

STRATEGIC UPDATE

20 DECEMBER 2017



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THIS IS AN UPDATE OF THE PRESENTATION MADE TO
INSTITUTIONAL INVESTORS ON 8 DECEMBER 2017.

STRATEGIC UPDATE



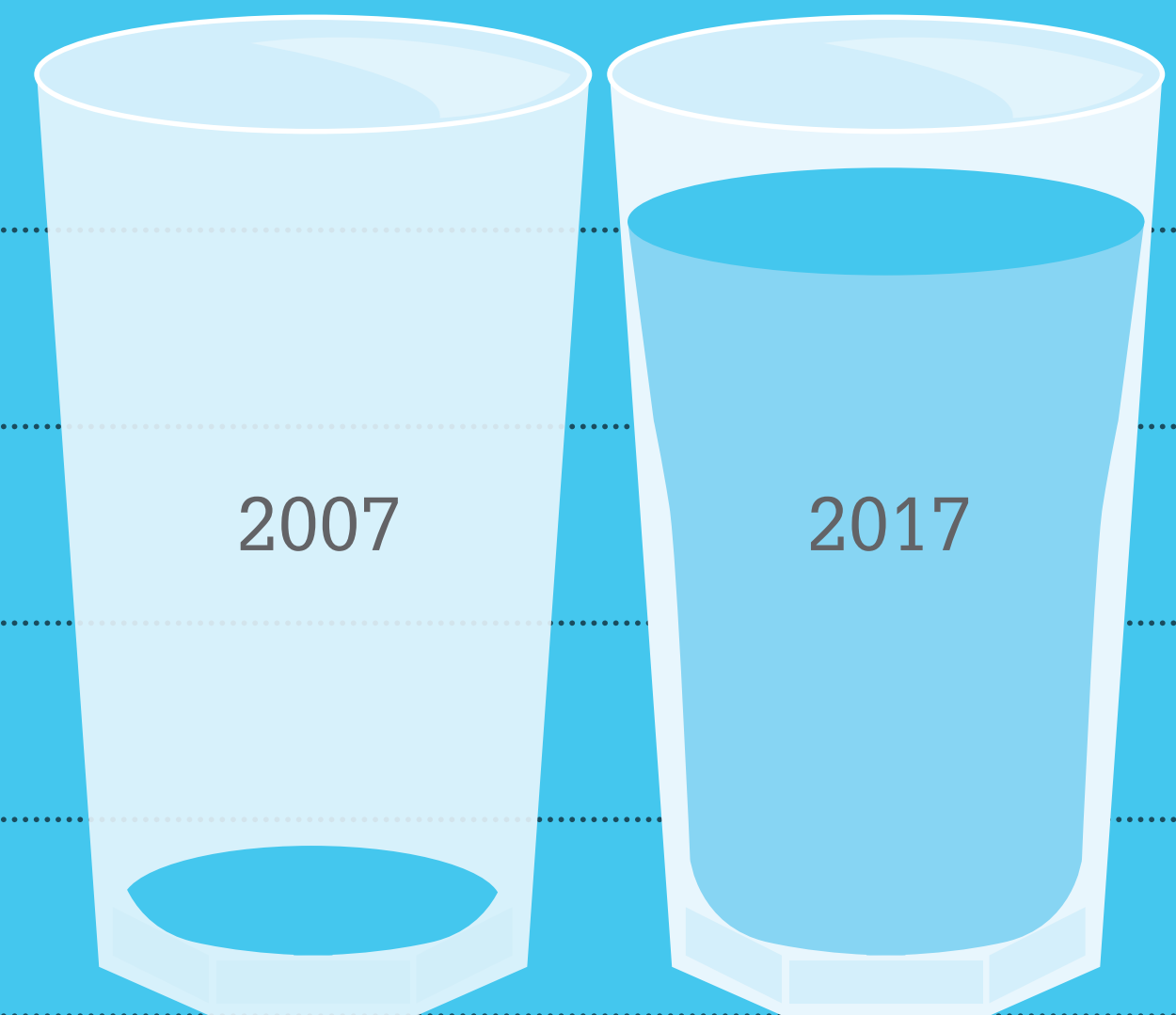
John Penno

MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER

WE ARE A
GROWTH
COMPANY

SYNLAIT IS A B2B
MANUFACTURING
COMPANY FOCUSSED
ON MAKING THE MOST
FROM MILK.

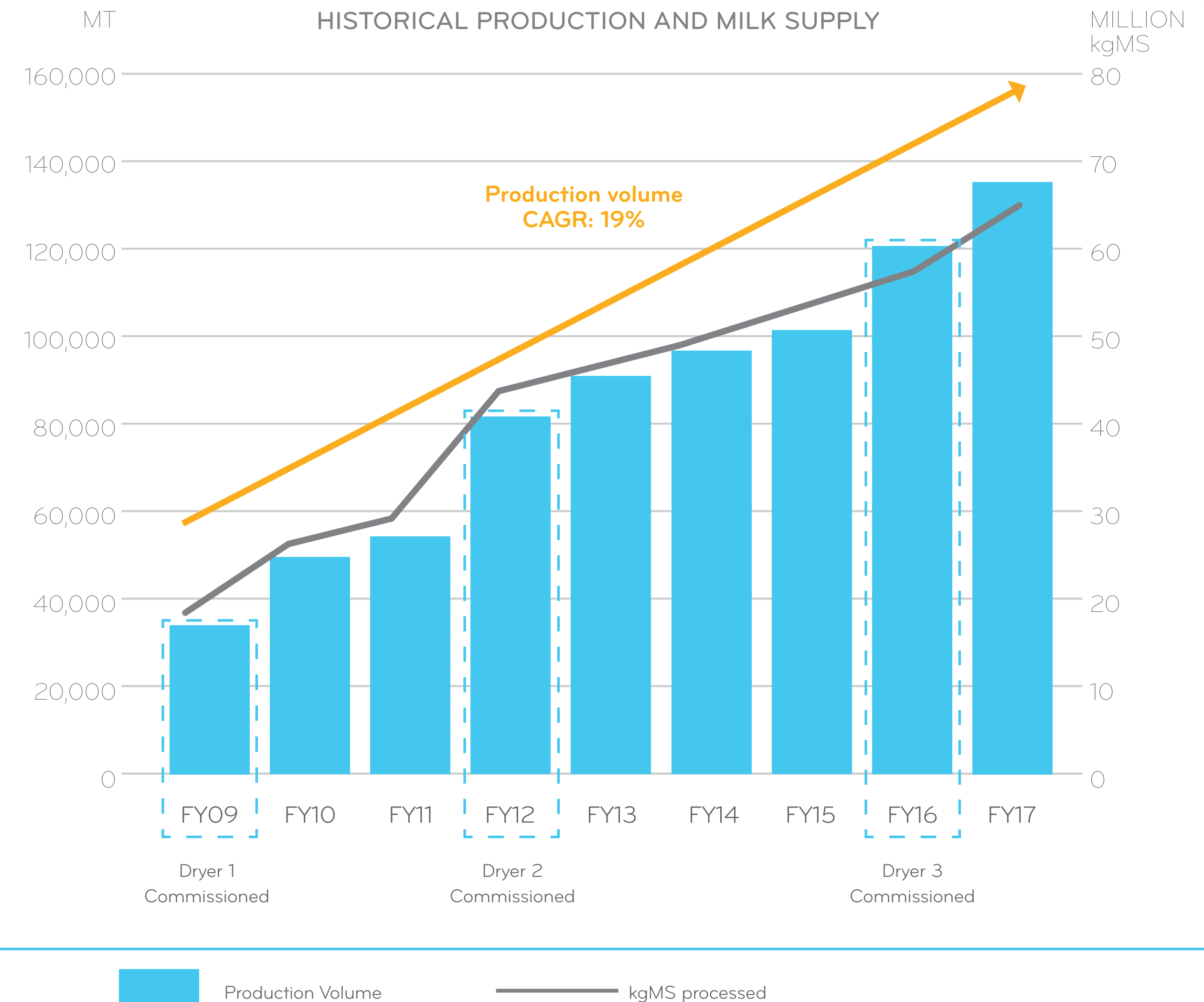
OVER THE PAST 10 YEARS WE
HAVE GROWN FROM START-UP
TO ANNUAL PRODUCTION
VOLUMES OF ALMOST 140,000
METRIC TONNES (MT)



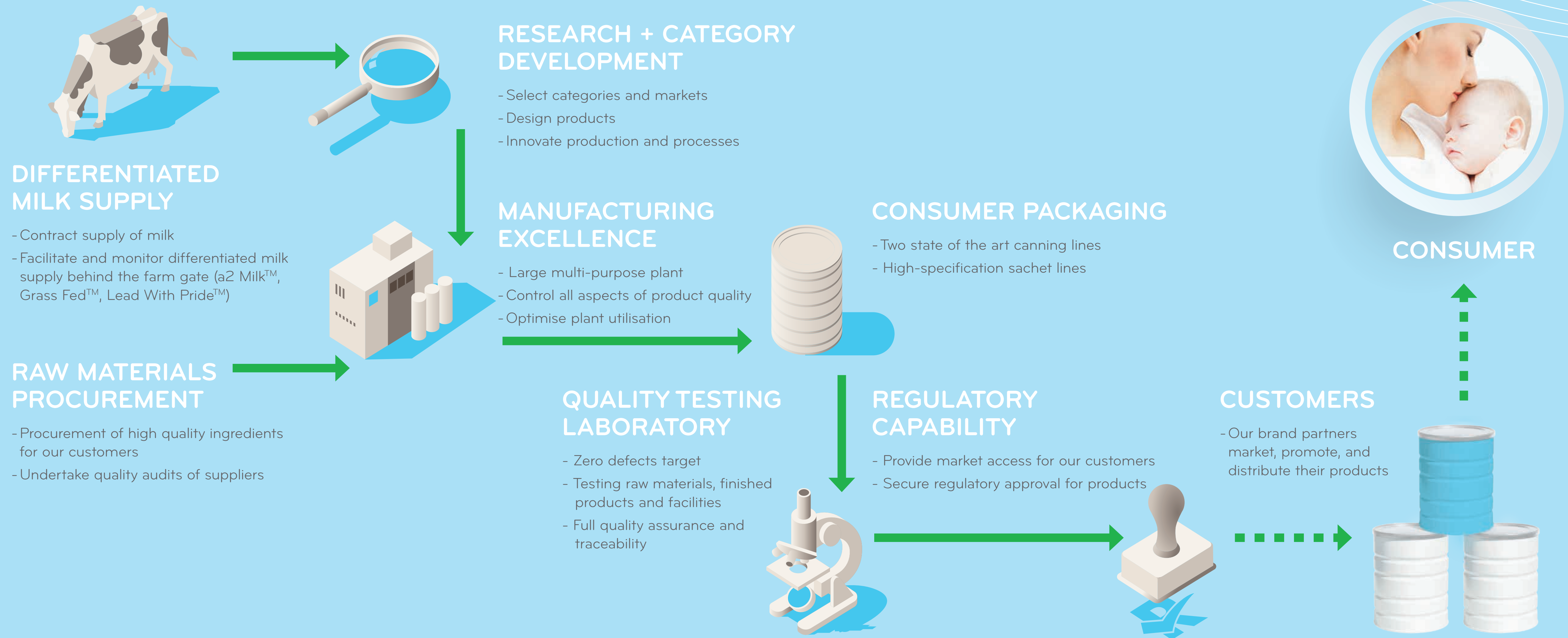
SCALABLE MANUFACTURING CAPABILITY

Proven ability to scale manufacturing capacity, growing production volumes at a 19% compound rate since Synlait's first year of processing in FY09.

