TRANSCRIPTION

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Hannah Lynch: Good morning, everyone. And welcome to Synlait's Full Year Results Conference Call. I'm Hannah Lynch, the Head of Strategy and Corporate Affairs, and today I'm joined by our CEO Grant Watson and our CFO Rob Stowell. Grant and Rob will provide a short update based on the investor presentation, which we released to market this morning. We'll then open for Q&A. I ask that you keep your questions to two per person and we're happy, of course, to take any follow-ups following today's conference call. I'll now hand over to Grant, followed by Rob.

Grant Watson: Morena tātou. Good morning and, again, welcome to Synlait's Full Year Results Investor presentation. FY23 was an extremely challenging financial year with a poor financial result delivered, driven primarily by a reduction in consumer demand and formula Force Majeure event impacts, ERP go-live impacts, and inflationary cost pressures across the business.

In saying this, I'm pleased to report we launched our Joyhana UHT Foodservice Whipping Cream into the China market. We received re-registration of our SAMR licence. We made significant improvements across staff engagement, health safety and well-being. And I'm delighted to confirm our executive leadership team renewal phase is now complete.

Our strategy refresh is also complete, ensuring a more focused Synlait, with an appropriate organisational structure now being in place to ensure quality execution against our strategy. I would also like to add commercial production for Synlait's new customer, Abbott, commenced in Q4 FY23 at Pōkeno and Auckland sites focused on business-to-business relationships. I'd now like to hand over to Rob Stowell, our CFO to take you through our financial performance.

Rob Stowell: Thank you, Grant. Good morning to all those online. There's no doubt FY23 was a challenging year to navigate. In saying that, the business has completed several last strategic projects, while also having to negotiate many business challenges, some of which were in our control and some of which were outside our control. Unfortunately, some of those challenges materially impacted our profitability and debt reduction targets, and I will shed some light on those this morning.

Just turning to results at a glance, revenue is down 3%, $1.6 billion, mainly impacted by lower ingredients by human commodity prices. Their profit after tax is down $42.8 million to $4.3 million loss. On a normalised basis, we were down $33.8 million to $2.5 million. This was in our guidance range. No matter how you reflect on these results, they're disappointing. The normalised profit figure considers a normal spend and income items in FY23 such as the ERP project and our other items.

EBITDA on a normalised basis is down $27.4 million to $95.6 million. Average milk prices finalised at $8.49 at kgs of milk solids. Base milk price, $8.22 per kg of milk solids, which is still relatively high in historical terms. However, we know our farms are still experiencing high inflation, a tight labour market and rising interest rates. Operating cash was down 83% to $39 million. Again, a very big drop from last year, mainly due to lower operating profitability and higher inventory levels. CapEx tracked down 32% to $65.1 million. Pleasing to see the step down further as planned. Net debt is up 21% at $413.5 million. Again, good to see this much lower than it was at our half year result. However, it was much higher than we originally targeted.

We turn to slide five, similar to FY23 result. The slide unpacks some of the key components of the result. If you cast your eyes across to the adjusted NPAT profit bridge on the top right-hand side, it checks the adjusted NPAT of $36.3 million for FY22 to a adjusted NPAT of $2.5 million for FY23. I'll quickly summarise the key factors. Ingredients delivered $2.9 million margin loss due to volume impacts of a roughly 18% less ingredient volumes. This was mainly due to 38% higher advanced nutritional-based powder manufacture.

This had a negative impact of $10.3 million. Profit margin impacts from excellent skim milk powder AMF stream returns was roughly $7.3 million offsetting the volume down. A big shout out for our teams for getting all the ingredient sales delivered in the year despite the ERP system challenges earlier in the year. The next bar is advanced nutrition that reduced $16.8 million margin. This was due to a negative volume impact of $3.4 million as compared to FY22 from roughly 5% lower volume caused by demand reductions and SAMR re-registration delays.

Also a negative margin impact of $13.4 million driven by the timing impact of lacked pricing where it takes some months for increases in raw materials and packaging to flow through to the invoice sales. Also, large increases in manufacturing cost and more normal FX. This was partially offset by higher volumes of advanced nutritional-based powder production.

Consumer foods. This includes our beverages business and also Dairy Works. This delivered $7.6 million margin growth. Obviously good to see these businesses perform better in FY23. The margin growth of $4.3 million in beverages and cream came mainly from pricing lag and lower overhead costs. Dairy preferred works benefited $3.3 million from a full year of the closure of the Temuka cheese plant and the first full year of a new coal store operations.

