**TRANSCRIPTION**

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**[START OF TRANSCRIPT]**

Hannah Lynch: Good morning everyone and welcome to Synlait's four-year results conference call. We know that many of you will be dialling into this call from your homes as lockdowns continue in certain parts of New Zealand and Australia. We hope you are keeping safe and well during these times.

Hannah Lynch: On our call today we have Synlait's chair, Graham Milne, Synlait's co-founder director and current CEO, John Penno, and Synlait's CFO, Rob Stowell. John will open the call and then hand to Graham for an update on Grant Watson's appointment as CEO and our proposed governance changes announced today.

Hannah Lynch: Rob will then cover off our financial performance and hand back to John for an update on our strategy, operational performance and FY 22 outlook. Graham, John and Rob will be available for questions at the end of the presentation. Please keep questions to two per person. If you have any follow-ups, please reach out to me afterwards. Over to you John.

Dr. John Penno: All right. Good morning everybody. It's good to be on the call. We've got a comprehensive slide deck that we put out this morning, and on this call we don't intend to cover every point in each slide, but we're assuming that you've had a moment to have a look. We'll cover the key points and then move to questions and answers, ahead of some more calls that we have with some of you in the coming days and weeks.

Dr. John Penno: Clearly, FY 21 proved to be very challenging for Synlait, and after nine straight years of profit, we really are bitterly disappointed to post our largest ever financial loss and the only loss we've ever posted as a listed company. That loss is 28.5 million on an EMPAT basis and as a $102.8 million [inaudible 00:01:53] from our EMPAT last year.

Dr. John Penno: It's no secret to anyone that the shape of the business changed dramatically in December, following a very large forecast reduction from A-2. And that meant that our inventory levels and demand and our outlook needed to be substantially reset. And then during the final quarter of the year, the board and management worked together to build a really comprehensive picture, not just of the last 12 months, but of the last five years, and how the business had developed.

Dr. John Penno: If we look to build a robust plan, a comprehensive plan to move the business from where it got itself too back to a position of financial strength and pursuing a new strategy, and we do hope that today's plan or this announcement today will give investors, in particular, and our shareholders and suppliers, confidence in our path forward.

Dr. John Penno: You'll hear five parts of that plan. Firstly we'll review the strategy and we remain very confident, but execution clearly needs to improve. We've aligned our structure to our strategy and then Graham have appointed a CEO who we believe is really well suited, not just to the strategy but to the way that we have structured the business, and is used to working with businesses in this structure, and we think will be able to drive the results we're looking for.

Dr. John Penno: Early in the process we had to reset our banking arrangements, and we had a very strong relationship with that bank, and a strong plan to get ourselves to where we need to be, and Rob will talk to that. Important to that is making changes to release cash from our inventory and improve our working capital management, and we'll talk to those things. But most importantly we've built a robust plan to return to profitability over the next two years.

Dr. John Penno: And so with that quick summary, I'm going to hand to Graham to introduce the new CEO and also talk about governance changes that we had proposed. So, Graham Milne.

Graham Milne: Yeah, thanks very much John. It's certainly been a difficult year for us. So, turning to today's announcements. Firstly, I'm very pleased to announce our new CEO will be Grant Watson. Grant has most recently been the CEO of Miraka Dairy Company, and before that he was at Fonterra for 10 years. He had various roles there including heading up the global food service, and he worked in Fonterra brands, and he was at one stage the managing director of Tip Top prior to its sale. And prior to that he worked for McDonald's actually, for approximately 15 years, and he became the COO for New Zealand. Grant will start with Synlait early in the new year, and he brings a wealth of dairy sector experience plus a proven track record of success in materially transforming businesses and achieving sustainable results. So, it's a great pleasure to welcome Grant to lead our Synlait team.

Graham Milne: Secondly, I'd like to turn to our board and announce some changes designed to refresh and strengthen our governance. As announced in 2018, actually, I will stand down from chairing Synlait after 17 years in the role. So, that allows room for new talent, but at the same time, the board has asked me to stay on as an advisor for a period of about one year. So, I'll step down when Grant starts, and our new chair will be John Penno.

Graham Milne: John's ideally placed to be our new chair while we go through the recovery phase and to assist directly in vetting in the new CEO. Our constitution requires that the board chair be independent, which John, by way of being a recent CEO, is not, and therefore, there will need to be a temporary change to the constitution. And we do see independence as best practise, and therefore, John's appointment will be for a relatively short period, something like one to two years.

Graham Milne: And finally, filling my position as a new independent director on the board will be Paul McGilvray. Paul also brings strong sector experience to the table. Paul has an international career in dairy, and in fact, he reported to me at one stage in London, before he returned to New Zealand. And then he became the CEO of HortResearch, which is now Crop and Food; and then the CEO of Tatua, which is certainly the most successful dairy company in New Zealand, dairy co-op at least in New Zealand.

Graham Milne: And for the last six years in his career he's been in governance. And summary during the next period, we will retain the experience of John and myself, whilst bringing on the new skills of Grant and Paul. So, for those of you that have got the slide in front of you, you'll see how the board will look next year, with John as the chair, and then three very strong, independent directors in Simon Robertson, Sam Knolls, and, of course, Paul McGilvray. And they're complemented by the bright directors being Ruth Richardson, and the three directors from Shanghai.

Graham Milne: So, I'm happy to take any questions at the end, but would like to hand over to Rob Stowell, and please note that Rob is no longer the interim CFO. Rob stepped up at short notice into the role in May, and has done a great job in difficult times. So, the board was more than happy to confirm him into the permanent role last Friday. So, congratulations Rob and over to you.

