



# The a2 Milk Company™

## 1H15 Results Presentation

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# 1H15 Result Highlights

**38% revenue growth**

**Strong Australia result**

**UK and China initiatives gaining traction**

- Total Revenue of \$74.79 million
- Net Profit After Tax of \$125k consistent with strategic plan to fund revenue growth from increasing Australian profits
- Effective tax rate of 93% attributable to higher non-deductible expenses and UK losses<sup>1</sup>
- Australian total sales up 43% YOY, attributable to strong growth in milk and infant formula
- Record ANZ EBITDA with a strong contribution from infant formula
- Revised UK business model achieving milestones
- China infant formula business resumed
- Entry into USA market planned for Q2 calendar 2015
- Application in support of proposed ASX listing lodged

1. Non-deductible expenses relate to ASX listing and other permanent differences; UK losses not tax effected

# Financial Highlights

NZ\$ million	1H14	1H15	% change
Revenue	54.2	74.8	+38%
Gross margin	19.9	26.1	+31%
EBITDA before non-recurring items	2.6	3.3 <sup>1</sup>	+27%
EBITDA	2.6	2.5	-3%
EBIT	1.7	1.6	-6%
NPAT	0.6	0.1	-81%
Other expenses	8.0 <sup>2</sup>	10.7	+34%
Cash on hand	13.2	9.9	-25%

- Revenue growth of 38% on PCP
- Gross margin reflects higher milk costs in Australia and modest UK margin to date
- EBITDA before non-recurring items growth of 27% on PCP
- 1H15 EBITDA and EBIT includes costs of establishing position in the UK of NZ\$4.2 million
- For 1H14 the UK business was reported below the EBIT line as share of JV earnings
- Foreign exchange movements between the NZD/AUD reduced revenue by ~\$2.1 million and EBITDA by ~\$300k on PCP
- 1H15 Other expenses includes \$4.7 million freight costs, \$0.8 million ASX listing costs, and other operating expenses of \$5.2 million. Other operating expenses increased on PCP given costs associated with business growth and consolidation of UK business from 1 January 2014

Notes:

1. Non-recurring items represent ASX listing costs of \$0.8 million in 1H15
2. 1H14 includes \$4.1m freight costs, \$3.9 million other operating expenses

# Reconciliation of non GAAP measures

NZ\$ million	1H14	1H15
Australia & New Zealand Segment EBITDA <sup>1</sup>	2.3	4.9
China & other Asia Segment EBITDA <sup>1</sup>	0.7	(0.6)
UK & USA Segment EBITDA <sup>1</sup>	(0.1)	(1.9)
Corporate & other Segment EBITDA <sup>1</sup>	(0.3)	0.1
EBITDA <sup>2</sup>	2.6	2.5
EBITDA before non-recurring items	2.6	3.3
Depreciation/Amortisation	(0.9)	(0.9)
EBIT before non-recurring items <sup>2</sup>	1.7	2.4
Share of Associate loss	(1.4)	-
Non-recurring items	-	(0.8)
Net interest income <sup>3</sup>	0.3	0.1
Income tax expense/income	0.0	(1.6)
Net Profit for the Period	0.6	0.1

Notes:

