CHORUS CALL

TRANSCRIPTION

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Operator: Thank you for standing by and welcome to the Synlait FY '22 full year Results briefing. All participants are in a listen only mode. There will be a presentation followed by a question and answer session. If you wish to ask a question, you will need to press the star key followed by the number one on your telephone keypad. I would now like to hand the conference over to Hannah Lynch, Head of Corporate Affairs and Brand. Please go ahead.

Hannah Lynch: Good morning everyone and welcome to Synlait's full year results conference call. Our CEO, Grant Watson, and our CFO, Rob Stowell, will shortly take you through the presentation, which includes the summary on our financial performance and refresh strategy. We'll then open for Q&A at the end of the presentation and ask if you could please limit your questions to two per person. The presentation will take around 40 minutes. If you have any additional follow ups not answered on the call today, please feel free to reach out to me directly. Otherwise, we look forward to connecting with many of you over the coming weeks in person. Over to your, Grant.

Grant Watson: Kia ora koutou. It is my pleasure to take you through our FY '22 results. We've certainly made significant progress in the last 12 months, acknowledging that we are one year into a two year recovery programme. The key takeaways from today are our return to robust profitability is on track. EBITDA is up $91.8 million to $129.1 million. Our balance sheet returned to normal metrics, net debt to EBITDA ratio of 2.6, enabled by strong operating cash flows and inventory reduction. We're reviewed our Synlait strategy and executive leadership team structure. On the 1st of August we successfully implemented SAP. Commercial production is on track to start in early 2023 for our Synlait Pokeno multinational customer, and last week we launched our food service cream up into China under the Joyhana brand and partnership with the Savencia Group.

All of this and more was delivered whilst navigating omicron. Our fierce commitment to keeping our people safe, keeping their families safe and keeping our facilities running was nothing less than inspiring. Our response resulted in no more than 5.8% of our team being out of action with covid at any one time. I'd like to take this opportunity to pay thanks to our staff throughout New Zealand and up in China for their significant contribution in very challenging times. I'd also like to thank the commitment and loyalty of our farmers and the support and understanding of our customers, again, during this very challenging period. I'd now like to hand over to our CFO, Rob Stowell, to take you through our financial performance.

Rob Stowell: Thank you, Grant. Good morning to all those online. It's fantastic to see our if FY '22 results showing a strong bounce back. Last year when we set the turnaround plan up and included several key actions to ensure we would return to robust profitability as follows, hyper management of our ingredients business, improved infant based powder volumes, growing contribution from our beverages and cream, Dairyworks and lactoferrin businesses, targeted cost savings from throughout the group, reductions in inventory, capital expenditure and the sale and lease back of our Auckland premises, which would drive debt down to more comfortable levels. As we move through the next few slides, you'll be able to see we have delivered on all of these actions.

Just turning to slide four, key financial metrics. Revenue was up 21% to 1.66 billion. That's a new record for us at Synlait. EBITDA was up 91.8 million to 129.1 million. Not a record but fantastic progress on where we were last year. Impact is up 67 million to 38.5 million, so a very solid bounce back from the group. Note the adjusted NPAT was 34 million. This was due to two significant one off offsetting impacts. The first was the sale and lease back of our Auckland premises for which contributed a positive 13.4 NPAT. The second is the offsetting impairment of the groups to move the cheese plant for 8.8 million NPAT. I'll expand on this in the coming slides. Total average milk price settled at $9.59 kgMS solids. This was a record for Synlait and one that we hope makes our milk suppliers very happy. Now this includes the base milk price of $9.30 plus premiums of 29 cents.

Operating cash was up from only 18.4 million last year to 232.9 million. Again, another record and a real highlight to results. CapEx tracked down 33% to $96.3 million. Pleasing to see the further step down, as we had planned. Net debt is down 29% to 341.9 million. Again, great inroads into our debt and probably for me the highlight of the results. Seeing this come down so much in only 12 months. It our debt ratios into a much more comfortable range, and you can see them listed on the slide. We move to the next slide, five. The improved FY '22 financial performance. This slide really demonstrates both the size of the turnaround and where it came from. If you cast your eyes to the right of the slide, you can see the increase in EBITDA. Below that is an NPAT bridge showing that how we got from our loss of 28.5 million last year to a profit of 38.5 million this year. I'll quickly summarise the key factors.

Firstly, ingredients delivered a $43 million margin growth due to better premium payments, sales phasing, and a product mix weighted towards skim milk powder versus whole milk powder. Higher sales volumes from our FY '21 inventory sell down. Lower cost structures, strong FX management. The next bar is nutritionals and that's delivered 27.2 million margin growth due to higher production of base powders. We also had positive impacts from similar factors as the ingredients business unit with cost reductions and strong FX performance. Our lactoferrin business continued to perform with a record sales of 37 metric tonnes, up four tonnes from last year. This included very firm pricing as we see continued strong demand from international infant formula brand owners. Next bar is beverages and cream which delivered 3.4 million margin growth. While we had some delay in our UHT cream business launch, which only just launched this month, we had some positive impacts due to the cost reductions and pricing model changes within our liquid milk contracts.