Next step change in processing capacity expected when Dryer 4 is commissioned at the North Island site.



SYNLAIT ADDS VALUE FROM FARM TO CONSUMER



LEADTM WITH PRIDE

TRANSFORMATIONAL IN THE DAIRY INDUSTRY, SYNLAIT'S LEAD WITH PRIDETM PROGRAMME RECOGNISES AND REWARDS THOSE SUPPLIERS WHO ARE ACHIEVING DAIRY FARMING EXCELLENCE.

Lead With PrideTM is Australasia's only internationally accredited ISO / IEC 17065 dairy farm assurance system. The programme measures dairy farms on four pillars of dairy farming; environment, animal health and welfare, milk quality, and social responsibility.



REGISTERING BRANDS IN CHINA

INFANT FORMULA IS THE MOST REGULATED FOOD PRODUCT IN THE WORLD - IT IS THE ONLY FOOD PROVIDED TO SOME INFANTS IN THEIR FIRST MONTHS OF LIFE.

- **The Chinese Food and Drug Administration (CFDA) registration of The a2 Milk Company's infant formula was granted in September 2017.**
- Because the manufacturer controls quality, the manufacturer is registered alongside the product in most markets. Synlait registers the brands its B2B customers sell.
- The CFDA will grant selected factories licences to manufacture up to three brands for the Chinese market.
- We recruited Ying Jin as our Regulatory and Science Affairs Director, China, to support market access and business development. Experienced in managing regulatory affairs for multi-national infant formula companies, Ying has a PhD in food safety and a medical degree.
- The expanded New Hope Nutritionals supply agreement will underpin applications to register New Hope Nutritionals infant formula brands.
- In October 2017 we submitted an application to register New Hope Nutritionals Akara brand with the CFDA.



ENHANCED SENIOR LEADERSHIP CAPABILITY

THE SENIOR LEADERSHIP TEAM (SLT) HAS EVOLVED TO MEET THE CHANGING NEEDS OF OUR BUSINESS



**John
Penno**

MANAGING DIRECTOR
AND CEO (ELT)



**Nigel
Greenwood**

CHIEF FINANCIAL
OFFICER (ELT)



**Boyd
Williams**

DIRECTOR, PEOPLE, CULTURE
AND PERFORMANCE (ELT)



**Chris
France**

DIRECTOR, STRATEGY AND
TRANSFORMATION (ELT)



**Martijn
Jager**

DIRECTOR, SALES AND
BUSINESS DEVELOPMENT (ELT)



**Neil
Betteridge**

DIRECTOR,
OPERATIONS (ELT)



**Antony
Moess**

GENERAL MANAGER,
MANUFACTURING



**Callam
Weetman**

GENERAL MANAGER,
SALES



**Matthew
Foster**

GENERAL MANAGER,
STRATEGIC PROJECTS



**Rob
Stowell**

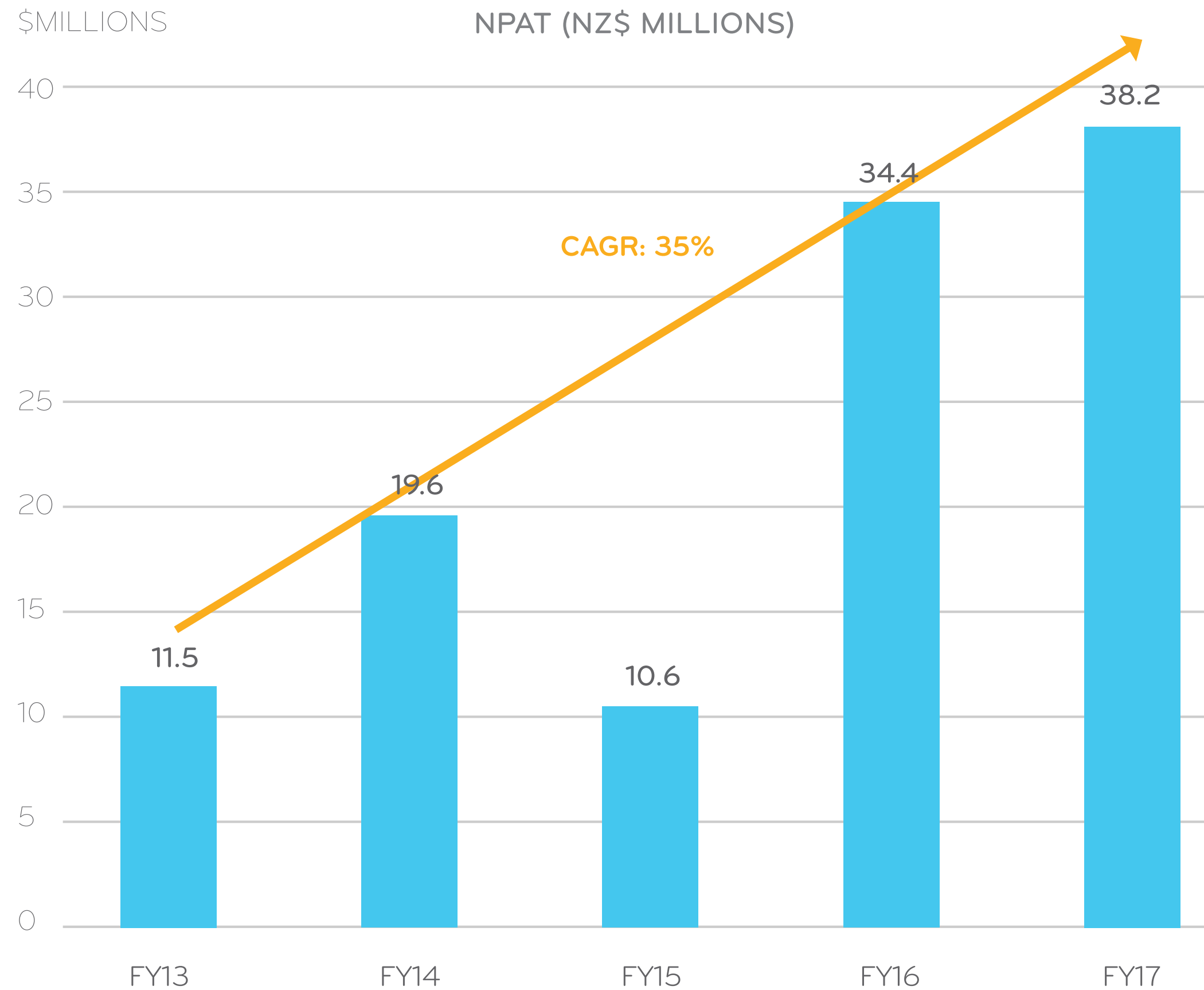
GENERAL MANAGER, SUPPLY
CHAIN



**Roger
Schwarzenbach**

GENERAL MANAGER,
INNOVATION AND TECHNICAL
SERVICES

SUSTAINED FINANCIAL SUCCESS



EBIT INCREASED TO
\$65.8m
(FY16: \$61.1m)

NET DEBT DECREASED FROM
\$214m
TO \$83m

LEVERAGE FROM
2.6X DOWN TO 0.9X⁽¹⁾

GEARING DOWN FROM
46.8%
TO 18.0%⁽³⁾

ROCE OF 13.9% (FY16: 13.5%)⁽²⁾

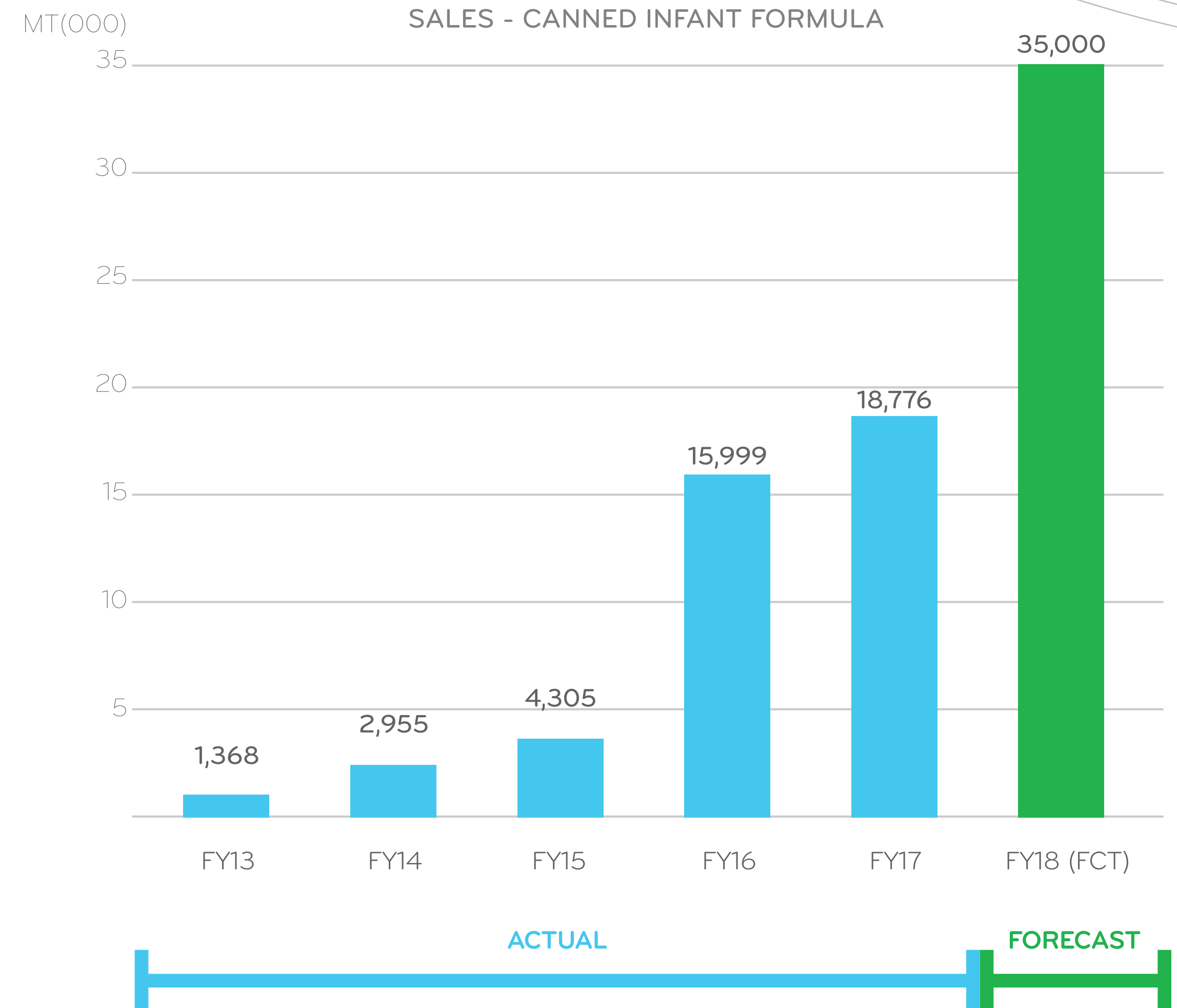
Notes: (1) Leverage = net debt / EBITDA;

(2) Return on capital employed (ROCE) is calculated by dividing earnings before interest and tax (EBIT) by the average capital employed (equity + net debt);

(3) Gearing = net debt / (net debt + equity), excluding derivatives. See our 2017 Annual Report for further details, available at: <http://www.synlait.com/investors/>

EXPECTATIONS OF GROWTH

- **We expect Chinese infant formula demand to continue to grow, particularly with the relaxing of the one child policy.**
- The regulatory change targeting rationalisation of brands may boost demand in the second half of FY18, post registration.
- Registration of The a2 Milk Company's and New Hope Nutritionals infant formulas in China are expected to support demand growth.
- Investment in customer and market development (e.g. Munchkin Inc.) is also expected to support our sales growth.
- As a result, we expect demand to increase significantly for Synlait consumer packaged products.
 - Increased infant formula sales drives margin growth.
- Upgrading FY18 canned infant formula volume forecast to the top of the previously advised range of 30,000 - 35,000 MT.
 - 16,000 MT forecast for H1 FY18.
- We will continue to grow our investment in business development and technical capability.

