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**[START OF TRANSCRIPT]**

Hannah Lynch: Good morning everyone and welcome to Synlait's half year results conference call I'm Hannah Lynch, Synlait's corporate affairs manager. And today on our call, we are joined by our chair John Penno, our new CEO Grant Watson and our CFO Rob Stowell. There will be an opportunity to ask questions at the end of the presentation. We ask that you keep your questions to two per person. If you have any follow up questions, please feel free to reach out to me directly. I'll now hand over to John for opening remarks.

John Penno: All right. Thank you everyone for joining the call today. Look, and it's my pleasure to be joining this call and as the chairman of the company, and it's an equal pleasure to be introducing Grant, which I'll get to in a moment. Look, firstly, I want to acknowledge again, the very challenging environment that we have come through in the last couple of years, as we've talked about part of it coming about of the big changes that have happened through a COVID environment in terms of our demand profile, but also that leading to us discovering changes that we needed to make inside the business and have worked hard on. Look, I'm pleased to be presenting an interim result, which I think demonstrates that we're well on a way to doing what we said we would, and that is returning the company to robust profitability and making some pretty important improvements to our balance sheet strength.

John Penno: Now look part of... In a few moments, the team will talk to the things that we've been working our way through in the result, but of course, important has been finding the right leader for the business. And it's my absolute pleasure to introduce Grant to you. At our last results call, we announced that we were appointing Grant Watson. He started with the business on the 24th of January, and he's made a great start.

John Penno: We've brought in Grant because he's someone who we believe takes a very data and a thorough approach to evaluating and developing strategy with us and the team. But also he's someone who has a track record and relentless focus on execution. And we are already seeing that in the business after his short time with us. And I'm sure you are going to see it in the next... Over the course of this call, but also in the next few days, as many of you have the opportunity to have some one on one time with Grant and with Rob. So look, we're pleased with this as I'll hand grant at this point and will be on the call available for questions later, but I have no question that Grant and Rob will be able to handle all of your questions about the business. So thanks for joining and let me hand over to Grant.

Grant Watson: Great, thank you, John. It's great to be a part of the business and to be on this call today. Shortly I'll hand over to Rob Stowell our CFO, who will take you through the numbers. I'll then touch on my first impressions of Synlait after two and a half months, take you through at a very high level business performance by business unit. Talk through our priorities for the balance of the year, and then just speak to guidance for FY 22. I'll hand over to Rob.

Rob Stowell: Thank you, Grant. Good morning to all those online. Look, if you're in the room with us today, you'd see we're smiling. It's fantastic to see our six monthly results showing a strong bounce back. However, while this is a positive milestone, we remain grounded as there's still lots of unfinished work and opportunities to chase down over the next 18 months and beyond.

Rob Stowell: If I can get everyone to turn to page three of key financial metrics. This is a comparison to the last six months with the first six months of FY 21. Revenue is up 19% to 790.6 million. That's a new record for us at Synlait. NPat is up 338% to 27.9 million. Last year, we made 6.4 million for H1. That's a really solid bounce back for us note, we were assisted by one off sale of Richard Peace Drive in Auckland with contributed 13.4 million. If you include the tax adjustment. Normalised, we get to 14.5 million impact. Obviously we're still happy with that increase, which is 128%. EBIT D is up 45% to 68.4 million operating cash is up 269% to 117.3 million a great result there also in one that we were looking for six months ago. Capex tracked down 37% to 46 million. As we continue to constrain our capital expenditure to critical or high returning projects. Net debt is down 19% to 391.8 million.

Rob Stowell: Again, we're happy with the progress here. It's an important metric for us. Our base milk price is forecasted at $9.60, which will be another record for us this year. Previous highest base milk price was in 2014 at $8.27. And while this is confirmed for September clearly, it's going to be stellar year for milk suppliers. We can turn to page four, we've got a slide on our business review actions.

Rob Stowell: We had several actions that came out of our business review. Last year. What we've done is plotted the amount of matrix showing a traffic like system on how much the financially impacted the H1 results. There's a range of progress between green, amber and red. I'm not going to go through this slide on details, but I just want to give you a few takeaways. You can see there's several key work streams underway in the business. We've made really solid app on our cost structuring, working capital management and ingredient business turnaround. We've got several work streams that have a lot of potential and which will give a lot more value to us over the next 18 months. And that's nutritionals, capital projects, management, consumer foods, beverages and cream, and operational performance.