Rob Stowell: Thanks Graham and good morning everyone. I'm just on slide seven, and firstly, obviously as John and Graham had mentioned, it's been a very challenging year for Synlait, and you could say that COVID hit Synlait late and hit it very hard. The graph to the right, it shows supply chain [inaudible 00:08:05]. That's exactly what happened to us as we were moving into FY 21, we expected to have almost double or a big increase in sales to what we had the previous year. And we set ourselves up through buying more materials, manning our plants, producing base powder and through the next few months, our consumer products sales dropped around 35 percent. So, that was a big impact that we saw in FY 21, and most of the reason that our result was down.

Rob Stowell: However, we did do a discovery piece of work in the last quarter, and we found that there was other performance issues in the company, and we all talked a little bit about that in the coming slides. The actions taken in the last quarter will strengthen the fundamentals of the business and will set it up for success in the future. So, the loss was 28.5 million, and it was within the 5 inch range.

Rob Stowell: Let's flip to slide number eight. We've got the key metrics there. So, revenue up 1.4 billion, up $65 million, that was mainly due to the 12 months of results from dairy works, up from four months the previous year. The [inaudible 00:09:37] was down 132 million to 37.3 million. The operating cash loads were down 85 percent of just $16 million. And our capital expenditure was 140 million, and that was down from the previous year as we wind down our capital programme.

Rob Stowell: There was some good news in this. Our net debt was down just under 480 million. We had expected to have a five in front of it. So, that was a little bit better than we anticipated. And our milk price, the total average milk price is $7.82. It was our second highest in our base milk price; it was our third highest in history. So, there's some good news within that slide.

Rob Stowell: Moving on to slide number nine. What we're trying to do here is demonstrate how the result dropped by 102.8 million from 74 million profit last year to 28.5. And I want to go through this in an immense amount of detail, but I want to point out a few key areas here. Infant formula volumes dropped considerably, 85 percent, as an effect of the production recoveries of their product and costs, meant the impact was $55.7 million.

Rob Stowell: We've split out the stock rebalancing within the next [inaudible 00:11:17]. Now what that is, is in FY20 we produced around 60,000 tonnes of infant-based powder, and due to the demand, downgrade, we had to unwind that back to around 19,000 metric tonnes. So, it basically says here; we made a little bit too much base powder in FY20, and we had to account for that in FY21, and that hurt us.

Rob Stowell: So, those two things, those are obviously the big impact through the rest of the [inaudible 00:11:50], you can see, Lactoferrin is a little bit down. That was due to a little bit more volume, but prices softening. Ingredient volumes was up, 8.4 million. Now, when we stopped making infant-based powder in FY21, that milk was diverted to ingredient products, so that's our whole milk powder, skim milk powder and AMF products. So, that's our recovery on our profitability on that side.

Rob Stowell: And then the next bar, which is our ingredients performance, so that's down 20 million. So, this is after tax. So that 20 million is made up of a number of factors, some which are external factors, such is the fact that we don't produce butter, so butter prices were very strong in FY21, so with that squeeze down margins against the milk price. But also, getting all those ingredients products are coming through, we just weren't set up for it. So, that affected our [inaudible 00:12:59], our mix and ultimately our delivery at the end of the year is combined with the shipping constraints.

Rob Stowell: We ended up finishing the year with 30,000 metric tonnes of product, which normally we would have sold through in that year. So, moving forward, liquid is a little bit down. That's due to the fact that pantry stocking of milk products was higher in FY20 rather than FY21, and we also commissioned the UHP cream line in this financial year. So, that was a little bit down. We expect that to bounce back next year.

Rob Stowell: Consumer foods contributed to 9.4 million. That's essentially a dairy [inaudible 00:13:43] business. That was a little bit down on what we expected, and that was due to butter margins being squeezed with some new entrants to the market. Also, a little bit of profitability drag from Talbot Forest Cheese, again some inventory write downs again.

Rob Stowell: Some of those items are one off. We would expect them to not appear again next year. So, that essentially takes us through to the 28.5 million impact. Now, for our FY22, we do see us getting back to robust profitability, and what that means is it's going to take us a couple of years to get back up to the sorts of profitability that we experienced leading up into FY21.

Rob Stowell: And some of the reasons that we feel we're going to bounce back strongly in FY22 is because ingredients margin performance will come back. So, some of those issues that we encountered in FY21, we see as being one-offs, and we'll bounce back on that side. Ingredients volumes, so the 30,000 metric tonnes of product that was sitting in inventory at the end of FY21, that will come through in FY22. Our infant-based power production will increase, even on [inaudible 00:15:15] volumes, A2 volumes and infant volumes that will bounce back. We'll have increased Lactoferrin volumes next year as well.

Rob Stowell: We're going to have improved dairy works contributions, so that will bounce back reasonably strongly next year is the expectation there. Significant operational cost savings, we have looked hard at both the Synlait investments and also the Diary Works business, and the range of initiatives which are happening. And the last one there is our [inaudible 00:15:55] of our [inaudible 00:15:57]site in Auckland, which is a canning and blending site that was a major release we did a couple of weeks ago. That delivers $30 million, which we can place against [inaudible 00:16:10] and also deliver a one-off [inaudible 00:16:13] sale of approximately $17 million.

Rob Stowell: So, that's a very quick flyover of our bridge to last year and also some snippets of why we think that FY22 is going to be a lot more positive. Moving forward into page 10, this is from production and inventory points. So, as noted, our production of consumer packaging in infant reduced in FY21. That was an effect of reducing of [inaudible 00:16:48] in prior years, and infant-based powder was down, milk [inaudible 00:16:54], and this resulted in a lot of this unplanned ingredient buy-in. So, that's all in here.

Rob Stowell: Now, the key point from this slide's take is that our ending of inventory in FY21; we're down 30,000 metric tonnes of [inaudible 00:17:12]. We expect then to come down part of that in FY22, so there's some guidance here, at least 15,000 tonnes next year.