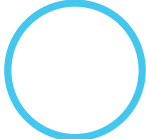




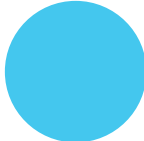










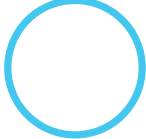





SECOND POWDER MANUFACTURING SITE

- **Synlait will invest in powder manufacturing capacity** when required to meet customer demand for infant formula products
- Establishing this capacity on a second site **allows mitigation of our current single site risk**
- Also introduces **access to a second milk pool** which further **reduces our risk profile**
- **A North Island based site** meets these needs while also providing **a platform for growth in other categories**
- **Synlait is currently looking to acquire an appropriate site in the North Island**
- **Initial investment on site will be one infant formula capable spray dryer** and related infrastructure at a cost of circa \$200m, capable of manufacturing 40,000 MT of infant base powder per annum
- **Investment to be funded** through debt facilities

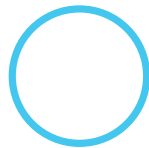


OUR CATEGORIES

DELIVERED IN CONSUMER, FOODSERVICE AND INGREDIENTS PACKAGING	INGREDIENTS	INFANT NUTRITION	EVERYDAY DAIRY	ADULT NUTRITION
	Build Sales - People, Technical	Blending + Consumer Packaging II	New initiatives	Product Development
	Tailor Product To Customer Need	Wetmix II		Market Research
		RTD Infant Formula	Cream opportunities	RTD Blended Dairy Beverage
Diversify Markets - Categories, Customers, Geography				
Deliver Higher Value Products				
Adapt To A Changing World Demographic				
Focus On B2B, But Move Closer To Customers And Consumers				
Build Supply Chain Integrity				



Strong contributor to strategic goal



Weak contributor to strategic goal

STRATEGIC DIVERSIFICATION

- Significant success in **transitioning dairy commodity products into higher value** infant formula (Gross Profit \$781/MT in FY18 from \$231/MT in FY09)
- Our **strategy is to continue to grow** our core business and diversify into new products, markets and customers
- Our research shows that **fresh dairy products are high returning products** – not as profitable as infant formula but significantly better than ingredient products
- **The New Zealand domestic fresh milk market is ripe for innovation**
- We have **negotiated a contract with Foodstuffs South Island** to exclusively supply their private label milk, as a first step in this market
- This ten year contract, together with an initial volume of export long shelf life cream, will **underpin the development of an advanced fresh dairy packaging facility** at Dunsandel. This facility will have capacity for us to produce significant volumes of other liquid dairy products (RTD infant formula, RTD life stage products)
- As our canned infant formula volumes grow, **we have surplus milk** which we will direct into the liquid facility



FOODSTUFFS SOUTH ISLAND CONTRACT

- **Exclusive supply of private label fresh milk and cream** (Value and Pams) from early 2019
- **Distributed in retail channels** (PAK'n SAVE, New World, Four Square and On The Spot)
- **Ten year agreement** with demand to underpin capital investment



CAPITAL INVESTMENT

- **\$125m modern and sophisticated advanced liquid dairy packaging facility** to be constructed at our Dunsandel site
- **Investment to be funded** through debt facilities
- **Annual capacity of 110 million litres** of which one third will be initially utilised for Foodstuffs South Island products
- **Synlait's current milk supply adequate** to meet the volumes of the contract
- **Capable of manufacturing** a range of traditional and new products
- **New product development** to be supported from our new R+D centre in Palmerston North
- **Long life cream export category** also **presents attractive opportunities which we intend to pursue**



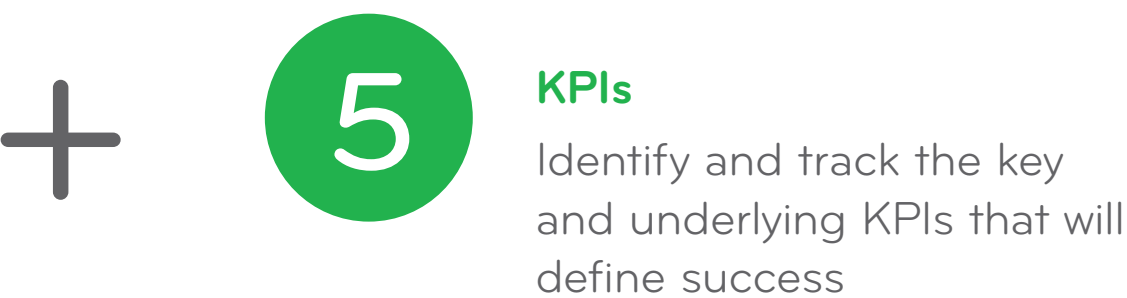
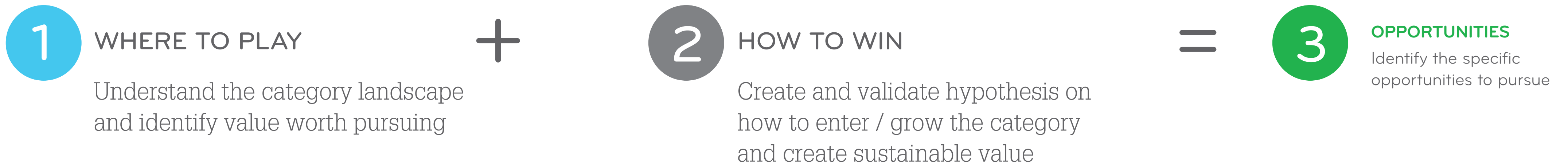
BUSINESS DEVELOPMENT



Martijn Jager

DIRECTOR SALES AND BUSINESS DEVELOPMENT

DEVELOPING A CATEGORY STRATEGY



CATEGORY DELIVERS VALUE TO THE BUSINESS



TARGET THE RIGHT MARKET OPPORTUNITIES



DELIVER OFFERINGS CUSTOMERS VALUE



STRENGTHEN STRATEGIC CUSTOMER PARTNERSHIPS



PROVIDE INTERNAL DIRECTION AND FOCUS



OPTIMISE OUR BUSINESS

THE LIFE-STAGE NUTRITION LANDSCAPE



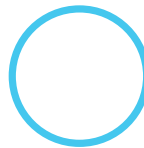
OUR FOCUS CATEGORIES



	INGREDIENTS	INFANT NUTRITION	EVERYDAY DAIRY	ADULT NUTRITION
Diversify Markets - Categories, Customers, Geography				
Deliver Higher Value Products				
Adapt To A Changing World Demographic				
Focus On B2B, But Move Closer To Customers And Consumers				
Build Supply Chain Integrity				



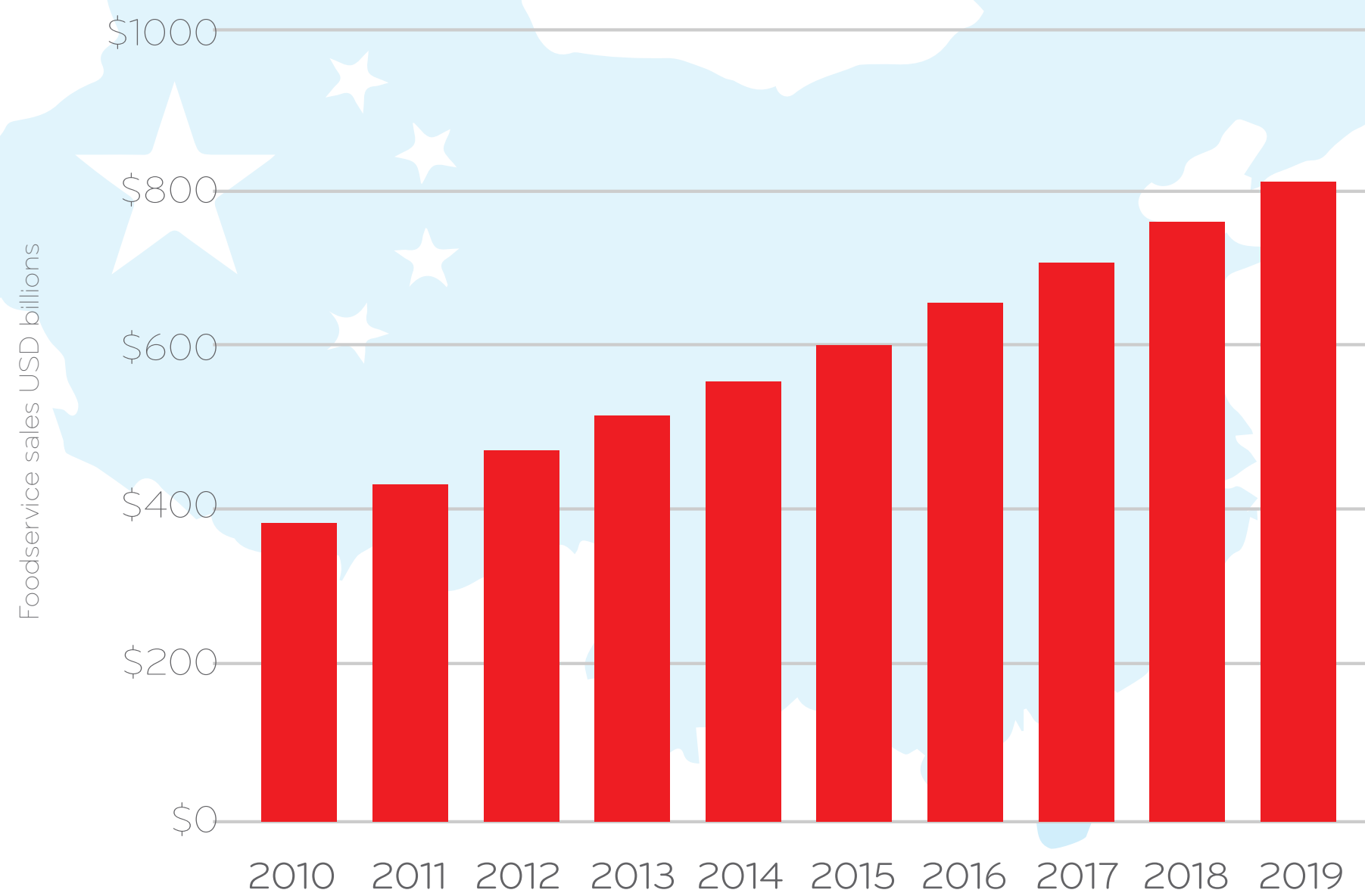
Strong contributor to strategic goal



Weak contributor to strategic goal

EXAMPLE: THE EVERYDAY DAIRY OPPORTUNITY IN FOODSERVICE

THE CHINA FOODSERVICE SECTOR IS GROWING STRONGLY



FOODSERVICE COVERS OUT-OF-HOME CONSUMPTION

DRIVEN BY GROWING PURCHASE POWER & TIME-PRESSURED LIVES

Whilst retail is declining

"Global explosion in interest, activity, and spending on good-quality food and drink"