Consumer foods, otherwise known as Dairyworks delivered 7.4 million margin growth due to very good cheese procurement practises, slightly higher sales volumes and again improved cost structures including the idling of the Temuka cheese plant. The next bar there, offset, so we had some other income and costs which came through. They offset to about a hundred K. The key point here is those costs and income were mainly one off items unique to FY '22. It included such things as some reversals of inventory provisioning and write backs, legal claims, SAP costs that could not be capitalised, and higher freight costs. I'll expand on those later. The two large bars at the right of the graph, firstly the sale and lease back of the Auckland premises as mentioned, this contributed 11.9 million gain. It was canvased at our half year results, and the sale was completed to take advantage of the hot Auckland property market while maintaining operations and releasing capital for debt repayment.

The second is the impairment of the group's Temuka cheese plant of 12.2 million to reflect the decision taken by management and board to idle the plant for another 12 months. Management's going to continue to evaluate when the plant should resume operations. It was planned to continue in FY '23 but it was delayed due to other strategic priorities. Note while this impairment is disappointing, there's a non cash technical accounting treatment under IAS 36 where impairment needs to be taken when plans for resuming operations are considered uncertain. It does not take away from Synlait continuing to find a solution over the next 12 months. Moving to slide six, revenues and sales volumes. Overall reported revenue was up 21% to 293 million, which is a great result. This slide gives visibility by business units. The increase was mainly driven by ingredients, business being up 30% with higher dairy commodity prices being the main driver and also 5% higher sales volumes.

There was a record volume for us to shift in a challenging supply chain environment. Nutritionals business up just 2% and this was due mainly to higher input prices. Milk, raw materials offset by 850 metric tonnes lower volume. Lactoferrin volumes were up four metric tonnes. While not material on a revenue basis, it was material on a margin basis. I should note here that the second half volume for nutritionals were building nicely compared to our first half. Beverages and creams was up 22% due to a relatively small volume increase but a lot higher during commodity prices. Revenue would've been higher had we launched our new UHT product earlier in the year, but this was delayed to the start of FY '23. Consumer foods with Dairyworks was up 15% due to high commodity prices and 3% increase in volume, as the growth focus starts to shift to new products and other geographies such as Australia and Southeast Asia

Moving into production and inventory volumes. Overall production reduced 4% or 8,800 metric tonnes. This was mainly seen [inaudible] was mainly driven by higher production of infant based powder displacing ingredients products. Our milk supply was also adversely impacted by weather, some 4% lower milk volumes. We also sold significant cream volumes for good returns as we maximised the skim milk powder max due to price differentials between whole milk powder and [inaudible]. The AMF plant was fully utilised for part of the year, and nutritionals, there was a healthy increase of 48% in volumes for both consumer packaged and infant based powder production as we build for increased demand and second half of FY '22 and early FY '23. In beverages and cream, we saw stable volumes of production as UHT cream product launch was delayed until early FY '23. The decrease in production in consumer foods was due primarily to the temporary idling of the Temuka cheese plant.

Our closing finished goods inventory saw a massive reduction of 40%. This was down to the sell down of the ingredients products compared to the high level we had at the start of the financial year. Good reductions in our infant based powder holdings where it made sense compared to the FY '21 financial year, reduction of cheese inventories mainly due to the idling of the Temuka cheese plant. Just move to page eight to the gross margin performance. Look, this slide unpacks the business by business unit where gross margin was made. In total our gross margin was up roughly $80 million on last year. Now sitting at 146.8 million. This slide really repeats a lot of the summary information that is on pages five to seven, however gives them more detail, and shows progress we have made in each business unit, both in dollar terms and on a per metric tonne basis. I won't go through the detail of the slide on this call, but the information is there.

Moving forward to slide nine, operating cost performance. As mentioned earlier, we've made good progress on cost reductions across the group despite the challenging trading environment. Firstly, our organisational reset that we conducted in November last year made savings that were anticipated of roughly $7 million. However, this was partially offset by roughly $3 million as we brought on two extra premium and canning shifts earlier then anticipated, as demand rose and we also provided an out cycle wage increase to staff in May this year. Most of these savings at above the gross margin line, so not seen in the SG&A bridge opposite but improved our gross margin performance.

We did see 3.5 million on net cost increase in SG&A overall despite a 3.7 million of savings made. I won't go into the detail of these but they're outlined on the slide and relate to areas such as the Talbot Forest Cheese brand relaunch, COVID 19 cost to protect our sites, SAP costs which are non capitalizable, temporary employee costs and higher distribution costs. Costs will continue to be a focus in FY '23 if the company bids and SAP manages inflation pressure and the trading environment continues to be challenging. We just move to slide 10, cash flows net debt. We've made fantastic progress in this space. This has meant we continue to stay well within our extended banking arrangement set up last July. Key points on this slide, operating cash flows were up to 233 million, up 215 compared to last year. This was due to much better profitability performance as noted on previous slides and careful management of our working capital. We continue to reduce capital expenditure.

Currently we only have two major projects in flight. That's our SAP project which is winding down at the moment and our Synlait Pokeno project which winds down in December. We saw a reduction of 47 million on last year's spend and we see our capital expenditure tracking down to around $70 million for next year and we believe our operational kind of CapEx envelope is around 20 to 25 million per year, so we continue to track that down. We executed the sale and lease back of Auckland land and buildings in October, which gave us a gain of 17.1 million and brought debt down by 30.1 million. Net debt is down a massive number of 137.5 million since last July. This exceeded our expectations as we made faster progress on improving working capital and had less headwinds than we expected from supply chain disruptions towards the second half. You'll also see our guidance note that we are now targeting a lower debt ratio of between two times and 2.5 times for FY '23.