Rob Stowell: We've had challenges. Look, if you look through here within our capital projects. We've had an ERP project, which has gone over budget and we've expected to go live in December and it's now planned for August 2022. Under operations, our key metrics that we wanted to increase has been slow to improve due to the reorganisation we completed. The advent of COVID continuing to impact us and supply chain challenges being our key focus. We also failed to learn launch the UHT cream product within beverages and cream. However, we are confident we will work through these challenges over the next six months and have a clearer view on the size of the opportunities and how fast we can progress. Then if we can turn to page five, I'll talk to revenues and sales volumes. Look, overall revenue is up 19% cent to 126 million, which is a great result.

Rob Stowell: The slide gives visibility by business unit. The increase is mainly driven by ingredients. So we shipped and invoiced another 15,000 metric tonnes of ingredients this year at slightly higher commodity prices. This was down to good planning work by our sales and operations team. It was also a record volume for us in a challenging supply chain environment. If we looked at nutritionals, our volume and revenue as expected we're down a little bit. So down 49 million, roughly 5,900 metric tonnes in volume. As we see a2 to showing modern signs of recovery from H2 FY 2021. As a reminder, our multinational customer come online with sales volumes mid FY 23. Both the beverages and cream and consumer foods business units were relatively flat, half on half. The key factor to note here is that we had half delays in our UHT cream launch due to formulation refinements, while disappointing it's expected later this year.

Rob Stowell: If we turn to page six, I'll just talk a little bit about production and inventory volumes. Look, this is a mixed result. Overall production reduced by 9% or roughly 10,400 metric tonnes. This was mainly seen in ingredients production being down and was driven by our milk supply being adversely of affected by weather, both in the North island and South island. We also sold milk to commission our Pocono site for our new multinational customer. This was planned but it is a difference compared to last year and we sold cream for good returns. As we maximised skim milk powder to take advantage of large price differentials, which have opened up between the skim milk powder basket and the whole milk powder baskets. If we look at nutritionals, not a lot of change there. We continue to rebalance our infant based powder inventories and look after our working capital positions as planned so production was slightly down.

Rob Stowell: Not a lot of change on beverages and cream volumes. They are relatively flat. The decrease in production you'll see in consumer foods or a dairy works unit is due to the temporary closure of Talbot Forest Cheese to mitigate losses while we solve operational issues on that site. Look, the good news here is we made fantastic project progress with our finished goods inventory reductions, which reduced 29% due to strong sell down of ingredients products, reduction in our infant based powder production, and strong reductions of our cheese inventories.

Rob Stowell: Turn to page seven. This slide, this slide unpacks by business unit where the gross margin was made in the half. So in total, we made 68.1 million gross margin. It's up 16% or 9.4 million. In created ingredients, we're out producing 34.7 million versus 19 million for the same period last year. This was down to more value, better sales phasing, and optimising of our product. Max reduced cost structures through operations and a FX position. So we're really happy to see that business unit turn around quite significantly in the half. Nutritionals is down producing 25.6 million versus 31.7 million for the same period last year. This is still a solid return as our ISC sales for a2 Milk Company recover.

Rob Stowell: Consistent results within the lactoferrin business has also been pleasing with slightly less volume, but slightly better pricing. And again, this business unit improved due to the work that we've done on cost structures in savings through operations. Beverages and cream, the H1 result there was a 300K margin loss versus a 1.7 million margin loss for the same period last year. While better than last year, we still have a lot of work to do in this business unit. The key driver for improvement was the reduced cost structure. And I've noted the delays in our UHT cream launch. Consumer foods is also down in H1 8.1 million versus 10.1 million last year. And this was down to the strong butter margins that we enjoyed last year due to recent over oversupplying the New Zealand market.

Rob Stowell: The team's also been working through some higher cost of cheese inventories, and they only had a part period of cost failings. While a disappointing first half for consumer foods, we expect some of the profit track that they have encountered in H1 won't be there in H2. We turn to page eight and we talk about operating cost performance. As mentioned earlier, we've made good progress on cost reductions across the whole group despite the trading environment. Firstly, our organisational reset has made savings of 5.2 million compared to a four year target of seven million. So this has been both helpful from a simplifying the organisation point of view, and also reducing costs. Note most of these savings sit above gross margin, so are not seen on the SGNA bridge offset. However, we have seen 1.5 million of cost increases in SGNA overall due to extra contract labour that we brought in as we're reshaping the business in the first part of the half in a tighter labour market.