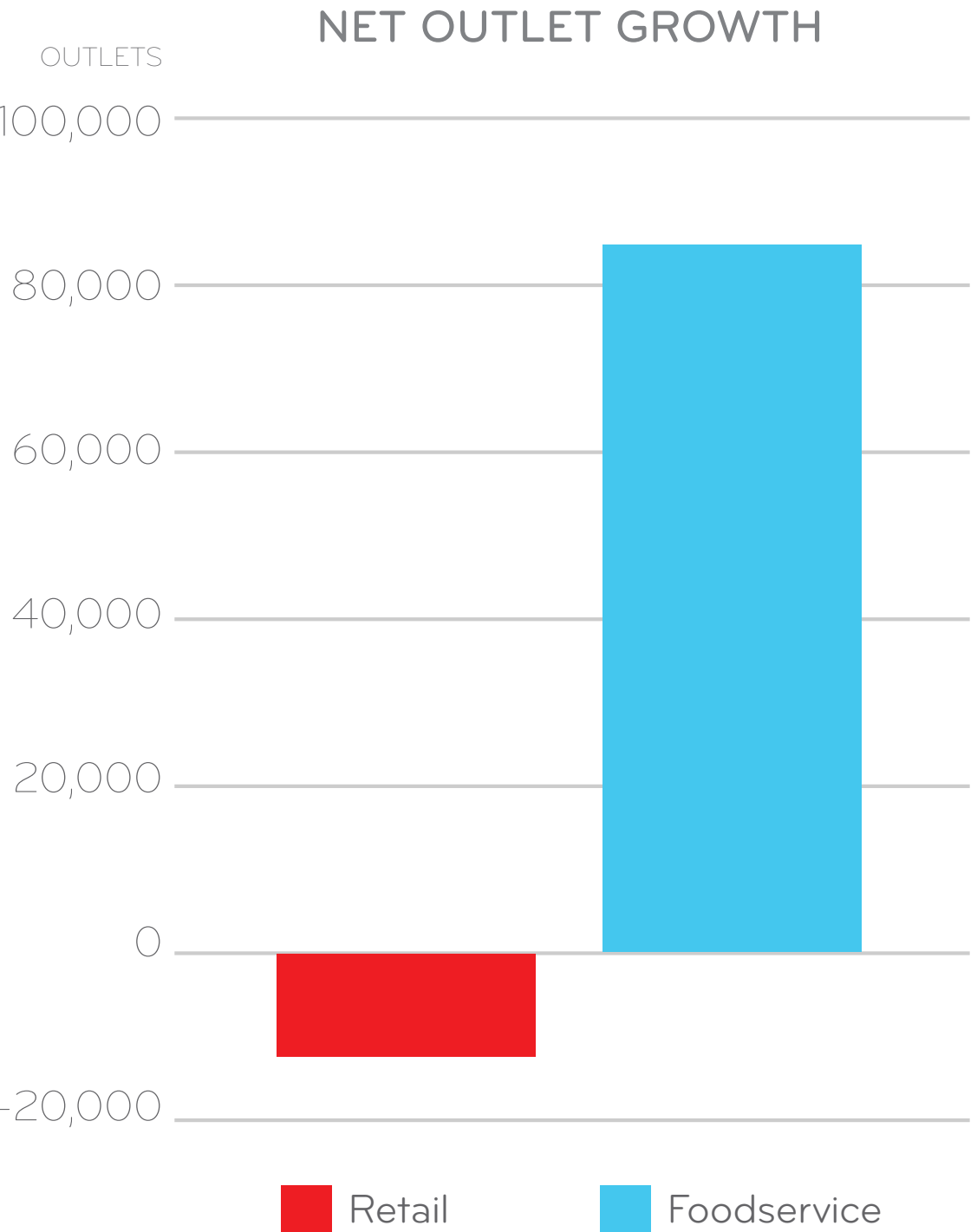
Euromonitor

NON-COMMERCIAL

Includes; hospitals, rest homes, prisons, businesses, and education

COMMERCIAL

Includes; restaurants, catering, retail, airlines and cruise ships



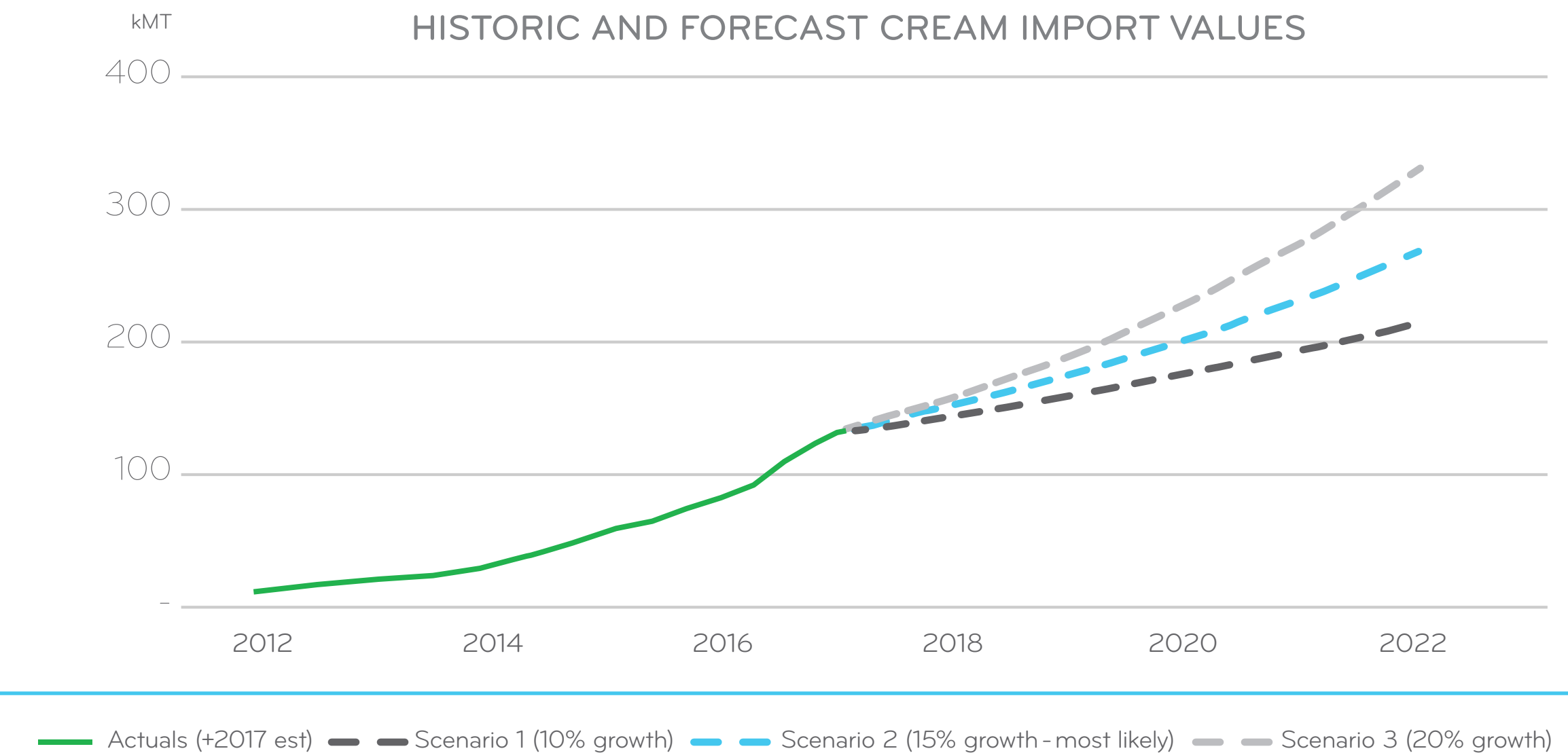
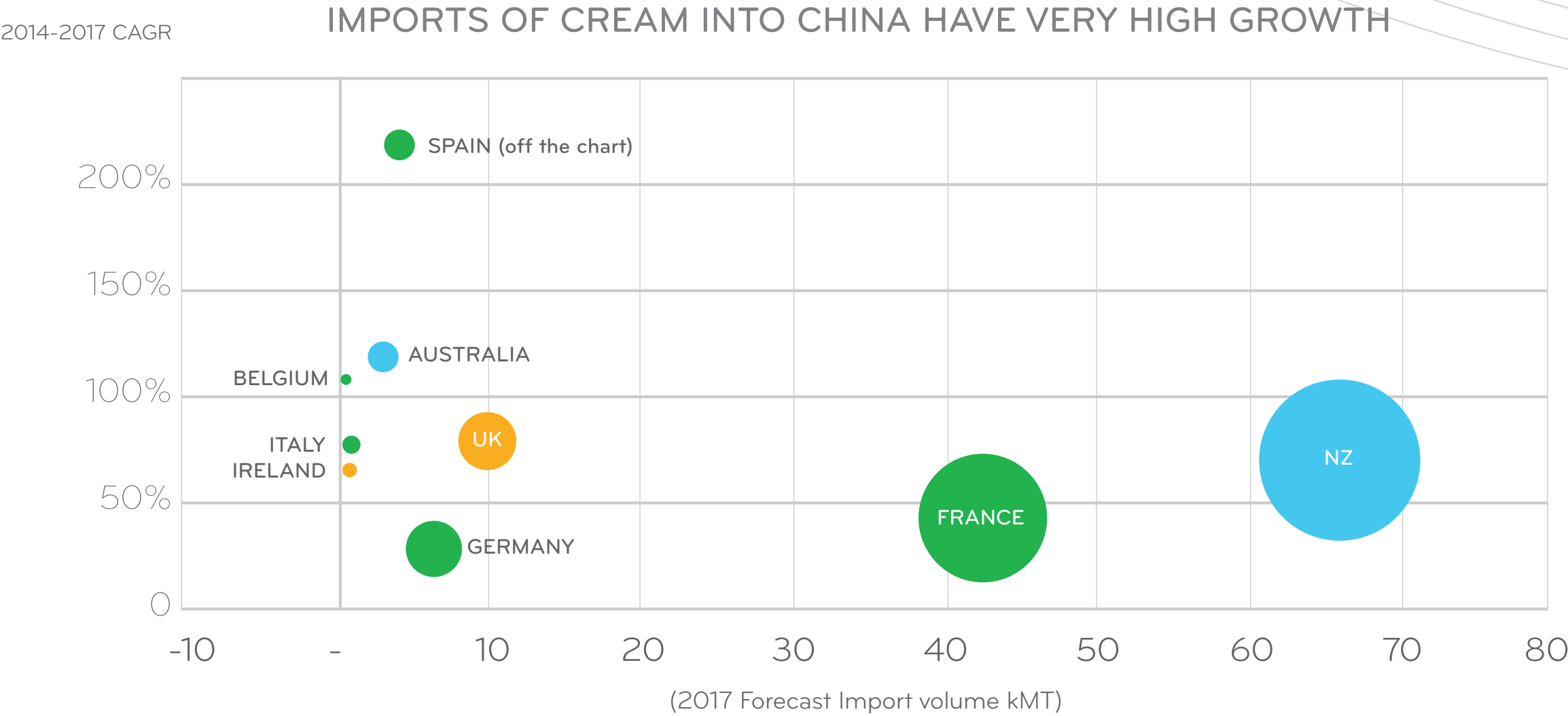
EXAMPLE: WHIPPING CREAM IS A HIGH GROWTH OPPORTUNITY