The next bar is milk trading and other income. This is $11.1 million upside. This is predominantly made up of milk and cream sales, also foodservice and Synlait farms. The key reason we made gains here was the way the market and the contracts performed, including FX as we sold milk solids to maximise stream returns.

SG&A costs. Large increase in adjusted SG&A costs of $21 million with material drivers being employee costs, legal and consultancy, logistics, travel, and general inflationary pressures. We're split out reoccurring ERP costs. Our annual costs of running the ERP system is $10.6 million and this includes $6 million of depreciation. Financing costs. Our adjusted interest costs compared to last year were higher by $12.8 million. This was predominantly due to the higher wholesale interest rates and also debt balances.

Turn to page six. Revenue and sales volumes. Overall revenue was down 3%. However, revenue attributed to the business units was down 8% or $117 million. This slide simply gives more detail on the key components, so I won't dwell on it other than to say that you can see that most of the dramatic drop comes from the ingredients being down 20% or $165 million. This was offset in part by increases in all other areas. And please note our first year of sales at the UAT whooping cream business of 757 metric tonnes.

We turn to page seven, production and inventory volumes. Overall production reduced 2% or 3,804 metric tonnes. This was mainly due to ingredient volumes being driven down by higher production of advanced nutritional-based powders, displacing ingredient product. Also, our milk process was down 4% due to US maximising skim versus AMF production and where we sold the surplus milk and cream to other processes. In good news, despite the challenges we had with the ERP project early on, our high inventories at our half year, we closed almost 50% down on our previous year's inventory on hand.

In advanced nutrition, there was a healthy increase of 26% in volumes for both consumer-packaged and nutritional-based powders. As we successfully built inventory for the summer registration launch and to optimise production for the FY24 peak milk processing. In consumer, we had a relatively stable volumes of production and inventory levels. In foodservice, we made 1,514 metric tonnes of Joyhana UHT Whipping Cream as we started to commercialise this business.

While we have had some teething issues getting going in FY23 reports back from our key customers out at the product is of high quality and demand is very strong. Hence, we are already into producing much larger volumes for FY24. Overall inventories were up 30% on FY22. This was made up of an increased levels of advanced nutritional-based powder, roughly $55 million and $21 million in raw materials and inventories mainly due to price rises.

We turn to slide eight, gross margin performance. This slide unpacks by business unit where the gross margin was made. In total our gross margin was down 2.8% compared to FY22 sitting at $144 million versus $146.8 million for last year. The slide really is repeat of a lot of the summary informations in slides five to seven. However, it gives some more detail and shows the impact by business unit on a per metric term basis. So I won't go into further detail on this call, but the information is there.

We turn to page nine, SG&A manufacturing cost performance. As mentioned earlier, the group was impacted by a range of challenges throughout the year, including a complicated sales and production plan caused by salmon deliverables. Implementation of the ERP system, challenges around COVID-19, critical material shortages, extreme weather events, and unexpected plant outages. The slide is visibility to what is driving the makeup of these costs.

In short, there were many reasons, but the main themes are as follows. We have increased our people costs in response to a very tight labour market. We similarly felt it necessary to give market-based pay increases to help retain and attract new talent. Supporting the China summer registration process, including the inventory bill required, we employed three extra shifts and other staff to manage the volumes. We also invested in capability and resource, and the readiness for much higher volumes of advanced nutrition at our Pocono site and our advanced liquid milks plant. We continue to make changes to our AOT.

We have had extra costs incurred on our ERP implementation while we went live on the 1st of August. We had to spend more than we anticipated on hypercare and stabilisation phases of the project. This was critical as we sought to stabilise the business around the new system while still trying to desperately serve our customers. While there are several other factors such as increases in travel due to the border opening up, high levels of R&M due to a couple of one-off events, the overwhelming driver is that our cost has been pushed up due to strong inflationary pressures.

This has been a major headwind for several similar manufacturing companies in New Zealand. So what are we doing about it? A key focus for the last six months has been focusing on how we mitigate inflation and waste in the business. We have run wide ranging cost out programmes and a sinking let approach to staff recruitment. We are very pleased to say we'll be spending 10 to $20 million less on costs in FY24 than we did in FY23 even in the face of inflationary pressures.

We turn to page 10, cashflow net debt. I'll be on strong cash flows and net debt reductions have been challenging over the last 12 months. This was due to significantly lower profitability, including higher interest costs and higher investment in inventories. Main advanced nutritional-based powder annual materials. This has meant our debt has risen $72 million compared to where we were a year ago. Key points to note on the slide. Operating cash flows with $39 million down 83% on FY22 due to the reasons already mentioned, we have continued to reduce capital expenditure. For example, we have wound up our P project.