Rob Stowell: Extra IT costs mainly ERP related, but also some cloud accounting costs have come in there as well. And we've had some increases in distribution costs. Now most of these increases have been offset by our project we ran for dry store four and rail. Look cost continue to be a focus for us as a trading environment continues to be challenging and inflation comes into the frame.

Rob Stowell: We turn to page eight, it's my final slide on cash flows and net debt. We're made fantastic progress in this space. I'm really pleased about this. Its neat we continue to stay well within our extended banking arrangements set up last July. The key points on this slide are operating cash are up 187 million, half on half, due to selling record numbers of products in H1, making better margins on what we're selling careful management of our working capital. We've continued to reduce our capital expenditure. So our two

Rob Stowell: Major projects that we have in flight at the moment. Our ERP or SAP project and the Synlait Pokeno Project set up for the multinational customer. We executed the sale on leaseback of RPD in October, which reduced debt by $30.1 million. Net debt is down $88 million since last July. Obviously, this has also helped reduce significantly our interest costs. Don't expect us to continue to reduce debt at the same rate in H2, while it will continue to be a key focus. We see a more challenging trading environment in H2. You'll also see there has been a continuing of our target total debt to EBITDA ratio of between 3.5 and 4 times for FY22 and we expect further improvement back to normal metrics in FY23. Look, that's a wrap on the financials. I'll hand back to Grant to take us through the business performance.

Grant Watson: Thank you, Rob. Two and a half months for me and still a great deal to learn about this business. My initial impressions are that Synlait has fantastic DNA. It's got a culture that's disruptive, it's innovative, it's entrepreneurial, and it's extremely well positioned in terms of our sustainability credentials. The second observation for me is that we are building very, very strong momentum within the business off the back of the recovery plan, but to be clear, we are six months into a two-year recovery plan. What we do need to do is we need to increase our level of focus across the business and what I mean by that is that we need to do less, but do it better. We also need to ensure that there's the right level of accountability across the business. We need to increase accountability and that starts literally at the top from leadership team right throughout business.

Grant Watson: The other area that we will focus on to drive greater performance is the need to improve systems, tools, and processes so that we really can execute well. The last observation for me is that Synlait has a wonderful group of loyal farmer suppliers. We have really strong relationships with our key customers and we have a very committed and loyal base of staff within the business. So, those are some of my initial impressions after two and a half months. Just going through on page 12 now, going through a brief overview of each of the business units. The ingredients business has really increased their focus on delivering against their strategy with a high degree of discipline, right throughout the value chain. We are looking for greater efficiencies and we have very strong engagement with our key multinational customers.

Grant Watson: Moving on to page #13, the nutritional's business, a key focus there under our A2 milk company relationship is to ensure that we get re-registration for our licence into China. We've submitted the initial information and that's currently subject to technical review. So, that's effectively the new recipe. We are expecting an audit by MPI in the next couple of months and we should get notification around reregistration towards the end of the year. So, a very, very important and critical project.

Grant Watson: In terms of nutritional base powders, we are currently working with several multinational and China domestic players in terms of future business growth in the space, and from an innovation perspective, we are working up further portfolio development across all life stages for these nutritional powders. Lactoferrin business is really strong global demand, and off the back of that, we're seeing really strong pricing against our Lactoferrin. And finally, in terms of our new multinational customer that come on stream at Pokeno. We've had very good results come through from our product trials. The capital project is on track. The capital project is in budget and we expect to be producing commercialised product towards the end of this calendar year.

Grant Watson: Onto page 14, beverages and cream, we've had great feedback around the Swappa Bottle initiative currently in two stores. Demand is well exceeding our original forecast. So, before we move through to a more expanded trial, it's important that we take the learnings, review these against the business case, and then proceed on the basis that there are very good returns to be had from that initiative. In terms of UHT cream, as Rob mentioned, we're not in market yet, but it's really important that we get the formulation right. That is taking longer than expected. We think we are nearly there and certainly plans are to have product into the market in the short term.

