**TRANSCRIPTION**

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Hannah Lynch: Good morning, everyone, and welcome to Synlait Milk Limited's Half Year Results Conference call. My name's Hannah Lynch, I'm the head of strategy and Corporate Affairs here at Synlait. I'll shortly hand you over to our CEO, Grant Watson, and our CFO, Robert Stowell, who'll provide a short overview presentation of today's results. We'll then open the line for Q&A. I ask that when we reach theQ&A portion of today's presentation that you keep your questions to two per person. If you have any follow-ups after the call, please feel free to reach out to me directly. Over to you, Grant.

Grant Watson: Thank you, Hannah, and again, welcome to our half year results investor presentation. In terms of the key takeaways from our update today, there are five. The first is that our two-year recovery will now take up to three years and while underlying momentum is lifting in the business, the recovery will take longer than planned. The second is that operational stability and cost challenges have impacted performance. There's been a range of economic and climatic factors that have impacted the stability of Synlait's daily operations. Number three, re-registration for China market access continues to progress. We are on track for re-registration and commencement of production and Q4 of FY23. Number four, business unit diversification builds. We've delivered strong performance through both our consumer and ingredients business units, and we've now commercialised UHT cream up into China. Number five, executive leadership team transformation is well progressed. We are lifting the capability, the culture, and the accountability of our leadership team. I'd now like to hand over to Rob Stowell, our CFO, to take us through our financial performance.

Rob Stowell: Thank you, Grant. Good morning to all those online. There's no doubt this has been a very tough six months to navigate. Not only the fact that we've had four big programmes to manage concurrently with our ERP implementation project, China SAMR registration, the multinational customer Pocono upgrade and the launch of our Joyhana UHT cream brand into China, but we've also had to deal with the ongoing supply chain disruption, tight labour market, and of course inflationary pressures all at the same time. However, even with these short-term challenges, there are bright spots in our results. I'll try to highlight these throughout the summary.

 If we turn to page four, results at a glance, revenue is down 3% to 769.8 million. Revenue is impacted by our ERP implementation. Impact is down 23.1 million to 4.8 million. However, it's important to look through these numbers as there were one-off factors in both six month periods. Our normalised impact was 8.9 million versus last year's 15.7 million. We get there by adjusting out the sale and leaseback of our Richard Pearse Drive buildings in Auckland that we completed last year. The second is by adding back the one-off SAP and derivative costs across both years. EBITDA on a normalised basis is down 3.1 million to 55 million. The base milk price is forecasted at $8.50 per kilogramme of milk solids, which is still relatively high by historical standards, but as we all know, farmers have experienced rapid cost inflation, tight labour market and rising interest rates also.

 Operating cash was down 242 million to -125 million. Again, a very big drop from last year mainly due to the impacts of our ERP system implementation and the challenges around product release and sales. CapEx tracked down by 27% to 33.5 million. Pleasing to see this further step down as planned. Net debt is up 32% to 518.6 million. Again, this is disappointing to see a debt come back up again after progress that we've made in previous periods. However, a lot of this corresponds to the ERP system challenges we've experienced in the first half and also some of the cost increases that we've seen.

 We just turned to page five. This slide unpacks the result in a little bit more detail. If you cast your eyes across to the bridge on the right-hand side, you can see it takes our adjusted impact from last half year to our adjusted impact of 8.9 this year. I'll quickly summarise the key factors. Ingredients delivered a 2.2 million margin loss due to the volume impacts of roughly 48% less ingredients products coming through in the first six months. This was mainly due to our ERP challenges and this had a negative impact of $16.8 million. To counter that, we had positive margin impacts from the excellent skim/AMS stream returns that we received in the first six months. This was also in light of the strong FX gains that we had last year. So this is a really positive result and will mean that this bar will turn into a positive bar in our second half, and a big shout-out to our ingredient sales team on some excellent selling practises this year.

 If we turn to advanced nutrition margin reduction of 1.3 million. Again, there's two parts to this. The first part is we've had a positive volume impact of 7.2 million. This is from a further 3,600 of packaged infant formula offset by slightly lower lacto volumes in the first half. The negative margin impact of 8.1 million is driven by a couple of things. Firstly, the lagged nature of our infant pricing model. Also, the large increases in manufacturing overheads across people, milk collection, energy, and R&M, are really hitting this business unit, offset by some higher volumes of base powder. So again, disappointing to see that bar with a down arrow, but mainly due to this rapid cost inflation that we're seeing coming through.