Rob Stowell: Moving on to slide 11, we're trying to align our business, our business unit performance reporting to the new matrix structure, which we'll talk through shortly. This is a step towards trying to be more transparent, but [inaudible 00:17:44] on how business units are performing to give greater clarity. So, for each area you can see, we've got revenue, and sales volume and gross profit to metric tonne. And across nutritional ingredients, you can't see [inaudible 00:18:02] the gross profit per metric tonne has come down quite a bit, and that's FY21.

Rob Stowell: Slide 12, same thing. You've got the liquids business unit is running at a loss and also the consumer phase, which includes Dairy Works and some commentary around what we saw happen there last year.

Rob Stowell: Slide 13, operating costs, the key point here is we are actually holding our costs steady against last year. There is an increase, that's essentially Dairy Weeks full year effect. And the other thing to note here is recent news of our reorganisational, restructuring where we expect savings of between $10 and $12 million per annum. We expect around $7 million at FY22. That's all mostly up against the gross margin line.

Rob Stowell: Like 14 case low in capital schemes. Operating cash flow were obviously low in quarter '21 at $16 million. It was mainly due to list consumer packaged infant formula volumes coming through. And also the fact that we didn't sell down that food entails in terms of ingredient product.

Rob Stowell: We do expect what the work that we've been doing for cash flows to come back strongly in quarter of '22. We normally hit around a hundred million dollars of operating cash flows per annum. We expect it to be a lot stronger than that this year.

Rob Stowell: We also see a careful spend winding down considerably. We still have spend on projects, such as our ERP system project. The multinational customer work that's going on in Pokeno and at some other operational CapEx, but that essentially they're built up phases and phases down each year. So there's positive and will allow us to pay down some debt this year.

Rob Stowell: And page 15, coming in to Net Debt and Bank refinancing. Oh, this was a big, big focus for us over the last couple of months. Our net debt down to $479 million now that's still a lot of debt.

Rob Stowell: We obviously received the equity raise proceeds across this year. We'll receive the 30 million proceeds from the sale of our open premises in October this year. So that will all help to reduce debt.

Rob Stowell: A government level duty with a [inaudible 00:21:13] as 4.5 for FY22. We expect to be well below this in FY22. We're tracking really well in that regard so far.

Rob Stowell: And we expect their balance sheet to return to normal metrics within the next two years. We obviously did our refinancing... bank refinancing this year in the last few months. And it's allowed us to have some really good, robust facilities out for the next few years. So that we can get to it extended for one year. We'll renew this and then we'll have.. we've got the other facilities that go out the first of October 2023.

Rob Stowell: It's a really secure platform for the business. It gives us increased certainty and look really positive against constructive relationships with the bank. We've been banked with ANZ and BNZ for a very long time now. And those relationships were really important as we worked through that phase. And I just want to thank the banks for the support over the last couple of month. And that's May, so I'll hand that over to John to talk around strategy.

Dr. John Penno: All right, thanks for all. And again, that's a quick skim through a lot of detailed information. We are trying to make sure that we are providing everybody with lots of information about the company as we build that plan to go forward.

Dr. John Penno: [inaudible 00:22:54] strategy, one of the key things we've done in the last quarter is review again our strategy and making sure it remains prepped for where we're heading. As the strategy has matured, and it starts from us having a very clear advantage of being a small part of a big and important industry here in New Zealand, and then an even smaller part of a very important global industry. And over the life of the company we have looked to position ourselves within that under our purpose of Doing Milk Differently For A Healthier World. And I hoped that people will see, as we've worked our way through, and get into the discussion the work we've done over a very long period of time.

Dr. John Penno: Positioning our company with respect to leadership and environmental issues, animal welfare issues, which are at the heart of the production needs of the industry, we think has set us up very well for the time that the company finds itself.

Dr. John Penno: But now I'll talk a little bit to how we're looking to take advantage of that positioning that we've built up over a long period of time.

Dr. John Penno: We remain a growth company and we remain focused on growing out revenue out to $2 billion. To get the scale that we need, but also because we see each of the growth opportunities as profitable in their own right, albeit that we need to make changes to drive those financial outcomes that we would need to achieve them we will talk to that. You'll hear us increasingly talking about the business in four parts as we grow towards that $2 billion in revenue.

Dr. John Penno: Ingredients is a very important part of the business. That's where we started and early profitability was carved out in the ingredient space. So that's our whole milk powder, skim milk powder, and IMF that we manufacture to high specifications to key customers. A very small part of the global industry but something that we can and should do very well and very efficiently here at our Dunsandel site, and on our nutritional dryers when they're not being used for base powder.

Dr. John Penno: And nutritional businesses, that's half of our business today, where we've built a world-class nutritionals business. With everything from product development, the technical capability to be making world-class products, all the way from ingredient sourcing to delivering final packaged consumer products.

Dr. John Penno: And what is the most heavily regulated and sensitive product group globally. And we'll talk about both A2 and Custom Rest in terms of the importance of that will continue to play for a long time going forward.

Dr. John Penno: Now, liquids business is quite different. That is new. It is a new area of business for us, that strategically we think is very important to develop because it is the new opportunities and technologies that are being used and increasingly demanded by the markets that are openly accessible to us that have developed economically very quickly in the last 30 years. And so we need to be in consumer picked dairy products and food service products to pay to be in the premium end of dairy in those markets. And so this is something we've invested both in R&D and implant, and increasingly, in business development opportunities. And we continue to believe this will be a very important part of our future.

Dr. John Penno: And then finally moving to branded product. Learning to work directly with consumers. First in the new Dillon market I want it very clear on my international opportunities alongside the other elements of the Synlait business, potentially what some of the customers that we have in our B2B business, but also other opportunities that we see developing over time. And that started with the Dairyworks acquisition. And we are increasingly thinking about how we integrate that into our overall operations.