Grant Watson: Moving on to page 15, our consumer foods business, Dairyworks. Two very successful launches in the first half. One has been around milk and cream into the food service channel in the South Island and in Wellington. The second has been the launch of a yoghourt protein fit. We now have a new distribution centre up and running to support the Dairyworks business, which will deliver strong financial benefit. We're exploring market opportunities in Australia and China. And just to be clear, we already have a position in Australia. So, it's looking to grow our position in Australia and ongoing focus throughout the business on cost structure and working capital.

Grant Watson: Briefly touching on sustainability, again, a very, very important part of who we are as Synlait. There's been great progress to transition our power generation on our South Island manufacturing site here in Dunsandel to a source that's more sustainable. We've seen really good improvements in terms of reducing our greenhouse emissions, both on farm and in processing. And we're working with a number of existing and potential customers around our Made with Better milk branded product and there's a clear demand globally for more sustainably produced dairy products, both at a customer and a consumer level.

Grant Watson: Moving on to page 17 and, again, for us to be very focused on what we need to deliver against in the second half. I mentioned the licence reregistration for China, certainly a top priority for us. Rob mentioned the delivery of our ERP or SAP system planned for the 1st of August. And again, ensuring that we are ready towards the end of this calendar year to produce volume for our new multinational customer at commercialised volumes. Clearly, there are still challenges with Omicron throughout the business. Looks as though we've experienced a peak for our North Island manufacturing facilities. We're not there yet in the South Island and so we need to manage our way through Omicron. It's really important that we look to rebuild and strengthen the culture of our teams within Synlait. It's been a very, very challenging period of time for a number of reasons, and so driving a stronger culture is really important as a platform for all that we do.

Grant Watson: And lastly, we've commenced a review of our strategies across the four business units and, look again, the clear focus there being each strategy needs to be focused. We need to ensure that we know what our competitive advantages are in the market and that we are clear on what great execution looks like. Finally, if we just move on to page 18, in terms of guidance, we expect that net profit after tax will return to robust profitability for FY22. As Rob has mentioned, we don't expect the profitability will grow at the same rate in the second half as it has in the first half.

Grant Watson: We do have a number of challenges to contend with, stating the obvious Omicron global supply chain and there's also a lag effect to our margins when we have a significant upshift in milk price and the delay in passing those costs on to our customers and look just reinforcing the position that was communicated late last year. It is very much our intention that by the end of FY23, the recovery plan will have similar return to similar levels of profitability as we saw leading into FY21. So, look on that note, we can now open the line up to any questions that you may have.

Operator: Thank you. If you wish to ask a question, please press \* 1 on your telephone and wait for your name to be announced. If you wish to cancel your request, please press \* 2. If you are on a speaker phone, please pick up the handset to ask your question. Your first question comes from Matt Montgomery from Forsyth Barr. Please go ahead.

Matt Montgomery: Hey guys, just checking you can hear me.

Rob Stowell: We can, Matt.

Matt Montgomery: Great. Thank you. Maybe firstly on the balance sheet, clearly debt has been quite volatile historically, but just interested in any comment you can provide for the direction of travel in the second half and then I guess the key drivers of change. And secondly, you make reference to a return to normal metrics. Are you able to remind us what you view as the optimal capital structure or gearing in the business?

Rob Stowell: Thanks, Matt. Look, I'll answer that. First of all, look to the balance sheet in our debt. Look, we've made really good progress in the first half. I expect we'll continue to make progress here in the second half, but just not by the same rate, and the reason I say that is the trading conditions in second half as we see milk prices rise and we've got risks around shipping, etc., will potentially impact us, but we will continue to reduce debt in the second half and obviously in FY23. With regards to the metrics, look, this is difficult to forecast just with the trading environment at the moment, but ideally we would get to this year around 3.5 times total debt to EBITDA. That's what we're targeting. If we can do slightly better than that, great. The following year, like to see us earn around 2.5 times and then that'll track down to 2 and 1.5. It's really just hard for me to predict how some of those supply chain issues and COVID impacts are going to impact us over the next few months.

Matt Montgomery: That's great. Thank you. Maybe then, secondly, on return on invested capital. At the last result, I recall you, I guess, retaining guidance for an expectation of around 20% over the medium term. Just interested in any comments you can make on that, if it's still current, and if so, what gives you the confidence to deliver on that target?

Rob Stowell: Look, we are still confident that we are going to get back to that sort of rate of return. However, it's going to take time. We've got a number of really good opportunities in front of us, especially across areas like nutritionals and we just need to keep working at those opportunities and make sure that as we spend any further capital, it's on high returning projects, but it might take a couple of years.