Double digit growth is forecast to continue

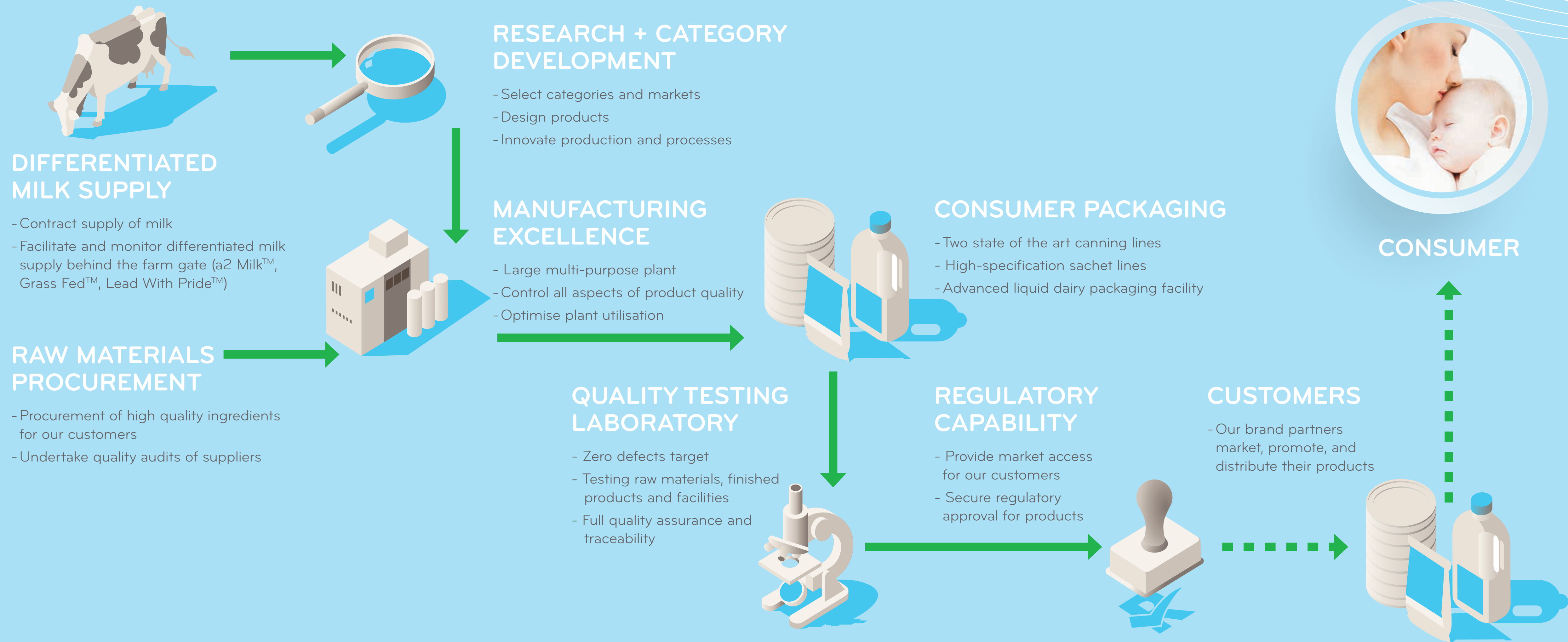
- Cream is predominantly used in bakery, and tea and coffee outlets
- Trends towards natural, safe and premium products are driving conversion from non-dairy to dairy

New Zealand will have a tariff advantage by 2022

- Imports into China from New Zealand will no longer be subjected to any tariff from 2022, giving a benefit of 15% over most other markets



LIQUID MILKS LEVERAGE THE SAME INTEGRATED VALUE CHAIN



RESEARCH AND DEVELOPMENT



Roger Schwarzenbach

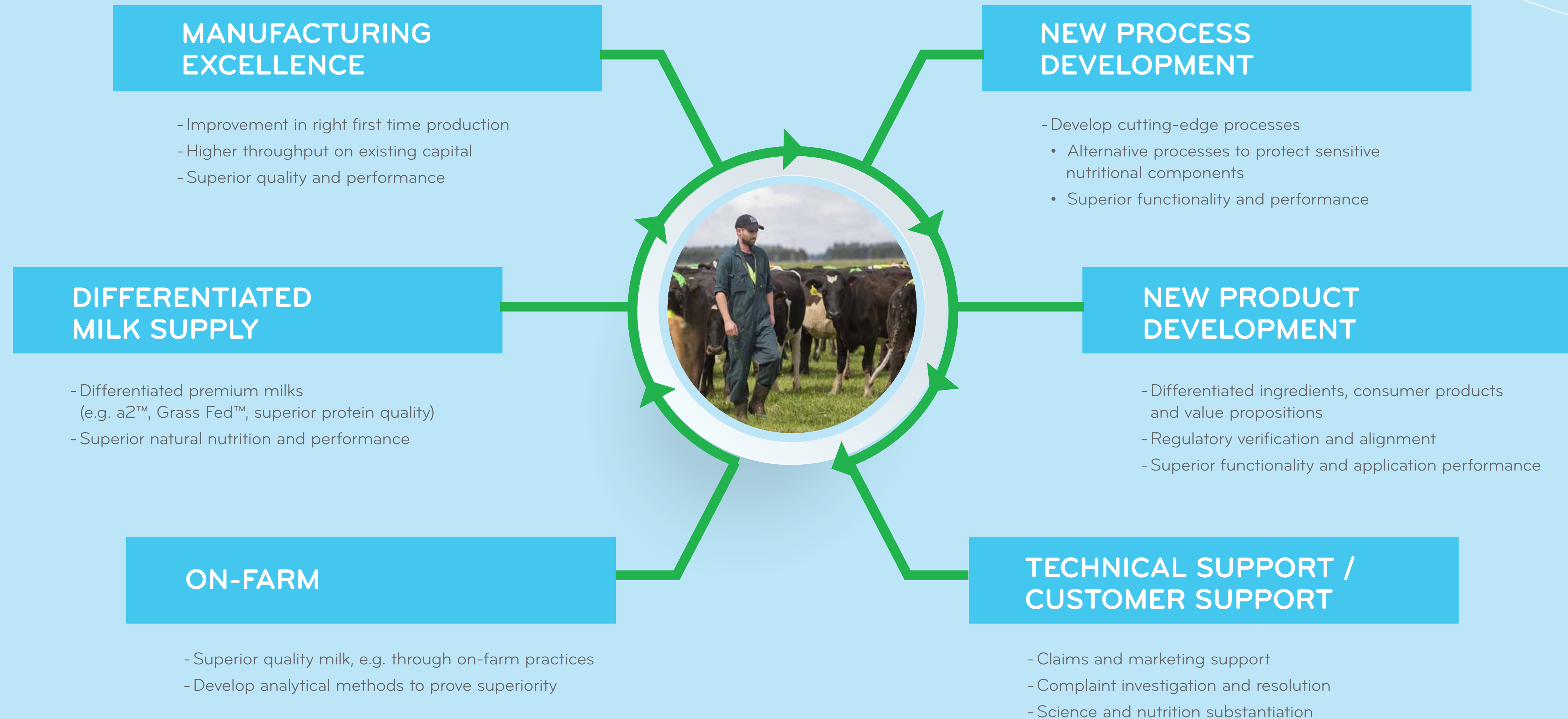
GM INNOVATION AND TECHNICAL SERVICES

SYNLAIT INNOVATION AND TECHNICAL - HIGHLY CAPABLE TEAM

- Technical team building to **32 highly skilled and experienced scientists and technologists**
- **Six managers** have average **experience of 23 years** gained from some of the **biggest global food companies and markets**
- **Strong innovation partnerships with leading research** organisations within New Zealand
- **Investing around \$7m in 2017** into research and category development
- **Plan to double R+D expenditure over the next two years**
- **Research and development centre** in Palmerston North will continue to build expertise and capability in food technology



R+D COVERS EVERY STAGE OF THE VALUE CHAIN



R+D CAPABILITY ACROSS MANY DISCIPLINES

Nutrition and health are
a cornerstone of Synlait

**NUTRITION SCIENTIST LOOKS
AT THE EFFECTS OF FOOD
COMPONENTS ON HEALTH**



Helps understand what **health benefit**
a product provides to the consumer.



But we also have broader R+D capability that we are continuing to strengthen

**DAIRY SCIENTIST /
FOOD CHEMISTS**



Helps understand the chemical processes
and interactions of dairy components.
Key for understanding how certain
ingredients will behave in our products.



