



Synlait

THE ROAD AHEAD

Half Year Results Shareholder Newsletter

19 March 2020



Synlait CEO Leon Clement (left) and
Synlait Chair Graeme Milne (right)

THE ROAD AHEAD

Synlait Milk is a growth company and proud of it.

Doing milk differently for a healthier world is our purpose.

It is the reason we exist. It shapes who we are, what we stand for, and what we do.

It captures the essence of Synlait: a 21st century milk nutrition company providing essential nutrition for healthier families.

It captures the elevation of people and planet to the same level of profit in our business, which helps us shape the decisions we make for a healthier world.

It captures our belief that being different will ultimately help us develop better solutions for the opportunities and challenges we face – for our business, for our industry, for our country, and for our planet.

It keeps us on track.

WE REMAIN COMMITTED TO GROWTH ...

Establishing a scalable infant nutrition business that leverages our differentiated value chain continues to be a core focus and a significant contributor to Synlait's story. At the same time, diversifying our business through investments in complementary categories, such as Everyday Dairy and Foodservice, and markets outside of China, are an important part of our long-term strategy. We remain committed to our aspirations but are taking a balanced approach to growth to ensure we appropriately address strategic risk along the way, because as we are seeing, the world is currently a highly uncertain place.

... AND WE ARE STILL GROWING

Our financial performance for the six months ended 31 January 2020 (HY20) shows that our core infant nutrition business continues to support our growth, with sales of consumer-packaged infant formula up 22% on the same period last year.

Total company revenue increased by a robust 19% to \$559 million and total milk processed rose 8.5%. While earnings before interest, tax, depreciation and amortisation (EBITDA) were largely flat at \$67.6 million, EBITDA is forecast to increase for the 12 months ended 31 July 2020 (FY20).

Supporting this growth is our ongoing investment in milk supply and procurement, research and development, manufacturing capability, quality and regulation and logistics services. This investment has earned Synlait its position as a world class manufacturer. It means we can offer strategic value to our current (and potential) customers that support our differentiated propositions.

Market access helps secure opportunities, this is a strength of Synlait's. It is a unique competitive advantage, because we hold the brand registrations and factory approvals for our customers wanting to export infant formula to China. Our track-record continues to be endorsed by Chinese officials, with our team receiving several new regulatory approvals in the past six months. Most notably, we received an infant formula registration from General Administration of China Customs (GACC) for Synlait Auckland and a GACC (general dairy) registration for Synlait Pokeno, which allows the export of milk powders, including infant formula base, to China.

Investments in our infant nutrition business allowed us to extend our supply agreement with The a2 Milk Company to July 2025 (at the earliest), providing increased term and volume, over the products for which Synlait have exclusive supply rights for Australia, New Zealand and China. The a2 Milk Company continues to deliver strong growth in all channels in China and our partnership continues to strengthen as we share the benefits of scale and build a best-in-class highly integrated value chain. We are confident historical margins can be protected, provided Synlait continues to generate manufacturing efficiencies. Synlait looks forward to discussions with The a2 Milk Company to consider arrangements which may facilitate participation in manufacturing and recognise Synlait's expertise.

Growth in the first half of this financial year was underpinned by manufacturing efficiencies delivered as part of the Integrated Work Systems programme. By way of example, Synlait Auckland experienced a 21% reduction in unplanned downtime, while integrating an additional shift.

Lactoferrin made a strong contribution to the bottom line, albeit at a softer rate than initially expected due to pricing volatility. Synlait's quality and capability are highly valued internationally, validating the decision to double the size of this facility. Sales increased 30% to 7.7 metric tonnes (MT), with a gross profit contribution of \$6.3 million.

We have a strong core business that continues to grow very well, and this has allowed us to invest in new capacity and capability. Naturally, like any manufacturer, this meant taking on an acceptable risk level around implementation and our ability to predict demand against an increasing asset base.

... BUT WE MUST ADAPT TO INDUSTRY CHANGES IN AN INCREASINGLY UNCERTAIN WORLD

Last month we updated our net profit after tax (NPAT) full year 2020 outlook to between \$70 million and \$85 million. We recognise this was not expected, but it forms part of Synlait's acceptable risk story, which we have been upfront about as we work to diversify and grow. Yes, we hoped to increase asset utilisation and earnings at a faster rate, but we remain confident that decisions made will regain shareholder value over the medium to long-term. Delivering on this is front of mind for the Board and Executive team.