 Consumer foods, which includes dairy works, is a really positive story. We're seeing a 9.4 million margin growth here and really good to see this part of the business performing better. The main explanation here is we've had a large margin uplift, which is down to several factors. One, the pricing mechanism is working for us this year as opposed to last year, where it worked against us. The other factors are the operating with much lower overhead costs and the ongoing idling of the Temuka cheese plant has had its full effect coming through into to this year. So it's a really good news story there.

 Milk trading. Look, this area's becoming more and more important for us as we trade milk in both the north island and the south island, and also this year, we've had a lot of cream sales due to the fact that we're pushing our skim milk powder lead bucket. Again, these contracts have performed well for us this year. The adjusted sales SG&A costs have increased 11.6 million. We'll come to this in another side slide shortly, but the material drivers are really across employee costs, travel, consultancy, logistics and general inflationary pressures. We've also split out the reoccurring ERP costs. We've estimated the ERP system's going to cost us around about 10 million per annum, 6 million of which is depreciation and the other 4 million is really around support costs and licencing. So there's a $5 million that we've pulled out for this half. And of course interest costs. The interest costs have really increased mainly due to wholesale interest rates lifting, and this doesn't include the fact that we've increased our inventory levels due to the ERP implementation.

 So that's a fly through of the half year results and the key moving parts. If we move to slide six, revenue and sales volumes. Overall, the reported revenue was down 3% or 20.8 million. This slide simply gives more detail on the key movement, so I won't dwell on it other than to say you can see the most dramatic drop comes from ingredients being down 41% or 172 million. Also to note is your advanced nutritional business revenue was up 32% or 56 million. We turn to page seven, production and inventory volumes. Overall production reduced 5% or 6,500 metric tonnes. This is mainly due to the ingredients volumes being driven down by high production of infant base powder displacing ingredient products. Also, our milk process was down 1.6% due to us maximising the skim milk powder lead bucket, meaning we sold surplus cream to other processes for periods during the first half when we were at capacity.

 Closing inventories were up 22% due to the ERP challenges constraining sales in the first half. We've now now got those challenges well under control. In advanced nutrition, there was a healthy increase of 110% in volumes for both consumer packaged and infant base powder production. As we successfully supported the a2 Milk Company both for sales and stock bill for the SAMR registration day. In consumer, we had a relatively stable volumes of production. In food service, we made 328 metric tonnes of food service UHT cream as we started to commercialise this business. Reports back from market are that the product is of a high quality and demand is very strong, hence we expect a much stronger second half volume built. Raw materials inventories are up 62% due to the following three reasons. Costs of raw materials have been pushed up significantly by global inflation, high yields of projected base powder manufacture, Customer S preparation and cheese holdings require another 25% of volume holdings. We also increased our safety inventory in some areas where we were seeing risk.

 We turn to page eight, gross margin performance. In total, our gross margin was up 18% for 12.6 million on last year. This is another bright spot in our results, now see it sitting at 81.7 million up from 68.1 million last year. This slide really repeats a lot of the summary of information that we have on pages five to seven. However, it gives more detail and shows the impact by each business unit on a per metric tonne basis. So I won't go into further detail on this call, but the information is there.

 Page nine is really explaining what's happened to our costs. So you got the SG&A costs and the manufacturing cost performance. So as mentioned earlier, we have been impacted significantly by rising costs and we've given visibility to what is driving the makeup of these costs in both manufacturing and SG&A. In short, there are many reasons, but the main themes are as follows: We have increased our people costs in response to a very tight labour market. We've similarly felt it necessary to give market based pay increases to retain and attract new talent. Supporting the a2 Milk Company with stock fill, we employed three extra shifts to meet the demand required by the 21st of February and ongoing. We've also started to build resource and the readiness of that Customer S business in Pocono and we've continued to make changes to our executive leadership team.

 We have had extra costs incurred on our ERP implementation While we went live on the 1st of August. We've had to spend more than anticipated on hypercare and stabilisation phases of the project. This was critical as we sought to assist staff, get product out the door. While there are several other factors such as increases in travel, higher levels of R&M due to a couple of one-off events and the overwhelming driver to our costs have been pushed up by strong inflationary pressures. The key focus of the next 12 months will be how we can further mitigate these increases and costs.