**FOOD TECHNOLOGIST /
FOOD ENGINEERS**

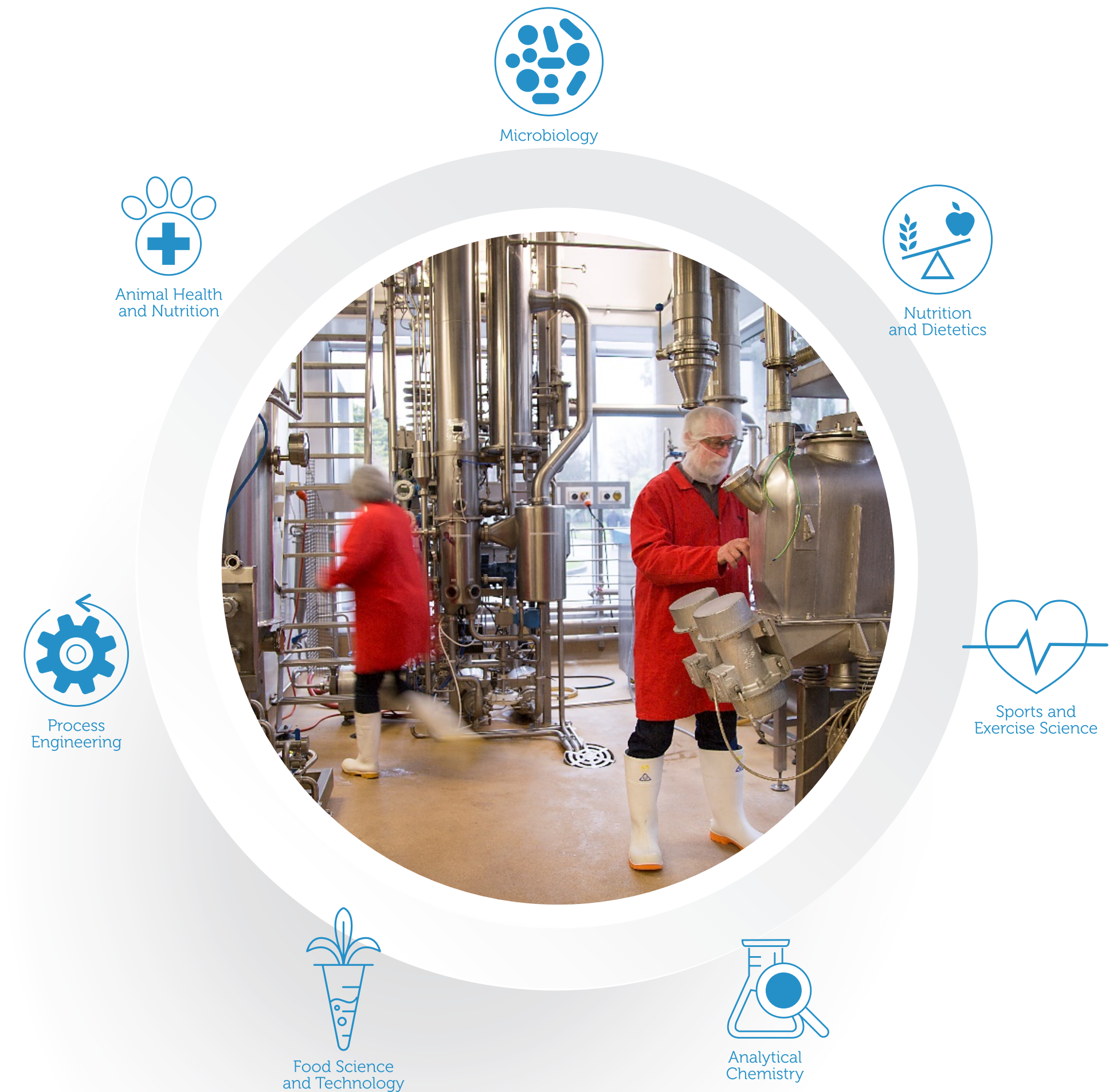


Helps understand how processing affects
products, and help explore new and
advanced processing technologies.



MASSEY AND FOODPILOT CORE TO DELIVERING SYNLAIT'S ASPIRATIONS

- **Largest and best equipped publically accessible pilot plant** in the Southern Hemisphere
- Massey University offers access to an **extensive network of expertise**
- Trained chefs, food technologists and scientists
- **Extensive lab facilities** covering multiple disciplines
- Palmerston North the hub of dairy R+D in New Zealand (surrounded by CRI's Ag Research, Plant and Food)
- Synlait facilities include large office and own R+D laboratory



BUSINESS TRANSFORMATION



Chris France

DIRECTOR STRATEGY AND BUSINESS TRANSFORMATION

SUPPORTING DIVERSIFICATION

- Over the last two years we have established processes, methodology and tools to support our projects
- Our diversification strategy creates an increasingly complex portfolio of inter-related projects
- This year we are introducing formal **Project Portfolio Management** to create better visibility and improved governance over our projects and programs



PwC third global survey on current state of project management found that the adoption of Portfolio Management increased the five key performance indicators – scope, time, cost, quality and business benefit

UNLOCKING VALUE

"... We run our plants close to capacity so planning is important..."

During FY17 we introduced the Oliver Wight Integrated Business Planning (IBP) process to better align to strategy and business operations (supply, demand, product development and strategic projects) over a three year time horizon, on a monthly basis.

"Data is the key to improving performance"

- During FY16 we introduced the balanced scorecard concept across the business.
- In FY17 we extended the scorecards deeper into the business and aligned individual manager targets.
- In FY18 we extend this by introducing profit and loss reporting to responsibility centres, and by cascading the scorecard measures into key performance indicators for each employee.



ENABLING GOOD PRACTICE

We have commenced a significant project to:

- re-engineer our **business processes**
- reconfigure our **information technology**
- refresh our **systems and data architecture**
- remove cost and **enable growth**

We will invest approximately \$10m in this project over the next two years



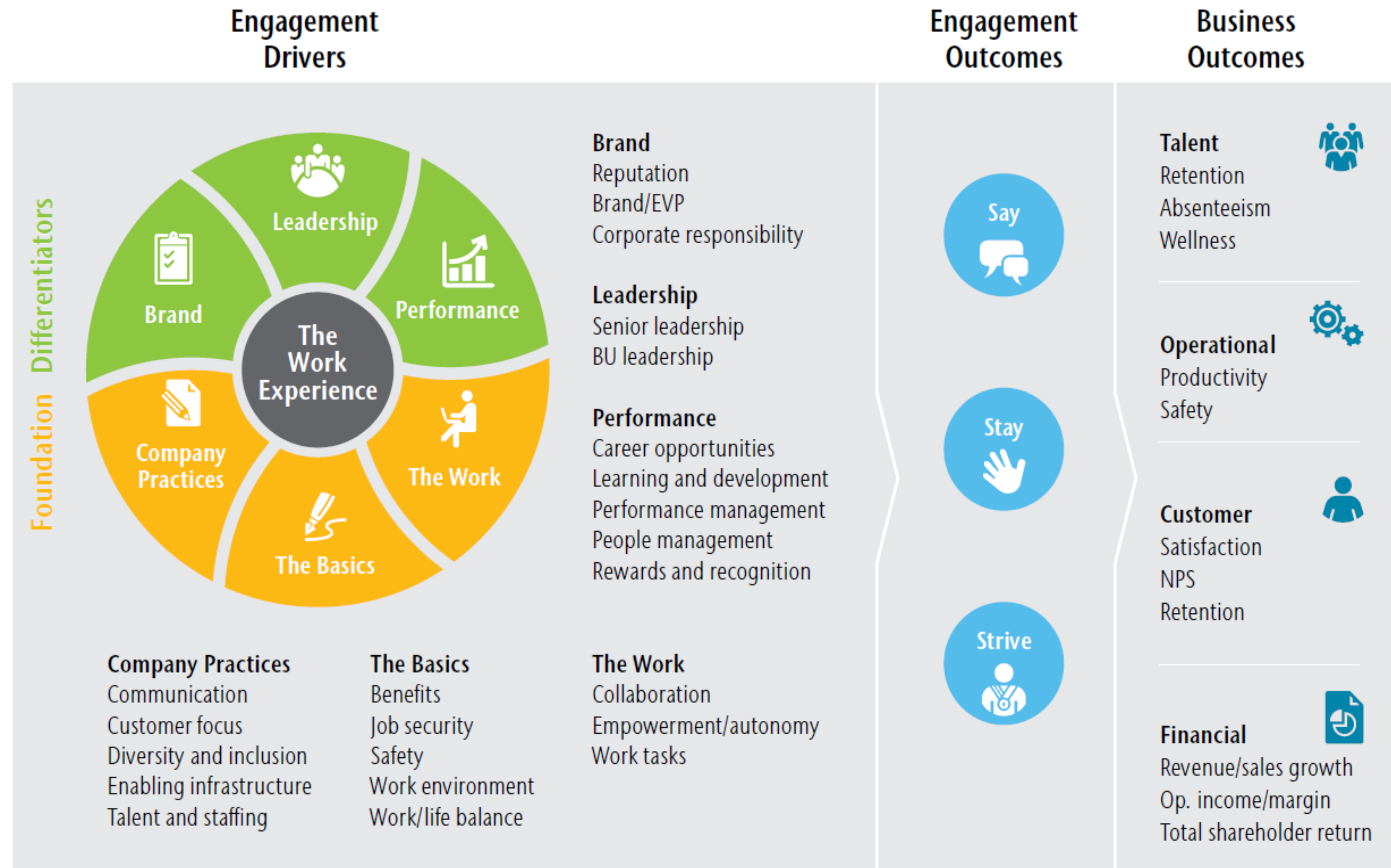
PEOPLE AND CULTURE



Boyd Williams

DIRECTOR PEOPLE, CULTURE AND PERFORMANCE

KEY DRIVERS OF ENGAGEMENT



BUILDING AN ENGAGED WORKFORCE AT SYNLAIT

Engagement Improvement Actions include:

LEADERSHIP

- Synlait Leadership Model providing increased expectations of People Leaders
- Leadership Talent Review
- Increased investment in leadership training and development (Gallup and SLII)

BRAND

- ESP programme being developed

PERFORMANCE

- Refreshed performance management process (Perform and Grow)

COMPANY PRACTICES

- Strengthened employee communication (Team Briefing)

THE BASICS

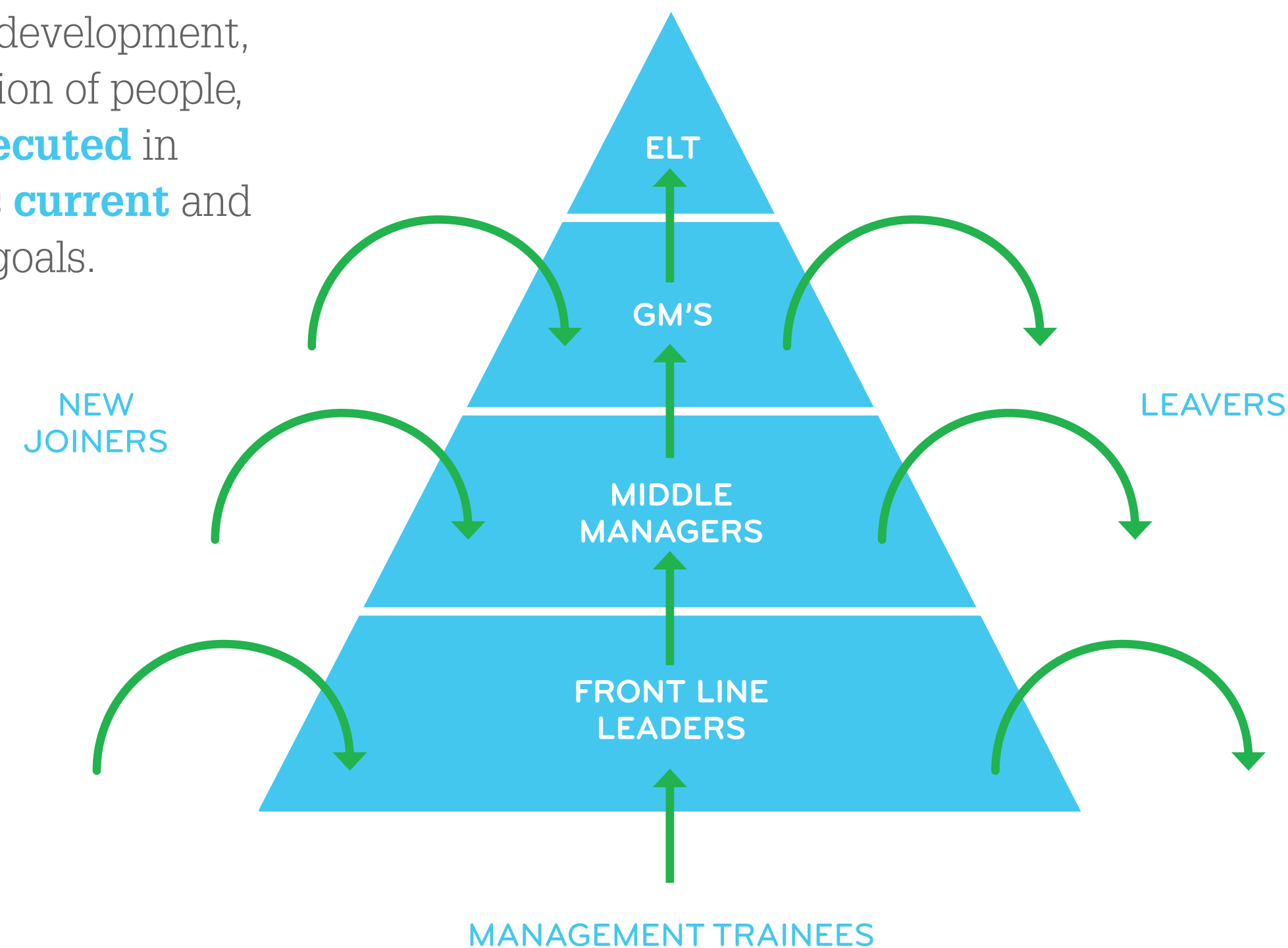
- Focus on hierarchy of controls for critical risks
- Embedding “Just” culture to improve staff engagement in all matters safety