To support this, more than \$10 million of planned operating costs have been deferred or rephased in FY20. A strong cost focus will continue into FY21.

NPAT for the six months to 31 January 2020 fell 30% to \$26.2 million, reflecting higher depreciation and interest costs as we invest for growth. Due to month end shipment challenges we fell slightly below our guidance range. This is a timing issue and has no impact on FY20 guidance which the Board remains comfortable with.

A detailed summary of Synlait's HY20 financial performance is in the investor presentation released with this shareholder newsletter.

As New Zealand's largest infant nutrition manufacturer, Covid-19 concerns us greatly and our incident assessment team is reviewing the situation and updating our response daily. We are deeply committed and connected to China, the customer partnerships we have there, and the role that we play in providing infant nutrition to many families across China.

While we can confirm there has been no material short-term impact on our financial performance in connection with Covid-19, it represents some downside risk going forward. This was a factor in Synlait's decision to issue a wider guidance range back in February.

Demand indications from The a2 Milk Company suggest Covid-19 had a positive impact on consumer-packaged infant formula sales in the first two months of the 2020 calendar year, however the company was unable to quantify the FY20 impact.

We have adopted the New Zealand Government's strategy to 'flatten the curve' and this week took steps to restrict all people movements wherever possible. All roles have been reviewed for suitability to work from home and our China office remains closed. There has been no significant operational impact to date, but we are witnessing pressure on the broader supply chain, particularly space availability and shipping schedules. Our team is working closely with logistics partners to maintain a clear forward view of capacity and schedule accordingly. As always, food safety remains our priority and we are encouraged to see the European Food Safety Authority and New Zealand Ministry for Primary Industries position that food is not a likely source or route of transmission.

As mentioned above, core earnings growth remains sound, however the time and cost to create new opportunities to support future growth, reflected in higher manufacturing costs, SG&A costs and interest expenses, is having a short-term impact on profitability. This is not a reflection of core business non-performance, but a moderation of our own expectations against the investments we are making for our future.

Yes, adjusted assumptions around our infant formula base sales, consumer-packaged infant formula volumes, and lactoferrin pricing mean we will not be able to absorb the costs of standing up our new investments this year – but long-term confidence in our business remains unchanged.

We are moving to address changes in our external environment, which includes faster consolidation and slower growth in the China infant nutrition market. This makes us less confident in opportunities to partner with new emerging players, but more confident in our ability to be a substantive partner with The a2 Milk Company in establishing a leadership position in China and leverage our unique value chain to build on the strategic partnerships we have with other established players.

WE REMAIN FOCUSED ON THE RIGHT OPPORTUNITIES ...

We have been clear that securing new, significant and long-term customer contracts to support our Infant Nutrition, Everyday Dairy and Foodservice growth strategy is a priority.

Synlait is a world class manufacturer. We have earned credibility among large multinational players in the infant nutrition sector and are creating partnerships which are less exposed to China. It is just as important for us to diversify our customer-base within this sector, as it is for us to diversify our broader business and market exposure. Our customer pipeline is strong, with material opportunities well progressed.

We are encouraged by the customer interest our long shelf life line is generating. This line is part of our Advanced Dairy Liquid Packaging facility, which had some initial commissioning challenges last year. While this facility is now performing well, those challenges created a knock-on effect delaying commissioning of the long shelf life line. This is a new opportunity for Synlait, and while delayed, we are energised by potential customers, and the capability of our Research & Development Team who are adding real value in this area.

... AND WE ARE EXCITED ABOUT THE FUTURE

Last week we announced that Dairyworks will join the Synlait family on 1 April. Synlait and Dairyworks are a great fit. This acquisition accelerates the execution of our Everyday Dairy strategy providing us with instant scale in this sector, new opportunities, supply chain synergies, and a diversified earnings base.

We are excited about how Dairyworks changes the shape of Synlait. It is a great base for us to build on, and participate, in the consumer branded sector. It will also provide a stable earnings stream of approximately \$15 to \$20 million EBITDA over the next two years as we realise synergies and consolidate growth momentum.