 We turn to slide 10, cash flows and net debt. Look, I'll be blunt, cashflow and net debt reductions have been challenging through the period. We've had constrained sales, increases in costs and further invested in raw material inventories. This has meant our debt has resident 176.7 million on where we were a year ago. In saying this, while we feel like this is kind of one step forward and two steps back, we still remain comfortably within our banking arrangements. Key points to note in this slide, operating cash loads were 242 million down on the previous half year due to reasons already mentioned. We have continued to reduce capital expenditure, we've wound up our ERP project and are in the tail end of the works at Pocono upgrade. Operational CapEx came in at a similar level to last half year, which is around about 18 million.

 Net debt is up 518 to 518.6 million since last July. This is high due to the timing differences in ingredients business, inventories of raw materials and cost increases. While we have been comfortably within our limits, reducing this debt level is important to us and continue to be a focus in the medium-term. You'll also see that we've given some guidance around our debt ratio. We're now guiding to between three times and 3.5 times for FY23, and as per our guidance statement, just over a week ago, we see EBITDA being lower and debt being higher as at 31 July 2023. In regards to our banking facilities and debt structures, our banking syndicates made up of both ANZ and BNZ have continued to be hugely supportive over the last six months. We have our facilities up for renewal at the end of this year and our retail bonds the year after.

 We're well into this review on how we optimise our debt funding models over the next few years. To be clear to the audience, we are not looking at equity options. We will be able to give you more details on the direction of our thinking at our investor day on the 8th of May. Look, that's a wrap on the financials. I'll hand back to Grant to take us through the business update.

Grant Watson: Thanks for that, Rob. I'll start off with an update around our advanced nutrition business. We had Naiche Nogueira join the business as Director of Advanced Nutrition in January. He is already making a fantastic impact within this business unit and across the leadership team generally. In terms of our multinational customer at Pokeno, operationally, the site is now ready to go. There has been a delay, however, in terms of our first lot to stock and this effectively is as a result of a change in customer phasing from current source origin to Synlait manufacturing. From a CapEx perspective, we continue to be on track as previously communicated. Lactoferrin demand remains strong, as does pricing. In terms of nutritional base powders, we're working through a number of opportunities both in China and into Southeast Asia as well.

 One of the things that Naiche and his team are working through at the moment in terms of base powder is a full market mapping and segmentation exercise as it relates to channel, category and geography, and we'll give you more of a sense of that at our investor day on the 8th of May. In terms of consumer packaged infant formula, we continue to work very hard and well with the a2 Milk Company to help enable their growth and very good examples of this would be their growth plans for the China market, but also opportunities into the USA. A brief update on the same re-registration process. Currently, we're expecting the audit process to be completed in Q3, that we would get our re-registration and commence production in Q4, and that product would be in market Q2 of FY24.

 In terms of ingredients, as Rob mentioned, the shipping of ingredients products was very much impacted in the first half and especially in the first quarter of the year. What I can say is our shipping rates are back to normal levels, and in fact, in January our shipping rates were near full-time records. The ingredients organisation delivered very, very strong performance, and in fact, gross margin's 81% higher in the first half of this year compared to the first half of last year. We're expecting all products to be shipped and sold to take place in the second half of this year. In terms of customers and forward focus, we've signed up a major Chinese customer from an ingredients' perspective already in FY23, and the focus there is to find the right balance between contracted customers and selling on stock market.

 In terms of consumer, Tim Carter, who is the CEO of Dairyworks, is now also the director of all consumer products that are produced at Synlait, and that ensures that we've got greater coordination and greater utilisation of capability across the business. Dairyworks continues to deliver very, very strong market share performance. We've seen a 1 million savings for this financial year over last financial year as a result of the new warehouse and distribution centre that we put into play last year. We continue to idle the Temuka cheese plant and plan to have a clearer view on the future of that site in the second half of this financial year. In terms of our beverage facilities at Dunsandal, we've had very, very good engagement with a number of multinational customers, and in terms of consumer beverage and food service cream, we expect to have this facility 70% utilised in FY24.

 From a food service perspective, Abby Ye joined the business in March and is already making a fantastic contribution to the business. Abby heads up food service, but also heads up the China market geography. With commercialised sales into China for the Joyhana food service cream, and we're expecting a strong ramp up of that in the second half of FY23, and just a reminder, our partnership is with Savencia and although many of you may not have heard of Savencia, they are in fact the 12th largest dairy company in the world. Similar to that of Naiche, Abby is going through a process at the moment of completing a full market map and segmentation of opportunities as they relate to China in food service, but also across our other three business units.