We have also substantially completed our Pōkeno upgrade project and operational CapEx is also tracking downward. As a guide, capital expenditure will be less than $30 million in FY24. Net debt has increased up to $413.5 million since last July.

While we remain within our facility limits throughout FY23, we did need to adjust our banking ratios due to the last drop in EBITDA. As an obvious comment, but it's critical we continue to deleverage over the next 12 months so we can manage our high servicing costs. We are confident we have a good plan to do this. You'll also see guidance note that we are targeting a debt ratio up below 3.5 times for FY24.

We return to page 11, banking facilities and debt structures. We were pleased to announce last Monday that Synlait has successfully refinanced as debt facilities. Introducing four new banks to the syndicate led by ANZ. The new banks are Bank of China, China Construction Bank, Rabobank, HSBC. The facilities we combined with the bond give us a peak funding through the year of $660 million and tapered down throughout the season to save on cost. The group is required to make a repayment of $130 million in March next year. This is part of our de-leveraging plans.

In any case, the refinancing is the first step of many to get our capital structure in a much better state. Both management and the board are highly committed to this. The next step is to repay the $130 million while also continuing to produce strong operating cash flows. Synlait's new syndicate provides increased service offerings, extra capacity at significantly reduced cost. We welcome the new banks and thank ANZ for their ongoing support. That's a wrap on the financials. I'll pass over to you, Grant.

Grant Watson: Great. Thank you, Rob. I'll now take you through an update on our various business units. Advanced nutrition. In terms of leadership, Naisha Nagura started as director of Advanced nutrition in January, 2023. The five-year advanced nutrition strategy refresh was completed during the year. Our category focus is on early life and adult nutrition. We remain focused on B2B relationships where Synlait can provide formulated powders in bulk or consumer-ready formats with key focused partners such as the A2 Milk Company and strategic Chinese and Southeast Asian local partners.

From a business development perspective, our plant-based capability has now been fully ratified and related new product development work has been initiated and aligned to strategic priorities. In terms of achievements, as previously mentioned, Synlait achieved re-registration of the A2 Milk companies, Chinese-labelled infant formula stages one, two, and three in June, 2023. Re-registration allows Synlait to manufacture and export this product for China until September, 2027.

In terms of USA market access, all three Synlait manufacturing sites, Dunsandel, Pōkeno and Auckland, audited by the US Food and Drug Administration and received positive outcomes. It is worth noting as we look to FY24, Synlait is forecasting a further softening in infant formula of approximately 11.4%.

Moving on to foodservice from a leadership perspective, Abby Yee started as president of China and director of foodservice in March, 2023. The five-year foodservice strategy was created with the initial focus on functional UHT whipping cream sold into B2B customers. The total cream market in China exceeded 250,000 metric tonnes in 2022 and New Zealand is the leading country for cream exports with roughly 58% market share. Both butter and cream cheese categories have been considered as potential long-term opportunities for foodservice.

From a business development perspective, FY24 will see Synlait continuing to expand Joyhana within China, focusing on bakery and pastry along with beverage chains and considering access to Southeast Asian markets in the second half of FY24, the launch of the Joyhana partnership between Synlait Savencia Group commenced in FY23 and volumes will continue to ramp up in FY24. Market feedback to date around the product has been extremely positive. Joyhana UHT Whipping Cream won the new product innovation award at May's very prestigious China International Bakery exhibition.

The Savencia group and Synlait partnership is very complimentary. Savencia Group is responsible for distribution, branding and marketing and Simile is responsible for high-performance product development and manufacturing. During FY23, Synlait and Massey University celebrated five years of our partnership. This is our home for cutting-edge innovation.

In terms of ingredients, our five-year ingredient strategy refresh has also been completed. The focus is on driving strong sales disciplines while ensuring we have a leaned out cost base. From a business development perspective, we are exporting to a diversified range of markets, approximately 50 countries with low concentration into China. Our focus is on generating high-value multi-year contracts for differentiated specifications.

We are driving sustainability initiatives with global customers that lead with pride and support best practise development on farm. We are tightening premiums and lead bucket disciplines to maximise returns in sales timings against the milk curve to ensure that we minimise risk. In terms of achievements, as Rob mentioned, we delivered record-low year-end inventory levels and working capital positions.

Despite the supply chain challenges that we experienced in the first half of FY23, 100% of contracted volumes were shipped and delivered in the second half of FY23. In terms of our consumer business, which is primarily Dairy Works Dairy Works has recently focused on its core cheese category, exiting yoghourt and spreadable butter. The strategic growth focus is very much on the diversification of geography and channel, not category. From a divestment perspective, Synlait announced its intentions to divest Dairy Works and its Temuka cheese assets in June, 2023.