Ensuring we have the right leadership capability to support Synlait is an ongoing priority. Angela Dixon will join us in June as our new Chief Financial Officer, following Mark Toomey who started in December as Director Operations. Mark and Angela each bring strong experience, new energy and drive to our leadership team.

Thanks to our wider Synlait team who bring this same energy to work each day. Engagement scores are at an all-time high, which is a reflection of the support and dedication our team has to our story. The work of our team is critical to our success. Keep it up!

Thanks also to our outgoing Chief Financial Officer Nigel Greenwood who has been with us for 10 years. Nigel has made a significant contribution to Synlait and we wish him and his family all the best for their next adventure.

Doing milk differently for a healthier world keeps us on track. Synlait has a strong and growing core business which has put us in the position of being able to invest for the future. We have new capacity to fill and new capability to grow. This is exciting, and we are taking on the challenge. We must adapt quickly to changes in our world to deliver our short-term goals, but remain confident we are building a strong, sustainable Synlait that we can continue to be proud of. Bring on the road ahead.



Leon Clement
Chief Executive Officer



Graeme Milne ONZM
Chair

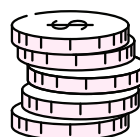
OUR HALF YEAR HIGHLIGHTS

FINANCIALS AT A GLANCE



\$559m

Revenue up 19%



\$26.2m

Net profit after tax (NPAT) down 30% reflecting higher depreciation and interest costs as we invest for growth*



\$67.6m

EBITDA in line with HY19



\$7.25kgms

Forecast base milk price for the 2019 / 2020 season announced in January
Next update late May



22%

Increase in sales of consumer packaged infant formula to 21,571 MT



\$180m

Unsecured, subordinated, fixed rate bonds successfully listed on NZX

*Due to month end shipment challenges we fell slightly below our guidance range. This is a timing issue and has no impact on FY20 guidance

All comparisons are to HY19 unless stated otherwise

SYNLAIT FY20 GUIDANCE UPDATE

Synlait reiterates it remains comfortable with its full year 2020 earnings guidance range, which was updated in 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.






Synlait announced last week that Dairyworks is expected to make an EBITDA contribution of approximately \$4 million in the remainder of FY20. This translates to an NPAT contribution of approximately \$2 million, after borrowing costs and depreciation. Synlait did not consider this amount material enough to adjust its FY20 guidance range given the wider global uncertainty emerging.

OUR HALF YEAR HIGHLIGHTS

PROGRESS AGAINST OUR SHORT, MEDIUM & LONG TERM STRATEGY




DOING MILK DIFFERENTLY

Our Growth Strategy

LONG TERM FOCUS	MEDIUM TERM FOCUS	CURRENT FOCUS	MEDIUM TERM FOCUS	LONG TERM FOCUS
 SPORTS NUTRITION	 EVERYDAY DAIRY	 INFANT NUTRITION	 FOODSERVICE	 NEXT BIG THING
<ul style="list-style-type: none"> Watching brief, need to progress 	<ul style="list-style-type: none"> Inaugural liquid milk customer well serviced Dairyworks acquisition completed, represents material step in diversification strategy 	<ul style="list-style-type: none"> 22% growth in consumer packaged infant formula sales Partnership with The a2 Milk Company continues to strengthen: extended supply agreement Synlait Pokeno a world class facility, built on time and on budget. 	<ul style="list-style-type: none"> Exploring opportunities in functional creams Will seek to leverage integrated cheese value chain being established with Talbot Forest and Dairyworks 	<ul style="list-style-type: none"> Small, agile projects underway Focused on disruptive and future growth opportunities