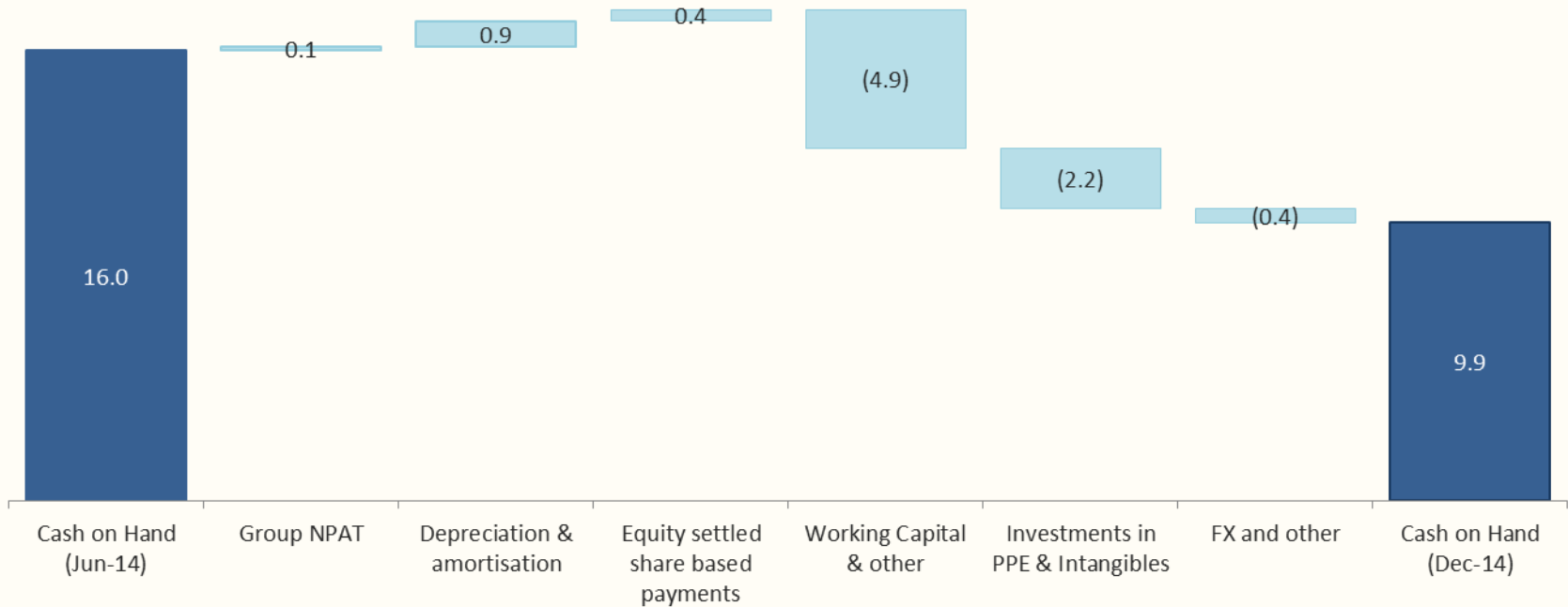
1. Segment Profits per note 8 of Interim Accounts

2. EBITDA and EBIT are non GAAP measures, however, the company believes they provide investors with a comprehensive understanding of the underlying performance of the business

3. No interest expense incurred for 1H14 or 1H15

# Financial Highlights

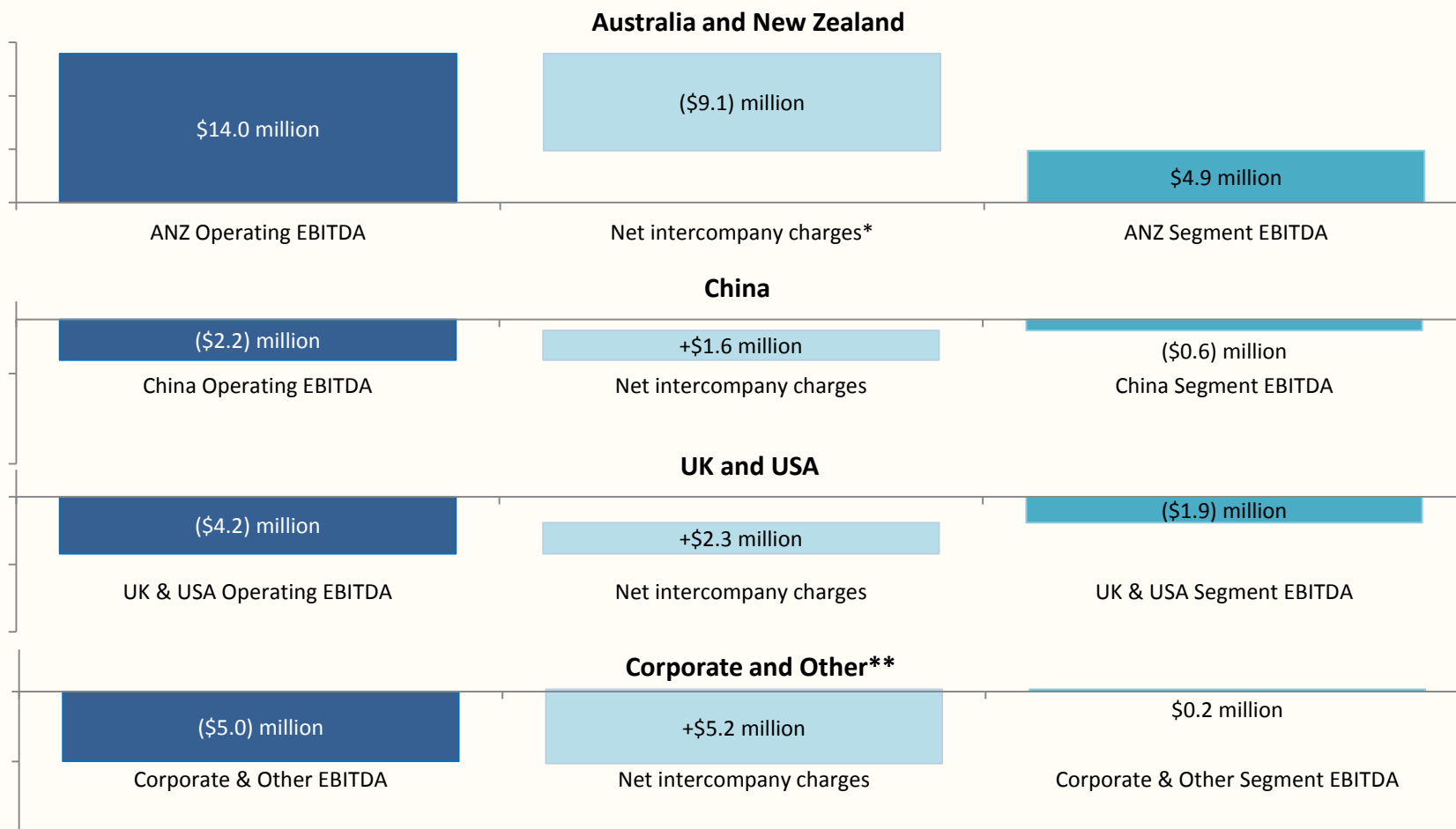
## Group Cash Flow Walk: Jun 14 - Dec 14 (NZ\$ million)