Matt Montgomery: Awesome. Thank you. That's all from me.

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

Nick Mar: Good morning, guys. Just sort of expanding on the second half commentary. Can you just provide some context around the comment that it won't grow at the same rate in the second half, which line item are you talking about and is it percentage wise, dollar wise, and is it sequential or on PCP? It's just a little bit vague.

Rob Stowell: Yeah, no, I appreciate that, Nick. Look, the best way I can explain this is if you take the 27.

Rob Stowell: We're not going to grow at the same rate as that in the second half. So if you are thinking about the business on a normalised basis, i.e. taking out the effect of the recipe's drive sale, then we will be growing at or above that rate that we had in the second ... in the first half. Does that make sense?

Nick Mar: Yeah, so that was 130%, but you're obviously ... the second half, 21 was a loss at the impact line. So how do you sort of line that commentary out? [crosstalk]

Rob Stowell: I'm comparing, yeah, sequentially. So probably just to give you some more insight, a lot of our nutritional and [inaudible] and volumes and stuff are weighted towards the H2 in this financial year. So you will see some good gross margin coming through in the second half. If you look at the top line number 27.9 million, we won't be doubling that or anything like that.

Nick Mar: Okay. And then sort of just trying to put it in context, so you still expect net debt reduction over the second half, all things going well, and if you were in the three and a half times EBITDA range, that would suggest that the second half EBITDA is lack down on the first half, so I'm just trying to marry up those comments.

Rob Stowell: Yeah. Look, there's a number of scenarios that could play out. And I guess the net ... when I comment on net debt, I'm actually taking into account some of the headwinds or challenges that we may encounter in the second half. And the big one for us, Nick, is getting our shipping volumes out, as you know, with the Ukraine crisis and et cetera, things have actually got more difficult in the second half. So we're just being cautious here on debt. If we have a clean run and everything goes ... we don't have any of those challenges impact us, we will be below 3.5 times.

Nick Mar: No, that makes sense. And then just on the ingredients margins, I'm just trying to understand what the driver was there. Was any of it uncontracted, excess inventory that you benefited from a run up in commodity prices over the period, or is this true margin gains from genuine improvements across the business?

Rob Stowell: Okay. It's relatively straightforward. So as we noted last ... at our year end last year, we had that product that we had on hand. So I indicated it was about 13,000 metric tonnes. Okay. So we've got that extra volume coming through in the first half this year. We've done a really good job of getting that all invoiced and out on ships, but there's some really good work that's been done within our sales team and the way they've managed to get the product mixed right. So we've maximised skim milk powder. There's been some really big product differentials open up there compared to the whole milk powder basket, our sales phase been good, and we've also had a strong FX position and a lower cost structure in the first half as well. So all those things are combining to really bumping up our margin in H1.

Nick Mar: Okay. Thanks guys. We'll chat later on.

Rob Stowell Thanks.

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

Adrian Alvin: Oh, good morning team. Can you hear me okay?

Speaker 1: Yeah. Good morning.

Adrian Alvin: Just wondering if there's any more detail or context to provide around the Sema renewal delay? I think last time when we heard from you at the last result, I think you were expecting ... well, you were flagging an outcome by August. Is there anything that's specific to the delay or is it more a general delay across the international brands?

Speaker 1: Thanks Adrian. Look, we are following the process. It is taking a little longer than expected. To be really clear, we've submitted our information around the new recipe. We're waiting to hear back in terms of the technical review that's been completed. We're not expecting any issues there. Once that technical review has been completed, then an audit will be planned and it will be completed by NPI as an agent for Sema. We would expect that audit to take place sometime in the middle of this calendar year. It's very hard to say exactly when at this point, but June, July, August, somewhere through there. And then there'll be a period of time that we need to wait until we get final confirmation from Sema. Hence the indication, from our perspective, is we should get that towards the end of the year.

Adrian Alvin: Okay. That's helpful. And maybe this is probably a question more for Rob, if you come back to slide, or to page four, and in the centre there, the capital projects management, are you ... I'm a little bit confused with this ... are you flagging that the ERP stuff is 20 million over budget and there's more CapEx to ... than you previously flagged on the Pokeno customer? Because I think later in the pack, you don't signal that there's more CapEx with the Pokeno customer?

