



SYNLAIT MILK LIMITED ANNOUNCEMENT

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SYNLAIT'S PROFIT TRIPLES IN FY16, LAUNCHES NEXT GROWTH PHASE

Synlait's reported net profit after tax (NPAT) has more than tripled to \$34.4 million for the financial year ending 31 July 2016.

Driven by an almost fourfold increase in canned infant formula volumes and growth in powder and cream product volumes, the positive result has also set the foundation for Synlait's next phase of growth.

"Synlait is a growth company. Our FY16 performance highlights the progress we've made since our IPO in 2013 towards our aspiration of making more from milk," said Chairman Graeme Milne.

"We are continuing this momentum with an accelerated pro-rata entitlement offer to eligible shareholders¹ to raise approximately \$98 million in support of our next growth phase. Investing in further capital projects to expand our capability and capacity will put us in a strong position to pursue customer, product and market development opportunities in the coming years," said Mr Milne.

SYNLAIT'S STRONGEST YEAR YET

Year on year revenue increased \$98.8 million from FY15's \$448.1 million to \$546.9 million and underlying NPAT, which removes the impacts of unrealised foreign exchange gains or losses on USD inventory financing, is \$32.7 million (\$12.2 million in FY15).

"Operating cash flow of \$103.9 million in FY16 allowed us to reduce net debt by 18% to \$213.9 million. As a result, our leverage ratio has improved to 2.5x," said Managing Director and CEO John Penno.

¹ Eligible retail shareholders are those with their registered addresses in New Zealand. Expressly, under the terms of the offer, any shareholders in the USA are ineligible due to their domestic securities laws.



“Our record profit is a clear highlight for FY16, but throughout the year we also invested in improving our business, developing customer partnerships, supporting our milk suppliers and reaffirming our commitment to becoming a world leader in infant formula,” said Mr Penno.

Synlait continues to work with four of the world’s five largest infant formula companies. A long-term agreement with The a2 Milk Company™ announced in August 2016 provided certainty around the supply of a2 Platinum® infant formula over the next five years.

The commissioning of Synlait’s third large scale spray dryer in early FY16 increased total production capacity, supporting overall growth in canned infant formula volumes.

“Canned infant formula is a value added product and generates a strong margin, which improves our product mix and overall gross profit per metric tonne (MT). As a result, our gross profit per MT increased 51% from \$567 / MT last year to \$859 / MT,” said Mr Penno.

Synlait intends to invest in a second wet mix kitchen in FY17, doubling infant formula capacity to 80,000 MT / year, to meet forecast growth in customer demand.

With a fully accredited quality testing laboratory and in-house technical capability, Synlait is well positioned to comply with Chinese infant formula regulations coming into effect from January 2018.

“We are working through our strategy with infant formula customers exporting into China, including The a2 Milk Company™ and Munchkin Inc.”

“It’s likely the Chinese regulations will moderate canned infant formula growth in FY17 as the market deals with the changing landscape, but we expect the market to normalise in the longer term,” said Mr Penno.

Synlait has revised their 2016 / 2017 forecast milk price up from \$4.50 kgMS to \$5.00 kgMS following recent, albeit modest, improvements in dairy commodity prices.

Synlait also confirmed a total milk price of \$4.02 kgMS for the 2015 / 2016 season, consisting of a \$3.91 kgMS base milk price and an average of \$0.11 kgMS for Special Milk and seasonal premiums.

“We’re very aware on-going low dairy commodity prices in FY16 impacted our Canterbury-based milk suppliers. For the second consecutive year our milk price is below the breakeven price for most of our milk suppliers, but our updated forecast of \$5.00 kgMS for the current 2016 / 2017 season is encouraging,” said Mr Penno.

“Our response to date has been to support our suppliers with higher than normal advanced payments, which we are able to do given our strong operating cash flow in



FY16. We're also promoting opportunities to earn premiums, which totaled \$5.7 million in FY16.”

SYNLAIT'S NEXT GROWTH PHASE

Mr Milne believes Synlait has positioned itself well internationally as a trusted and innovative dairy manufacturer.

“We are looking at investing approximately \$300 million in capital growth projects over the next three years to solidify this position and continue pursuing profitable opportunities to make more from milk,” said Mr Milne.

Synlait intends to invest in additional capacity for infant formula manufacturing, consumer packaging, infrastructure requirements and value added cream manufacturing.

The rights issue to shareholders is expected to raise approximately \$98 million of new equity by mid-October 2016 and it will be used for a mix of debt repayment and funding capital growth projects.

Synlait has also announced plans to start the process to dual list on the Australian Securities Exchange (ASX) and expects to commence trading on the ASX before the end of 2016.

“Interest from investors in Australia has grown in the past few years and dual listing on both the NZX and ASX will allow institutional and retail investors on both sides of the Tasman to be a part of our journey,” said Mr Penno.

Synlait's 2016 Annual Report and supporting information, including full offer details for the rights issue, can be found on [NZX's website](#). Further, eligible retail shareholders will be able to obtain offer details for the rights issue at www.synlaitmilkshareoffer.co.nz.

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For more information, please contact:

Dan Walraven
Communications Manager, Synlait Milk
P: +64 27 836 7532
E: daniel.walraven@synlait.com
www.synlait.com

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