Dr. John Penno: So if we think about the year that's been, and page 18 gives a little more detail on some of the numbers in behind Rob's earlier explanation of what happened to the business; is, we dealt with a very large turn down on the forecast outlook for the a2 business when we were preparing for growth in that part of the business. And the impact that that had on the financials of the company in FY21. But the data then caused us to look through them. As they say, when the tide goes out the rocks start showing, and we did identify it. We took the opportunity to take a very deep look at the way the company had developed. And we ran what we called a discovery project inside where we looked back across all of the metrics, financial and physical, through the company over a five-year period.

Dr. John Penno: And what became clear was firstly, the business had been slower to develop than we had planned. While the year reinforced the importance of diversifying both within our nutritionals business and also building high earning categories away from our nutritionals business for the future. It was clear that we'd built in costs faster than we had developed tech business.

Dr. John Penno: And the third thing that was clear was that our use of capital had become suboptimal. Now some of that is tied up in the same problem that our large capital projects were completed delivering capacity well ahead of their ability to onboard. But we made some choices where we held that manufacturing capacity in reserve of high value opportunities, when perhaps we could have got the plants up and running with low value products and then grown into higher value opportunities over time, which had traditionally been our strategy.

Dr. John Penno: Beyond that though, our maintenance CapEx has been too high for what is essentially new plant end-to-end through the business. Our oldest pieces of plants were only 13 years old and we had many parts of the business that are only five years old or less.

Dr. John Penno: And the third area that we were using too much capital was simply an accumulation of stock. And again, in Rob's presentation, we give visibility to the accumulation of stock over some years, and have planned to bring that stock back to what we see as much more normal levels which will release cash to allow us to finish out our capital projects in the next 12 months and see significant debt repayment well beyond neither earnings after techs.

Dr. John Penno: I guess the key question that we grappled with in the last quarter is why did it take this event to figure all this out? And I think that where we landed was that our structure had not kept pace with our strategy. And so we've gone through quite a big design exercise where we are moving to a matrix structure where we're aligning all elements of the business to the customers that we serve.

Dr. John Penno: We've broken them into four parts, being nutritionals ingredients, liquid, and then our consumer business, which is dairy works. And acknowledging that each part of that business needs a strategy of its own, not just for status quo, but to deliver highest of best results.

Dr. John Penno: So for example, our ingredients business needs to be efficient, focused on yield, cost, quality and throughput, and must pave a simple sales strategy designed to optimise product mix where we can, optimise plant throughput, and keep our cost structures low.

Dr. John Penno: And nutritionals business, on the other hand, must be very quality focused and will bring a much higher cost structure because of the demanding nature of those products. But it's big enough to stand on its own and to have a management structure from manufacturing and supply chain all the way through that is focused on those customers. And on that part of the business to avoid costs, unnecessarily moving into other parts of the business.

Dr. John Penno: And then our liquids business, which is brand new and is all about R&D and new customer development and business development, again, needs quite a different approach to make sure that that reaches its potential.

Dr. John Penno: In Grant we've chosen someone who, not only his deep experience in some of the areas that we have underperformed to the greatest level, he's used to working in these structures. He has led end-to-end processes as he has developed the international food service business around here, which has really been one of the big business success stories out of New Zealand in recent years.

Dr. John Penno: He understands what it is to make different parts of the business gain the advantages from working as part of a whole, but with the focus on outcomes that each area needs. And that's that we believe we will see significant improvement and performance over time.

Dr. John Penno: So if I go to the... Just a quick update on these four areas. Firstly, our ingredients business, as Rob said, we undersold last year, we had some issues; open price and phasing as we had some quite large changes to plan that flowed from a big change in plan this year too make much less spaced out and therefore we had no flow into ingredients.

Dr. John Penno: That plan is to grow our ingredients with this a little bit. We can see there are some plant efficiencies we can achieve. And with Pokeno coming on stream, and Dunsandel, D3, which is our third nutritional dryer here. We can retire D2 as they can dry out two ingredients, and save some costs and gain some efficiency. And over time process more milk to manufacture more ingredients. And the marginal returns for extra product coming through the system are very high.

Dr. John Penno: We're also very focused on our Made With Better Milk programme. This was launched in the last 12 months with an explicit aim of developing the opportunity that we have built over many years working with our farmers to be using leading practise around environmental management, animal welfare, the why they work with these people on farm, and of course the quality of the product. And what we see from our large multinational customers in particular are some very bold promises that they're making their consumers in terms of the way they will work in the world and down through supply chains. And we see ourselves as extremely well positioned to partner with them in terms of delivering products with known, often authentic traceability back to farm practise that is better for people and better for planet. And we see it turning into some quite significant financial opportunities for us.

Dr. John Penno: If we go into a nutritionalist business, the a2 Milk Company remains a most important customer and we expect this to be the case for some time. We are continuing to work with them on new product opportunities. But of course the most important thing probably in our whole company is in making sure that we achieve the regulatory authorities from China to continue building this business and partnership with a2, supporting them as they build the brand going forward.

Dr. John Penno: We're working very closely with a2 on that process. We've provided some visibility to the timelines required to move our way through the regulatory process. And I can confirm that we're well prepared, and confident in achieving a good outcome there over the next 12 months.

Dr. John Penno: If we go to page 24, we want to get just a little bit more visibility to our second major customer for our nutritionals business. During the last 12 months, we, in November 2020, we signed an agreement. We can't name this customer for... they're a listed company. Some of the confidentiality arrangements we have with them is, at this point, we are unable to name them. But what we can say is they're a major international, multinational, and a global leader. And globally, but especially in the Asia, Asia Pacific region. Their product grouping had been growing very quickly in the last few years. And we are working with them on what is, what we expect to be a very long term relationship to manufacture a group of consumer pegged nutritional products. And that will be centred on the Pokeno plant.

