



# BUILDING VALUE

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FY17 INTERIM REPORT PRESENTATION  
29 March 2017

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# STRATEGIC UPDATE

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# REMAIN A GROWTH COMPANY

## WE HAVE:

- Strong partnerships with leading brand owners.
- High specification plant with high utilisation.
- Strong support from our 200 milk suppliers in challenging times.

## WE WILL:

- Consolidate and grow our well established infant formula business.
- Explore new areas of business, generating superior returns by leveraging our supply chain integrity and focus on quality.

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# SIX MONTH HIGHLIGHTS

Reported  
NPAT  
\$10.6m

(H1 FY16 \$10.2m)

Munchkin  
Grass Fed™  
shipments  
underway

\$97.6m  
additional  
capital  
raised

ASX Dual  
Listing  
completed

Infant  
volumes  
contributed  
16% of sales

Four  
significant  
appointments  
to the Senior  
Leadership  
Team

\$4.5m in  
premiums  
paid to milk  
suppliers

Improvement  
in commodity  
prices and  
forecast milk  
price

Net debt  
decreased  
from  
\$292m to  
\$147m

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# CHINESE INFANT FORMULA REGULATIONS

- Volumes impacted in H1 FY17 by uncertainty around regulations, but have already regained momentum in H2 FY17.
- “Three brand rule” to be applied to each registered manufacturing site, not overall entity.
- Multiple manufacturing sites could expand number of brands, however tougher requirements to demonstrate scientific differences between brands.
- Final portfolio will be determined through the registration process. Focus will be on close and exclusive partnerships.



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# VALUE ADDED SALES

- Orders received at this time give us confidence that we will end the year at least at our previous guidance of 18,000 MT of finished infant formula, with increasing run rates between now and the end of the year.
- Munchkin's Grass Fed™ infant formula shipments to the US are underway to be ready for launch in the market when regulatory approval is received (expected in May 2017). Significant manufactured volumes are not expected until FY18. The US is the second largest infant formula market after China.
- We are seeing signs of recovery in the lactoferrin market as demand growth catches up with supply, and we expect to be renewing contracts at stronger prices in H2 FY17. Our lactoferrin has now been registered with the Food and Drug Administration (FDA) in the US, opening up a new market with less competition.

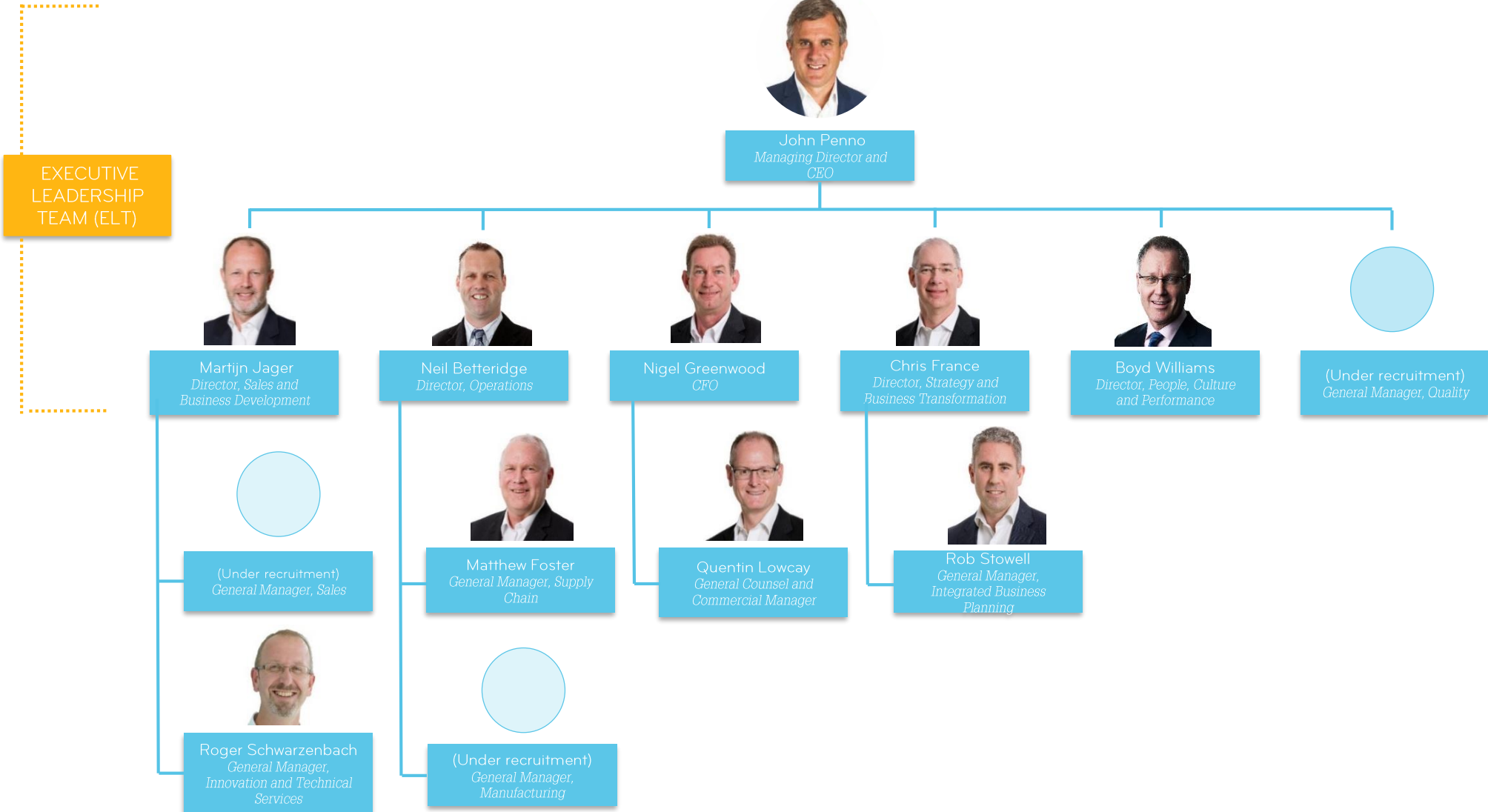
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# CAPITAL INVESTMENT

- Tetra Pak has been awarded the contract for the new wet mix facility, which is on track for commissioning in November 2017.
- Recruiting a fourth shift for existing blending and consumer packaging facility underway and will allow us to operate at capacity from June 2017.
- Plans for a second blending and consumer packaging facility will be announced in the coming months.