Rob Stowell: Yep. No, thanks Andrew. I can clarify that. Capital management's been ... it's a mixed bag. It's been relatively good, but we've had a couple of things which have gone a little bit over. So our Synlait Pokeno customer, yes, we haven't increased yet, but to be honest, it was relatively small, small. It was six or seven million dollars and it was just to add a little bit more in for that project, more capability. The ERP project is the bigger increase and that's $20 million above what we originally budgeted and we forecasted last year, so that's relatively significant, and we were trying to hold the project that, and we are going live with it in four months time, so hopefully we do that. Is that clear enough?

Adrian Alvin: Yes, I guess. So in terms of ... if we're thinking about you've done $46 million of CapEx in the first half, should we be thinking about 60 million in the second half? And then probably another $20 million flowing on on those two projects in the first half '23?

Rob Stowell: Yeah, we've given guidance on this before, so we expected to spend around $90 million this year and we're going to be probably just over a $100 million. Obviously some projects, a little bit delayed and some are a little bit over budget, but it's in that sort of region of numbers. So $105 million versus $90 million target

Adrian Alvin: And flowing into first half '23 would be ... should we put in another 20. I guess there's a bit of flow on from ERP and there's a bit more on Pokeno potentially?

Rob Stowell: No, I'm counting most, I'm probably counting $15 million of that in FY22 and $5 million in FY23. We'll have another look at FY23. Obviously our capital expenditure will be still tracking down in FY23 from roughly a hundred this year.

Adrian Alvin: Okay. And then are you able just to give ... just as we track the second half, for the new multinational customer, as you get into the commissioning phase, what are the key milestones you're trying to hit there?

Rob Stowell: Yeah, so the first milestone is really making sure that the products that we're making are inspect and going through shelf life testing. And then once we've done that, we'll be commercialising end of this calendar year and exporting probably in around January '23.

Adrian Alvin: Okay. And of those shelf life studies at the moment, have you completed any of that stuff or is that still to be done?

Rob Stowell: No, they're underway at the moment and all that stuff is going to plan.

Adrian Alvin: Okay. Oh, that's good. Thank you guys.

Operator: Thank-you. Your next question comes from Richard Barwick from CLSA. Please go ahead.

Richard Barwick: Thanks guys. I was just going to ask, as a bit of a follow on from that last one, when you referenced opportunities in front of you, I assume you're talking about potential new customers? If there's any colour you can give there in terms of how far away would you expect anything material in terms of a new customer coming on board?

Rob Stowell: Yeah, Richard, we're working with customers across a number of the divisions. So we are working with several multinationals, China domestic customers on infant nutrition base powders. We're obviously working with a key customer against the food service cream opportunity, and that's targeting the China market. And from a dairy works perspective, we're also looking to build our customer base out in Australia and look for new opportunities up into China.

Richard Barwick: And any sense on timing for where we might see anything that moves the dial?

Rob Stowell: No material update at this point.

Richard Barwick: Okay. Thank-you.

Operator: Thank-you. Your next question comes from Steven Richwell from Craig's Investment Partners. Please go ahead.

Steven Richwell: Hey, good morning guys. I just wanted to follow up on the response to Adrian's question on the Sema registration delay. I guess I'm curious, it looks to be a three to four months delay. I'm just curious, was that mainly due to Sema submitting the dossier behind schedule, which I think had been earmarked for January, February, or is that a delay in Sema's review in response to the dossier?

Speaker 1: Certainly the delays haven't been caused by Sema. The process is just taking longer and as you'd appreciate, this is a new registration process for all parties involved. It is taking longer. We expect that if notification of re-registration takes longer, there will be an extension to our current registration with our current product into the market. So from a timing perspective, that doesn't create any material risk.

Steven Richwell: Right. But has Sema indicated in terms of that timetable that we've indicated today for an April response to that dossier, have Sema indicated that April is when they plan to respond, or is that just an estimate from management?

Speaker 1: That is the indication we've received from Sema.

Steven Richwell: Okay, great. Thank you for that. Okay, and then just to maybe moving on a little bit, just with the A2 volumes, which as you know, there's some rebalancing of inventories and the volumes were off about 30%, I guess I'm just curious, do you think that's all inventory rebalancing or was there a little bit of substitution potentially starting to happen for Mataura Valley and I guess if we look forward to FY23, does the guidance statement that you've put out for return to profitability to pre-FY21 levels, does that allow for some erosion of Matara Valley volumes into next year?