Dr. John Penno: Now we would expect, we're working... You'll see from the timeline there that there's quite a lot of work and I've would note a slightly higher CapEx requirement than we had earlier indicated being $85 million. As we reset, not only the Pokeno plant, but also our blending and canning operation at RPD and build a flexible sachet selling line, a high quality sachet filling line, which will be built on the Pokeno site in the next 12 months. And once that all comes on, we would expect to see our consumer pegged volumes increase between 35 and 40% at that time. So those are customer that will bring significant volume from startup and then we see a opportunity to continue to grow their business from that point.

Dr. John Penno: On page 25, with packing, what we are seeing is, in the same way that we saw base powder volumes going down; third party based powder up the volumes that we had what used to manufacturing for third party customers, particularly multinational, slip away. And it's being driven by quite a big change in the Chinese domestic market. Over the past two years, the top team local brands have grown significantly in

Dr. John Penno: ... their market share, and that's been at the expense of the multinationals. What we're seeing is new demand coming from China for base powder manufactured to some of those multinationals, for products that we can send there under the current regulatory regime. And we see that as quite promising, and we are engaged with some customers that we would expect to turn into significant volume. On page 26, I talk to our liquid business. This is new, it is a small part of the business. It started up with fresh milk supply to Foodstuffs in the South Island.

Dr. John Penno: You'll see there, we're about to launch what we see is quite an innovative product that we've been working on for some time, which is a Swappa Bottle. Which we are trialling in the coming weeks with Foodstuffs South Island, we expect to be all going to plan, we expect to roll that out. That is a high margin product, it is a product that has a very low environmental footprint, with a container that has become the bench mark in terms of food quality and stainless steel. And one that we see having a long shelf life that's backed by a big social media marketing programme where people can watch the life of the bottle, how many times it's been returned. And we're looking for the change that people have gone through as we've got used to not carrying plastic bags at the supermarket, but taking our bags back to the supermarket is sort of a major cultural shift. We think we've seen this happening in offshore markets, we think that'll happen here. So they're an important positioning point for Synlait going forward.

Dr. John Penno: You will also see a UHT product, a UHT whipping cream product there where we're deep in negotiations with a key distributor for the Chinese market. And something that of course our incoming CEO will bring a huge depth of experience, in terms of developing that important and high potential opportunity.

Dr. John Penno: Consumer foods, Dairyworks. Dairyworks has underperformed in the last 12 months for a specific reason. And that is that our Talbot Forest Cheese operation has not been operating profitably, it has been operating at a significant loss. And we have made the choice to close that factory for two years while we go through some changes that we need to make to bring it back in profitably, involving recovery of whey here at the Dunsandel plant. So we're making a significant cost saving in the next two years and then expect to bring it back to production in a profitable way.

Dr. John Penno: I'm going to turn now briefly to page 29 and talk to our full year guidance. So we're not putting a number on this, but what we are saying is that we expect to return to robust profitability in FY22. And what that's based on is firstly, a return to normal trading conditions and tighter management of our ingredients business. As Rob said, we will also have higher volumes flowing into that business, which is product that was not sold or shipped in the last 12 months as we bring down inventory. The second is that we expect improved infant formula based powder volumes. And that is even if we don't have growth in our finished infant formula business, we're still going to see improved base powder volumes. And we do see potential for growth into the Chinese market inside this financial year.

Dr. John Penno: We see a growing contribution from our liquids and consumer foods business over the next 12 months. And there are significant and targeted cost savings. And these are coming from Synlait, Dairyworks and Talbot Forest Cheese. In the media you will have seen [inaudible 00:42:12] were talking about the cost savings that are flowing from Synlait, but we are also seeing cost savings and release of inventory providing cash from the Dairyworks business and the Talbot Forest Cheese businesses as well.

Dr. John Penno: We see that profit continuing to build through FY23 as we ramp up our new customer at the Pokeno site, and ongoing growth which we expect to see from liquids and consumer foods, and bringing the cheese business back into '24. As Rob explained, and hopefully we've provided sufficient detail that you'll be able to work out how big the numbers are, but we're planning significant reductions in the inventory here at Synlait. That's already started and hence slightly lower net debt than we were projecting back in May at year end. But that'll continue right through the year, and we expect to close at significantly less inventory, both here at Synlait and at Dairyworks at the end of this financial year. That'll release cash well in excess of our earnings and enable us to finish our capex and bring debt down, with a view to bringing debt down to ratios that we feel comfortable with over a two year period.

Dr. John Penno: So in short, to summarise we are confident in our immediate outlook. We have reviewed the strategy and I'm very happy to take questions on that, but we've divided up the strategy into a path to improve focus on execution. Now we've reset the organisation with quite a big change process that we're continuing to work our way through, but the results we confirmed with staff our plans on Friday. Now we've appointed a CEO, who we believe not only is the right CEO to lead the company forward, we believe he's the right person to change the way that we work with a greater focus on results, and to help us run a more complex organisation really well into the future. Now, Rob did a great job of getting our banking arrangements reset and we've got a strong relationship with the bank. We continue to review our operating performance relative to those expectations, and as Rob said we've started the year reasonably well. We're making changes to release cash and improve our working capital. And most importantly, we have a plan to return to robust profitability as soon as we can.

Dr. John Penno: Okay, I know that is quite a long presentation and there's a lot more material we didn't cover. But at that point, I'd like to hand over for questions that might be there from the listeners.

Operator: Thank you. If you wish to ask a question, please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star two. If you're on a speaker phone please pick up the handset to ask your question. You're first question comes from Chelsea Leadbetter from Forsyth Barr, please go ahead.