We move to our last slide. I just wanted to make a couple of points on our debt facilities and banking governance. Our banking syndicate, which is made up of the ANZ and BNZ have been usually supportive, and obviously pleased with the progress that was made this year and the headroom that's been created within our banking ratios. I'd like to thank the banks for their ongoing support. With the progress in our debt reduction and our bank debt up for renewal next year and our retail bonds the year after, we'll be reviewing our capital structure requirements over the next 12 months in detail. Finally, I'd like to thank our longstanding shareholders who have also been very supportive and patient over the last 12 months. That's a wrap on the financials. Back over to you, Grant, to take us through business performance and strategy.

Grant Watson: Thank you for that, Rob. Now what I'd like to do is give you a high level overview of our business performance, our refresh strategy, and give you an update on our outlook. In terms of our business review across the last 12 months, based on business functions and critical projects using the traffic light system we used at midyear. Firstly, cost structure review, that has been completed, taking some significant cost out of the business and reviewing the organisational structure. Working capital, debt, and treasury management are green also. Cash flow initiatives completed as explained by Rob. Improved sales phasing and inventory reductions and again, the sale and lease back of the Richard Pearse Drive property in Auckland.

The ingredients business had strong financial result. We appointed a new executive into that business and again, looked at the structure of that business unit. In the nutritionals business, recovery of the infant formula business, the lactoferrin business remains strong and all key growth projects are tracking on plan. Dairyworks delivered a very strong financial result and did a great job of improving their working capital position. Some very, very good progress across each of those five years. Where we have ambers, there's two key areas, beverages and cream. We did launch that food service product up in China last week. However, the delivery of that project was delayed.

We made significant progress in the last 12 months developing pipeline of globally recognised customers against UHT consumer product. Capital projects management, CapEx was down in FY ... Against FY '21 I should say, as explained by Rob. We implemented SAP, albeit delayed in time and an increase in CapEx off the back of that. Synlait Pokeno's new customer is on track. And then in terms of red traffic lights, operations performance, a very, very challenging year. We're in the process of rebuilding operational capability, both manufacturing and dealing with a very challenging supply chain environment and we are working with the integrated work system continuous improvement methodologies to strengthen our position operationally. We are adapting to post pandemic ways of working, ranging from making sense of labour shortages, high inflation, geopolitical dynamics and other challenges that I've mentioned.

Temuka cheese plant we've also classified as red, as mentioned by Rob. We've made an intentional decision to continue to idle that plant and as a result we've made that impairment. A brief overview of the business units. The ingredients business has made a very, very strong recovery delivering record revenues and record margin. A real focus there on disciplines as they relate to premiums, the phasing of our sales, optimising product mix and chasing the lead bucket which has been in favour of skim in this avenue. Delighted to appoint Adam Maxwell into the role of Director of Ingredients and you'll continue to see a similar level of focus across the business for the year ahead. In terms of our nutritionals business, we were very pleased to get the same registration for the old GB standard, which takes us through until the 21st of February in 2023. We're working hard with the A2 Milk Company, with SAMR and NPI to ensure that we get registration for the new GB standard, which we expect to get at some point next year.

Also working very, very closely with the A2 Milk Company around inventory cover as we look to phase out of one product and phase into the new product. And it goes without saying that the SAMR registration process is a very, very top priority across the business. In terms of nutritional base powers, we've built up a very good pipeline of potential future demand, acknowledging that there has been a slowdown in this space off the back of birth rates slowing down, particularly up in China. Lactoferrin, as already mentioned, demand is strong and prices are firm and then in terms of our multinational customer up at Pokeno, product trials are progressing. We're in the final stages of commissioning CapEx spending. Volume expectations remain on track relative to the contract and the tenure of that contract. Commercial production is planned to start in early 2023. In addition, we are working through trials later this year for new product opportunities that relate to the clinical nutrition category.

Also worth noticing that we are planning to have investor day up in Pokeno, in May, 2023. In terms of the beverages and cream business unit, clearly the launch of our food service cream just last week, we're also in the process of commercialising a UHT coffee beverage for an existing multinational customer. As mentioned, we've developed a very, very strong pipeline for consumer products through the UHT line and in terms of swap a bottle, we're working through the business case at the moment to understand whether we should scale up that opportunity or not. Does it make really strong financial sense? We've certainly had fantastic consumer feedback off the back of that great piece of innovation. In terms of our consumer business, so we're talking about Dairyworks there, a really, really strong year for Dairyworks. Record profit result, $18 million of EBITDA and that number is exactly on track with the forecast that we used when the business was purchased some two years ago.

That result was driven by strong procurement disciplines and improvement in the cost structure and increased volumes throughout the business. The business also consolidated their supply chain and went into one distribution centre, capturing bulk product and finished goods. During the year there was a refresh of the Talbot Forest Cheese brand and in fact this month we are now exporting that product over to Australia and have an exclusive arrangement in place with Woolworths in Australia. We launched spreadable butter in June and the Dairyworks branded milk and cream range was launched late last year and it's focused primarily on the food service channel. As it relates to sustainability, in terms of our off farm decarbonization roadmap, phase one is now completed with two significant investments there, one relating to an upgrade of a boiler to biomass and the other one was upgrading our EV max electric boiler. The benefit of that this year is reducing our greenhouse gas emissions by 38,000 tonnes and once these two assets are at peak, we expect to reduce 58,000 tonnes of greenhouse gas from the atmosphere, and that's expected in FY '26.

