



21 August 2023  
NZX/ASX Market Release

## The a2 Milk Company FY23 Results Strong performance in a very challenging market

The a2 Milk Company (“the Company”, “a2MC”) today announces a strong FY23<sup>1</sup> result driven by execution of its growth strategy which is mainly focused on capturing the full potential of the China infant milk formula (IMF) market. More specifically:

1. Full year result in line with the Company’s previous guidance with double digit revenue and earnings growth
2. Result driven by strong growth in China segment with sales up 38% and record market share in China label IMF
3. China brand health reached new highs driven by record levels of marketing investment increasing by 13% to \$260m
4. Total IMF sales were up over 8% in a market that declined by 14% making a2MC a top-3 share gainer in the market
5. Successful SAMR re-registration of China label IMF product provides continued access to the domestic market

These results are particularly strong considering the very challenging market conditions in China. The China IMF market, which accounts for almost 70% of a2MC’s sales, declined materially in FY23 reflecting volume declines driven by the rolling impact of fewer newborns in recent years and a decline in average selling prices due to an increase in competitive intensity.

### Financial results and outlook<sup>2,3</sup>

- Revenue growth of 10.1% to \$1,592.9 million
  - China & Other Asia segment sales up 37.9%, ANZ sales down 30.2% due to an intentional change in distribution strategy, USA sales up 27.1% and MVM sales up 9.2%
  - IMF sales up 8.4% with China label sales up 27.8% and English label sales down 6.1%<sup>4</sup>
  - Liquid milk sales in ANZ and USA up 7.1% and 27.1% respectively
- EBITDA<sup>5</sup> up 11.8% to \$219.3 million with an EBITDA to sales margin of 13.8% (up 0.2ppts)
- Net profit after tax (NPAT) including amounts attributable to non-controlling interests up 26.2% to \$144.8 million with \$155.6 million<sup>6</sup> attributable to owners of the Company
- Basic earnings per share (EPS) up 28.7% to 21.2 cents
- On-market share buyback of \$149.1 million completed with closing net cash<sup>7</sup> of \$757.2 million
- Despite an expected double-digit decline in the China IMF market in FY24, the Company expects to increase market share and achieve low single-digit Group revenue growth in FY24 and an EBITDA margin broadly in line with FY23 (see full outlook statement in the ‘FY23 Results Commentary and Outlook’ announcement)

### Operational highlights

- Reached new highs in China brand awareness, trial and loyalty metrics supported by new brand positioning, increased investment, higher impact integrated marketing campaigns and always-on consumer engagement
- Achieved top-3 share gainer in China IMF market overall with record market share, particularly in China label IMF in mother and baby stores (MBS) and domestic online (DOL) channels, and with China label sales exceeding English label sales for the first time in FY23 supported by growth in lower tier cities
- Received approval from China’s State Administration for Market Regulation (SAMR) for the re-registration of a2MC’s China label IMF product a2 至初<sup>®</sup>, formulated in line with China’s new GB standards enabling continued access to the registered market that accounts for 85% of the total China IMF market (English label representing remaining 15%)

<sup>1</sup> All references to full year (FY), halves (H) and quarters (Q) relate to the Company’s financial year, ending 30 June.

<sup>2</sup> All figures are in New Zealand Dollars (NZ\$), unless otherwise stated.

<sup>3</sup> All comparisons are with the 12 months ended 30 June 2022 (FY22), unless otherwise stated.

<sup>4</sup> English and other labels IMF included in China & Other Asia and ANZ segments.

<sup>5</sup> 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.

<sup>6</sup> Excludes non-controlling interest in Mataura Valley Milk (MVM), a loss of \$10.8 million.

<sup>7</sup> Including term deposits and borrowings, excluding subordinated non-current shareholder loans.

- Increased English label IMF market share in the cross-border e-commerce (CBEC) channel as the number 1 share gainer, and increased market share in the combined offline-to-online (O2O) and Daigou channels
- Grew sales and improved online platform rankings in China label and English label IMF in the Double 11 and 618 key sales events with reduced promotional activity and improved market pricing
- Ramped up innovation and supported growth through new product launches in all categories
- Improved business health key indicators, including improved market pricing and trade margins supporting the distribution ecosystem, increased share of early-stage product sales, and IMF channel inventory and product freshness maintained at target levels notwithstanding new GB product transition which is tracking to plan
- Extended exclusive import and distribution partnership with China State Farm Agribusiness (CSFA) for 5 years and entered into a longer-term strategic co-operation agreement
- Achieved Enforcement Discretion and progressed long-term FDA approval process to sell IMF product in the USA and significantly reduced USA operating losses
- Accelerated supply chain transformation, including increasing raw A1 protein free milk supply, completing the insourcing of all a2<sup>TM</sup> branded milk powder products, completing production trials for the insourcing of certain a2<sup>TM</sup> IMF branded product with manufacturing to start in 1H24, and commencing production trials for a new a2<sup>TM</sup> English label IMF range, all with Mataura Valley Milk (MVM) and new supply partners
- Advanced sustainability programmes, including commencing the electrification of MVM from 100% renewable energy sources, commenced on-farm methane inhibitor feasibility study, entered into a research agreement with Lincoln University and developed a sustainable packaging roadmap

### **CEO commentary**

The a2 Milk Company's Managing Director and CEO, David Bortolussi said:

- "I'm proud of what our team has achieved this year, growing sales by 10% while the core China IMF market declined by 14% is a remarkable achievement.
- "Our China label IMF sales exceeded English label sales for the first time, and our total IMF sales were over \$1.1 billion making us a top-3 share gainer in the market overall.
- "Achieving re-registration of our China label IMF product recently was critical to maintaining access to the important domestic market and we look forward to launching our new product in the coming months.
- "The Daigou market in English label IMF declined sharply again this year by almost 40% and we have pivoted further to the more controlled channels which have performed better and where we continue to gain share.
- "We have re-invested more in our brand again this year driving further gains in China brand health metrics and supporting future sales growth.
- "The China IMF market has become increasingly challenging as a result of lower birth rates and increased competitive intensity. Notwithstanding, we are well positioned to continue to invest and grow share in FY24 to emerge in a stronger position when the market recovers."

### **Authorised for release by the Board of Directors**

**David Bortolussi**  
**Managing Director and Chief Executive Officer**  
**The a2 Milk Company Limited**

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