Synlait is actively engaging with several parties and will provide a further update in due course. As Rob mentioned, the proceeds will be used to pay down debt if a divestment occurs. In terms of business development, a significant pipeline of opportunities has been developed for Southeast Asia and Australia. During this very challenging period In the economic cycle, Dairy Works is really well placed to address consumer's cost of living focus with brands across all stages of the economic cycle.

From an achievements perspective, our manufacturing market share in key natural shares increased to 70% from 64% in FY22 foodservice volumes in Dairy Works continue to grow. Capital projects to enable greater labour efficiencies, health and safety improvements and quality at the processing facility in Hornby. Capital improvements to be commissioned during Christmas shutdown later this year.

On-farm excellence and sustainability. From a leadership perspective, Charles Ferguson started as director of On-farm Excellence and Business Sustainability in February, 2023. Our on-farm excellence five-year strategy was developed. In November, 2022, we established a Synlait farmer leadership team, eight farmers who are effectively a conduit between Synlait and our farmer supply base, providing feedback and direction on Synlait's strategic choices and prioritisation against tactics. In terms of our Synlait farms, we continue to invest in on-farm infrastructure and our people. Our ambition is to become lead with pride certified and to establish a centre of excellence for all of our farmers.

In terms of industry engagement, we became a founding shareholder of AgriZero NZ, a partnership and investment fund between agribusiness and government to accelerate agricultural emissions reductions by 30% by 2030. In terms of sustainability, a further 19 farmer suppliers became lead with pride certified in FY23. We transitioned boiler two at Dunsandel to biomass using wood pellets as a fuel source enabling significant reduction in emissions. Our B Corp certification is on track for December, 2023 confirming that we are paying a market farm gap milk price for FY23 of $8 22, and an average farm gap milk price of $8 49. We retain our current outlook for the FY24 season at $7.

I'll now take you through a brief update of our strategy refresh. As mentioned, our strategy refresh means the creation of a more focused Synlait. The board and our executive leadership team have now completed our strategy refresh. Our refresh strategy leverages Synlait's world-class capabilities and asset base to partner to produce high-value, advanced nutrition and foodservice B2B products supported by a disciplined and well-run ingredients business.

On slide 20, we have a very high-level overview of our Synlait's strategy, effectively a top-level view based on our ingredients, advanced nutrition, foodservice, and consumer business strategies. The structure of this page gives a clear definition of our ambition, what success looks like in FY28. Right-to-play speaks to the importance of having strong foundations. It then covers our channels, categories, and geographies. Our right to win speaks to where we believe we can gain and maintain competitive advantage and our care enablers speak to the important areas of execution across the business.

In terms of some of those key changes, right to play is Synlait's core capabilities. Some might refer to this as our tickets to the game. For us, it sits in food safety and quality, highly utilised efficient plants, advanced nutrition and foodservice know-how, integrated value chain, regulatory know-how, and sustainability credentials.

Channels, otherwise described as the business units or business types that we choose to focus on are the areas that we will apply our efforts to.

Clearly it's advanced nutrition, foodservice and ingredients. Categories, clearly the products Synlait manufactures within its business units. Category focus areas include infant nutrition, adult nutrition, advanced ingredients such as lactoferrin, foodservice cream, AMF. As mentioned, we're exploring opportunities with both butter and cream cheese and then, of course, commodity powders.

Summary of key changes to our key enablers and as mentioned, these are the areas that will drive greater execution to ensuring that we deliver against our ambitions. These include On-farm excellence, best-in-class customer engagement, disciplined product innovation, high-performance culture, systems tools and processes, world-class manufacturing and supply chain. So again, this is a very, very high-level summary of our strategy on a page.

We now have an outstanding leadership team in place who are 110% capable, committed, and determined to returning this business back to being a highly profitable business again. In terms of Synlait's full year 2024 outlook, FY23 was highly challenging for Synlait with material reductions in customer demand, CO2 shortages, extreme weather events, the COVID-19 pandemic, inflationary impacts, ongoing investment in new product work streams, and the launch and stabilisation of the company's new enterprise resource planning system.

Looking ahead to the 2024 financial year, Synlait could still face challenging China market dynamics, softening global conditions more generally, and continued inflationary pressures across its cost base, which could impact future customer demand and the company's overall profitability. Synlait does however expect advanced nutrition volumes to continue to grow at the Pōkeno site and FY24 and the company's overall EBITDA performance is also expected to improve in FY24 compared to FY23.