In terms of on farm, we've worked closely with our farmers and have incentivized them to reduce greenhouse gases on farm and provided a tool to help enable that. In 2023, we go through our re-certification of B Corp and for the first time that will include Dairyworks. Made With Better Milk as a brand, that really does capture our sustainability positions right through our value chain was recently launched as well and certainly very, very strong interest off the back of that with a number of customers. If we switch gears now, I'd like to take the opportunity to give you a very, very high level overview of our refreshed strategy and we will spend quality time with you at the AGM taking you through more of the detail. 2nd March we kicked off the process of reviewing our strategies by the four business units.

This was then signed off by the board in June, so between March and June there was an iterative process with business units and the board and in July we focused on the executional enablers that would drive that strategy, so that work has now been completed. Our next strat refresh will take place between May and July next year. In really, really simple terms, our purpose remains the same, doing milk differently for a healthier world. Our ambitions have changed and I'll take you through those. The core pillars of the strategy have also changed and you'll see as I take you through those that there is more focus attached to our four business unit strategies. Going into that process, some really, really simple underlying assumptions. We know that innovation disruption and sustainability is absolutely at the heart of Synlait, however, we acknowledge the need to be more focused to improve execution and improve accountability. We also appreciate we've been operating in an unprecedented crisis environment. Our competitors are improving their performance.

We acknowledge the need to deliver diversified growth across channels, customers, categories and geographies, but it's important we do that where we have a clear right to win or a clear competitive advantage, and we recognise that sustainability propositions are no longer a nice to have. In terms of the time horizons that we are working to, as I mentioned, we are one year into a two year recovery programme, so this next 12 months is very much around stabilising our business. Horizon one being year one, horizon two being year two. We then look to accelerate the business and then horizon three being years three to five is then looking at opportunities where we might extend into new territories.

Very briefly taking you through this strategy on a page, it's important to note that this is a consolidation of four business unit strategies on a page and the best way to think about this format is in box number one we have our ambitions, in box number two, it's being really clear on the strong foundations that we have and need to continue to invest behind. Boxes three, four and five being channels, categories and geographies really are the core pillars that relate to strategy. Box six, being right to win speaks to the competitive advantage model that we've developed and will continue to develop to ensure with our farmer suppliers we are their best choice as a processor and exactly the same thinking applies with the customer competitive advantage in terms of being their preferred supply partner. Box number seven, arguably the most important box on the page deals with the areas that will drive the greatest level of execution across our strategy in order for us to deliver against our ambition.

Let me just touch on a few areas. From an ambition perspective, it's about taking the already high standards that we deliver against under the B Corp framework and lifting those up even higher. It's ensuring that we have high staff engagement, that from a farmer perspective and from a customer perspective that we have very high levels of satisfaction and that from a return on capital perspective we deliver a minimum of 15%. In terms of channels, broadly speaking, operating across consumer food service and manufacturing and again that detail of channels sits within the individual business unit strategies.

From a category perspective, base milk powder, beverages and cream, AMF and butter, cheese, infant and adult nutrition and of course lactoferrin. Geographical areas of focus for us are very much China, selectively Southeast Asia, Australia and New Zealand. And just to be clear, it doesn't mean to say that we won't technically trade in other markets but in terms of where we put our resource, those are the key markets that we are focused on. We'll spend more time together at the AGM going through those competitive advantage models for our farmer suppliers and customers and when it comes to delivering fantastic execution, on-farm excellence is critical. Clearly customer engagement and staff engagement are both critical.

Systems, tools and processes speak to the need for us. As [inaudible] as an organisation. Our NTD, which is new technology developments, are completed in a very, very disciplined fashion and that we continue our journey of improving manufacturing and supply chain performance. It was communicated back in July we've adjusted our organisational structure to meet the refreshed strategy. You'll see that we have several vacant roles. We're currently working our way through the recruitment for those vacant roles and we will have a full leadership team in place for the first quarter of 2023. Looking forward, our priorities as a business are no surprise, embedding our new executive leadership team, ensuring that we enable the growth agenda of the A2 Milk Company, that we commercialise our multinational customer at Pokeno, the SAMR licence as mentioned, is a critical and top priority across the business, but we continue to grow our food service cream and consumer beverages business, that we stabilise SAP and we continue to adapt to the post pandemic world that we now live in. I'd now like to hand back to Rob Stowell to briefly take you through our guidance statement.

Rob Stowell: Thank you, Grant. Look, we've chosen this year to not disclose EBITDA impact guidance at this stage and that's just due to the level of market volatility and the risks that we see across the next financial year. It's fully our intention to get back to doing that as soon as possible. To summarise, what we see occurring next year, tighter management of our ingredients business, that'll continue. We probably won't have the one off foreign exchange gain that we experienced this year within that business unit and we'll continue to divert milk to higher margin products in the advanced nutritional business unit and food service business unit, as we see that coming through during the year.

We expect the performance of our advanced nutritional business to continue to build nicely throughout FY '23. Our new multinational customers will start to lift margins and improve FT utilisation both at Pokeno but also our Dunsandel liquids facility, and we've seen some good pipeline opportunities evolve on that plant which is encouraging. The consumer food business will deliver steady contributions as it maintains growth but also navigates the high cheese commodity prices that are prevalent at the moment, and it will continue to expand overseas, as mentioned through throughout into markets like Australia and Southeast Asia.