- Working capital movement driven largely by an increase in inventories, prepayments and current tax liabilities
- Investments in PPE (\$0.3 million) and intangibles (\$1.9 million) largely reflects capitalised development costs associated with the entry to the USA

# Financial highlights (cont'd.)

## 1H15 Segment EBITDA (NZ\$ million)



\* Net inter-company charges largely include royalties, licence fees and management fees payable to the Parent, and marketing and herd testing costs payable by the Parent

\*\* Inclusive of non-recurring items (\$0.8) million

# Australia growth continues strongly

- Australia and New Zealand Segment revenue grew by 39% vs PCP. Australia revenue increased 43% vs PCP in AUD terms
  - a2Milk™ fresh milk sales increased 16% in AUD YOY
  - a2 Platinum® infant formula sales showed strong growth
- Increase in fresh milk sales during period of increased competitor activity
- Marketing communicated the benefits of a2 Milk™ being only available from a2MC products
- Fresh white milk market share increased to circa 9.3% by value in grocery (Australian Grocery Weighted Scan, December 2014)
- Improvement in processing costs at Smeaton Grange partly offset an increase in raw milk costs
- a2Platinum™ infant formula now ranged in Coles, Woolworths, Independents and Pharmacy
- Strong sales performance compensated for minimal export sales to China
- Plans for product extensions being progressed



# United Kingdom distribution to plan

- Revised business model
  - Build distribution in existing and new accounts
  - Build awareness amongst those with A1 milk intolerance
  - Improve messaging, packaging format, price position and margin
  - Slower volume build than originally assumed, but at higher margins
- New 1 litre fresh milk format accepted in J Sainsbury in November and in Tesco, Waitrose, Ocado and Morrisons from early calendar 2015. Distribution also achieved in Wholefoods and a London wholesaler, Marigold
- Product now ranged in speciality milk section, first time business has achieved a broad level of distribution across UK grocery
- Muller Wiseman supportive in facilitating the new format introduction
- Key focus to now build awareness and rate of sale in store through direct marketing “Welcome back to Milk” campaign and in-store trade activity
- Investment in the half of GBP2.2 million, consistent with FY15 financial plan
- Sales forecast to double during 2<sup>nd</sup> half FY15



  
**Welcome**  
back to milk

The  
**a2 Milk**  
Company

# China Infant Formula business resumed

- Changes in China regulatory environment continued to evolve during 2014
  - New access arrangements for imported product from May 2014
  - New form of registration for manufacturers
  - Synlait Milk Limited achieved manufacturer registration in September 2014
  - Changes created uncertainty around continuity of supply for many participants
- Sales to China State Farm (CSF) on hold from May 2014 until a first order dispatched in December 2014
- Marketing funds contributed to assist CSF and sub distributors to sell inventory in China
- In November 2014, arrangements with CSF changed with their appointment as exclusive import agent and government relations advisor with a2MC assuming control of distribution
- a2MC continue to oversee marketing and communication activities with new initiatives progressing
- a2MC continue to monitor requirements around “close association” of manufacturer and brand owner
- Sales of fresh milk from Sydney into China commenced from August 2014. a2 Milk™ fresh milk is currently the largest fresh milk brand by volume exported from Australia
- Focus to develop liquid milk and target other Asian markets during FY16