 In terms of on-farm excellence, for the first time this role now sits at the leadership team level, so Director of On-Farm Excellence and Business Sustainability is with Charles Fergusson. Charles joined us in early February, so a real focus there not just on milk supply, but driving very strong relationships with our pharma supplies. In addition, we've formed a similarly pharma supply leadership team, which we're working very, very closely with ranging from the strategic direction of milk supply, but also in terms of prioritising the, sorry, the key tactical bits of execution that we need to focus on. Worth acknowledging also is Cyclone Gabrielle and the flooding events in the north island that took place in recent times. Certainly from a safety perspective albeit did have a significant impact, all of our team, both internally at Synlait and pharma suppliers were safe and accounted for, but acknowledging the challenges with rolling internet and power outage disruptions. We collected all milk and more importantly ensured the welfare of cows on farm.

 I can briefly touch now on priorities and outlook. We remain very, very focused on our key priorities. Nothing is more important to us right now above and beyond health and safety and food safety than ensuring that we get the SAMR licence through for the benefit of the a2 Milk Company and ourselves, but also ensuring, as I've mentioned, supporting the overall growth agenda of the a2 Milk Company. Onboarding our multinational customer, Synlait Pokeno, is a key priority, making sure that we move from stabilising our SAP enterprise resource platform to actually delivering benefits that were always intended with SAP. Improving operational stability and we've touched on a range of different dynamics there that we are working hard to address, and of course, ensuring that we've progressed our ELT transformation to lift capability culture and accountability of that team and to have that cascade through the organisation.

 Lastly, if I can touch on our guidance statement. As we updated the market on the 17th of March, the guidance we're providing is net profit after tax between 15 million and 25 million, acknowledging some key challenges across the business with advanced nutrition demand, operational stability, and the impacts of our ERP go live, but also it's important that we do call out the strong momentum and performance of our ingredients business and our consumer business, and that we're now underway with our UHT food service cream. We will continue to manage a range of risks across the business and certainly not limited to the SAMR registration, the UHT volume ramp ups, onboarding the multinational customer at Pokeno, a very tight labour market and operating with very high inflationary cost pressures.

 Of course these factors could impact Synlait's current guidance and we're working very, very hard to ensure that there's more upside than downside. We'll look to provide a further update on our performance on the 8th of May at our investor day up at Pokeno. And just finally a reminder of that agenda for the day, the opportunity to take a tour through the site. There'll be presentations from each of our executive leadership team and there'll be a governance session with our chair, Simon Robertson. So on that note, I'd now like to open the call up to questions.

Operator: Thank you. If you wish to ask a question via the phone, you need to press the star key follow by the number 1 on your telephone keypad. If you wish to ask a question via the webcast, please type your question into your ask the question box and click submit. The first phone question comes from Matt Montgomerie from Forsyth Barr. Please go ahead.

Matt Montgomeri...: Hi, guys. Good morning. I might just start with quite an open-ended question. I'm just trying to further understand the events of the last three or four months a little bit more. If we cast our minds back to early December at the ADM, start of the business was tracking along okay, late December guidance was that it would be constrained to the first half and it was more or less a timing issue, and then the reasonably material downgrade came last week. It appears to be advanced nutrition driven, so I'm just trying to understand further the mismatch here between, I guess, what you're saying and the fact that your key customer's guidance hasn't really changed, and just a broader explanation on this dynamic, particularly the margins within that business and why they're so depressed versus history, and despite the last results, sort of reiterating that you think you can get back to normal levels for that business line.

Grant Watson: Yeah. Thanks, Matt. Let me kick off with an overview of your question around demand and then I'll hand to Rob in terms of margins. So two factors have played out in terms of demand reduction. One is a reduction in demand for this year, the other is a delay in go live with our multinational customer, and so if I can talk to the latter first. Effectively, in the last couple of weeks it was confirmed to us that there would be a delay in go live and that's just to do with how they've configured the first markets that we'll start selling product into. So that's recent news to hand, and in terms of the majority of our demand and advanced nutrition, obviously comes through a2 Milk Company. We had an indication in late January that the relative to the demand forecast we were working with, that that would be reduced.

 That was formalised during February, and the process that we ran there is we took those formal demand signals, ran them through our integrated business planning process, looked to understand the impact of those, some pressure testing as you can imagine with the customer, an update of our forecast, and then as soon as we'd done that, we informed the market. It's worth making two points really clear. The a2 Milk Company have not reduced their demand forecast with us post them going to the market with their midyear results, so just to be crystal clear on that. The second, and it's a little bit more complicated, but the shape of our P&L and the dynamic of our P&L is very different from that of a2 Milk Company. I'll give you one example as it relates to the volume component of the P&L.