Just sticking to some P&L factors, costs will increase modestly, we expect that and that's due to our increasing volumes but also the fact that we need to stabilise our SAP system over the next few months. There's still high inflation, there's still supply chain pressures and that's on both sides. That's on the input side, raw materials and also export. As Grant mentioned, within our strategy we will be investing in certain areas of business development and also enabler activities within our operations and systems space. Operating cash flows, they'll continue to be robust, will continue to work hard on them.

They won't be at FY '22 levels. They were helped by tailwinds of their high inventory in FY '21, however, I expect them still be pretty robust in FY '23. Our debt to EBITDA ratio, we've placed that guidance between two times and 2.5 times that we're targeting. Still relatively conservative but we think it's the right range to guide on considering on a normalised basis our ratio is at 2.9 times at the end of FY '22. At the end of FY '23 that'll be the end of our two year recovery. As previously indicated, we intend on exiting FY '23 to FY '24 at similar levels of profitability experienced before FY '21. In layman's terms, we expect to be at similar levels of profitability that we were prior to the downgrade in FY '21. We're managing several risks. They include the SAMR reregistration timeline and the stock build that we need to do there. Tight labour market, inflation, supply chain pressures, they're all still very much there and could impact our result in FY '23. I will leave it there and hand back over to Grant.

Grant Watson: Thank you, Rob, and in terms of next steps before we go to Q&A, our annual meeting will be held on the 2nd of December at 1:00. You can either attend in person or online and we'll certainly through the presentations make sure that you are fully up to speed with the strategies and give you a sense for some of the execution elements that we are working on as it relates to advanced nutrition, ingredients, consumer, and food service. And as mentioned we will have an investor day up at Pokeno on the 8th of May including a site tour and again, you can expect a presence there from a number of our executive leadership team, giving presentations and of course plenty of time for Q&A. On that note, we'll now open the call up to questions.

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 headset to ask your question. Your first question comes from Matt Montgomerie with Forsyth Barr. Please go ahead.

Matt Montgomeri...: Hi Grant and Rob. Just checking you can hear me okay?

Grant Watson: We can, Matt. Yep.

Matt Montgomeri...: Perfect, thank you. Maybe firstly if I start on debt, so firstly well done on another good half of debt reduction but I guess looking forward, just interested in comments you can make around debt movements for '23 in light of your guidance for the ratio. Appreciate you don't really want to provide a number but I guess it'd be helpful if you could provide some more colour around that and potentially comment on the working capital balance today if you see that as a reasonable level going forward, particularly on the inventory front. Then secondly, somewhat related as I guess the extent of the operating cash flow decline that you are referencing in FY '23.

Grant Watson: Yeah, sure thing, Matt. Look, yeah, it's tricky. We were a wee bit conservative in FY '22. I think moving forward into FY '23 there's still uncertainty there but what I would say is, so if you back calculate the stock that we had on hand on FY '21, that'll take a bit of the ... Probably push us right down probably be above 150 million operating cash flows but it'll be below 200. We are expecting to, as mentioned, target around 70 million of capital expenditures so that will continue to track down as well.

Look, we do expect to have a large chunk back off debt at the end of FY '23, which will be good, and I'd like to see us targeting the bottom end of that range. From an inventory point of view, how sustainable is it? Yeah, there's still work to do there, to be honest. We have increased our stocks of raw materials because just a bit of insulation around our supply chain pressures. I'd like to see us moderate that back over the course of the year if we can and continue to work on even reducing some of our ingredients of inventory. There's plenty of opportunity there as well, I think makes that sustainable. Does that answer the question?

Matt Montgomeri...: Yeah, no that's useful colour, thank you. Then maybe if we stick on your guidance commentary, it's slightly changed wording from previously for '23. What does that actually mean in the sense in terms of the exit run rate? Are you essentially stating that you might start F '23 at a similar run rate to the second half in terms of profitability? And then come say the last quarter you might run it six mill a month NPAT or similar like you did in in F '20? Like we're starting at this base today and then ramping through the year, rather than saying 23 as a whole will be in line with that pre COVID or F '20 level? It's just rather opaque, I guess.

Grant Watson: Yeah, look, the major driver of our profitability is our nutritionals business and ... Sorry, we just have some technical issues here. The major driver is our nutritional business and what I will say is we expect in the second half of FY '23, that nutritional volumes start to ramp up to a higher level than what they were in the first half of '23. And we expect that to continue through into FY '24. That's really what's driving the profitability there, Matt.

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

Nick Mar: Hey guys, just a couple. The FX benefits, can you quantify roughly how much that was on a full year basis for improvements?

Grant Watson: Yeah. Look, you'll see in our accounts, Nick, and the balance of the accounts you see that our foreign exchange rate was very good compared to the industry. The EBITDA amount within ingredients probably sits in the range of around $12 to 15 million, so reasonably significant in the FY '22. What I will say, and I'll just add to that, we actually feel there's a lot of opportunity within the ingredient space to continue to offset there because while we did pretty well with our phasing and also our product mix differentials, we could have done a lot better and that came through in the second half, that kind of will offset some of that one off FX position.

Nick Mar: Okay, great. Then on the new UHT cream product, can you just talk through which part of the sort of supply chain and sales you are participating in? Is it purely sort of contract manufacturing for the other party or are you participating further than that?