Rob Stowell: Yeah. Hi, Steve it's Rob here? Yeah, with the A2 volumes, we do see that recovering. With your question around into FY 23, yes we are assuming some erosion of our volumes going down to Mataura Valley and we are still confident on our outlook. And the reason for that is some of the other customer volume that we have coming in to the business, which is a good news story from our diversification strategy.

Steven Richwell: Thanks for that. And I guess just on that story, you mentioned a couple of new opportunities, what do you see as well in that mix? I don't think you mentioned. You had Chinese domestic infant formula customers potentially offsetting any kind of volume loss to Mataura Valley.

Speaker 1: Yeah, yeah. That's one of the opportunities and there's also other opportunities

Rob Stowell: There as well that we're working on, so.... Look, we're very comfortable with the way our volumes are shaping up for FY 23.

Speaker 3: That's great. And then just on the inventories, cause that.... Look, it was a good half as you noted in the prepared remarks and in terms of working capital reduction and cash flow. So well done. I guess I'm just interested in.... Some of the analysts have been on the outlook, just noting the stress and supply chains. And I think you've even called out potential shortages of raw materials and in some parts of the business continued shipping challenges, et cetera. I guess my question is, is the reduction in inventory that we've seen the first half actually sustainable in a very volatile environment, or are you sort of happy with the level of inventories you've got? Or is it just specific areas where you see inventory reduction, potentially inventories reduce and maybe other areas you might need to add a bit more?

Rob Stowell: Yeah, no great question. Look, I didn't really cover raw materials a lot in the presentation, but actually our raw materials, we actually increased a little bit on last year and we've done that just to integrate ourselves from some of those supply chain disruptions. On the finish, good side as it's sustainable. Look, we are still operating so that we've got sufficient amounts of safety stock, both for ourselves and also our key customers. Over time, as you see our demand recover, you will see us increasing some of those inventories a little bit, but not by much. We're really focused on making sure we keep those inventories at a level that unlocks that work in capital. And it was fair to say, probably towards the end of FY 21, we had got a little bit bloated on our inventory levels.

Speaker 3: Got it. And just one last one from me, just the comment you've made about the headwind from rising dairy prices on the second half, are you able to, with milk prices down at the moment, are you able to give us some broad idea of the quantum of that headwind? In terms of your gross margin?

Rob Stowell: Look, I guess the comment there was made in relation to if commodity prices kept on increasing from where they are today, they've kind of stabilised a little bit at the moment. Then we may see some further headwinds. Obviously we do have lead contracts across our business units, and so it would've just meant that we had to continue to pay at competitive milk prices and our revenue line wasn't probably going up by the same extent. So look, it's a factor, but it's probably a lesser factor than the Omicron risk and the supply chain risk that we've noted in the guidance statement.

Speaker 3: Cool. Thanks very much. That's all from me.

Operator: Thank you. Once again, if you wish to ask a question, please press star one on your telephone and wait for your name to be announced.

Operator: Your next question comes from Marcus Curley from UBS. Please go ahead.

Marcus Curley: Good morning guys. Yeah a few from me.

Marcus Curley: So you mentioned that you're expecting your stronger nutritional sales in the second half, I just wondered if you can provide any sort of colour on where you think nutritional volumes will end up for the year; up, down, sideways.

Speaker 4: Okay. If you wouldn't mind sending me the-

Rob Stowell: Good day Mark, this Rob here. Look, what I would say is we do see some positive signs on our nutritional volumes, obviously. And for this year, it really depends on a couple of things. I see the COVID, the supply chain risks, could be a factor, but if they don't really play out, we could see ourselves at a similar sort of level as last year for the total year result.

Marcus Curley: Okay. Thank you. And then when you look at your first half result within the nutritional division, and I suppose you break that down between, I suppose, the three key products being: based infant formula, canned infant formula, and lactoferrin, how would you typify the gross margins at the product level? Would you say that what you're achieving at the moment is pretty consistent with what you would expect medium term?

Speaker 4: So what is he doing?

Rob Stowell: No, I think we would probably expect to be a little bit better going forward. Marcus, across those three things we'll see recovery in both IC, infant based powder, and lactoferrin continues to be a strong performer for us as well. So I'd say growth on across all three of those areas.