FOR A HEALTHIER WORLD

Our Enabling Strategy

MEDIUM TERM FOCUS	CURRENT FOCUS	MEDIUM TERM FOCUS
 EVERYDAY DAIRY	 BUILD A HEALTHIER SYNLAIT	 WORLD CLASS VALUE CHAIN
<ul style="list-style-type: none"> 12-month nitrogen loss reduction trial underway Investigating alternative fuel sources, including trials for biomass and bio-diesel in milk tankers Water reduction initiatives identified. Target to reduce consumption by approx. 50,000 cubic meters annually 	<ul style="list-style-type: none"> 34% drop in injury rate, TRIFR 9.0 HY20 (HY19: 13.7) Staff engagement at record levels Prime Minister Jacinda Ardern opened Whakapuāwai, goal to plant 20,000 trees in 2020 ERP project progressing well, completing design stage 	<ul style="list-style-type: none"> IWS programme progressing well across business with significant efficiencies recently delivered at Auckland site New GACC regulatory approvals endorse unique competitive advantage in securing market access Construction of Dry Store 4 on-track Dunsandel farmland purchased, supports strategic supply chain initiatives



INSIDE SYNLAIT POKENO: OUR NEWEST FACILITY

Commissioning continues at Synlait's \$260 million nutritional powder manufacturing facility in Pokeno, Waikato. This facility creates capacity for growth and reduces our risk profile, through the diversification of processing assets and milk pools which previously relied on Synlait Dunsandel.

Synlait Pokeno is a 24/7 facility being run by an engaged and highly capable team of more than 90, who have backgrounds in engineering, food technology, dairy and infant formula.



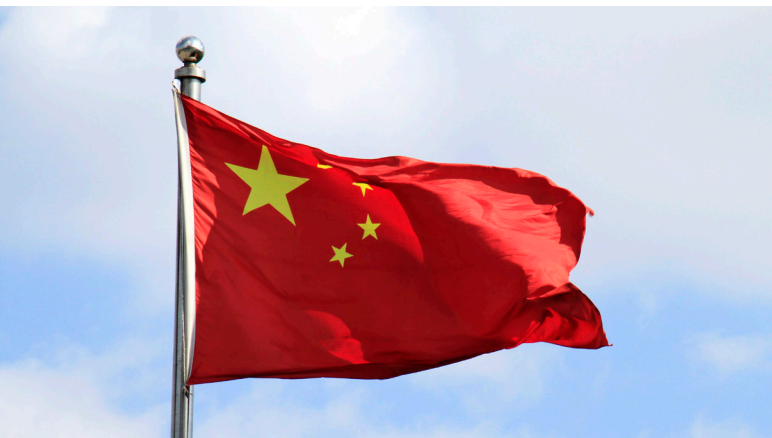
Commercial product, including instant whole milk powder, skim milk powder, infant formula base powder and cream, has been manufactured at Synlait Pokeno since September 2019. The first shipment of whole milk powder was dispatched in December 2019 to Vietnam.

Synlait Pokeno received its GACC general dairy registration this month. This means we can export milk powders made at Synlait Pokeno to China. This is a significant achievement given the facility is so new.

Commissioning this facility remains on track and we are really pleased with the site and quality of product being produced. We always expected there to be a cost drag because we chose to invest ahead of the curve – Synlait Pokeno has all the costs of a full infant facility but it is currently only making commodity products.

Synlait Pokeno's nutritional spray dryer has a capacity of 45,000 MT. Like Dunsandel, it can produce a full suite of nutritional, formulated powders, including infant-grade skim milk, whole milk and infant formula base powders. It also has a 15,000 square meter export licensed warehouse, to store raw materials and finished product in preparation for shipping.

We welcomed 56 farmer suppliers to Synlait Pokeno at the beginning of the 2019/2020 milk season.



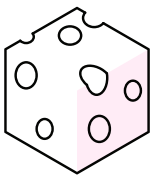
A VISIT FROM THE STATE ADMINISTRATION FOR MARKET REGULATION – CHINA

Navigating complex international regulatory environments is one of Synlait's strengths. Facilitating market access creates value for our customers, and in November 2019 we were honoured to welcome Minister Xiao Yaqing of the State Administration for Market Regulation – China (SAMR) to Synlait Pokeno.



**EVERYDAY
DAIRY**

Our Advanced Liquid Dairy Packaging facility was commissioned almost a year ago and we have developed a strong relationship with Foodstuffs South Island (FSSI). Initial commissioning challenges have been resolved, and like any growth company our attention has turned to exploring new channels, trends and markets. Our recent Dairyworks investment is a natural extension within the Everyday Dairy sector and broadens the range of categories and opportunities we can explore.