Grant Watson: Yeah, thanks, Nick. We're effectively manufacturing the product. We jointly own the brand and Savencia basically have the front end in terms of sales and distribution.

Nick Mar: Okay, great. And can you provide any colours around targets you're looking for for this brand and how big it could grow? It's obviously quite a competitive space, UHT cream.

Grant Watson: Yeah. Look, we're really cautious at this stage and the reason that we ... I mean, it's a massive market, right? And there are some very, very strong players in the market. We just launched the product. We think that from taste, texture, functionality we are really, really well positioned to gain some good market share but look, until we get the product into kitchens, working with chefs and we see repeat orders come through, we are just very, very cautious to assume what that growth could look like. But we believe we have a very, very competitive product.

Nick Mar: Great. Then lastly, just on the raw targets, just talk through the sort of 15% number versus north of 20%, which the previous management were targeting, and is it to get there by '27 or could you do that sooner? What's the sort of trajectory of that?

Grant Watson: Yeah. Thanks, Nick. It's really to get there by FY '27 and I think there's a possibility we could there sooner, definitely, but I just think we need to be conservative on that front, it just depends on how volumes ramp up over time.

Nick Mar: Sorry, and just the first part of the question, how it compares to the north of 20% the previous management were targeting?

Grant Watson: Yeah, look, we have pulled that level down, Nick. We've just looked at looking at our 10 year plans and we have reduced that outlook.

Nick Mar: Yeah, so what are the sort of drivers behind that? Is that the margins run realistic, the cost to run the plants? Is there any specific factors?

Grant Watson: I think the key factor is we're still targeting the same strategy, the same sort of business. We just don't expect it to ramp up quite as quickly as we did previously.

Nick Mar: Okay, great. Thanks a lot.

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

Stephan Ridgewe...: Yeah, good morning guys and well done on the improved result and particularly the improved cash flows. Just wanted to talk about your ... Well, ask a couple questions on A2 and the backup options for the company. I mean, you would've stay in the result from A2 last month where it's reminded the market that it's planning to insource manufacturing margins at Tora Valley over the medium term. Can you perhaps just talk a little bit to the degree to which that's already happened? What are your assumptions on the degree to which that happens in FY '23 and perhaps over the next few years and the guidance you've provided for that? So EBITDA run rate, exit run rate.

Grant Watson: Yeah, look, clearly I won't get into too much detail around the commercial arrangements we have with the A2 Milk Company. We've got a very, very good relationship. Our contract that we have in place certainly allows for A2 to produce their own stage four ANZ. The A2 Milk Company has got a very strong plan in place to grow their business and we are lined up right behind them to enable that growth.

Stephan Ridgewe...: I guess if you think medium term, if A2 does continue to insource to the extent they seem to be telling their investors they will, is that exit EBITDA run rate guidance that you've guided to this year sustainable was kind of the key question?

Grant Watson: Yeah, look, the guidance is very sustainable. We've got very, very clear demand signals from the A2 Milk Company for the year ahead, so we stand behind our expectation.

Stephan Ridgewe...: Okay. Then just maybe second question, you've talked to strong progress, trying to find new base power to customers including China, but no new contracts at this point. When would you be hopeful that you might be able to come to the market and perhaps with some new customer wins?

Grant Watson: Yeah, look, we've got a really healthy pipeline and certainly when we have material information to update the market on, we will. The key driver there, Stephan, is a slow down in birth rates off the back of COVID. It literally for us just means a slow down around that expectation that we had say a year ago.

Stephan Ridgewe...: Okay, thanks. Can I sneak in one more? Just a capital structure review. When you sort of allude to that, is that going to include consideration of equity side, potentially a dividend policy or is that review more focused on debt structure?

Rob Stowell: Hi Stephan. It's Rob here. Look, it is going to include equity or dividend policy, so both [inaudible] and dividends will include that within that review. It's quite a detailed review. I think it's just time to do it as we see our debt coming down quite quickly and we look at what we need over the next three or four years.

Stephan Ridgewe...: That's very helpful, thank you.

Operator: Thank you. Your next question comes from Richard Barwick with CSLA. Please go ahead.

Richard Barwick: Thank you. Hi Grant. Hi Rob. Can I just understand or just talk a little bit more about this timing for the new GB recipe approval and what it means for the risks around inventory for Synlait and how that sort of balance of risk sits within Synlait versus A2? Obviously the later the approval coming through, the greater difficulty in transitioning from the old recipe inventory to the new recipe inventory. I'd just be curious to understand or to hear your explanation as to when you're transitioning and you're making the product, at what point is A2 on the hook for that inventory versus Synlait? Because you could easily get a situation if this approval comes through very late to that February date and you've got a lot of inventory under the old registration and not much of the new and you'll have a customer set who will be much more interested in buying the new recipe.

Grant Watson: Yeah, thank you, Richard. Maybe if I just talk through firstly at a very high level what the timeframes are that we are working to. We're currently working our way through the technical review process with SAMR. We put forward a dossier, they request feedback, we work through that together. That will take place between or is taking place and we'll expect that to conclude between now and the end of the year. Early next year, we would then expect to be audited by SAMR, which would be effectively carried out by NPI, and then at some stage next year we would expect all things going well, we would expect to get our registration for the new GB standard. What we've done with A2 is that we've worked up a whole range of scenarios as to how those timings could move around and then off the back that what does a phase out, a ramp up look like?