Chelsea Leadbet...: Morning team. I guess, maybe starting with the new nutritional's customer, and appreciate the colour on volumes and the uplift, I guess what I'm trying to understand is the volume uplift. I mean, what growth is that implying or assumed over the coming years before they actually transition to you? Is there any growth assumed or is it all existing business that's coming to get to those levels? And then secondly, the margin on that volume, should we be thinking about it at a similar level to what you're achieving in that segment today, or is there something that we need to be aware of with that?

Dr. John Penno: I'll get Rob to answer the margin question. But this is quite a different business than we've worked with in the past, they have a large position in various markets around the world. And then as part of their own longterm planning, they have a very small number of third party arrangements that they put in place from time to time. And then they tend to work with those parties over long periods. So it's not reliant on them growing those markets, we have a very good relationship with them where we're constantly looking at the markets that we are preparing to serve with them. And we're looking at their numbers with them month to month to month, it's already sort of getting those sales and operational planning processes between us are already up and running. The numbers that we're talking about are pretty much where they are now, they could be higher. And they are based on existing products and existing markets, not products that we need to grow to get to those volumes.

Dr. John Penno: I'll hand over to Rob to talk to margins.

Rob Stowell: Hi Chelsea. Look, obviously there's some commercial sensitivities around that, but what I will say is they are a hell of a lot higher than our ingredient products and a little bit lower than what our current nutritional products are priced at. So, really good value added business. It's slightly different business though in that they bring more to the partnership than we're used to. It's not exactly like for like for things we're doing, so in terms of there's various things in the supply chain that make it a little different.

Chelsea Leadbet...: Okay, helpful colour. And just second question on Dairyworks. So, appreciate you've called out a few one-offs and things are going to change going forward. I mean, if you took out the Talbot's loss and the inventory write down, what's the go forward EBITDA that you would have had in FY21 as a sort of a baseline for us to understand thinking into FY22?

Dr. John Penno: So, how big is the drag from Talbot Forest Cheese that's been consolidated into the Dairyworks' number? I'm asking the question to Rob.

Chelsea Leadbet...: Yep.

Rob Stowell: Okay, look I think it's not hugely material, you know it's part of it Chelsea. I think we were giving guidance around that business being between $15 million and $20 million EBITDA previously, obviously we haven't got there this year, but we expect to be well with inside that range going forward as any work we needed that were taken in the last few months.

Chelsea Leadbet...: Okay, no that's fine, thank you.

Rob Stowell: And just to add to that, I'll point to in the guidance here we talk about significant cost savings, not just the Synlait savings, which are the ones that we've been a little more public about, but also within the Dairyworks business and at Talbot Forest. So there's been significant cost savings achieved in both of those businesses in recent months.

Operator: Thank you. Your next question comes from Adrian Allbon from Jarden. Please go ahead.

Adrian Allbon: Oh, good morning John and Rob. Just a first question around the nutritionals growth for FY22. If you sort of take the various data on year end inventory and the uplift that you see on the manufacturing flowing through to the production volumes. Is it fair to say, like the sort of the consumer packaged volumes are sort of assumed to be sort of flat year on year within that? Or have you some other sort of change in business relationship with A2 to throw into the mix, understanding that the volumes are a lot more sort of skewed to a Chinese level.

Dr. John Penno: Our advance options for our existing finished infant formula are reasonably conservative. We need to make sure that we are able to meet any uplift or growth in demand that might come through, but it's probably fair to say internally we're being a little bit more conservative than the market is at the moment. But I don't think that's because we have a better view of where the market might go. And actually we have growing confidence in the way that A2 are managing their business and developing the market and the way that they are thinking about it. I think that we are quite positive about that, but we had felt that it's prudent to make sure that we manage our business pretty conservatively and base our financial projections around a pretty conservative set of numbers, given the year that we've just had. So when we talk about returning to robust profitability, it is not expecting any significant increase in the volumes on the last 12 months. That's on finished products.

Adrian Allbon: Just to sort of clarify further on that, just in terms of the inventory reduction that you are confident is in place for the FY22 year. Is that a change in the way that you do business with them, or is it the solution of that set up that our volume's are sort of flat, actually you've got a manufacturing uplift.

Dr. John Penno: No, it's generally this bull whip effect that we've been talking about now for quite a few months, where in our business to get manufacturing efficiencies we have been building up quite large volumes of work in progress of base powder, which is there to be blended into final products as a second step. And with the current outlook, we don't need it, we don't need anything like as much as we turned out. We don't need as much as we had on hand, it's not financially as efficient to have so much on hand, and so we've run that down. And that's part of the story, but if you look, there's a detailed graph in there, that had begun through FY21. So through FY21 we'd really started to run those base powders down, that's what had quite a big impact on our fixed cost recoveries or lack thereof.

Dr. John Penno: And when we talk about fixed cost recoveries even the genuine cost that has sat in the business and that we're only now rather seeing through the cost restructuring that we've just undertaken, or we're in the throws of undertaking. So we've maintained a cost structure that's been high enough to do much more product, we're taking that out of the business. It's really internal planning and processes, it's not a new agreement with A2, we're able to meet our agreement and obligations, and indeed in some ways it's probably better providing them with fresher, better product then we had been able to in the past.

Rob Stowell: And I agree that if did see a recovery in base volumes, we've definitely got the capability to ramp up our base powder production very quickly still.

Adrian Allbon: Okay, no that's good thank you. And maybe the next question maybe for you Rob. Are you able to sort of continue with the better than expected net debt finish for the year, are you able to broach that? Is it mostly just the fact that you fell a little bit more at the exit inventory point than you expected? And then just related to that, can you give us sort of an indication of the capex for the year ahead and then post the review of the banking facilities, what should be the regular banking specifics going forward?