The A2 Milk Company's purported cancellation of exclusivity arrangements under the nutritional powders manufacturing and supply agreement, the MPMSA for the A2 platinum and other nutritional products is not expected to impact Synlait's FY24 results. Synlait disputes that the A2 Milk Company has the right to cancel the exclusivity arrangements.

While simile is confident in its strategy to rightsize our cost base to current activities and its near term advanced nutrition and foodservice growth opportunities. The uncertainty of broader macroeconomic factors means the company will not provide guidance at this time. Synlait is committed to its refreshed strategy to create a more focused company, and remains largely on track to meet its five-year FY28 strategic ambitions.

In terms of next steps, management will host an institutional investor site tour at Synlait Pōkeno on Monday 30 October, 2023. The agenda includes Synlait Pōkeno site tour, a presentation by myself on the Synlait strategy Q&A with key members of our simile executive leadership team, again, including myself. In terms of our annual meeting, this will be held on Friday the 1st of December, 2023 at 1:00 PM at Synlait Dunsandel. The notice of meeting released in early November 2023 will include further information. I'd now like to open the call up to questions.

Operator: Thank you. If you wish to ask a question, you'll need to press the star key followed by the number one on your telephone keypad. Your first question comes from Nick Mar from Macquarie. Please go ahead.

Nick Mar: Good morning, guys. Just on the volume outlook, you mentioned volumes down around 11% and then Pōkeno is obviously [inaudible] customer. On a net basis, what should we expect from advanced nutrition overall?

Rob Stowell: Thanks, Nick. This is Rob here. Look, we're looking at lower double-digit growth for our whole nutritional business in FY24.

Nick Mar: Oh, so the 11.4% included ramp up?

Rob Stowell: No, so the 11.4% is down in the infant business. The, say, 10 to 12% growth in our total nutritional business next year is what we're expecting.

Nick Mar: Oh, so overall growth, that's great. And then in terms of the cost out numbers you talked about, does that include the costs that might lead the business from dairy work or is that separate to the 10 to $20 million?

Rob Stowell: Yeah. Yeah, good point. No, look, it is actually separate. We've done a lot of work over the last six months, Nick, stress testing all our cross right across the board, and we're pretty confident that we can get at least 10 to $20 million out on, I guess, a group basis including the Dairy Works piece.

Nick Mar: Or including the Dairy Works. Is that cost out of Dairy Works or cost leaving a business because Dairy Works is being divested>

Rob Stowell: I just work on the basis that assume Dairy Works is in for the whole year. Even if that was the case, we'd still be looking at 10 to $20 million savings on our expenses for FY23.

Nick Mar: And then in terms of the capital structure, you talked about repayment subjects of the next key milestone. Are you guys still rolling out raising equity at this point?

Rob Stowell: Look, we're really focused and committed on the Dairy Works sale, Nick. Obviously there's a number of options open to us including capital raising, but we're not willing to discuss those at this point.

Nick Mar: I think previously you've ruled it out. So you're no longer doing that?

Grant Watson:	I think it's fair to say, Nick, that there are a range of options that we could pursue in the event that the Dairy Works business doesn't sell, including a capital raise.
Nick Mar:	Okay, great. And then lastly, just on the pre-financing, could you just talk about any changes to the [inaudible] of those facilities?
Rob Stowell:	So you're just coming through pretty lightly, Nick, you're talking about the margins?
Nick Mar:	Yep.
Rob Stowell:	Yeah, look, I can't go into specifics, but we have definitely lowered our average margins across our debt by running a competitive process and bringing in new banks into the syndicate.
Nick Mar:	Great, thank you. That's all.
Operator:	Thank you. Your next question comes from Matt Montgomerie from Forsyth Bar. Please go ahead.
Matt Montgomerie:	Hi, guys. Just checking, can you hear me all right?
Rob Stowell:	Yep. Yep.
Matt Montgomerie:	I might just start on your qualitative EBITDA guidance comment. There's a fair bit of crisscrossing in here, so I'm just after some clarification. So firstly, your EBITDA improvement comment, is that on your FY23 adjusted base of $96 million? And then secondly, how have you thought about the Dairy Works contribution with respect to that comment?
Rob Stowell:	Yeah, that's a good question, Matt. Look, we are looking at increases in EBITDA on an adjusted basis, not willing to give guidance on how much at this stage. Hopefully, we'll be able to give guidance later on in the year. I would think about Dairy Works roughly being in there for, say, half of the year for your purposes. But again, that's not certain.
Matt Montgomerie:	Okay, perfect. That's good enough. Maybe if I just go back to advanced nutritions. So the margins in that business unit, if we look at your asset-based utilisation on the back of your comments from next question versus the potential margins in that business, it feels quite unlikely that you'll be able to get back to pre-COVID level of margins. But would it be fair to assume that maybe you can step it up to mid two thousands given the utilisation of your asset base when we consider the volumes coming through in that segment?
Rob Stowell:	Yeah, look, obviously some headwinds currently, Matt, but look, we are optimistic that we can both through running the business more efficiently and taking out any waste, looking at the way that we can bring in more business as soon as possible that we can get up to those sorts of margins again. So we're working very hard at that.

