CBEC and O2O given the recent evolving dynamics, it will also continue to support the Daigou channel through multi-channel consumer marketing campaigns and reseller trade support programmes.

Development of the O2O channel has also been a key focus area for English label distribution. In 2H23, the Company entered into a new partnership with one of the leading distributors in China and is focused on improving share in O2O key accounts, long-tail O2O and Pop accounts complementing certain Company led initiatives. Results relating to this partnership in the future will be reflected in the China & Other Asia segment.

In 2H23, while the O2O channel market value was down 15.7%, its trajectory improved versus 1H23, and a2MC's channel market share increased significantly at the end of June 2023 versus last year[18].

Due to sample size, data classification and associated volatility reasons, the Company focuses more on its combined O2O and Daigou channel market share based on Kantar survey data which is the only source of market share data for these channels. Based on this data, a2MC's market share in the O2O and Daigou channel increased to 20.8% at the end of June 2023 versus 19.5% at the end of June 2022[19].

Liquid milk and other nutritional products

Australian liquid milk sales were up by 7.1% to $184.1 million, with 2H23 growth of 8.5%, driven by a full 6-month contribution from price increases taken in 1H23 in response to higher raw milk prices and other input and logistics cost increases, favourable foreign currency movements plus continued strong performance from the launch of *a2 Milk® Lactose Free.*

This result was partly offset by consumption volume declines impacted by increased cost of living, as well as several challenges within the supply chain network impacting on-shelf availability. *a2 Milk® Lactose Free* (launched in August 2022) has performed ahead of expectations, with sales supported by distribution expansion into Queensland, South Australia and Tasmania in 2H23. This saw market share in the lactose free segment in initial launch cities (New South Wales and Victoria) increase to 18.4%[20] in June 2023 compared with 12.3% in December 2022.

a2MC recorded market value share of 11.3% at the end of June 2023[21] versus 12.4% at the end of June 2022. This result was impacted by consumers trading down due to wider macroeconomic factors, as well as the prior comparable period (primarily 1H22) benefitting from strong in-home consumption from COVID-19 lockdowns. The current market share is broadly similar to pre-COVID-19 levels, with a2MC's MAT market volume share increasing from 6.6% in January 2020 to 6.8% at June 2023[22]. Whilst market volume for liquid milk increased during the COVID-19 lockdown period, it decreased 4.5% from January 2020 to June 2023. Pleasingly, three *a2 Milk®* products achieved rankings in the top-10 products in the dairy category in Grocery.

Consistent with IMF, revenue for other nutritional products was also impacted by the channel mix shift to CBEC, declining 21.4% to $25.1 million.

3. USA

Accelerating the path to profitability in the USA by FY25/FY26 is a strategic priority for the Company. During FY23, USA profitability improved through a combination of higher revenue growth from both core range and new products, as well as cost reduction initiatives. As a result, USA revenue increased 27.1% to $105.1 million while EBITDA losses were reduced to $23.3 million compared with a loss of $36.7 million in FY22.

Sales growth was driven by a modest increase in core liquid milk volumes, contribution from new products, pricing and favourable foreign exchange movements. Sales in 2H23 were broadly in line with the first half, as the Company reduced promotional spend. Despite this a2MC's market value share in the premium milk category for the Grocery channel increased from 2.0% in June 2022 to 2.3% in June 2023[23].

The lower EBITDA loss was mainly due to revenue growth, less promotional activity, improved input costs and distribution rates, lower marketing spend and reduced SG&A costs. Whilst reduced marketing investment led to a lower level of brand awareness, household penetration increased and brand loyalty and equity ratings improved. The Company has recently changed the management team in the USA and there will be a greater focus on profitability going forward.

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[17] Kantar data based on a panel of 9,000 consumers covering 0-6 year olds and only seeks to project ~40% of the population.
[18] Kantar Worldpanel 0-6 years old Baby & Kids panel: National IMF market tracking (Key & A + BCD cities). 12-month rolling share. FY23 versus FY22.
[19] Kantar Worldpanel 0-6 years old Baby & Kids panel: National IMF market tracking (Key & A + BCD cities). 12-month rolling share. FY23 versus FY22.
[20] IRI Scan Data NSW and VIC Month ending 30 June 2023.
[21] IRI Australian Grocery Weighted Scan 12-months ending 30 June 2023.
[22] IRI Australian Grocery scan Weighted Scan MAT.
[23] SPINS data for the Grocery channel only for the 52 weeks ending 30 June 2023 and 30 June 2022.

In November 2022, the Company received confirmation from the FDA that its application for enforcement discretion to import, sell and distribute *a2 Platinum®* IMF product from New Zealand into the USA had been approved. a2MC is pursuing longer term FDA approval of *a2 Platinum®* whilst carefully considering market entry options. A small amount of product has been produced recently to facilitate FDA required clinical studies and distribution trials during FY24.