# SENIOR LEADERSHIP TEAM

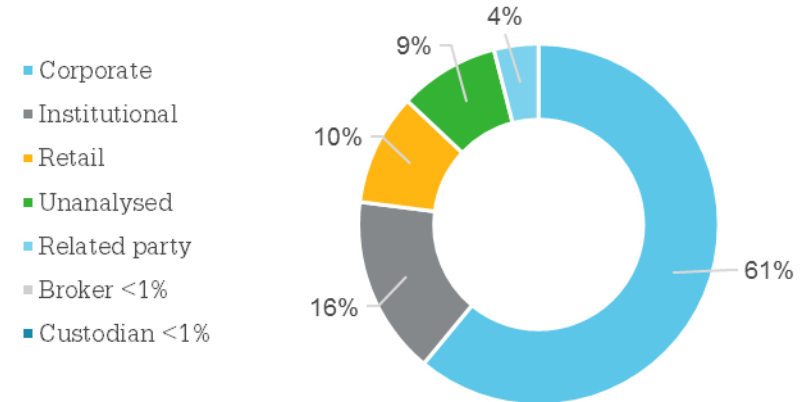




# SHARE REGISTER

- The a2 Milk Company (NZ) Limited acquired 8.17% from FrieslandCampina in early March 2017.
- Institutions now hold 16%.
- 16% of shareholders are Australian domiciled.

TOTAL SHAREHOLDER COMPOSITION

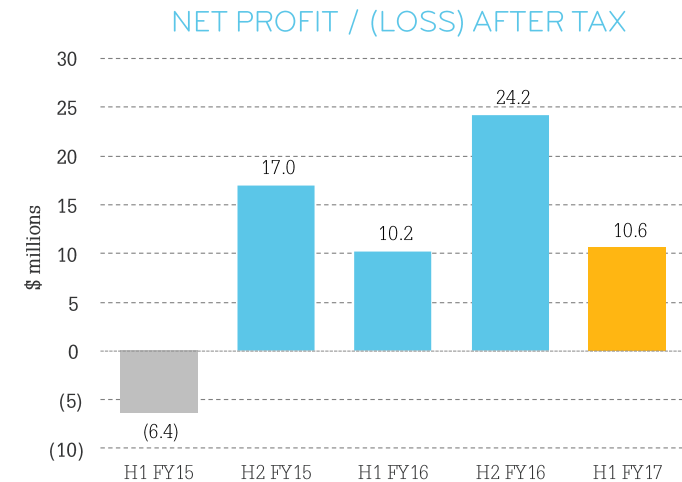
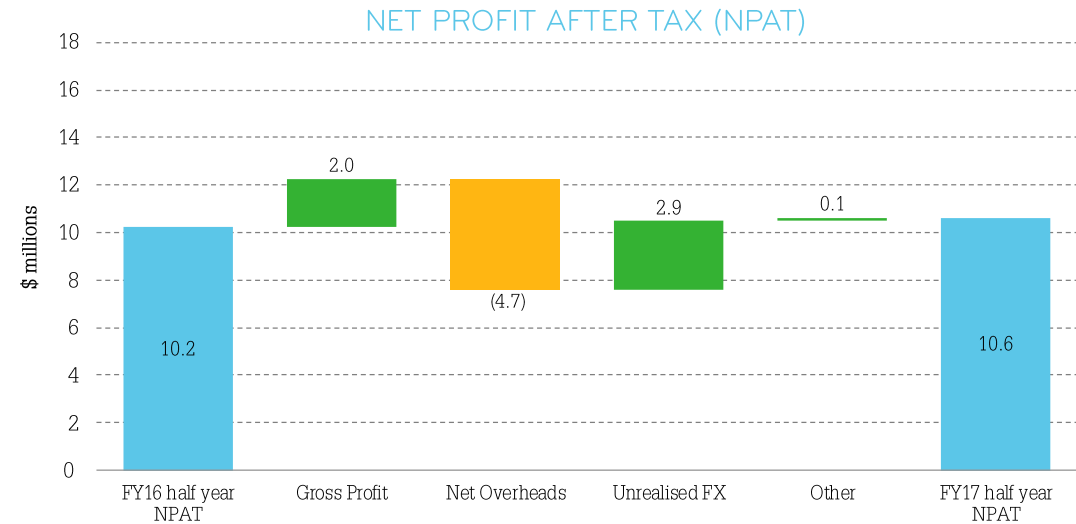


Rank	Group Name	%S/O
1	Bright Dairy Holding Limited	39.06%
2	Mitsui & Co., Ltd.	8.38%
3	The a2 Milk Company (NZ) Limited	8.17%
4	BT Investment Mgt Group	6.52%
5	Munchkin, Inc.	3.87%
6	John Penno	3.41%
7	Ellerston Capital Limited	3.10%
8	Regal Funds Management Pty. Ltd.	1.73%
9	Accident Compensation Corporation	1.57%
10	Other	24.19%