Matt Montgomerie: But in the absence of new business, which there's been nothing disclosed today, would you concur with the comment that getting back to those levels at least in the next year or so is unlikely?

Rob Stowell: Yeah, getting back to those levels in the next year would be very challenging, Matt. But look, we continue to be optimistic that we've got a lot of capability and great assets and very good team working on business development at the moment.

Matt Montgomerie: I going to leave it there. Thank you.

Operator: Thank you. Your next question comes from Ryan Li, Craig's Investment partners. Please go ahead.

Ryan Li: Hi, guys. Can you hear me okay?

Grant Watson: We can. Thanks, Ryan.

Ryan Li: Yeah, great. So first question, just building on Matt's question earlier, so for your net debt to EBITDA target of below 3.5 times in FY24, is that assuming six months of EBITDA contribution from Dairy Works and the debt being repaid during the year once the divestment is completed?

Rob Stowell: Yeah, correct.

Ryan Li: Yeah. Okay, cool. And the second question, so what sort of timing are you expecting to complete the divestment of Dairy Works and how reliant are you on completing the divestment to repay the $130 million of bank debts before March, 2024?

Grant Watson: Yep. Ryan, a couple of points. Firstly, we have a number of interested parties that we're working with. So at this stage, we can't confirm the timeframes, but we'll update you in due course. I think the second point that's worth noting is that there's not a direct link between the sale of Dairy Works and the $130 million that you referred to.

Ryan Li: Okay. So can I just ask a follow-up? So if you are not able to complete the divestment before March, 2024, what sort of levers can you pull to repay the debt? Is it just from your operating cash flows or just thinking about how confident are you to repay the debt without divesting the asset?

Grant Watson: We are working through that at the moment with our financial advisors. And as Rob mentioned, there's a range of ways that we could shore up our balance sheet in the event that we didn't sell Dairy Works.

Ryan Li: Okay, great. Thank you.

Operator: Thank you. The next question comes from Sean Xu from CLSA. Please go ahead.

Sean Xu: Morning, Grant. Morning Rob. My first question is with A2. So with A2 Milk being one of your most important customer over the years, has Synlait made a plan based on assumption that A2 will move all its English label away? If so, what sort of the timing you expecting and what's the implication on Synlait's business going forward, please? Thank you.

Grant Watson: Yeah, look, I think it's worth noting that we refute the claims made by A2. As you can imagine, we run a range of sensitivities around scenarios including the phasing out of A2 volumes over time. But equally, we have current and prospective customer opportunities that we are working through that will create significant value for the business and deliver diversified growth over time.

Sean Xu: Sure. I'll probably do another question, please. So based on my understanding is Bright Diary provides some support on the refinancing process of that facilitate with the Chinese banks. In the long term, is there anything you can leverage your relationship with Bright's network in China? Because based on my observation, there's a lot of synergy between the two. Is there any strategy you can share with us going behind? Thank you.

Grant Watson: Yeah, good question. Maybe more generally, as you can imagine, Bright are extremely supportive as a shareholder and through their strong membership around the board table. So look, whether it's banking relationships, same are processes, or customer acquisition opportunities up into China, Bright continue to provide really material support to the business and we expect that to be ongoing.

Sean Xu: Can I just do a follow-up? Thank you for that. So let's say the $130 million debt by 30 by March, 2024, let's say the divestment does not go well and you don't want to go through capital raising, is there a possibility Bright can inject the cash from China to support this repayment?

Grant Watson: Look, I can't speak specifically on behalf of Bright, but what I can say is that there are a range of options that we have to ensure that we show up our balance sheet.

Sean Xu: Okay, thank you.

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

Marcus Curley: Good morning. Could I just start with just a point of clarification on your guidance comments? Am I right in assuming you're talking about adjusted EBITDA growth with the assumption that Dairy Works is only in the business for six months? So effectively a six-month contribution from Dairy Works relative to a 12-month contribution from last year, is that the right interpretation?

Grant Watson: Yeah, that's correct, Marcus.