 We have four volume factors that create value in our business. One is making base powder for the year we're in, the second is canning the product, the third is selling that completed product. So that's within this year. So we had a demand reduction there, and the fourth dynamic is we have a view on the first half of our next financial year, and that determines what base powder we produce this year, and relative to the numbers we were working to, we reduced our demand in that space. So our dynamics are very different. The shape of our P&L is very different. We've gone through a robust integrated business planning review, we've gone through a robust forecast update, and as soon as we completed that exercise, we informed the market of the impact of that review.

Rob Stowell: Thanks, Grant. I'll just talk to the margins. So first of all, there's quite a few moving parts here, Matt. The first thing I'll touch on is the way we run our costing models at Synlait is we run counterfactual models, and what that means is our ingredients costs are driven off a theoretical ingredients producer costs. So we adjust those costs each year by normal rates of inflation and various other things. What we've seen this year... And the other key point I'll make is all other costs get routed through to the nutritional business. So what's happened this year, we've had a number of cost lists, mainly an employee cost, but also in a whole lot of other areas. So the nutritional business unit is getting lumbered with those costs. That's the first piece. You can argue whether theoretically that's the right thing to do, but that's how our costing work here at Synlait.

 The second piece is with the rapid increase in raw materials and other input costs, our pricing models work on a lag basis. Our pricing doesn't fully cover those initially, that will wash through over future months. So our margins, I guess, have been squeezed through that process as well. So they're the key factors that have squeezed our margins in nutritionals.

Matt Montgomeri...: Great, thank you. I want to just ask one more, and this is for you, Grant. I just want to double-click on the comments around forecasting mechanisms or your business integration plans within the business, just acknowledging that there's been a couple of instances of over recent time. I mean, I suppose it's particularly important to, as the business attempts to diversify, just try to understand exactly what is going on behind the scenes and the work that is done will you guys conduct through this demand signalling or forecasting process?

Grant Watson: Yeah. Look, we run a monthly rhythm match. So we pick up demand signals effectively on the first day of the month. We then work through a full demand review, then we work through a full supply review, then we do a reconciliation of both, and that includes an update in numbers and then we finish the month off with a management business review, which effectively looks at historical performance, but more importantly a view of future performance. So that runs over a four-week cycle. The other thing that we have in the mix there is a product management review, which effectively looks at our innovation pipeline and available capacity that we have across all of our plants. So it's the Oliver Wight Class A programme that we operate to and it does the heavy lifting. It's a very robust process.

Matt Montgomeri...: All right, thank you. That's all from me. I'll come back with some more later. Cheers.

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

Adrian Allbon: Oh, good morning team. Just can you hear me okay?

Grant Watson: We can.

Rob Stowell: Good morning.

Adrian Allbon: Maybe just to simplify, I mean, obviously a reasonably long and sort of complicated answer to Matt's question, but if we were trying to attribute a $30 million impact change, which is roughly 50 million back down to 20, and just listening to what you've said and also just going through your statement, in terms of loose buckets, could we put 10 million against the SAP event, like you sort of split 50/50 OpX and sort of revenue loss, and then the inflationary interest costs another 15 and then sort of the demand change, multi-net stuff about 5 million, is that sort of broadly an okay split of the 30?

Rob Stowell: Yeah. Adrian, I'll have a go at this. Look, what I will say is so roughly 75% of the impact here is due to both demand and related production changes that are required, and I'm not just talking about demand obviously for this financial year, but I'm talking about demand in FY24, which we look forward at and when we're making our base powder decisions, as Grant mentioned previously. We have had a big impact from SAP and inflationary stuff, but it's probably more on the around 25, maybe somewhere between 25 and 30% sort of range, if that makes sense. They are the buckets that we're working to.

Adrian Allbon: Okay, so it's around the other way then. All right. So sort of less than 10 on that, and 20 on the chain and demand and then the inflationary stuff punching through.

Rob Stowell: Yeah, correct.

Adrian Allbon: Just in terms of... Obviously the debt is pretty high. Just going through some of that stuff, broadly speaking is about 40 of it related to the increase in a2 inventory and then 80 in the finished goods across the ingredients side, which is obviously related to the SAP stuff that hopefully you're trying to work down quite quickly?

Rob Stowell: Yeah, a lot of that number that you're talking to sounds close actually on the ingredients side. There's kind of three buckets that I'm been working to. One's obviously the ingredients phasing, which we absolutely expect to catch up in the second half. The second is we actually have paid out more advanced rates to farmers this year also than we had done the previous year. So that's a component, and the third component's around the costs increases and obviously a little bit in the interest costs as well. So that's the other three buckets.