Rob Stowell: Hi Adrian. I would deal with the capital expenditure one first. Our capital expenditure for next year is going to be circa $90 to $100 million. So again, another step down on this year. We've still got the Pokeno multinational customer project to finish off. We've still got the Tumu project to finish off, and a couple of other things. The operational capex for the business, if you include both Synlait and Dairyworks, should really be sitting under $20 million per annum, we'd like to see it a little bit lower than that if possible. But year on year, around $20 million.

Rob Stowell: We still will have to invest in technology and stuff going forward, so we're conscious of that. With regards to the net debt. The main reason that we came in a little bit lower was two or three factors actually. Our capital spend phased more into FY22, so we had a bit of slippage there. We had a better mix in our receivable assignment customers, kept coming through at the end of the year, so we got a little bit of extra money there. And there's was just some really good working capital practises that ended up a little bit better than what we anticipated a couple of months earlier.

Adrian Allbon: Okay. Thank you guys.

Operator: Thank you. Your next question comes from Nick Mar from Macquarie. Please go ahead.

Nick Mar: Hey Guys. Just a kind of big picture question, previously there was a chart on talking about a $200 million kind of value opportunity across the business. Where do you guys kind of sit on the view on that going forward?

Dr. John Penno: Sorry. Just repeat that, I didn't quite understand that.

Nick Mar: Yes, so there was previously a chart looking at the opportunity to increase earnings for any kind of value across your asset base? So kind of extracting premium margins and kind of shifting... And the number was around $200 million of long term upside. What's the kind of view, whether that's still a kind of relevant, long term number?

Dr. John Penno: Yeah, no, I understand that. We've think that that number is still robust. We've probably got a slightly different view on how to deliver it. There's more opportunity around cost savings and efficiency out of our underlying business. We're probably, it's fair to say, that we're a little more... If you line up that chart which I've just now clicked through to, many of the same things are at work. We're just advancing them and giving a little more visibility. So things like the food service creams, made with their milk, bringing the multinational customer [Pocono 00:58:05], moving to branded products, formulated liquid nutrition-type products, capturing all of the value in milk components that we use with Talbot. So the same themes are there. We see the same opportunities, we're just getting much more focused on how do we deliver them efficiently. And how do we do that while minimising capital spend.

Dr. John Penno: So we've spent enough capital, we think, to get through to that $2 billion in revenue. A lot of these projects, some of them need a little bit more capital, and so it's about emphasis and priority. We're certainly prioritising projects that can be delivered from existing customer systems and processes without any more capital, and while creating opportunity to make the business more efficient.

Dr. John Penno: And what we need to do, we've also got more focused on what we need to do in the different parts. What we need to do in terms of Made With Better Milk, which is essentially built on our ingredient platform, and our Lead With Pride milk supply base, is simply develop the customer relationships. We can do that while increasing the throughput and efficiency of our ingredients operations. The customer, Pocono, that's been very much about building the relationship with that customer, searching for future opportunities and growth, while investing the capital. And then the liquid part of the business, things like liquid infant formula and some of the liquid branded products that we have. It's really about picking up the R&D we're already invested in, and developing the market opportunities, and something that we think Grant, Grant Watson, is going to make an enormous contribution to in his time with us.

Dr. John Penno: So it's not a U-turn on that at all. It's just, how do we deliver it to them quickly, and without increasing cost structures in particular, without spending any more capital than we need to.

Nick Mar: Great, great answer. And in terms of, following up Chelsea's question on the 35 to 45 percent uplift from the multinational customer, is that against the current level of expected production in your business? Or is that against your FY24 expectations if that customer wasn't there?

Dr. John Penno: It's against our FY24 expectations, however, we're taking a reasonably conservative view in terms of our way to that. Yeah, so we've got a conservative outlook for other customers. But it is against where we expect to be in FY24.

Nick Mar: Great, thank you.

Dr. John Penno: And just to make clear, we expect a slow build from other customers, not a decline.

Operator: Thank you. Your next question comes from Stephen Ridgewell from Craigs Investment Partners. Please go ahead.

Stephen Ridgewe...: Yeah, good morning. Or good afternoon, I should say. First question is for John. I just wanted to clarify, with the debt structure refresh and the outlook provided today, the Board doesn't see the need to additional liquidity to fund the company's operation and cap-ex spend the next couple of years. There hasn't been reference explicitly.

Dr. John Penno: Good question. No, we don't. So, I'm sure that as you work your way into the detail provided and look at the magnitude of unwind that we can get out of inventory, the cash flows that we expect the next 12 months, that you'll feel comfortable with that. We'll hit our numbers, but we've set up a reasonably conservative set of numbers to hit, and we're on track. So no, we don't expect to raise capital in the next 12 months.

Stephen Ridgewe...: That's helpful, thanks John. And then if the company was to write capital down the track, what would be the potential uses of that capital? Sort of, in the life of the trend in the last few years of kind of diversifying operations away from the AP relationship, what would be the primary uses?

Dr. John Penno: Well, it's not in the plan at the moment. This is a plan to make sure we deliver the opportunities out of the capital that we've already spent. And that is in three places. It's in plant and equipment, it's in product and business development. And of course, quite important to all this is our underlying ERP system. We're moving to a set based system that's been quite a large investment that's going to be put in place in December. So we see significant growth in the categories that we've laid out ahead of us, without the need to spend more capital.

Dr. John Penno: So we don't have a plan to raise capital at any point, because we see debt coming down reasonably quickly while we grow out these other areas of business. For the foreseeable future, anyway, our focus is going to be on delivering from the capital and the strategy that has been spent, rather than heading into new areas of business.