Marcus Curley: Okay, great. Moving on, can you provide any commentary at this stage about gross margin per tonne on the Abbott contract, particularly in year one, given it's a startup year and maybe a long-term aspiration for that?

Rob Stowell: Look, no, sorry, Marcus, we can't give any sort of guidance on that on this call.

Marcus Curley: Okay. Gross margin per tonne on ingredients was $870 first half $500 for the full year, obviously a much lower second half. Could you talk a little bit to what's changed, whether that was inventory right downstream returns or just market conditions and is that second half a good benchmark for how we should think about FY24?

Rob Stowell: That's a good question. Look, there was a lot of volatility in the year. We had the [inaudible] prices moving around effects, and also we had a little bit of downgraded powder in the second six months, so that all came through. The $500 is probably around about 10% higher than what we'd expect on the go forward. However, an example where we did really well this year was around the Skim or powder AMF differentials. We entered the year and that was neutral. We've actually seen that actually pop up again, so that's a benefit that we're trying to extract again this year. So in short, it's difficult to pick. But I'd just be picking slightly more conservative view than 500 at the moment, Marcus.

Marcus Curley: Rob, if you stripped out the stream returns, what would've been that underlying number? Yeah, the 500 would've been what in FY23?

Rob Stowell: Be somewhere between 400 and $450 per metric tonne, particularly in a situation where you're reducing your costs dramatically.

Marcus Curley: Okay. And thirdly, given no one's stuck to the two-question limit, I won't either. Just a point of clarification. When you talk about the 10 to $20 million worth of overhead cost reduction, is that excluding the fact that you had $11 million worth of one-off ERP costs? So in essence, that doesn't include the fact that that cost is disappearing, so it's in addition to that $11 million?

Rob Stowell: It is absolute costs minus 10 to $20 million. And look, that's in the face of inflationary pressure. So you've still got inflationary pressure coming through for another year, which say could be 10%. We're saying actually we're going to go below what we spent in FY23 by 10 to $20 million.

Marcus Curley: Okay. So in other words, it includes the fact that you're losing... One would assume given the ERP project is finished, you don't have any further one-off costs for that this year?

Rob Stowell: No. No further one-off costs, but you'll see in the presentation there's a reoccurring cost of $10.6 million.

Marcus Curley: Sure. That was also in this year's numbers as well, right?

Rob Stowell: Yeah, correct. Yep.

Marcus Curley: Okay, thank you.

Operator:	Thank you. Your next question comes from Adrian Allbon from Jarden. Please go ahead.
Adrian Allbon:	Oh, good morning team. I just wondering, firstly, can I just clarify what you were saying in advanced nutrition? So you're expecting the infant formula volumes to be down 11%? But I just missed at the start, are you then assuming that the overall volumes for that division would be up 10 to 12%, which includes the offset from the Abbott contract?
Grant Watson:	Yeah, so the way to think about it, Adrian, is we're expecting infant formula to be down. We're expecting other parts of the advanced ingredients business to be up. And net, we're expecting to be up. So when I say other parts, there's a range of customer opportunities that will play out in FY24 that ensure that we end up in a positive net position.
Adrian Allbon:	And just for clarification, is that sort of infant formula base powder?
Grant Watson:	When we talk about 11.4, we're talking about packaged goods rather than base powders?
Adrian Allbon:	No, no, but just in terms of, you said there's a range of other parts that may play out in FY24, there's obviously Abbott. And then are you talking other parts likely being infant formula base powder for other customers or?
Grant Watson:	I can't comment specifically on the other opportunities at this stage, Adrian.
Adrian Allbon:	Okay. All right. Just while I've got you, Grant, just from the back and forth we had via the A2 announcement last week, they're obviously looking to drop the exclusivity, which in practical terms, I suspect allows them to glide path off when it suits them like the English label volumes as they build up their own capability or with other partners. Can you comment on, like if you did agree to their loss of exclusivity, I know you're refuting at the moment, what would it mean for Synlait? Does that mean that you have to maintain this 150% capacity of '23 that they cited through the length of the contract or is the other mechanisms available to Synlait?
Grant Watson:	Yeah. So maybe to talk through the process we're in, we'll work our way through in faith, in good faith. There's 20 working days, so that's the first part of the process. In the event we don't get resolution through that, we'll give thought to are there benefits in actually letting the exclusivity drop away? And we think there are a number of benefits, but if we look at the benefits of challenging A2 on the position that they claim. So again, we'll work our way through that in good faith if that's where we get to. In terms of going down an arbitration process, again, if we do that, we're expecting that that could take 12 to 24 months. So one step at a time from our perspective, we are focused on continuing to deliver against that contract, onboarding new business, and diversifying the growth of Synlait.