Obviously that speaks to the need to build up inventory but before the 21st of February and then once we get registration, on the basis we get registration, which we're expecting to, we would then be ready with all of the right materials and base powders to then go into production against that new GB standard product. Look, there's no point getting into any detail. We've got one core assumption that we're operating to, a number of different iterations around that and we're confident that between A2 and ourselves, we're confident that we'll ensure the market has product on shelves. And look, we will manage the risks around transition together in the true spirit of a partnership.

Stephan Ridgewe...: Do you feel that ... I mean, if you look back in relatively recent history, it felt like Synlait got the raw end of the deal on some of those inventory situations with A2 when they pull back their, I guess their sales targets and that put you guys in a very, very difficult position. I guess the risks are you could end up in another difficult situation. Is the relationship, does that take that into account, the previous scenario where it felt like Synlait did carry more of the burden than A2?

Grant Watson: I think it's fair to say that the learnings have been banked on both sides from the challenges of FY '21. This is such a critically important piece of work for both organisations. We are joined at the hip on all fronts as to how we navigate our way through this. Again, to ensure that we keep product on shelf up in China through a period of transition.

Stephan Ridgewe...: Yep. Okay. All right. Thank you. That's helpful.

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

Marcus Curley: Good afternoon. Can we just start with your outlook for the adult nutritional business? In previous results, you've given some loose guidance in terms of volume expectations. Can you talk about what would be an appropriate range for this year?

Rob Stowell: Hi Marcus. It's Rob here. You mean nutritional powders, our nutrition, is that what you're talking about?

Richard Barwick: Yeah, adult nutrition out of Pokeno.

Rob Stowell: Yep. Look, the plan is I placed to have that commissioned in December. January we'll start making products on the line, then we'll be exporting product at the end of Q3 of the financial year. The volumes are materially the same as what we anticipated previously and we're working very hard towards that.

Marcus Curley: Okay. The same question on the liquid cream into China. Can you give us any colour on your volume expectations for this year?

Grant Watson: We're fairly cautious at this stage, Marcus. Again, it's really important we understand how the product responds in market and get a sense as to what demand could look like. We are very cautious but we expect certainly heading into FY '24 that we'll have a business that's growing and will set us up nicely for the future.

Marcus Curley: Then on lactoferrin, could you talk to the contribution that made at the gross profit level or at the very least of directional colour on gross profit contribution from lactoferrin in FY '22?

Rob Stowell: Yeah. Look, lactoferrin, it continues to be a really strong contributor, Marcus. I probably don't want to disclose that at the moment, but if you look at market prices for lactoferrin and look at our volume, it'd be quite easy to work it out.

Marcus Curley: Well to be fair, there isn't a market benchmark for pricing unless I'm wrong. An indication that we have had is lactoferrin prices are significantly down over the course of the last 18 months.

Rob Stowell: Yeah. Look, we've seen really strong evidence of robust pricing and the reason we're seeing that is because a lot of the major lactoferrin manufacturers that are putting product into China are putting that into their products. From our perspective we're seeing very strong signals from a number of international players. I probably don't want to say anything more than that, Marcus, at this stage.

Marcus Curley: And how about on bulk infant formula? Could you give us any colour on the volumes achieved on that part of the business this year?

Rob Stowell: Those volumes are very, very small, Marcus, of our whole result. Very small, immaterial.

Marcus Curley: Okay. And finally, you mentioned I think $70 odd million worth of CapEx this year. Could you give us a breakdown of what's in that?

Rob Stowell: Look, it is mainly just the tail end of our ERP project, the Pokeno project and a couple of smaller sustainability projects and an RO project. We put in reverse osmosis into the dryers, that's going to allow us to process more milk in the future. We signalled that previously. That's basically it and the rest is operational CapEx and a cheese line at Dairyworks.

Operator: Thank you. A reminder to please limit your questions to two per person. Your next question comes from Adrian Allbon with Jarden. Please go ahead.

Adrian Allbon: Oh, good afternoon team. Just first question, I guess following on a little bit from what Marcus was asking about the nutritionals gross margin per tonne, if you do take out an estimate for lactoferrin, it looks like your GM per metric tonne for if you like the infant formula stuff to A2 feels like it's sort of either sort of around 1300 per metric tonne to about 1500 in the second half. It's still 45, 50% down on what you would've been achieving in FY '20. Can you provide a bit of a bridge on that delta?

Grant Watson: Yeah. Look, it's hard to supply the exact details, Adrian, but basically the key reasons the margins lower is our base powder manufacturing engine just still haven't caught up with the consumer packaging. In FY '22, our consumer packaging production was kind of in line with demand, but our infant base, our engine, while better than the previous year was knowing there what it was back in FY '20 when we're building base powders for increased value for the following year, the following years when demand was going up. That's kind of how it works.

Adrian Allbon: Okay. Given that some of your previous comments were you saying that the volumes have been building nicely through the second half, and you're expecting further into '23, we should assume some leverage back in that, in the '23 guidance?

Grant Watson: Absolutely.

Adrian Allbon: And in terms of ... Sorry, this is all within the same question, in the 2700 that was sort of like the FY '20 sort of level, what sort of level ... Is there any sort of reason why it couldn't get back to that?