Marcus Curley: And what's the driver of the improvement? Is that manufacturing efficiency, or is it pricing or other components?

Speaker 4: Yeah.

Speaker 4: Yeah, that would be good actually. That would be very good.

Rob Stowell: Yeah. The big one for me, obviously, putting aside by you, it's our manufacturing efficiencies. As I mentioned on page four on our review actions, we've done some good work within our cost structures, but there's a lot of other opportunities within our efficiencies as we improve reliability of our plants and quality, right this time, and other areas like yield, and we increase the volumes that are going through those plants, including milk supply.

Marcus Curley: Okay, thank you. And then finally, a2's announced their intention to launch a new English label product next year, my understanding is that's going to be produced by yourselves. Have you come to a separate agreement on that product, or will it be just bolted into the existing agreement?

Rob Stowell: Mark, that will, in short, that'll be bolted into the existing agreement.

Marcus Curley: It probably gives you a raised amount of confidence in terms of an offset to the internalisation.

Rob Stowell: What do you mean by the internalisation?

Marcus Curley: Oh, no. Yes. So....

Rob Stowell: Material?

Marcus Curley: Yeah, correct. Yeah.

Rob Stowell: Look, as mentioned pre....

Rob Stowell: Yeah look, it does give us some confidence there. The internalisation of manufacture by a2, that'll happen over time and we've already built that into our plans.

Marcus Curley: Thank you.

Operator: Thank you. Your next question comes from Jonathan Snape, from Belpada. Please go ahead.

Jonathan Snape: Yeah. Hey guys, can you hear me okay?

Rob Stowell: Yep.

Jonathan Snape: Good.

Jonathan Snape: Look, can I just circle back to, I think some of the questions that Ben was asking earlier around the second half, guidance and the debt and all that sort of stuff. Look, if I look historically, you seem to do somewhere between about seven or 80 million bucks operating cash flow after leases and financing. In the second half, and it's probably not unreasonable to expect everything being normal, you kind of do that again. CapEx sounds like it's going to be up closer to 60 in the second half. So we're talking 10, 20 million bucks of free cash in the second half. Does that sound too far out of whack, I guess, considering where you're thinking?

Rob Stowell: Hi John, it's Rob here. Look, in normal trading terms I'd say yeah, you're not far off with those sorts of numbers. The big unknown for me is just what we're going to have to navigate across the next four months. And it's really around, not so much manufacturing, we seem to be doing reasonably with our plants and keeping up production, but it's more to do with the volume of products that we'll be able to invoice and ship. So that could swing us around quite a bit on those numbers, and then obviously that be a timing difference so those hours would come into the start of next financial year. But yeah, you're not far off the money on a normal trading terms basis.

Jonathan Snape: Yeah. And if that happened, and you said, okay, well you finish it or land at three and a half times leave it there, then you're kind of getting into, a 105, 110 type number, at EBITDA anyway, which kind of implies in the second half you're doing 35, 40 odd million bucks, which is actually quite a big jump from the loss of 10 and a half last year. So what I'm trying to reconcile is the comment in the outlook statement that says, we don't anticipate second half profitability growing at the same rate as first half. When if you look at the first half you grew like 20 and in the second half, that would seem to imply you growing at double that rate in a nominal sense. So I guess the confusion, I think maybe what Ben was getting at earlier, is how do you reconcile your target EBITDA or net dead EBITDA ratio with what it kind of implies as a growth rate in the second half, with the comment that you actually don't expect to go that much?

Rob Stowell: Yeah. I think there has been a wee bit of confusion around that. Don't know. Look, we, in the second half, providing.... Think we don't get disrupted by any of those challenges, and those challenges are real, then we will perform on a normalised basis, I'm taking out this effect of the one off sale of our Auckland property, then we will be doing better in the second half than we do in the first half. And our ratios will be little bit better than three and a half as well.

Jonathan Snape: So again-

Rob Stowell: We've got time for one more question.

Jonathan Snape: Okay. I'll take this on offline.

Rob Stowell: That's all right. Okay.

Operator: Thank you. There are no further questions at this time.

Operator: I'll hand back to Mr. Watson for closing remarks.

Grant Watson: Thank you very much for your time today, thank you for your questions. We very much look forward to engaging with you over the following week to have further in depth discussions.

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

**[END OF TRANSCRIPT]**