4. Mataura Valley Milk

Accelerating MVM's path to profitability by FY26 or earlier is also a strategic priority. During FY23, the Company accelerated execution of its supply chain transformation strategy, including increasing raw A1 protein free milk supply, completing the insourcing of all *a2 Milk® Whole and Skim milk powder* products, completing production trials for insourcing of certain IMF product with manufacturing to commence in 1H24, and commencing production trials for a new English label IMF range, all with MVM and new blending and canning partners prior to installing similar capability at MVM.

Revenue of $113.9 million[24] and an EBITDA loss of $26.5 million were recorded for the period. The higher revenue reflected 12-months under a2MC ownership versus 11-months in FY22 (due to acquisition timing) net of intercompany sales of $32.3 million during the current period. EBITDA loss of $26.5 million, compared to a reported loss of $18.8 million in FY22 (or a loss of $23.2 million on a pro-forma unaudited basis for 12-months). The slightly higher EBITDA loss was due to the timing of sales in a volatile commodity and FX environment; reduced demand from third-party customers in China; increased investment in capability (including management changes), significant product development trials; and investment to support future nutritional powder production.

Sustainability progress

a2MC's sustainability strategy is focused on taking action on climate change, achieving nature positive outcomes, supporting thriving farms, utilising more sustainable packaging and supporting communities in need. The Company has previously communicated its Planet-related goals, including achieving Scope 1 and 2 net zero emissions by 2030 and Scope 3 by 2040. The Company is pleased to announce that it has refined its Scope 3 reduction ambition to include an interim goal to reduce emissions intensity by 30% by 2030.

The Company made significant progress on implementing its Sustainability strategy during FY23. In 2H23, MVM commenced the installation of a new high-pressure electrode boiler and the full electrification of the site supplied by 100% renewable energy such as hydro and wind, which is a first in the New Zealand market that will substantially reduce a2MC's total Scope 1 and 2 emissions close to net zero. To accelerate addressing Scope 3 emissions, the Company commenced an on-farm methane inhibitor pilot in Australia with additional studies and a commercial trial planned for FY24. The Company completed its first two nature risk and opportunity assessments covering two regions in New Zealand, Canterbury and Southland, where the largest A1 protein free milk pools supplying the Company are based. a2MC also entered into an environmental research agreement with Lincoln University, continued to roll out its Farmer Environmental Plan programme, and increased its support for its Farmer Grant programmes.

Strategy execution update

The Company has progressively refreshed its strategy and execution framework over the past couple of years. At the a2MC's Investor Day in October 2021, the Company communicated its people, planet, consumer and shareholder related goals, outlined its five strategic priorities and highlighted key enablers to execution. Consistent with its strategy, the Company will continue to focus on capturing the full potential of China IMF as well as ramping up innovation to pursue opportunities in adjacent categories and new markets.

From a shareholder goal perspective, the Company outlined its medium-term financial ambition to grow revenue to $2 billion over 5 or more years from FY21 and to target EBITDA margins in the "teens". In doing so, the Company highlighted the key risks to achieving these goals and that the path is unlikely to be linear. At that time, the Company also stated that EBITDA margins could possibly increase to the "low-to-mid 20s" in the medium-to-long term subject to higher than expected market recovery, English label channel growth and market share gains.

a2MC has made solid progress towards these financial goals with revenue growing from $1,207 million in FY21 to $1,593 million in FY23, and EBITDA margins increasing from 10.2% in FY21 to 13.8% in FY23. Over this period, market conditions have been more challenging than expected with the total China IMF market value down 17.4% – China label down 16.0% and English label down 24.7%[25]. a2MC has increased its share of the overall China IMF market significantly from 4.9% in FY21 to 5.7%[26] in FY23 and remains on track to achieve its revenue goal of $2 billion. At this stage, it is unlikely that EBITDA margins will increase to the "low-to-mid 20s" in the foreseeable future due to market conditions and outlook. Notwithstanding, the Company remains committed to an EBITDA margin goal in the "teens" targeting year-on-year improvement.

In terms of people, planet and consumer goals, a2MC has specific non-financial measures of success that were also communicated to the market at its October 2021 Investor Day. The Company has also made substantial progress on achieving these goals, including: improving safety metrics and employee engagement; accelerating its sustainability programmes as noted above; and from a consumer point of view it has improved brand health, increased market share and ramped up innovation.

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[24] Revenue excluding intercompany sales.
[25] Kantar data based on a panel of 9,000 consumers covering 0-6 year olds and only seeks to project ~40% of the population.
[26] Kantar Worldpanel 0-6 years old Baby & Kids panel: National IMF market tracking (Key & A + BCD cities). 12-month rolling share. FY23 versus FY22.