Adrian Allbon: Okay, and then just going back to where Grant started, I suppose, with the two-year recovery now three. Out of that attribution and stuff, what are the elements that run on into the two becoming three, or what are the key ones for us to be aware of?

Rob Stowell: Yeah, so I think where I'll start is you've got obviously your demand. Essentially what's happening is our demand is kind of delayed or moving out. So that's the first component. We have obviously started to set up our cost structures in FY23 to service slightly higher demand, so we'll have to manage that through. At the same time, we're seeing underlying costs move up quite aggressively. We hope we can try and manage that, but that's the case. And then we've got the interest costs kind of coming in on that high debt level. So that is obviously offsetting with some really good performance in our ingredients business and consumer foods business, but from what we expected, Adrian, around demand slowly lifting up year-on-year when we went. We started this recovery, it just hasn't really picked up or it's been delayed from what we anticipated. We also haven't seen the base powder business, which we've spoken about with regards to China, getting some of that base powder business, that hasn't eventuated as quickly as we kind of expected or anticipated.

Adrian Allbon: Okay. And then if I can just ask two final ones. Just on your lower base powder view, I guess, into first half '24, is that a macro view around birth rates or is that more of a functional of cycling off this inventory sort of crossover for the label changeover?

Rob Stowell: That's clearly an update from a2 around their customer demand relative to what we had in our model. So in terms of market dynamics and market growth, and we're talking five months out of next financial year, a2 Milk Company are better to talk to what they believe will play out end of this year and for next year.

Adrian Allbon: Okay. And then, sorry, just on the Pokeno Synlait customer, just obviously because this has slipped a few times, what commitments do you actually have for that starting up at the end of the year and obviously critically into '24? What sort of contractual commitments do you have?

Rob Stowell: Yeah. Look, we can't get into the details of the contract, but they've got really, really strong demand signals and we play a really important part in terms of providing that supply to them. So look, as much as there is a delay by a quarter, which we're not happy with it, it is what it is and our challenge is to work with them to ensure that we catch up lost volumes within the first year or two of that go live.

Adrian Allbon: Okay. All right, I'll leave I there. We snuck in a few more.

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

Stephen Ridgewe...: Hey, good morning. Just this first question on the FY23 trends for 15 to 25 million. Just wondering if you can share with us a little bit more the early answers you've made for continual inflationary and cost of debt pressures in the second half, and you're confident that you've now made sufficient allowance for those pressures. Thanks.

Rob Stowell: Hi, Stephen. Rob here. Look, yes we have. We do anticipate there're being probably some unknown costs that might pop out in the second half, and so we've allowed for that. We've allowed for some extra vision for even costs around stabilisation for SAP and those sorts of things. In saying that, and it's in our guidance statement, there's still a lot of moving parts here. We're ramping up our UHT cream business, we're going through the SAMR audit process and we're building inventory for a2 on that. There's a lot of pieces which need to come together, so that's why we've been cautious with our guidance range.

Stephen Ridgewe...: Okay, thanks. And then maybe just one more for you, Rob. If you had to pry a little bit more comfort that simulates on track to get that net debt down to three to 3.5 times. I know that's in your new guidance statement, but from our back of the envelope numbers, that applies net debt around about 350 to 400 down from sort of 518 or so you've just reported. I mean, how do you bridge the net debt from where you are now to that lower number in the second half? I know where there's some seasonality in the business, but I think maybe a little bit more explanation would be helpful to provide that comfort around your finances. Thanks.

Rob Stowell: Yeah. No, that's a good question. Look, the 350 to 400 range, I see it being at the higher end of that range. We will see... We haven't sold much ingredients in the first half. That will come through in the second half and with the bottleneck, those constraints there, that'll come through, and we do also have quite a bit happening in our second half with regards to production of base powder production a factor there and sales. So there's quite a lot of activity there. We are conscious that we've also got higher costs coming through, but we've modelled it all out. That's where we think it's going to land. So we're fairly confident we'll hit within that range.

Stephen Ridgewe...: Okay, thanks. And maybe just one last one for me for Grant. I mean, I guess just following up on Adrian's questions around the delays at Pokeno, and you attribute that to the customer delaying when they want to ramp up. Just for the record, can you have some confidence that the delays at Pokeno or not due to any kind of production issues on the Finlay side? I mean, is Finlay able to produce the plant-based and formula product of the quality and volume that your customer requires? Can you give us some comfort there please?