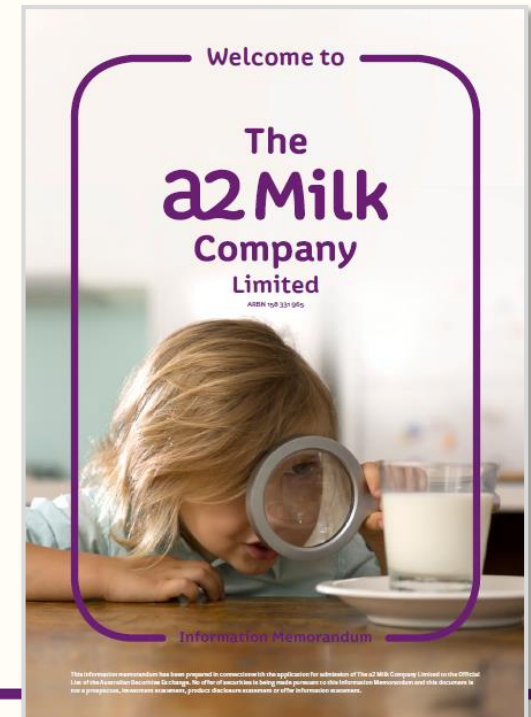
# USA entry plan near final

- USA fresh milk entry plan further progressed during half
- Core USA based team recruited to manage sales, marketing, logistics, administration
- Key retailer presentations concluded with high levels of acceptance
- Launch to take place in the West Coast region in 4<sup>th</sup> quarter FY15
- Product format to be in ½ gallon carton, consistent with speciality milk category
- Quality partner to be contracted to manage milk supply and processing
- Marketing activity to commence during 4<sup>th</sup> quarter FY15
- Plan provides an appropriate balance of risk and reward, milestones established to manage growth into other regions
- Business plan assumes a cash investment of ~ USD20 million over three years to fund market entry and working capital growth

The  **milk** that might  
**change everything**

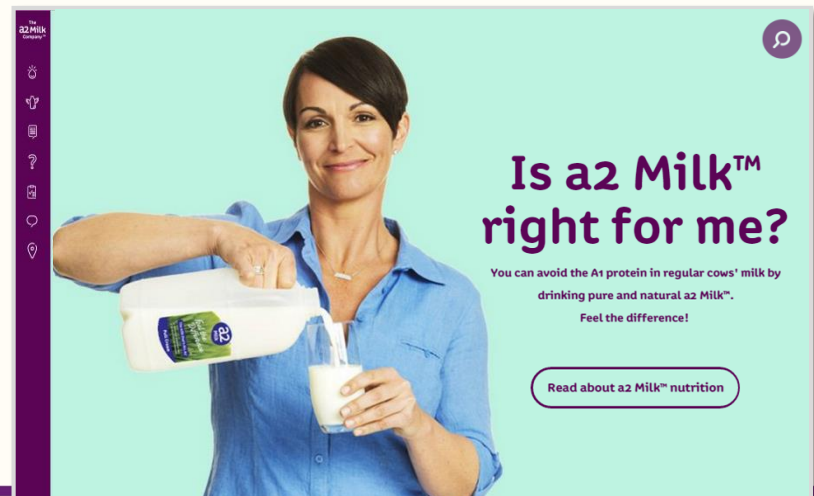
# Proposed ASX listing and board changes

- As advised at the November General Meeting, the Board resolved to commence the process to seek a dual listing on the ASX
- The company will maintain its NZX listing and remain New Zealand incorporated
- An ASX listing will provide a closer alignment between our capital markets profile and business operations
- The Company considers an ASX listing will also provide improved access to capital markets and an overall improvement in liquidity of the Company's shares
- An application to list on the ASX has been lodged, which includes an Information Memorandum. Goldman Sachs and DLA Piper Australia are assisting with this process
- The Company separately advised changes to the Board to occur in conjunction with the ASX listing
- Chairman Cliff Cook and Director David Mair will step down shortly before admission to the ASX. Mr David Hearn will assume the Chairman's role and Ms Julia Hoare, Deputy Chairman

