



**HALF YEAR RESULT
CHAIR AND CEO REVIEW**

For the six months ended
31 January 2023



RESULTS AT A GLANCE



▽ 3%
\$769.8M

REPORTED REVENUE



▽ \$23.1M
\$4.8M

NPAT



▽ \$6.8M
\$8.9M

ADJUSTED NPAT¹



▽ \$16.9M
\$51.5M

EBITDA



▽ \$3.1M
\$55.0M

ADJUSTED EBITDA¹



▽ 11%
\$8.50kgMS

FORECAST BASE MILK PRICE FOR 2022/2023 SEASON

▽ \$241.9M
(\$124.7M)

OPERATING CASH FLOW

▽ 27%
\$33.5M

CAPITAL EXPENDITURE²

▲ 32%
\$518.6M

NET DEBT

▲ 18%
\$81.7M

REPORTED GROSS PROFIT

All comparisons are to H1 22:

¹ Refer to slide 5 of the Half Year Results Investor Presentation for reconciliation of adjusted NPAT and EBITDA.

² Based on cash outflow.



Simon Robertson
Chair

MESSAGE FROM OUR CHAIR

Purpose mixed with passion

I am a strong believer in purpose. Synlait's purpose, *Doing Milk Differently For A Healthier World*, runs deep within our people, and I want to start by acknowledging their work. As I look around our organisation, I am impressed. I see a team who have a desire to see Synlait make a positive difference and are proud of the part they play in our progress.

Our two year recovery has become three years. The recovery has not been easy, but the groundwork has been laid for the next stage of our journey. The Board appreciates the effort and change for what we needed to achieve. Without our team's passion and commitment, we could not have reset our business and invested in a future which will create a more resilient Synlait.

Plans

The building blocks to create a truly successful Synlait have been put in place over the past 18 months. For example, we are:

- Ready to onboard our new multinational customer at Synlait Pokeno;
- Progressing with securing The a2 Milk Company's China label registration;
- Starting to leverage the significant investment in our world class enterprise resource planning system, SAP; and
- Building a presence in China's Foodservice industry with the JOYHANA branded UHT cream.

These significant pieces of work set us up for an exciting future of diversified growth for a stronger Synlait.

As Synlait's new Chair, I believe a key role of the Board is to ensure our strategy remains fit for purpose. Our operating environment is challenging and intensified by extreme weather events, geopolitical tensions, pricing pressures and talent scarcity. With this as our backdrop, we need to keep our eyes forward and support Grant and his team to encourage new and different ways of thinking. Upweighting the strategy function within Synlait will help us explore trends and test new ideas that could shape our organisation and industry going forward. We must also harness the passion of our people and use it to further build a culture focused on performance.

Partnerships

Finally, Cyclone Gabrielle and recent flooding events have been very challenging for our North Island farmer suppliers and painfully difficult for communities beyond our geographical catchment of milk supply. We have been extremely fortunate to collect all milk during these challenging times.

Our farmers and team have worked together to maintain supply while supporting everyone's wellbeing, including our animals. The strength of community and partnerships in such situations stands out for me.

It is my first time writing to you as Chair of Synlait. I have known many of you as a Director, and I hope you can sense my passion for our organisation. I am excited and energised by what comes next for Synlait. Thank you for your ongoing support and appreciation for our journey.

Regards

Simon Robertson
Chair



Grant Watson
CEO

MESSAGE FROM OUR CEO

OUR TWO-YEAR RECOVERY BECOMES THREE YEARS

Our Synlait strategy has become more focused, and tactically we are delivering better quality execution. We have aligned our organisational structure to our refreshed strategy, and capability and accountability are lifting. While underlying momentum is increasing, our full financial recovery will take longer than expected. A two-year recovery has become three years.

I want to acknowledge the tremendous efforts and determination of our team. We have navigated Advanced Nutrition demand and production changes, operational stability challenges, and implemented SAP, as we continue laying the foundations for the next phase of Synlait's growth.

Adapting to a new way of working – implementing and stabilising SAP

As indicated in December 2022, implementing our new enterprise resource platform, SAP, was an

immediate challenge for Synlait as we entered FY 23. Our first half result is heavily impacted by the disruptions caused by implementing this system on 1 August 2022, which significantly impacted our ability to release and ship products to customers during the first half of the financial year.

While the implementation period required our teams to adapt to a new way of working, the increased rigour and accountability that SAP brings will improve our efficiency, customer experience and regulatory compliance, enabling us to make better decisions. Once fully embedded, SAP's streamlined workflows and automated processes will outweigh the short-term disruptions. Investing in the appropriate resource to support our people to adapt to a new way of working was critical to ensuring business continuity.