# OVERVIEW

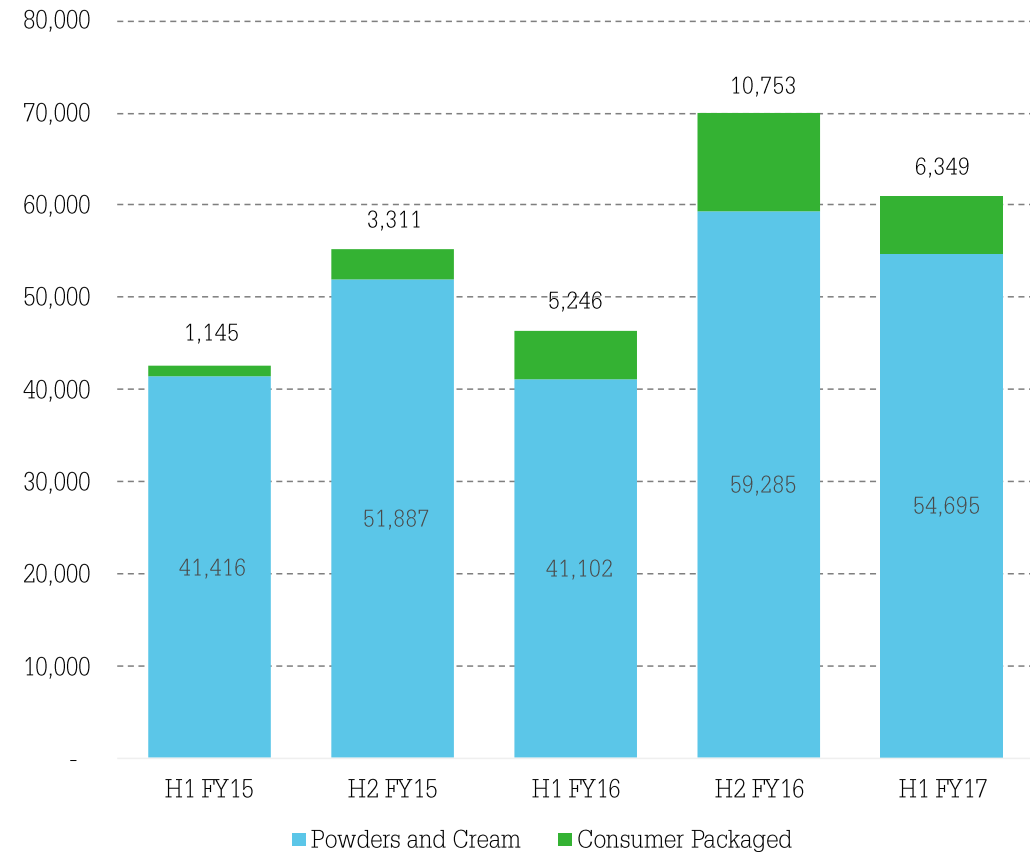
- Reported earnings after taxation for H1 FY17 is up \$0.4m on prior year performance, to \$10.6m.
- \$2.0m growth in gross margin is driven by increased infant formula volumes, with increased volumes for commodity products being offset by an onerous contracts provision.
- A \$(4.7)m increase in overhead costs incorporates \$(0.5)m cost for the ASX dual listing and the continued investment into our business development and planning capabilities for future growth.
- Unrealised foreign exchange losses of \$(2.9)m in H1 FY16 have not reoccurred.



# SALES VOLUME

- H1 FY17 sales volume at 61,063 MT is 14,707 MT up on H1 FY16.
- This increase is predominantly through a 13,593 MT increase in Powders and Cream volume as a result of increased milk collection and higher levels of stock carried over into FY17.
- There has also been growth in consumer packaged volumes with a 1,103 MT (21%) increase over H1 FY16. However, this is below the levels of H2 FY16 with customers tightening supply chain volumes due to uncertainty in respect to the regulatory environment.
- Consumer packaged infant volumes will increase in H2 FY17 with clarity emerging in the regulatory environment to bring the full year growth in line with expectations.
- Overall we expect total sales volumes for the year to exceed 135,000 MT.

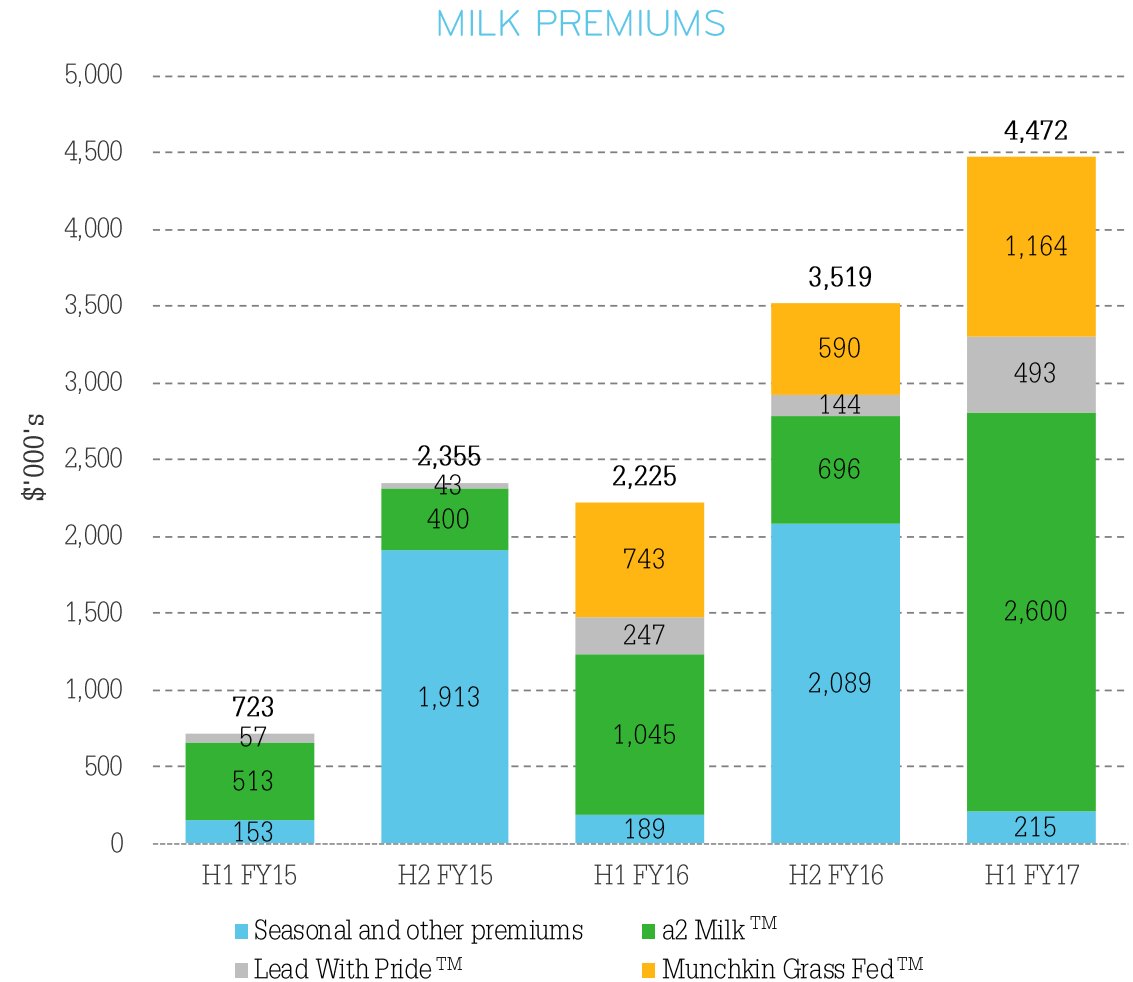
SALES VOLUME BY PRODUCT CATEGORY (MT)



Sales volumes for specialty ingredients are not shown separately on the graph above.  
In H1 FY17 these were 19MT (H1 FY16: 8MT)