CLOSING THE GAP BETWEEN THE CURRENT TALENT AND THE TALENT SYNLAIT WILL EVENTUALLY NEED

FLOWS OF HIGH POTENTIAL TALENT – BUY VERSUS BUILD

The recruitment, development, promotion, retention of people, **planned** and **executed** in line with Synlait's **current** and **future** business goals.



ANNUAL TALENT REVIEW PROCESS



LEADERSHIP COMPETENCY MODEL

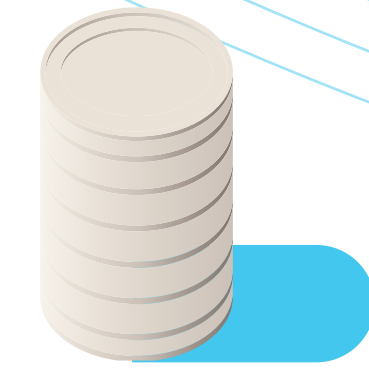


MANUFACTURING



Antony Moess
GM MANUFACTURING

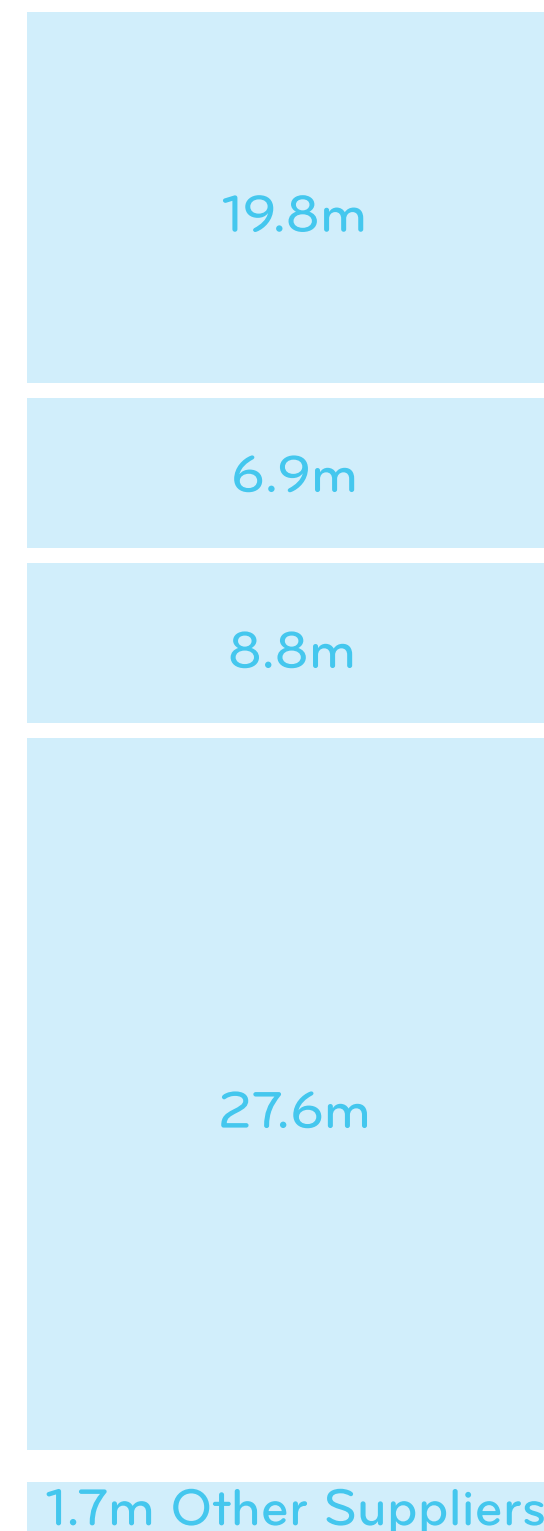
UNLOCKING INFANT FORMULA DRYER CAPACITY



CONTRACTED FARMS APPROX 200 (FY17)

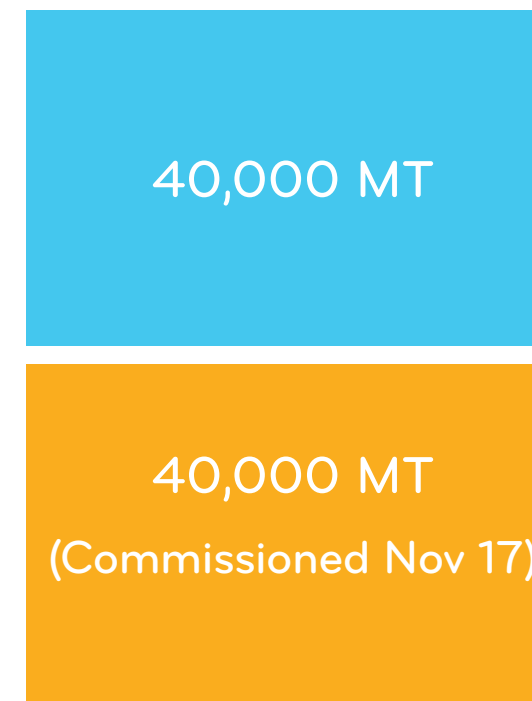


MILK SOLIDS 65.0m kgMS (FY17)