**CHEESE:
ANY WHICH WAY YOU
CUT IT THERE IS VALUE
BEYOND THE BLOCK**

A New Zealand market leader in the Everyday Dairy category with a growing Australian presence, Dairyworks supplies New Zealand consumers with almost half of its cheese and a quarter of its butter, as well as milk powder, and the award-winning Deep South ice cream. We are pleased the Overseas Investment Office granted consent for Synlait to purchase Dairyworks. Here is a summary of why Dairyworks and Synlait are a great fit:

ATTRACTIVE SECTOR

- Industry players remain limited and unintegrated in cheese and butter and have high barriers to entry
- Consumers preferences within cheese category evolving to convenience and specialty. These are valued added products
- Export growth potential for New Zealand dairy businesses is significant. New Zealand's strong dairy reputation enables businesses to leverage 'brand New Zealand' to access large and growing global dairy markets

GROWTH OPPORTUNITIES

- Utilise Dairyworks innovative, agile and nimble FMCG culture to expand category offerings and products
- Continue to maximise strong on-shelf New Zealand brand, and leverage emerging Australian grocery beachhead to grow rapidly
- Ability to leverage fresh milk line at Dunsandel to expand Dairyworks offering over time

COMPLEMENTARY CULTURE

- Dairyworks is a nimble and innovative company like Synlait
- Dairyworks purpose 'Make Life Easy' complements Synlait's purpose 'Doing milk differently for a healthier world'
- Christchurch-based



FINANCIALLY SUSTAINABLE

- Equipment and management structure recently invested in
- Provides a high-value channel to market for cheese produced at Talbot Forest
- Financially compelling transaction reflected in attractive acquisition multiple and earnings per share accretion
- Earnings growth trajectory demonstrates potential for further shareholder value creation over the long-term

SYNERGIES WITH SYNLAIT: WHAT DAIRYWORKS BRINGS TO OUR BUSINESS

- Diversification of customers, categories and markets
- Supply chain synergies over time through vertical integration with Talbot Forest Cheese and working capital benefits
- Ability to better optimise Synlait's milk pool and get more value from what we process
- Cultural alignment

PROGRESS AGAINST OUR SUSTAINABILITY STRATEGY



Prime Minister Jacinda Ardern plants a native tree at Synlait's Whakapuāwai opening at Dunsandel in December 2019



BUILDING A HEALTHIER SYNLAIT

Whakapuāwai is an environmental programme connecting our people, our farmers, and our community through the planting of native trees. Staff, farmer suppliers, and their families, are supporting Synlait's goal of planting 20,000 native trees this year.

Whakapuāwai was launched by Prime Minister Jacinda Ardern in December. Synlait staff receive one paid day per year to plant natives as a way of supporting commitments to our farmers and communities to jointly restore land in Canterbury. We are aiming to plant four million native trees by 2028.



WORLD CLASS VALUE CHAIN

We are committed to transparency and have materially improved Synlait's Sustainalytics score, which determines the interest rate of our environmental, social and governance (ESG) linked loan announced in September 2019. Our ESG risk rating score decreased from 34.9 to 21.3 providing further interest cost savings on the loan. Synlait now ranks an impressive third out of 297 packaged foods companies globally.



