



NZX: SML
ASX: SM1

13 February 2020

Synlait updates full year 2020 guidance outlook

Synlait Milk Limited (Synlait) expects its full year 2020 (FY20) earnings guidance to be between \$70 million and \$85 million net profit after tax (NPAT).

The previously announced earnings guidance was for profits to continue to grow in FY20, with the rate of profitability increasing at least at a similar rate to FY19 over FY18. Current information now indicates this rate of growth will not be achieved. This is as a result of:

- significantly lower than anticipated infant base powder sales due to China infant nutrition market consolidation causing a reduction in demand from brand owners who are yet to receive brand registration;
- lactoferrin prices being more volatile than previously anticipated; and
- while Synlait still anticipates growth in consumer-packaged infant formula sales volumes over the full year, this growth is not as strong as initially envisaged. The a2 Milk Company's contribution to this growth has not changed.

Half year 2020 (HY20) guidance outlook

Synlait feels it prudent to update shareholders on its expected HY20 performance, given its updated full year guidance.

Synlait expects its HY20 NPAT to be in the range of \$26.5 million to \$28.5 million for the six months ended 31 January 2020. Synlait's HY19 NPAT was \$37.3 million. While sales of consumer-packaged infant formula volumes have increased against the corresponding half year period, Synlait's HY20 result will be impacted by:

- increased incremental interest, manufacturing and SG&A costs associated with the Pokeno and advanced liquid dairy packaging facilities;
- lower sales volumes of ingredient products than anticipated due to sales phasing and product mix impacts; and
- lower sales of infant base powders due to the China infant nutrition market consolidation.

On-going focus on strategic opportunities

Synlait continues to invest in long-term strategic opportunities, which do incur additional costs at the expense of short-term earnings.

Synlait recognises it has significant capacity available at its new advanced liquid dairy packaging facility at Dunsandel and its infant-capable manufacturing facility in Pokeno. Its teams remain focused on developing and delivering on new opportunities with existing and prospective customers. While Synlait is working on some exciting opportunities, which have created a strong customer pipeline, new and material agreements have not yet been finalised.

Synlait Chair Graeme Milne commented: "Naturally, the Synlait team expected a stronger FY20 financial performance. We remain confident that the decision to focus on our medium to long-term strategic opportunities will over time improve shareholder value and the sustainability of our business."



Synlait CEO Leon Clement commented: “As anticipated our new investments have resulted in a higher cost profile, which has not yet been absorbed by an offsetting increase in revenue, as Synlait steps up to its next level of growth.”

“The pace and quality at which our teams have delivered on recent growth projects has been impressive, and now we are focused on ensuring we optimise these new facilities. In the meantime, we are moderating our costs while we bring our new investments to life in terms of capacity and capability. We remain confident, and on-track, to deliver on our medium to long term objectives.”

Synlait looks forward to a fuller discussion around its HY20 performance and progress on its long-term strategic initiatives on Thursday 19 March 2020 when it announces its half year result.

Impact of Coronavirus on Synlait’s outlook

Synlait takes the health and wellbeing of its employees and its food safety responsibilities very seriously. The spread of Coronavirus, and the risk it poses to Synlait’s business is being carefully monitored. Globally there is uncertainty about Coronavirus’ impact on supply chains and consumer demand.

Therefore, while Synlait can confirm there has been no material short-term impact on its financial performance in connection with the Coronavirus outbreak, it represents some downside risk going forward. This was considered as part of the broader outlook update and contributed to Synlait’s decision to issue a wider guidance range at this stage, which was extended down to \$70 million.

Leon Clement commented: “Synlait is an export-based business and our reputation has been built, and is maintained, on ensuring we put people, food safety and quality at the heart of what we do. This will continue to inform our response to this situation. We are not currently experiencing any supply chain disruption; however, we are monitoring the situation very closely and felt it prudent to front foot potential impacts.”

FY20 guidance summary

Updated FY20 guidance as at 13 February 2020:

Synlait expects FY20 earnings guidance to be between \$70 million and \$85 million net profit after tax. Notwithstanding that, Synlait still anticipates strong growth in consumer-packaged infant formula sales volumes over the full year. Factors contributing to this performance include:

- incremental costs of the new Pokeno facility impacting standard manufacturing costs;
- lower sales of infant base powders due to the China infant nutrition market consolidation;
- higher SG&A costs due to increased business size and the continued focus on investing in future growth opportunities; and
- a positive impact of a full year of operation of the expanded lactoferrin facility, albeit with more pricing volatility.

Previous FY20 guidance as at 12 September 2019:

We expect our FY20 profits to continue to grow, with the rate of profitability increasing at least at a similar rate to that of FY19 over FY18. Our expected earnings growth will be driven by:

- continuation of strong momentum from the second half of FY19 where we sold 24,932 MT of consumer-packaged infant formula;



- a full year of operation of the advanced liquid dairy packaging facility and the first sales of long-life products in the second half of FY20;
- continued progression of our Everyday Dairy strategy;
- a full year of operation of the expanded lactoferrin facility; and
- a contribution from Synlait Pokeno, which will be commissioned shortly.

Conference call at 10.00am (NZST) today

Synlait CEO Leon Clement and CFO Nigel Greenwood will hold a conference call at 10:00am NZST/8:00am AEST time today to discuss this announcement.

The conference call numbers for participants can be access [here](#). Please ask for the Synlait conference call. The reference ID is: 10004224

For more information about Synlait visit www.synlait.com or contact:

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