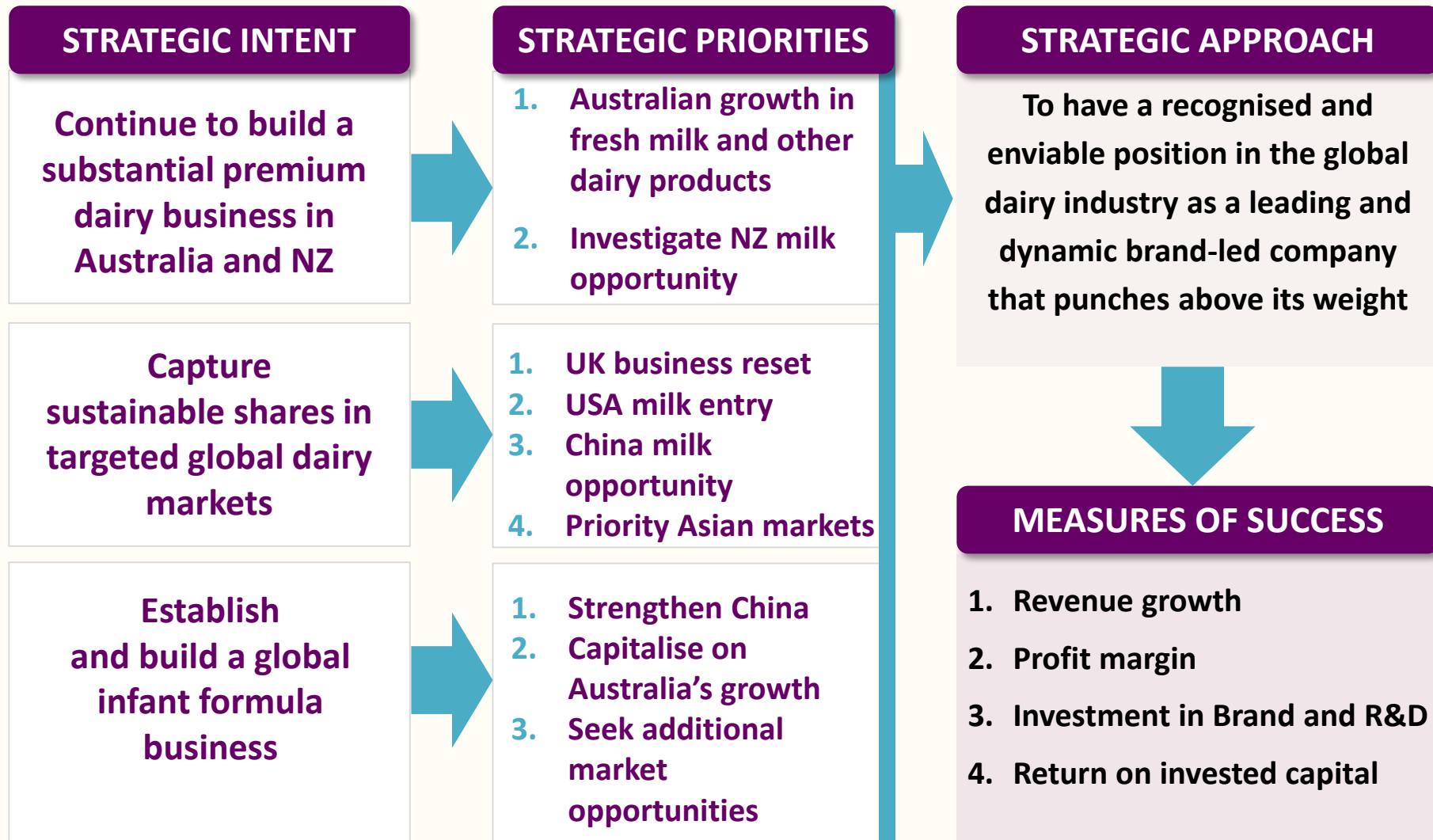


# Intellectual Property and Science development continues

- The Company continued to invest in building its portfolio of IP: trademarks, patents, proprietary processes and know-how
- a2MC acquired full ownership of an ANZ and China registered patent from NZ Milk Institute which relates to benefits of A2 based formulations containing additional supplements
- New global brand vision is well progressed, new packaging design, advertising and consumer websites rolled out in key markets
- Curtin University in Western Australia conducted the first human digestion clinical trial testing the A1 and A2 milk proteins. The pilot trial showed differences in gastrointestinal effects between milk containing A1 versus A2 beta-casein protein
- Further human studies have commenced in a number of markets to further build on this research



# The a2 Milk Company™ Strategic Growth Map remains consistent



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