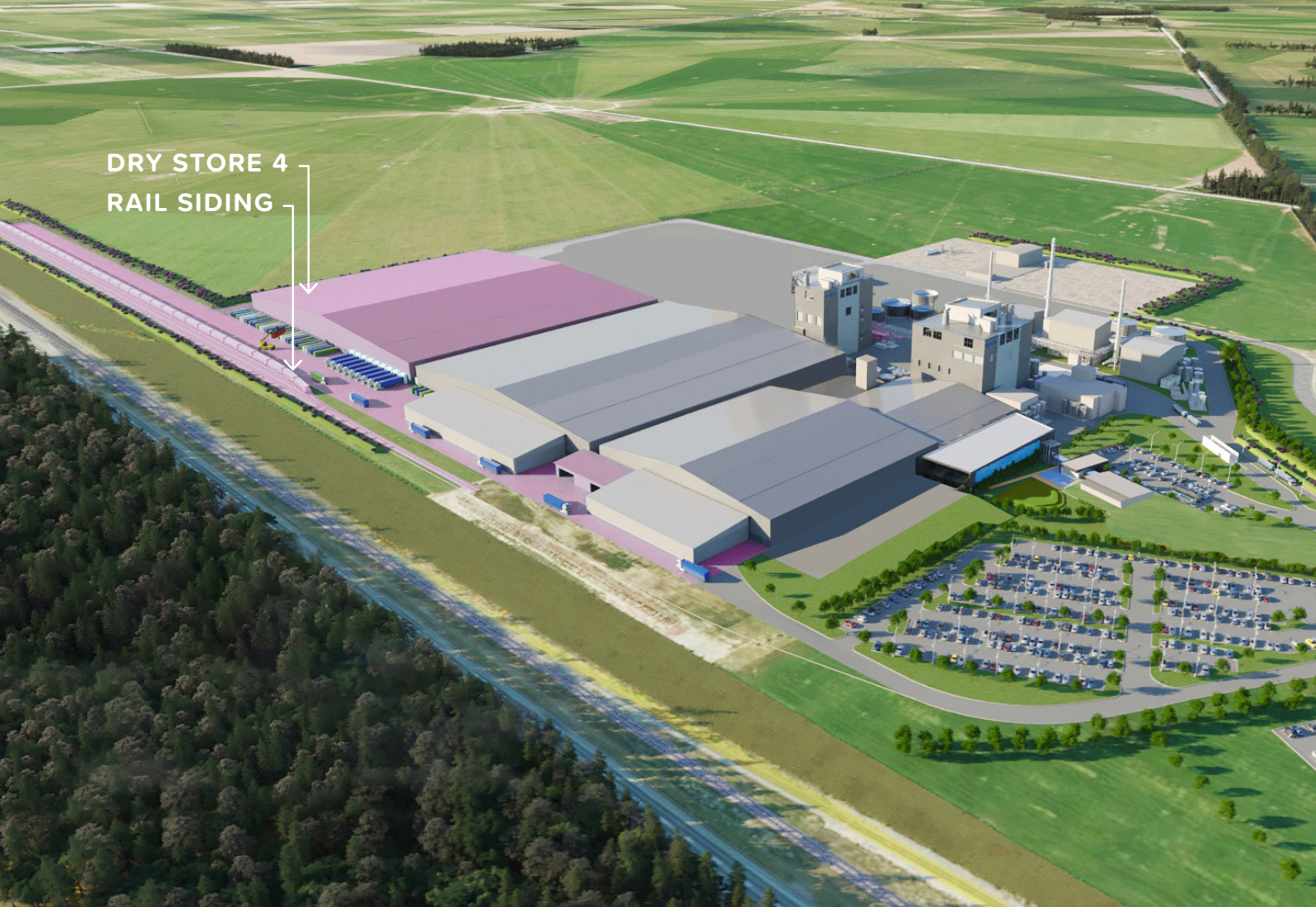
NET POSITIVE FOR THE PLANET

A water usage reduction initiative is underway at Dunsandel with seven opportunities to reduce water usage identified. Our team's collective approach to innovation and problem solving has allowed us to reduce water consumption by approximately 50,000 cubic meters annually.

In January 2020, we started a 12-month nitrogen loss reduction trial, testing new technology in Canterbury. Results will be known in our next financial year.

Investigating alternative fuel options is a priority as we work to reduce our reliance on coal. A 24-hour biomass fuel trial was held late last year, with wood pellets used to fire up Dunsandel's Boiler 2. This is a long-term project with further trials planned before decisions are made.

With the support of our logistics partner, Hilton Haulage, our team undertook a three-month transport fuel trial using a five percent bio-diesel blend in two milk tanker trucks. The results are now being finalised.



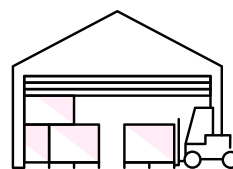
Artists impression of Dry Store 4 and rail siding once completed



DRY STORE 4: ON TRACK TO CREATE SIGNIFICANT SUPPLY CHAIN EFFICIENCIES

Dry Store 4 will provide us with an additional 30,000 square metres of warehousing at Synlait Dunsandel. It will streamline logistic activities, and bring offsite South Island storage back to Dunsandel, supporting growth and generating supply chain efficiencies. It enables greater control over our inventories, value add services, improves our sustainability footprint, and improves lead times for our customers. New technology and infrastructure improvements will enhance the health and safety of our people too.