# MILK PREMIUMS

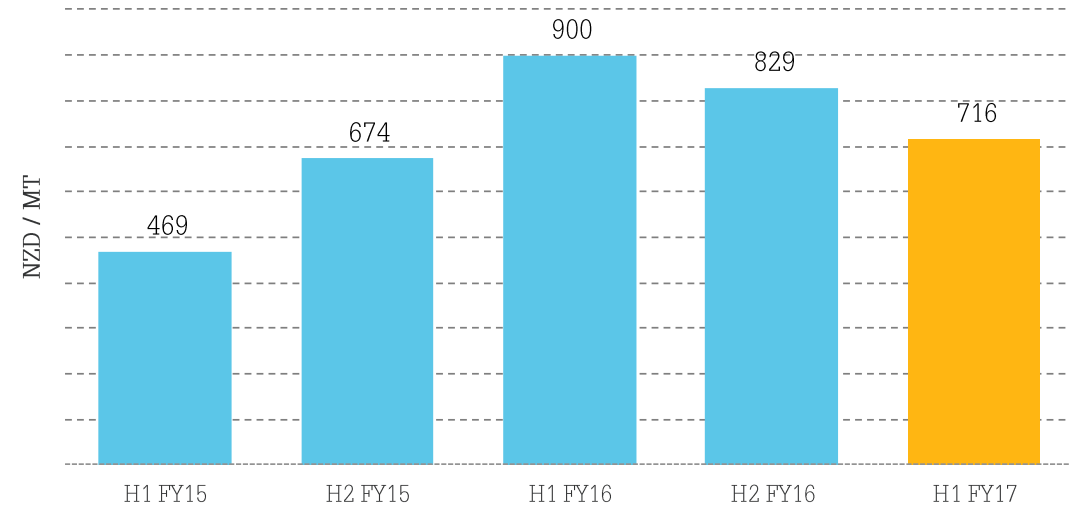
- \$4.5m in premiums paid in H1 FY17, with a total of \$9.4m expected to be paid over the full year.
- Number of milk suppliers providing a2 Milk™ has increased from 35 to 60.
- Increased premiums for Munchkin's Grass Fed™, combined with higher milk flows, has increased premiums paid to suppliers.
- Lead With Pride™ supplier numbers have also increased from 35 to 42, and two farms have progressed from Gold | Plus to Gold | Elite status.



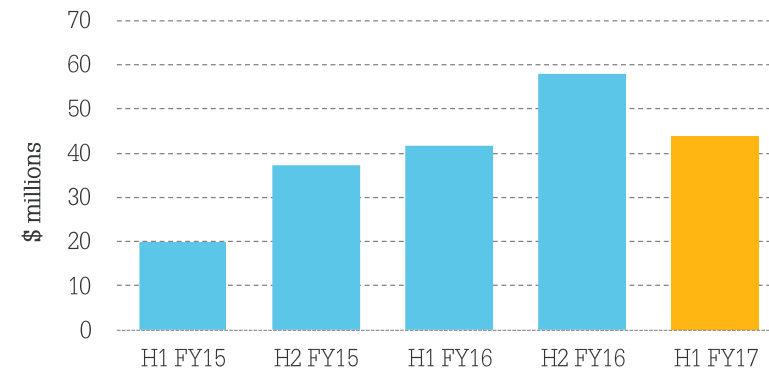
# GROSS PROFIT PER METRIC TONNE

- Gross profit decreased to \$716 / MT from \$900 / MT in FY16 H1.
- Gross profit for Powders and Cream for the period is \$667 / MT, down from \$837 / MT in H1 FY16, driven by carry over stock and onerous contracts.
- Without onerous contract provision, gross profit would have been circa \$818 / MT.
- Margins for canned infant formula have been maintained at FY16 levels.

GROSS PROFIT PER METRIC TONNE (MT)