Grant Watson: Yeah, good clarifying question, Stephen. We've jumped through every hurdle, passed every audit today and we are good to go. So the next big milestone for us is first block of stock and then looking to ramp up. And again, look, we're disappointed in the delay and we will push hard to recover that volume within the first year or two, but operationally we're good to go.

Stephen Ridgewe...: Okay. No, that's helpful, Grant. And then I guess and appreciate this relationship and it'll depend how quickly that customer ramps up, but if all goes well from here, would you hope to be pretty at Pokeno by at some point in FY25? Is that what you'd be planning for?

Rob Stowell: Yeah, Stephen. I'll answer this. Look, obviously there's a lot of water to go under the bridge, but yes, FY25 would expect to be quite a lot following where we are at the moment, that's for sure, but our projections show a steady build from FY24 into FY25 is the best way to explain it. The numbers are good, solid, robust numbers.

Stephen Ridgewe...: Okay, that's all for me. Thanks, guys.

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

Nick Mar: Morning, guys. Just following up on the sort of base powder impacts, can you just remind us sort of I guess how much colour a2 gives you in terms of forward demand versus what you guys have to make assumptions on? We obviously went through this in FY21, which was part of the problem and you sort of said you've aligned your processes to take less risk and it seems like there's been a challenge there again. Can you just talk through that in a little bit more detail?

Grant Watson: I won't get into too much detail, Nick, but look, the arrangement we've got with a2 is that we get a 12-month roll and forecast off them every month. So that's what we work to, and if the information changes, then we change our models accordingly.

Nick Mar: Right. So in sort of January, February, you would've had out to February next year, so you were just taking a view on the balance of, what, FY24 in terms of what you were producing for ahead of their demand and hence changing downwards?

Grant Watson: Yeah. In terms of base powders this year, this financial year for next year, it's more around understanding the second half of this calendar year, so less about the first half of next calendar year. So as I said, we worked through an update of the demand from August through until December, and off the back of that relative to what we had in our model, we've reduced our base power production in this financial year.

Nick Mar: So just to be clear, you already had an update from a2 for that part of the August to December, but then your model was already telling you a different number to that and you had to revise it down or the a2 model came down towards another load than what you'd already previously had? It just doesn't add up if you already had 12 months' data and you're saying that you've taken too optimistic a view previously and had to revise that down for a period you already had a forecast from a2 from?

Grant Watson: Yeah, I'm not quite sure where you going that, Nick. We had a view of demand that we were working to for the a2 business, let's just say for the entire calendar year. Late January we got an indicative update that was firmed up in mid-Feb. We reran the numbers and effectively that related to a reduction in demand for the second half of this financial year, and the first half of next financial year.

Nick Mar: Okay. And then just in terms of the ingredients, is the majority of that contract you haven't taken sort of price risk on the excess inventories?

Rob Stowell: Nick, Rob here. So we're about 95% contracted at this point in the year. So really, the big job for us is making sure we get that product on ships and exported before July.

Nick Mar: And have there been any sort of penalties from potential delayed shipments of those orders due to the SAP issues you've had?

Rob Stowell: No, really good question, and we were concerned about that particularly in the first quarter, but we've managed to write that out with no material discounting or cancellation of contracts, which is pleasing and probably testament to the relationships that we've got with both those customers.

Nick Mar: Okay, that's great. Thank you.

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

Marcus Curley: Good morning. I just wonder if we can talk a little bit about the costs. To be fair, when I look at the result, the costs look to be a much bigger delta than the volumes and I'm sort of interested to understand a little bit more about whether all these costs increases were effectively planned. Specifically, I just wonder if you can talk to the increase in SG&A and SAP costs. That lift of 17 million and a half, you would expect to annualize that into the full year and then ongoing?

Rob Stowell: Yeah. Look, really good question. Probably the best way to explain it is we did plan for a lot of these costs, so we knew we were going to do an SAP implementation, we knew it would be a wee bit bumpy, but actually it turned out be a lot bumpier than we first anticipated, and so those costs definitely in increased. We also had some higher people costs, but just not to the extent that we've seen come through, and then we've had other areas, like energy pop up, milk collection because of the fuel costs, we've also had the CO2 shortage and those costs have really have probably come through higher than anticipated really. So my view on these costs is obviously some of these will have to continue with into the future, but there's a lot of work that we could go in to see how we can do things differently, to see how we can take costs out, et cetera, going forward. So that's a piece of work that we've started. It'll carry on into our budget process where we do a zero-based budget approach as well.