Delayed shipments of Ingredients resulted in lower sales volumes (down 48%) in the first four months of

FY 23, significantly impacting first half profitability. On a positive note, our Ingredients business export run rate returned to near-normal levels in late Q2 FY 23, demonstrating progress made. Furthermore, our sales contracting margins have benefitted significantly from following the skim milk powder/AMF lead bucket.

Implementing SAP was the right decision. However, our readiness was not where we needed it to be. We are no longer a start-up, but rather a global multi-site business that manufactures and exports products to more than 50 countries. We invested in SAP to strengthen Synlait for our future growth. Despite these stabilisation challenges, the system provides the foundations to do this.

Operational stability and cost challenges

It has been three years since New Zealand reported its first COVID-19 cases. While our health response

has normalised, a challenging trading environment continues, with the pandemic a catalyst to several macroeconomic factors that continue to impact the stability of our daily operations.

A range of challenges, several driven by COVID-19, have created impacts across Synlait, including a reduction in milk processed, raw material supply challenges, CO₂ shortages, a tight labour market and extreme weather events. This is on top of high inflationary cost pressures across every part of our business.

There are no signs of these challenges abating, and we are constantly reviewing how this impacts our broader set of Synlait stakeholders, particularly at the farm gate. Since our last result, we have revised our farm gate milk price forecast twice due to subdued global economic activity and a slower-than-expected recovery of Chinese demand following COVID-19.

We are conscious this is unwelcome news for our farmer suppliers, who are experiencing significant on-farm inflationary pressures, including feed, fertiliser, labour, and interest costs.

Climate and on-farm resilience

In addition to the above cost challenges, our North Island farmer suppliers and team members experienced harsh weather conditions in early 2023. Extreme weather events and inflationary pressures on-farm reinforce our decision to elevate milk supply to the Executive Leadership Team with the appointment of Charles Fergusson as Director of On-Farm Excellence & Business Sustainability.

The Synlait Farmer Leadership Team was also established and has met several times. These eight farmers are a conduit between Synlait and our farmer supplier base. The team provides feedback and direction on Synlait's strategic choices and prioritisation of tactics. Constructive challenge and healthy tension will always be welcome around this table. Synlait and our farmer supplier base will collectively become stronger through leveraging this team.

These actions will help ensure we maintain and grow our milk supply. We have always had a clear milk recruitment strategy that leverages our purpose, *Doing Milk Differently For A Healthier World*. No matter how competitive the raw milk environment becomes, these actions will further strengthen Synlait's position.

Financial guidance

Updating shareholders on Synlait's expected FY 23 performance so close to our half year result reinforces the challenging period we are operating in. The net profit after tax (NPAT) guidance range of \$15 million to \$25 million is driven by a reduction or delay in advanced nutrition demand and production, operational instability, and ERP implementation challenges. It is clear that our two year recovery will take three years.

I am however very encouraged by the performance of our Ingredients and Consumer businesses and the growth opportunities in our Foodservice business. While our full financial recovery will take longer than planned, momentum is building. Our leadership team are committed to stabilising

Synlait to ensure we have strong foundations to deliver sustainable, profitable, and diversified growth across all the channels, categories, and geographies we operate in.

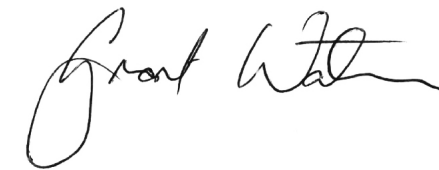
Closing comments

At the heart of Synlait lies a deep commitment to health, safety and wellbeing of our people. In November, we launched Synlait Safe, our internal commitment to protecting our people. Nothing we do at work is worth getting hurt for, and Synlait Safe changes how we think, talk, and action safety. It has already achieved a significant step change, with a 17% reduction in our Total Recordable Injury Frequency Rate since the campaign began.

I am thankful for our team's unwavering commitment to driving Synlait forward. Amidst a challenging landscape of cultural transformation, financial pressures, and macro forces, our people's ability to manage competing priorities is making a real difference. Synlait Safe will ensure we never lose sight of our most valuable asset: our people. After all, it is our people who make Synlait what it is – and who hold the key to our success.

To our shareholders, thank you for your loyal support. Our full financial recovery is slower than planned. The focus remains on paying down debt and delivering sustainable, profitable diversified growth. We have yet to deliver on this, but our turnaround journey continues with great passion and hard work.

Ngā mihi



Grant Watson
CEO