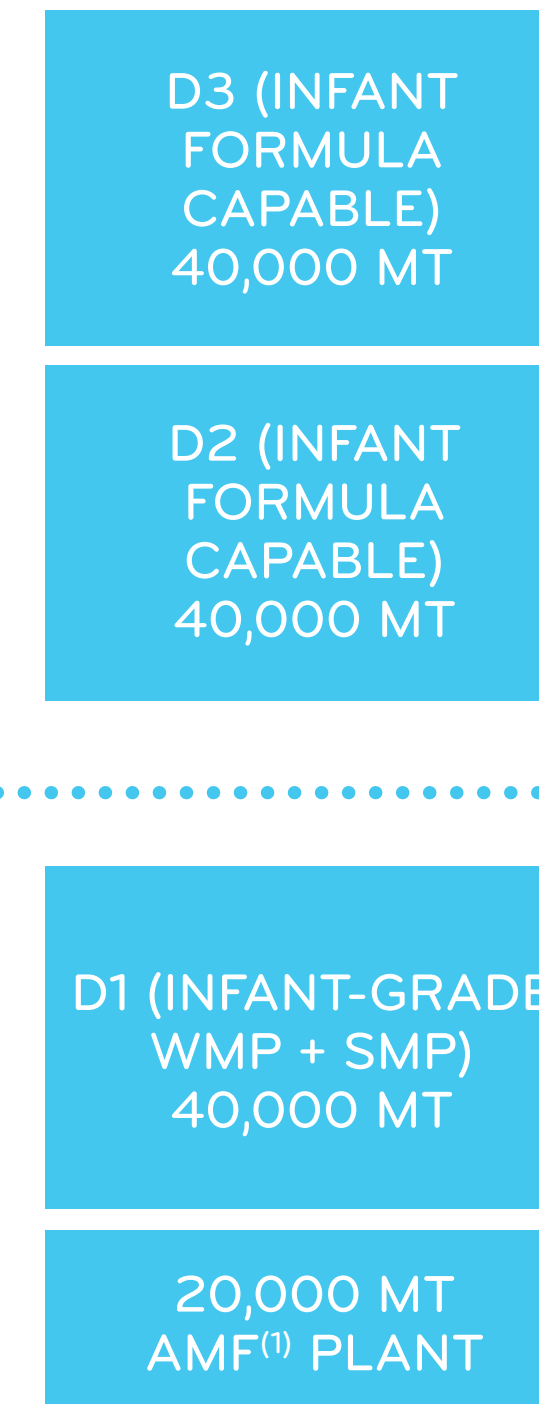
WETMIX KITCHENS

80,000 MT
MAX. CAPACITY



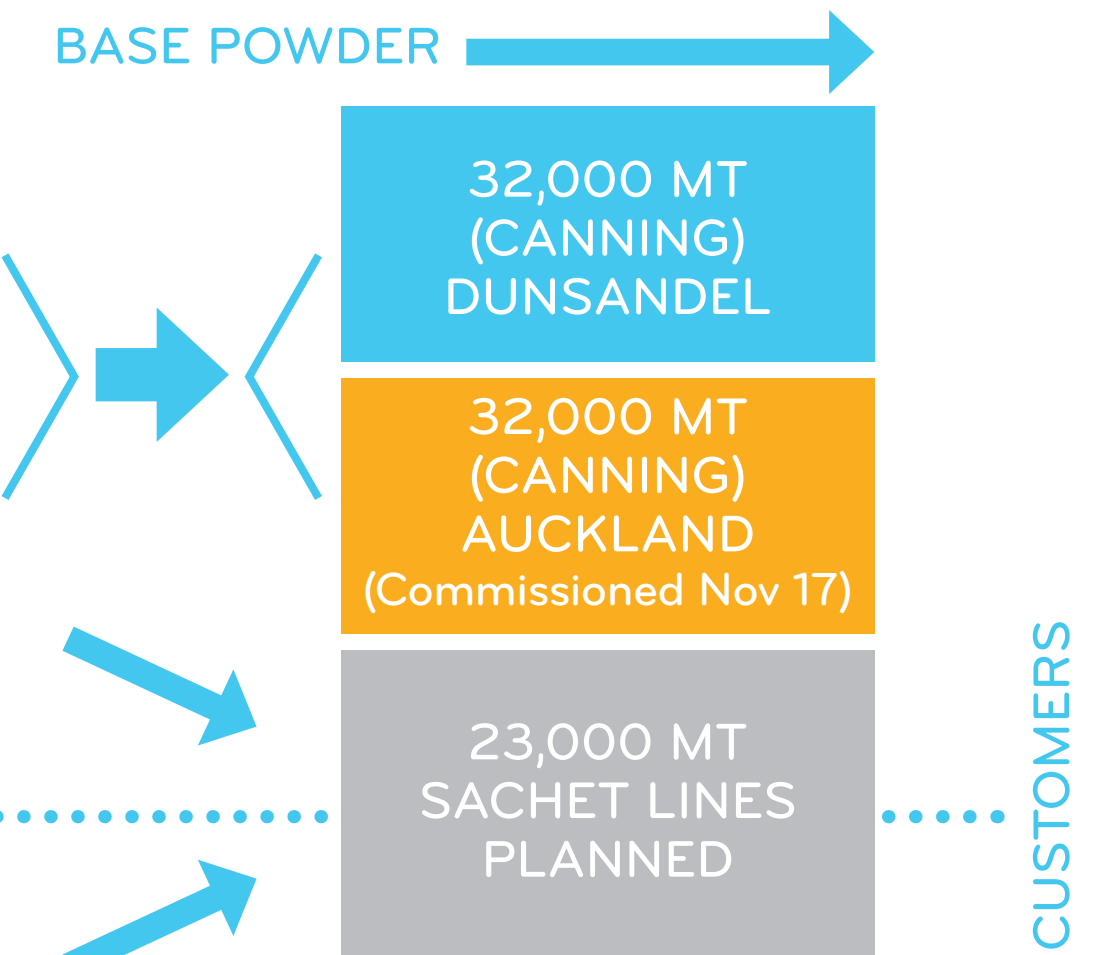
THREE HIGH SPECIFICATION SPRAY DRYERS

120,000 MT
MAX. CAPACITY



CONSUMER PACKAGING

87,000 MT TOTAL CAPACITY



New Wetmix kitchen enables both of our large-scale infant formula spray dryers to simultaneously manufacture infant formula base powder.

Synlait Auckland's new blending and canning line doubles our canned infant formula capacity.

QUALITY IS DESIGNED INTO OUR FACTORIES

- **State-of-the-art equipment.** Dryers <6 years old, canning <3 years old
- **The RMP (risk management program).** Spans on-farm practices, milk collection, material sourcing and manufacturing processes through to laboratory testing, warehousing and logistics. All externally audited every three months
- **Building design, Red-Line and clothing controls, staff training and HACCP.** Heat treatment, magnets and x-ray. 160 tests and checks across each run and a further 60 daily GMP checks. Our air filtration is the same standard as a hospital operating theatre



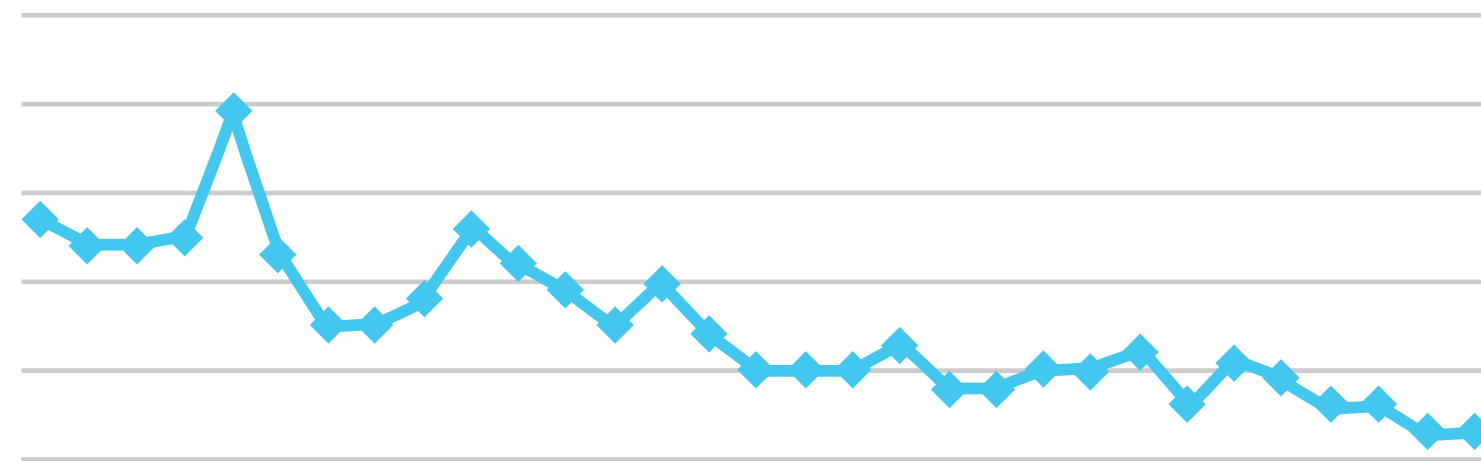
RELIABILITY PACKED INTO EVERY CAN

- **Synlait has licensed Proctor and Gamble's manufacturing system** and is deploying it across all factories as a standard way of working. Refined over the past 30 years and deployed across more than 200 sites globally – both within P+G and externally
- It contains an interconnected set of **daily management processes that drive reliability** and over time, a lower cost per MT
- It aims for both **zero waste** as well as **100% employee involvement**
- **Synlait will invest \$2.5m** over the next two to three years and expects the returns to be several multiples of this investment

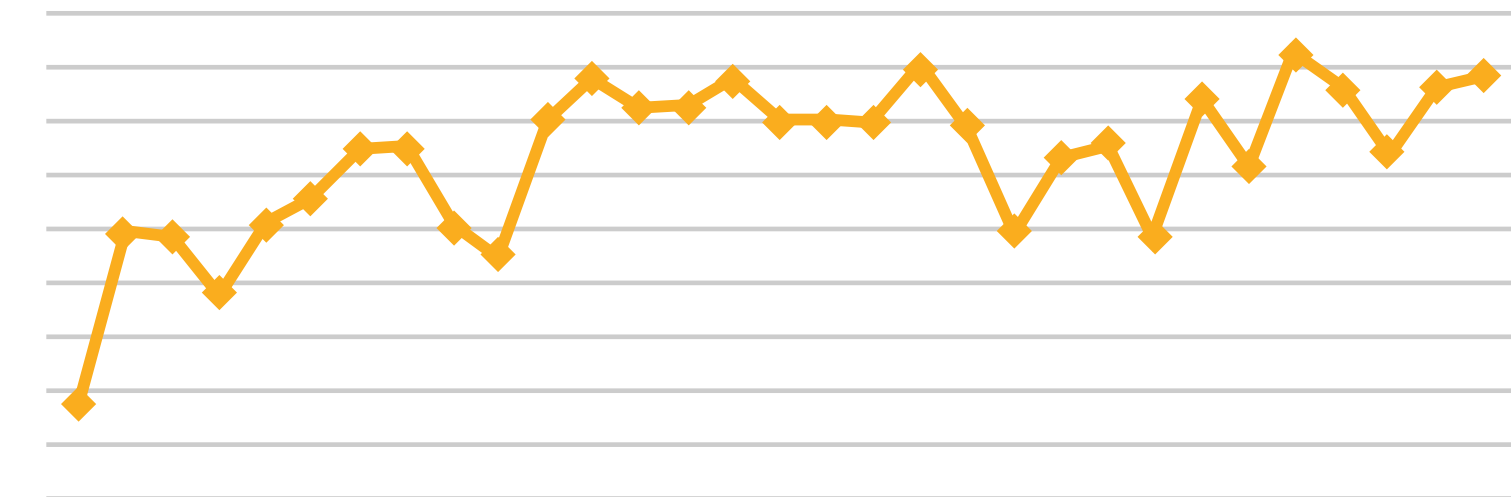


MANUFACTURING EXCELLENCE FOCUSSES ON A FEW KEY METRICS TO DRIVE IMPROVED RELIABILITY

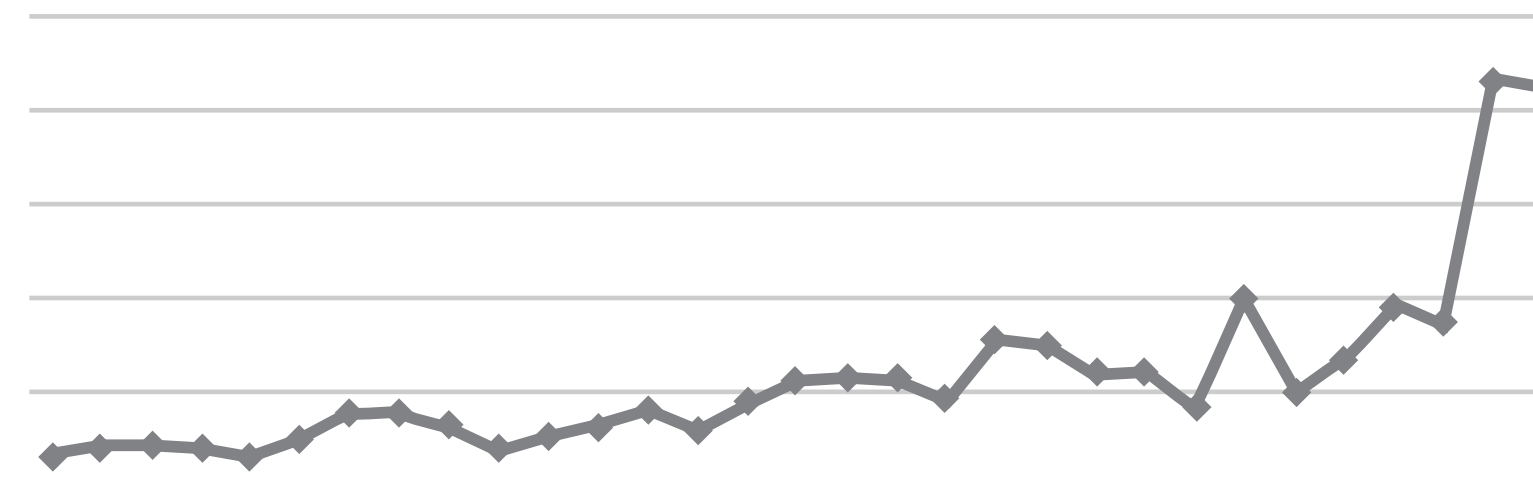
#STOPS PER DAY



OVERALL EQUIPMENT EFFECTIVENESS



MEAN TIME BETWEEN FAILURES



MANUFACTURING RELIABILITY ENABLES END TO END SUPPLY CHAIN IMPROVEMENTS

- **Improved manufacturing reliability** over time enables a lower level of direct labour, lower inventory holding and the ability to focus on end to end lead time
- **Short-term focus is on planned and unplanned downtime** in order to meet demand. In conjunction with capital expansion of Canning and Wetmix capacities
- **Longer-term focus is on creating a culture that constantly drives towards zero waste**, a fully engaged team and end to end lead-time reduction with world-class facilities and quality standards





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