Dry Store 4 is on track to be completed in September 2020. The project is on budget (expected to cost \$32 million) and set to deliver a return on investment of 20% based on the planned efficiency and service gains.



30,000m²
of additional warehousing
provided by Dry Store 4

To further support this project, last week we announced our intention to acquire farmland adjacent to Synlait Dunsandel. The land enables us to keep pursuing several strategic supply chain and sustainability initiatives to support our long-term operation and expansion. They include:

- greater control over water rights. The land will provide Synlait with certainty over access to water and disposal of its factory processing water; and
- developing a rail siding adjoining Dry Store 4. Synlait will advance commercial terms now the land has been secured. The rail siding creates supply chain efficiencies identified as part of the Dry Store 4 warehouse project. On completion, containerised goods will be transported by rail between Dunsandel and Lyttelton, significantly reducing Synlait's environmental footprint by removing approximately 16,000 truck movements annually.

We are excited about this opportunity and look forward to updating you on our plans as they progress.

WELCOME TO OUR NEW BONDHOLDERS

Synlait joined the NZX Debt Market in December 2019, issuing NZ\$180 million of unsecured, subordinated, fixed rate bonds in its inaugural bond issuance.

After a sustained period of growth and investment, we believed it was the right time to issue bonds. With a strategy to diversify our customer base, category mix and site reach, it was also important to extend our diversification strategy to our balance sheet.

Proceeds from the bonds were used to repay a portion of Synlait's existing bank debt and provide diversification of funding sources to support our growth strategy.

As a New Zealand company, it was great to use our local capital market to achieve this, and to receive such strong support for the offer. On behalf of the team, welcome to our new bondholders who are now part of Synlait's story.

Chief Financial Officer
Nigel Greenwood rings the
bell at Synlait's NZX Debt
Market listing



KEY FACTS ABOUT THE LISTING:

- interest rate: 3.83% per annum
- maturity date: Tuesday 17 December 2024
- interest payment dates: 17 March, 17 June, 17 September and 17 December of each year until and including the maturity date
- ticker: SML010

MEET OUR NEWEST TEAM MEMBER

MARK TOOMEY DIRECTOR, OPERATIONS

MARK'S EXECUTIVE ROLE

Mark joined Synlait in December 2019 as Director, Operations. Mark, who has a strong focus on continuous improvement, leads Synlait's operations function and brings to the team core manufacturing and supply chain capability, as well as cross functional experience having held leadership roles in sales, finance and strategy. With Synlait on a strong growth path, Mark, and his highly experienced operations team, have a key role to play in the delivery of our world class value chain.

BEFORE JOINING SYNLAIT

Over the past 25 years Mark has managed manufacturing facilities and supply chains at Australasia's leading organisations including, GrainCorp, Lion, Toohey's Brewery and Dairy Farmers. Mark has a track record of working with his teams to deliver manufacturing excellence, outstanding culture, safety and quality products.



BALANCING LIFE AND WORK

Outside of work, Mark enjoys travel and spending time in the outdoors, hiking and mountain climbing, including walking the Kokoda and Milford Tracks. As a keen sports fan, and former rugby player, he closely follows the fortunes of the Wallabies (we're a Kiwi company, but we won't hold that against him!).

NEED MORE INFORMATION?

To find out more about Synlait, visit: synlait.com

To enquire about your shareholding, contact Computershare on +64 9 488 8777 or at: enquiry@computershare.co.nz

To speak to someone at Synlait, contact Corporate Affairs Manager Hannah Lynch on +64 21 252 8990 or at: hannah.lynch@synlait.com

FOLLOW US

To keep up to date with what's happening at Synlait follow us on

in [linkedin.com/company/synlait-ltd/](https://www.linkedin.com/company/synlait-ltd/)
f [facebook.com/Synlait/](https://www.facebook.com/Synlait/)