Grant Watson: No. Look, I think ... No, I don't think there is actually. I think providing we can continue to become more efficient as a producer. We've got the Pokeno site now so we need to make sure we continue to look at filling that site up and running our plants more efficiently in Dunsandel, as well. It probably just depends on the timing of the inflationary pressures and how that affects wage rates and all that sort of stuff within our cost base as well.

Adrian Allbon: Okay. And maybe second question, probably more for Grant, just in terms of some of that strategy refresh stuff on the slides, like you mentioned developing a 10 year asset footprint and in '23 and implementing it in Horizon two. Can you give us a sense of on that '27 ambition of a of return on investment capital or capital employed around the 15% mark, are you thinking about a sort of stable capital employed number from the sort of 1.1 billion now? Or are you thinking growing that, are you thinking reducing that with potential of dividends and stuff like that? Can you just give us a sense of what you're thinking there and what that asset footprint would be?

Grant Watson: Yeah, sure. Yeah, the really important point there is that off the back of the refresh strategy we need to give thought to what categories and assets we will invest in. We'll work our way through that process in the next 12 months. Certainly when it comes to the return on capital number that we've stated and the strategy, that comes off a bottom up build. We've factored into the equation clearly a revenue series product mix and we've made some initial assumptions around capital investment, whether it be health and safety, food safety, basic business continuance, all the way through to RO type opportunities. It's fairly high level at this stage but it is bottom up and we'll be in a position to firm up our thinking in the next 12 months once we have completed that 10 year asset footprint.

Adrian Allbon: But I guess at this stage, should we be ... You're not talking about new plants, right? We're talking about optimising existing stainless steel footprint on this horizon, presumably? Given what you've just narrated back in terms of health and safety and stuff like that.

Grant Watson: Yeah, look, our key focus right now is to utilise the existing capacity we've got. Clearly Pokeno is a great example. The liquids plant in Dunsandel is a great example but certainly if there's compelling opportunities to invest behind more capacity then we'd look to do that. We'll work out as Rob said, we'll work our way through a process in the next 12 months around cheese at Temuka. Again, let's complete the plan and then we can give you more flavour to that this time of 12 months.

Adrian Allbon: Then just maybe, sorry, just related probably to the '27 timing, presumably that would be, if there was a significant loss in the A2 English label volumes, that would be sort of happening around that time as well? What are you thinking in terms of that target and potentially the risk around that event?

Grant Watson: Look, we've got plans in place to grow the business, to reduce concentration risk and that relates to customers categories and geographies. As much as that might be one scenario and could have a negative impact on us, there are many other scenarios that could have a positive impact on us.

Adrian Allbon: And those are the ones that through the presentation you're sort of alluding to, like the beverages customer, multinational execution and also which is the one that beverages and cream I presume is the other one?

Grant Watson: Yeah, I mean look, there's a whole range of obvious opportunities for us. Again, filling up the Pokeno asset, the beverages plant, the space power opportunities throughout Southeast Asia and up into China. There's a whole range of opportunities for us. And look, we'll give you more of a flavour when we take you through the strat work in early December.

Adrian Allbon: Okay. Sorry just-

Grant Watson: Yep, go for it, Adrian.

Adrian Allbon: Sorry, maybe if I clarify it this wa. Over the next couple of years, should we be expecting quite a strong free cash flow yield off Synlait, as you fill up the plant, the CapEx come down? Or should we temper that by quite a lot of reinvestment in terms of achieving some of these customer outcomes that you've sort of talked about? Just trying to understand the mix of thinking around that. I know it'll ultimately turn up in the dividend policy when you come forward with that, but just give us a start on that.

Rob Stowell: Yeah. Adrian, it's Rob here. I think as Grant said, there is plenty of opportunities, but we do have reasonable amount of excess capacity in our assets, so we will work hard to fulfil that. Free cash flows, you're right, they're going to be coming through and so we will balance that. If we've got really high value [inaudible] to invest in, we'll do that. Otherwise we'll pay out dividends is probably where we'll get to.

Adrian Allbon: Okay, no problem.

Grant Watson: Tim, we have the opportunity for one more question.

Operator: Thank you. Your final question comes from Tim Hunter with NBR. Please go ahead.

Tim Hunter: Good morning. Thanks for the presentation. I just wondered if you could just clarify the situation around the new certification from SAMR. You mentioned that you're expecting to get that approval sometime next year. I know you've answered one question on this already, but I just wondered if you could say a bit more about what happens if that decision happens much later in the year than February? How that transition goes over from making the original recipe to making the new recipe, how that will work.

Grant Watson: Yeah, good question, Tim. Look, there's two factors for us to consider. One is the ability to build inventory and make sure that we've got enough cover on that transition period, and we're really well positioned in that regard. The second clearly is consumers' expectations around freshness of product in the market. We are very aware of that dynamic as well. There are other ways of accessing the China market, so an obvious would be through an online feedback type channel, which would allow us continued access into the market, albeit through a different channel. We've worked through a number of those scenarios and we've believe between the two organisations, we've got a plan in place that will address that type of outcome.

Tim Hunter: Cool. Thank you.

Operator: Thank you. That's all the time we have for our question and answer session. I'll now hand back to Mr. Watson for closing remarks.

Grant Watson: Thank you again for your time today. We look forward to engaging with a number of you one on one during the coming weeks and would certainly appreciate the opportunity to provide more flavour around our strategy refresh at the AGM in early December. Thank you again for your time.

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

[END OF TRANSCRIPT]