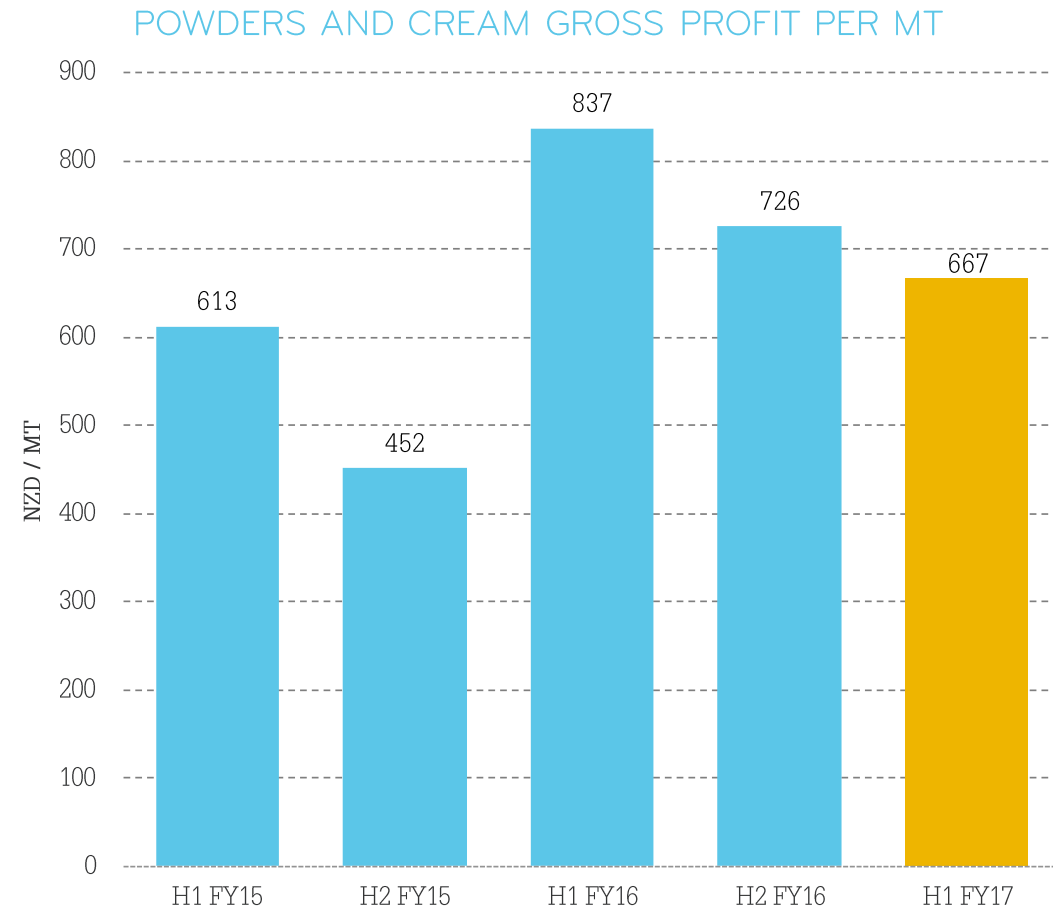


GROSS PROFIT



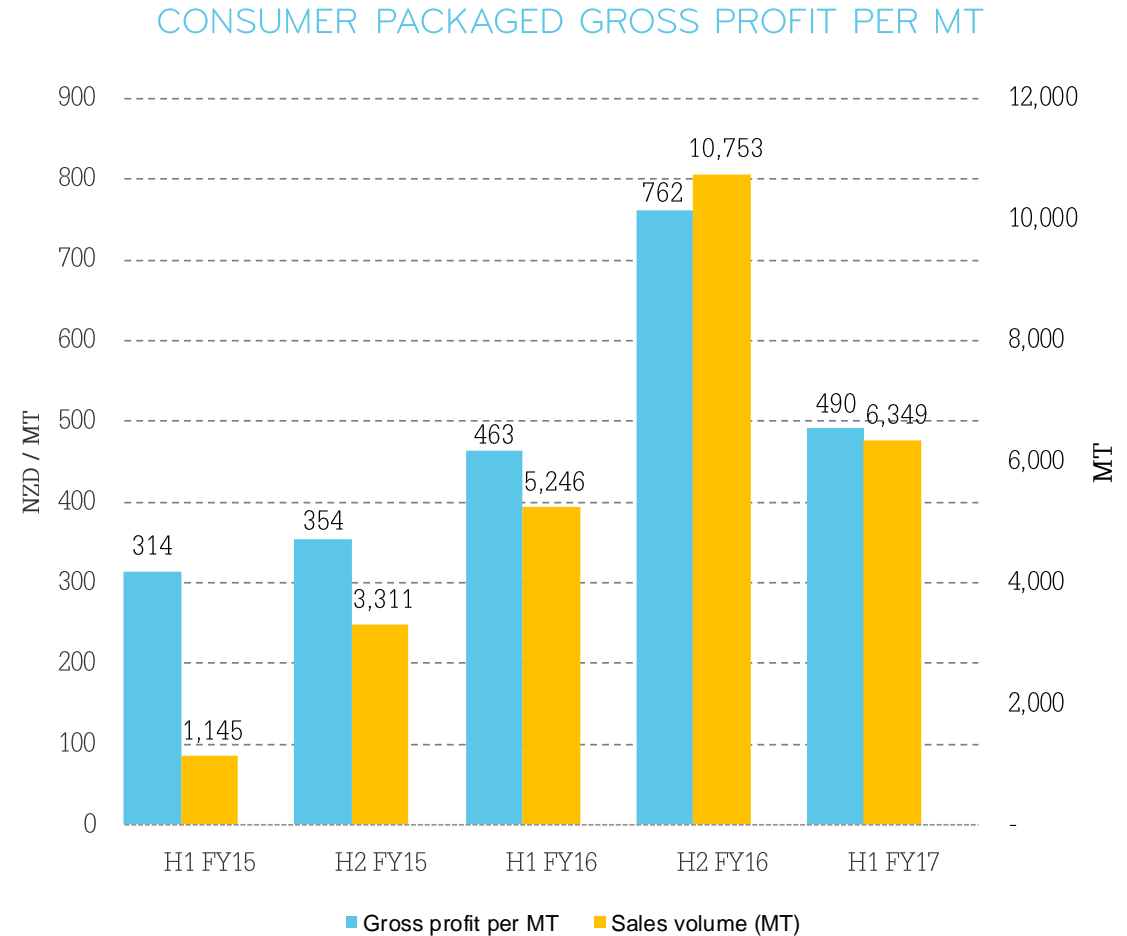
# GROSS PROFIT PER MT (POWDERS AND CREAM)

- Gross profit for Powders and Cream for the period is \$667 / MT, down from \$837 / MT in H1 FY16.
- Two large drivers of this dilution:
  - Carry over stock from FY16 sold at low margins.
  - Onerous contract provision of \$6.2m (timing issue due to a rising commodity price environment) that unwinds in the second half.
- Onerous contract provision is expected to be unwound by the end of the year, improving margins.



# GROSS PROFIT PER MT (CONSUMER PACKAGED)

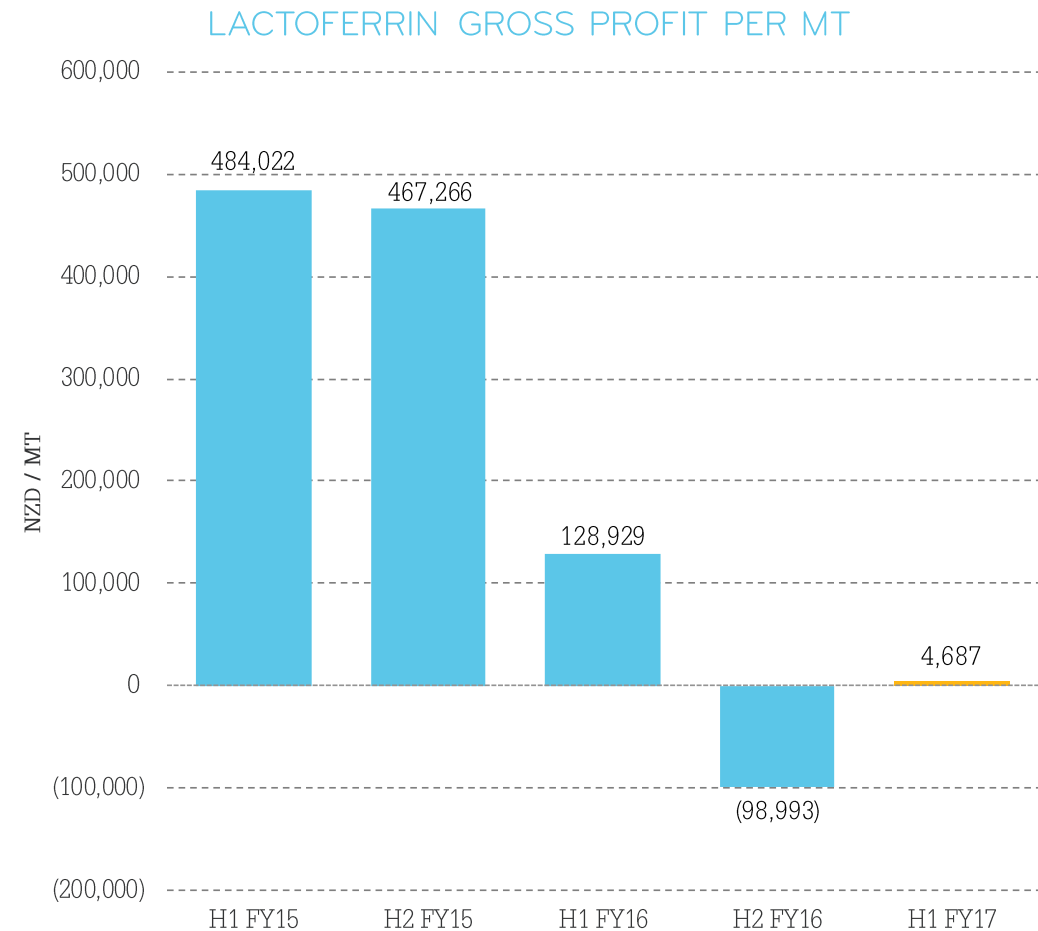
- Consumer packaged gross profit increased by \$27 / MT over H1 FY16.
- Driven by scale efficiencies from higher production in H1 FY17 versus H1 FY16.