Marcus Curley: And so just for the guidance, is it fair enough to assume that this 17 million is annualised?

Rob Stowell: No, I wouldn't annualize it. I think there's an element of one-off in there, but we need to work through it, do a little bit more work on it.

Marcus Curley: And I suppose the other element of cost increase came through the nutritional gross margins and I just wondered whether you could call out, Rob, what the quantum was when you talk about the delays to the adult product and the non-recourse costs, which have gone up. First time I've heard of non-recourse costs, but could you call out how much collectively those were, which were obviously within that gross margin.

Rob Stowell: Probably don't have all those numbers absolutely to hand, but what I will say, so some of our nutritional pricing contracts, we have the ability to pass on some costs to the customer around raw materials and such, and other costs we can't, so they sit with us and that is obviously impacting us here. We also have an element of the increase in the cost, you could argue, should be allocated to the ingredients business unit, but the way we account it, it's gone through into nutritionals. Most of it's gone through into the nutritionals actually. So we simply need to just try and manage these costs and make sure at least we can either reduce them or manage them such that they don't continue to erode margins going forward.

Marcus Curley: And I see in the notes, just on the gross margin or the cost of sales, there's a $7 million increase in provisioning, which sounds like it's all related to nutritional, both infant formula and adults. So is that going to repeat or is that sort of a one-off limited to the first half?

Rob Stowell: No, that's in the financial statements. So that related to, and it's in the financial statements actually that related to essentially some raw materials that we wrote down because they were either close to expiring or expired, and that's a result of past demand fluctuation. So we should not see anywhere near the level of that sort of provisioning going forward, both because we've got demand at at least either stable or increasing rate, we've got new customers coming on board and we'll manage that far better with our new ERP system as well.

Marcus Curley: The other call out within that is production issues with trials. One would assume that's the new adult customer, and so is that the same sort of bucket of costs which you're referring to when you talk about the cost associated with the delays to the start to the adult?

Rob Stowell: Look, a lot of those costs... Yes, you're right. There is a lot of costs which through these projects that aren't all capitalised, both for the Customer S projects and even the SAMR registration process. However, we do try and capitalise a lot of these trial costs to the balance sheet and amortise them over the length of the registration. So that's generally how we account for it, but accounting rules dictate that actually you can't capitalise 100% of those costs. So some of those costs are washing through as well.

Marcus Curley: And then just secondly, I suppose when you provided the update a couple of weeks ago, I suppose there was an expectation of some level of extra detail around what you're assuming around infant formula volumes. Obviously nothing that I can see within the release, I just wondered if you want to talk to what's in the guidance for infant formula volumes, or whatever else you'd like to point to, but I suppose it's sort of felt a little light in terms of disclosure around there relative to what was said previously.

Grant Watson: Yeah, look at this stage, Marcus, we won't provide any more granularity in that regard. We'll certainly look to provide more of an update on the 8th of May. The critical component in all of this is for us to be really clear on all elements of demand across the four business units, and we've got some more work to do to make sure that we are really confident around what that looks like for FY24 and beyond. Thanks for that, Marcus. I think we've got time for one more question.

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

Richard Barwick: In the nick of time by the sounds. Grant and Rob, just wanted to clarify. I guess with the talk that this the two-year turnaround is now three years, do we need to change the definition of what this turnaround actually looks like? So previously you'd couched it in terms of an impact back to a pre-FY20 level, so roughly $70 million or $70 million-plus is what the turnaround should look like. But in some of the drivers that you're talking about or the factors you're talking about, operating costs being up significantly. So does the turnaround impact, is that still the right level to think about it, or do we need to adjust that down for these higher operating costs?

Grant Watson: Yeah, thanks for that question, Richard. Let us give you a clearer position on that when we get together on the 8th of May. And look, I acknowledge that previously we've talked about an exit run rate from this year that related to historical profitability in FY19, and I think we need to let that go, let us work through particularly the demand elements of our forecasting and give you a clearer position of that in early May.

Richard Barwick: Yeah. Okay, it'll be good. Look forward to it.

Grant Watson: Great. Thank you for your time today. We look forward to connecting with many of you on the one-on-one calls and meetings we have planned throughout the week.

Operator: Thank you. There are no further questions at this time. That does conclude our conference for today. Thank you for participating. You may now disconnect.

**[END OF TRANSCRIPT]**