In addition to its strategic goals, last year a2MC updated its Purpose and Vision and shared this in the Company's 2022 Annual Report. The Company's purpose is to "*Pioneer the future of Dairy for Good"* with a vision of creating *"An A1-free world where Dairy nourishes all People and our Planet"* which has provided a north star and greater emotional connection for the a2MC team and stakeholders as to why the Company exists and the world it is endeavouring to create.

More recently during 2023, the Company has refreshed its Values and associated Standards of Behaviour which provide a cultural framework and clarity around how team members should execute the Company's strategy individually and collectively. The Company's new values framework is expressed through the "BOLD" acronym standing for Bold Passion, Ownership and Agility, Leading Constructively and Disruptive Thinking. The refreshed Values and Standards of behaviour build on what has contributed to a2MC's success in the past and emphasises areas that will be key to executing our strategy, living our purpose and achieving our vision and goals.

Executive Leadership Team renewal

There have been significant Executive Leadership Team renewal over the last two years, with all ELT members either new to the Company or in expanded roles. During the year there were a number of new appointments. David Muscat was appointed to the role of Chief Financial Officer, having previously served in CFO roles in Australia and Europe, bringing significant experience in the consumer and retail sectors in various international markets, including China. Chopin Zhang joined with over 35 years of experience in supply chain management, including significant experience in China and New Zealand IMF having most recently served as CEO at Yashili from 2017 to 2020. Chopin's primary focus includes transforming the Company's supply chain to enable further market access, insourcing, innovation, and growth, which is a key aspect of its refreshed growth strategy.

Additionally, there have been several internal appointments later in the financial year. Kevin Bush, previously Executive General Manager – ANZ, has recently been appointed to the role of Managing Director – USA. Kevin's main focus is driving growth through innovation and accelerating the path to profitability in the USA. Eleanor Khor, previously Chief Strategy Officer, has taken on an expanded role, adding the leadership of a2MC's ANZ business as Managing Director – ANZ and Strategy. Eleanor's focus is on expanding the business in ANZ through innovation, with particular attention to realising the full potential of the new *a2 Milk™ Lactose-free* product.

FY24 Outlook

Market conditions

China IMF market conditions are uncertain but likely to become more challenging in FY24 with a further double-digit decline in market value expected. This is due to volume declines driven by the rolling impact of fewer newborns in recent years on later stage IMF products, and a lower number of newborns expected in CY23 due to the lagged impact of COVID-19 prior to an expected increase in CY24. In addition, it is expected that average selling prices will remain under pressure due to an increase in competitive intensity driven by the market-wide transition to new GB product, excess manufacturing capacity and challenging macroeconomic conditions.

Business and category sales

The Company will continue to execute its growth strategy in FY24, focusing on growing share in China IMF as well as commercialising opportunities in adjacent categories and new markets.

The Company expects to continue to gain market share in IMF, with growth dependent on the extent of market share gains in a declining market. China label is expected to outperform English label, and overall IMF growth is expected to be 2H24 weighted as the Company manages the transition to its new China label product primarily in 1H24, and due to English label cycling a relatively strong prior period in 1H23.

The Company expects growth in other nutritional products and modest growth in ANZ and USA liquid milk. USA IMF sales are expected to be immaterial. MVM sales are expected to decline significantly due to increased levels of insourcing and lower GDT market pricing.

Key financials

Due to the expected market conditions outlined above, a broad range of sales outcomes is possible. At this stage, the Company is expecting low single-digit revenue growth in FY24.

FY24 gross margin (% of sales) is expected to be similar to FY23, with cost of goods sold headwinds related to China label IMF re-formulation and upgraded packaging, ingredients and packaging inflationary pressures, foreign exchange changes, product and channel mix impacts, and higher Australian farmgate milk pricing – offset by price increases, lower New Zealand farmgate milk pricing for IMF, MVM internalisation benefits and cost mitigation initiatives.

The Company plans to increase its brand investment in FY24 in line with sales growth to support its new China label product launch and growth. Administration & Other expenses are expected to be similar to FY23.

The Company expects EBITDA margin (% of revenue) to be broadly in line with FY23.

Operational cash conversion is expected to be higher in FY24 partly supported by an incremental reduction in inventory cover, and capital expenditure is expected to increase to approximately $26 million mainly due to the Kyabram facility upgrade and MVM electrification projects.

Key risks

In addition to the challenges noted above and trading upside and downside, other risks include, but are not limited to, residual COVID-19 impacts on supply and demand, new China label product transition, volume impact of price increases, cross border trade, foreign exchange movements, changes in interest rates, farmgate milk pricing and other commodity prices, and changes in the regulatory environment. These challenges and risks could materially impact expected revenue and earnings outcomes.

Authorised for release by the Board of Directors

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