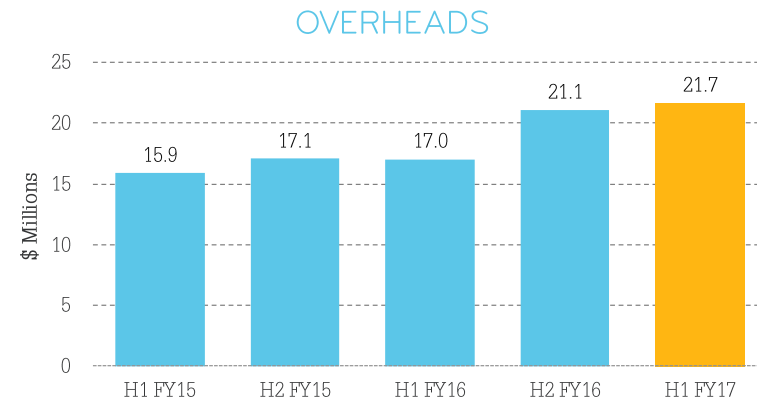
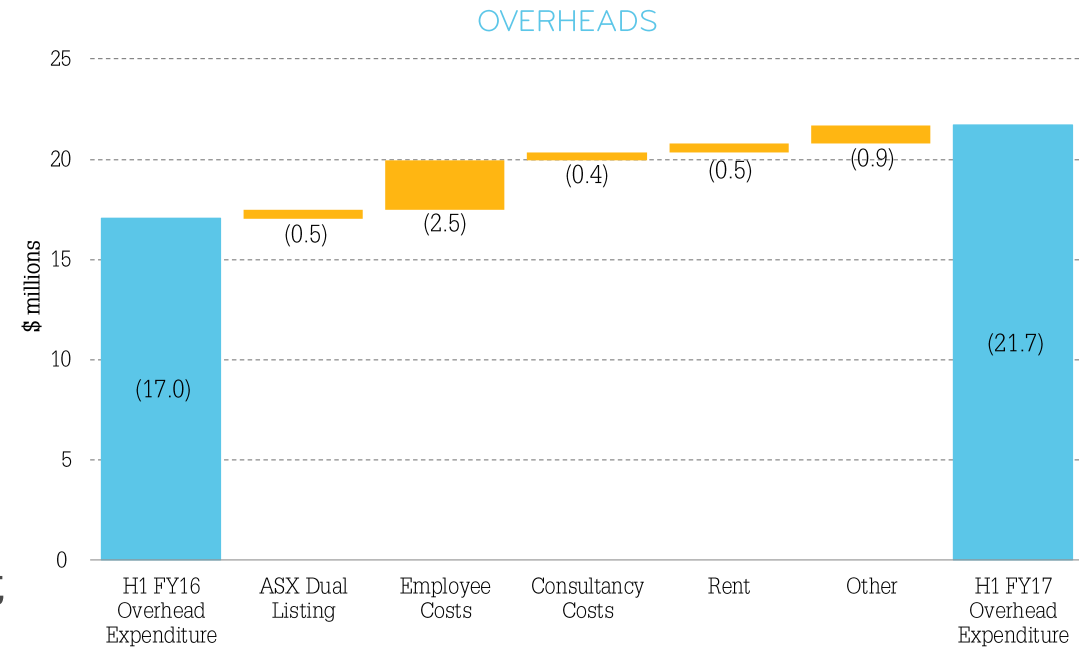
# GROSS PROFIT PER MT (LACTOFERRIN)

- Lactoferrin margin improving driven by increasing market prices from H2 FY16 but not yet to the levels seen in H1 FY16.
- Lactoferrin cost of gross sales (COGS) are largely fixed costs. This includes costs of spare capacity within the specialty ingredients dryer.