Stephen Ridgewe...: That's great. And maybe one last one from me. On the medium term kind of outlook, is a 20% return of capital a realistic target for us to think about, John? Or was the Board and strategic review suggesting your returns a bit lower than that? Can you just share your thinking about, with us, where you think certainly what return you can earn on a medium term basis relative to Australia peers?

Dan: I'll hand that to Rob.

Rob Stowell: Thanks, Dan, hello. Look, we definitely, we are wanting to get close to that number. Obviously, any new business that we come across will be at that, but actually, obviously, we need to work back into that sort of range.

Stephen Ridgewe...: Okay-

Dr. John Penno: If we go to a high level... The company's well positioned in terms of the high value opportunities in the industry. And we're a very small part of a very large industry. And so just as we got used to showing early in the life of the company very good returns to the capital that we invested, we do think we're well positioned to get back to that. Whether it's through improving the ingredients business by capitalising on the investment that we've made and the quality of the supply chain, and now we're investing with farmers in terms of the Lead With Pride programmes, and the other differentiated milk programmes that we have in place. Our nutritionals business we think has a strong future. The mere fact that we [inaudible 01:05:33] customer is, points to the fact that these days we're recognised as one of the global leaders in terms of manufacturing these products. We're very proud to be sitting alongside the wealthy third party manufacturers globally. These are all the other companies, they've been the companies that we've aspired to be. There are a limited number of third party manufacturers that that customer chooses to work with.

Dr. John Penno: And in our liquids business, we think that there's a very exciting future there as we build perhaps our own future, and some of the very exciting products that we have developed. So if you look across the space, we're not in low returning categories of the industry. We're in high returning categories of our industry, and it's over to us to make those investments, both building the company in the first place, and in the way that we've set it up to make those work. And we think that we can.

Stephen Ridgewe...: Great, thank you.

Operator: Thank you. Your next question comes from Marcus Kelley from UBS. Please go ahead.

Marcus Kelly: Good afternoon. I just wondered if you could talk to, yeah, what you think normal returns look like, maybe at a gross margin per tonne in ingredients. Obviously, the reference in terms of where this could be heading this year.

Dr. John Penno: I'll get Rob to talk to it, but theres a graph there where we've sort of [inaudible 01:07:12] products in historic terms, but there's certainly a big pulldown, a big decline the previous year, in FY21. But I guess the point that we're trying to make is that in our discovery work, it's pretty clear that even by FY20 we had a cost structure coming into that part of the business that was higher than it needed to be.

Dr. John Penno: And so we would see... I would like to think that we would see a rebuild back to where we've been historically. And with the Made With Better Milk, potentially further.

Rob Stowell: Yes, I think that's a pretty good explanation from John. There's a lot of moving parts in here, Marcus, around how well utilised the plants are. We've got plans to fill up our plants further all the cost efficiencies that we're working on at the moment. And yield efficiencies will mean it will get back to what we've been used to in the past. We have much more robust returns through ingredients. I think there's a lot of one-offs for FY21 that you'll see explained in the pack.

Marcus Kelly: Do you think potential inventory cost headwinds are a problem for the ingredients business, particularly in the first half?

Rob Stowell: What do you mean by inventory costs, Marcus?

Marcus Kelly: Well, [inaudible 01:08:49] talk to the fact that the last quarter of the year particularly milk price fell sharply. I think it's reasonable to assume you've got high cost inventory heading into the first half. Is that a material impact for you in terms of the expectations for the ingredients business this year?

Rob Stowell: Look, to be honest, the way you explained it, that is there. It is high cost product, Marcus, as we head into the year. I mean, most of that product that we held at year end has been sold through already. As we move through the whole of FY22, the product will be relatively [inaudible 01:09:43].

Marcus Kelly: Okay. And secondly, can you talk to the performance of Lactofair? And obviously, with the new consolidation, you can't see Lactofair. I was just wondering if you could talk at least directionally to what happened on gross margin per tonne within that category in the last 12 months?

Rob Stowell: Yeah, look, year, sure, the Lactofair business is still really successful and really strong. Volume wise, we added another three tonnes onto what we sold the previous year, so that was good. However, we did see some softening in pricing, which means that our margins actually came back a little bit, and you can kind of see that on the [inaudible 01:10:39] within the pack.

Rob Stowell: So look, [inaudible 01:10:42] investments will continue to be really important for us in '22 and beyond, Marcus.

Marcus Kelly: Are you seeing that stabilise on a gross margin per tonne basis?

Rob Stowell: Yeah, I think it's fair to say we are. There's been a lot of talk about large Lactofair capacity coming to market, but there's more and more Lactofair being built into product. As it should be, it's a great product. It brings infant formula closer to the mother's milk and that's the aim. Our Lactofair [inaudible 01:11:18] recognised now as one of the leaders. We would like to think it's the leading product in the market. And so we're seeing prices are actually a little firmer than we were expecting right at the moment.

Marcus Kelly: Okay, thank you.

Operator: Thank you, that does conclude our time for questions. I'll hand back to Dr. Penno for closing remarks.

Dr. John Penno: Thank you very much. Firstly, we thank everybody for their patience. There's a number of investors on this call who have stayed with us through what has been a difficult year. So I acknowledge that, and I thank you. Particularly those who invested in capital raising, who participated in our capital raising, and who have been with us. We're very mindful of that.

Dr. John Penno: And we're equally mindful that during the year things turned in a way that we weren't expecting. I do hope that through this pack and the days and weeks that come, people will see that we, both Board and management, are very focused on bringing the company through this period, returning it quickly to financial strength. And then getting back to the business of growing a great New Zealand company. That is what we are looking to do. That is what we firmly believe is there for us. And I thank everybody for their patience as we work through this, and look forward to the various conversations to come. Thanks, everybody, for participating.

Operator: Thank you. That does conclude our conference for today. Thank you for participating. You may now disconnect.

**[END OF TRANSCRIPT]**