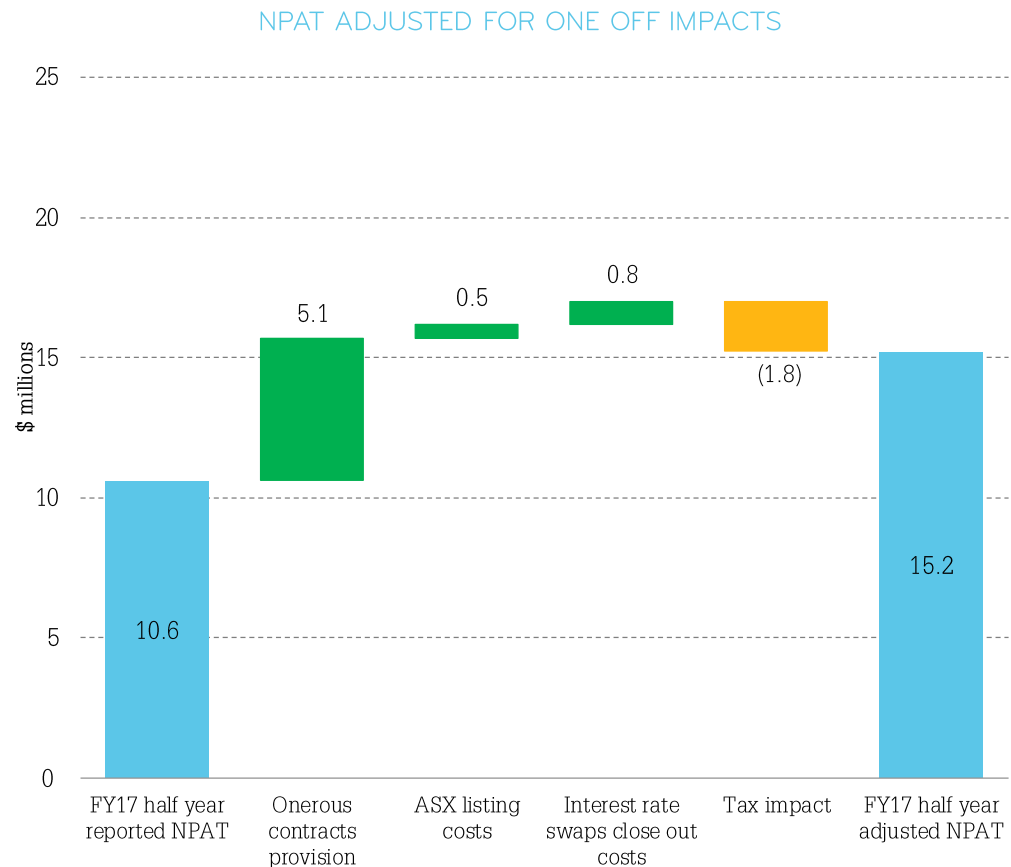
# OVERHEADS

- H1 FY17 overheads increased by \$4.7m compared to H1 FY16.
- Listing costs associated with the dual listing on the ASX are a one off cost (\$0.5m).
- Employee and consultancy costs increasing as we continue to invest into business development and business planning for future growth.
- Inventory levels have resulted in increased external warehousing costs.



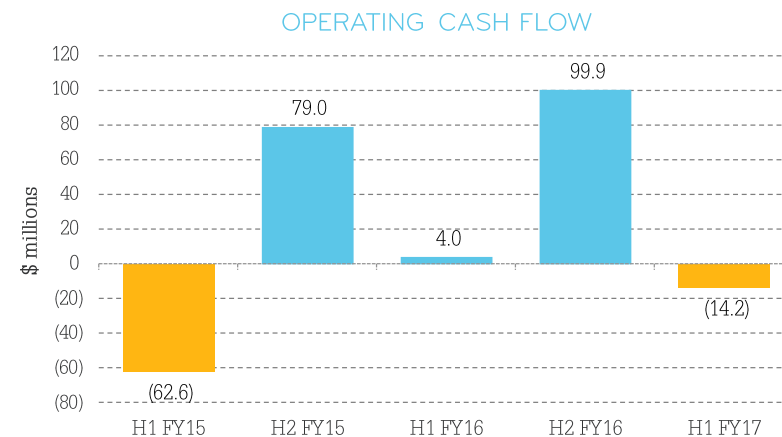
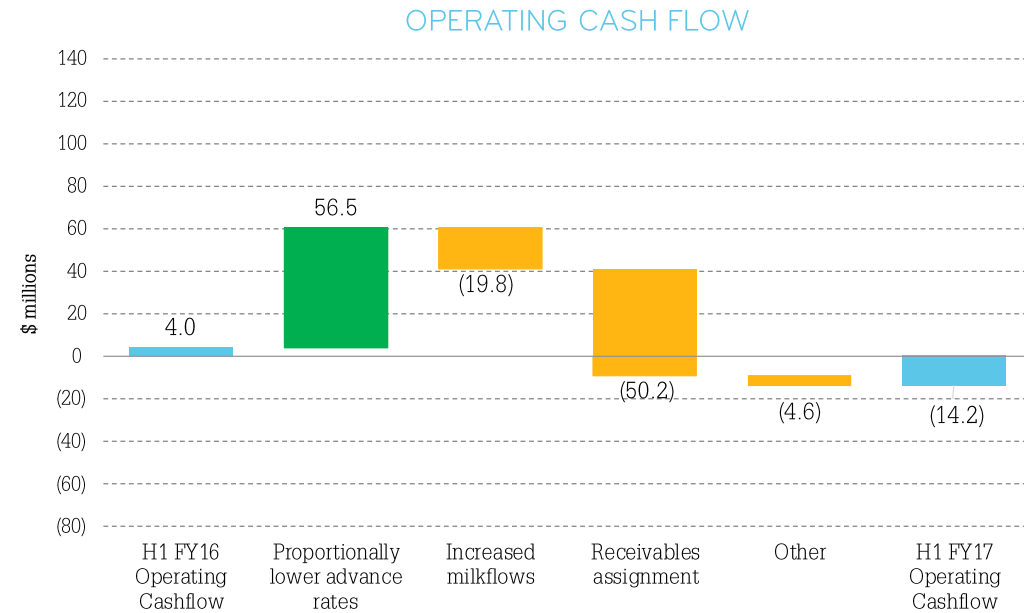
# POSITIVE UNDERLYING PERFORMANCE

- NPAT for the period of \$10.6m, up \$0.4m on the same period previous year.
- H1 FY17 impacted by timing variances and one off events
  - Onerous contracts (\$6.2m before tax H1 FY17, \$1.1m H1 FY16) impacting revenue, but expected to be unwound by end of the year.
  - \$0.5m of costs associated with the dual listing on the ASX included in overheads.
  - \$0.8m of interest rate swaps close out costs following the capital raise
- Without these one off / timing variances, underlying NPAT would have been \$15.2m for H1 FY17 (\$12.3m H1 FY16).



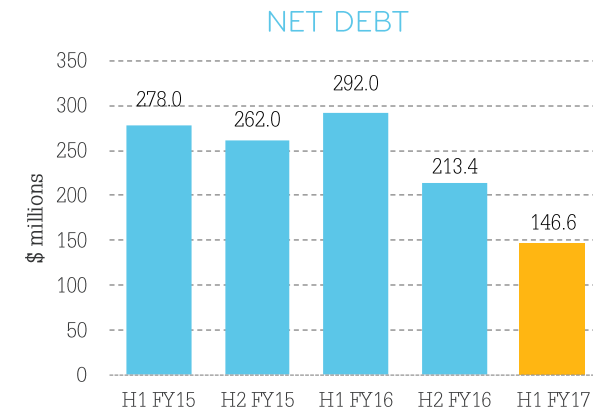
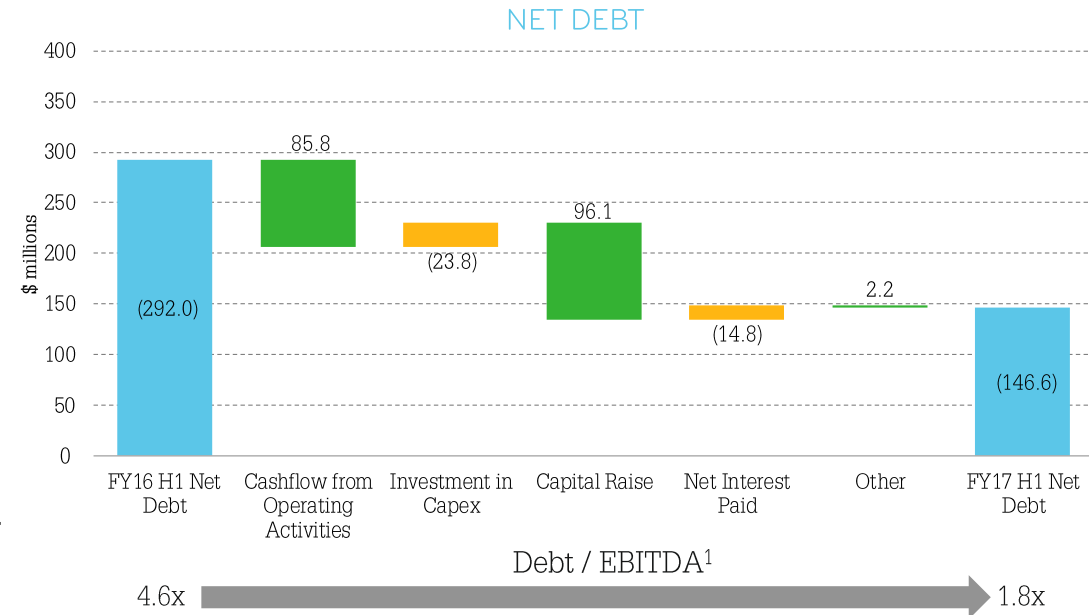
# OPERATING CASH FLOW

- \$56.5m benefit through proportionately lower advance rates for contracted milk supply in the 2016 / 2017 milk season.
- Higher milk flows of 5.7m kgMS (with related cash inflow to come second half).
- Receivables assignment delivered a one off cash benefit in H1 FY16.



# NET DEBT

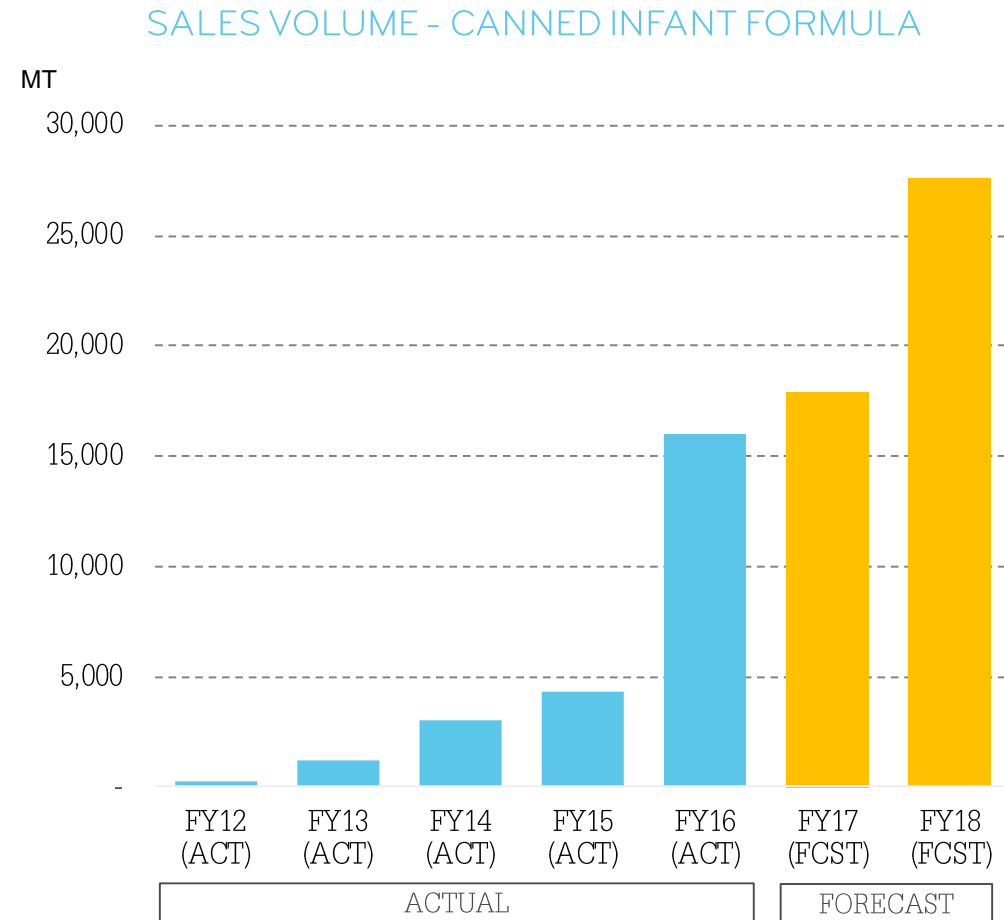
- Net debt has decreased \$145.4m since H1 FY16.
- The key drivers of this are the capital raise completed in October 2016 and strong operating cash flows in the second half of FY16.
- Leverage ratio (trailing) now improved to 1.8x from 4.6x.





# FULL YEAR EXPECTATIONS UNCHANGED

- H2 FY17 will deliver significantly higher infant volumes and NPAT than H1 FY17.
- The a2 Milk Company™ continues to grow infant volumes, supported by our five year manufacturing agreement.
- Commodity pricing continues to be volatile, contributing to continued movement in milk price.
- FY17 remains on track to deliver modest improvements to prior year returns while increasing operating expenditure investment to support our growth strategy.



# THANK YOU

Visit our Investor Centre at [www.synlait.com](http://www.synlait.com) for more information.

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