Adrian Allbon: Okay. But sorry, because my understanding is it's not take or pay. So their assertion that you'd have to maintain 150% of FY23 volume is not necessarily correct if you...

Grant Watson: Yeah, let's not prejudge what might come out of the processes that lay in front of us. We'll work through those in good faith and determine what we think is in the best interests of our shareholders.

Adrian Allbon: Okay, understood. And just to circle the waggons a little bit on Dairy Works, like my calculation is kind of correct, I'm just looking at your notes, just call it short of $10 million NPAT, does it work back up to 16 and a half of Abbot? And then with a bit of depreciation, it probably did around $20 million of EBITDA for FY23, is that sort of ballpark correct.

Rob Stowell: Yeah, that's pretty good math there, Adrian.

Adrian Allbon: And would that be a reasonable assumption for the next year just as a placeholder? Obviously we're going to divide it by two given the earlier comments.

Rob Stowell: Look, actually the outlook for Dairy Works is actually growth and they continue their growth story into next year. Got a number of opportunities both in Australia and Southeast Asia, so we'd expect that to grow.

Adrian Allbon: Okay. All good. Thank you.

Operator: Thank you. Once again, if you wish to ask a question, please press star one on your telephone and wait for your name to be announced. Your next question comes from Jonathan Snape from Bell Potter. Please go ahead.

Jonathan Snape: Hi, can you hear me okay?

Rob Stowell: We can, Jono.

Jonathan Snape: Great. Look, can I just ask a question? In particular, I'm looking at the segment note four and the expenses level, and there's a couple of numbers. I just want to check because I might've lost it in translation, but the inventory positions and writedowns of $19.8 million there, the increase in inventory provisions of 6.1 and the increase in onerous contracts two, I think it's all just under 28 million bucks, is that's in the headline number or in your underlying EBITDA. Is that correct? Because I couldn't see any adjustments in your little waterfall for it, but I'm assuming you've taken that $28 million as an expense against your underlying 90, whatever it was.

Rob Stowell: Yeah. Hi, Jono. Yes, we have, so that expense drops into each one of those business units mainly heads into advanced nutrition ingredients and also a little bit is gone into foodservice. So just it's part of the reason and part of the story around the margin erosion within those areas.

Jonathan Snape: Okay. So when you're talking cost down 10 to 20, does that include that not repeating? I guess what I'm trying to figure out is that if I'm looking at next year, [inaudible] should be up 28 just opening the doors and not really having to write down anything. And then if I've got some costs out, I'm going to have a 10 or 20 there, and then I can make my own assumptions around volumes and stuff like that. I guess what I'm trying to figure out is that in the 10 to 20 or is the 10 to 20 would be in addition to that?

Rob Stowell: Great question. So it's in addition to that. So the 10 to 20 is essentially our SG&A and manufacturing or operations costs, excluding inventory provision writedowns. So that would be on top of that. Obviously, really disappointing result around those areas. We were producing new products, that's part of it. Part of it is the ERP system project and inventory tracking, and part of it's because some of our demand moved out in the year. But we definitely won't be repeating that in FY24, so you can add that on top.

Jonathan Snape: Okay. And look, can I just ask around your debt numbers, because obviously you used the assigned receivables facility as well and it looked like that would've shifted $31 million out of debt onto your balance sheet this year relative to a year ago. So if A2 volumes are going to fall next year in your thinking, then obviously your ability to use that facility would probably drop as well. So when you are looking at your year-end debt targets, are you factoring a lower usage of that facility by year-end?

Rob Stowell: Yeah, there's a couple of things going on. Obviously, the Dairy Works business also uses those facilities that would potentially come out and saying that we are also pursuing bringing some more newer customers onto that facility. So I'm not expecting it to drop dramatically for next year.

Jonathan Snape: Okay. Great. Thanks a lot.

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

Deidre Copley: Hello. Just checking that you can hear me, please.

Grant Watson: We can hear you.

Deidre Copley: Great, thank you. My question is slightly different. In terms of the estimate of your financing costs. It was 5.5 for the full year this year or 5.5%, and you're talking about a reduction for the full year '24. Is that a reduction you're looking at in terms of that cost, which I assume incorporates the subordinated bonds, which are only paying a coupon of 3.83%? So presuming that 5.5 is inclusive of that. And also are you expecting reduction going forward on that 5.5% figure or are you relating it to more recent financing facilities? Thank you.

Grant Watson: No, thank you. Great question. Look, I'm looking forward. Basically, we have got a price saving on our interest rates. And so obviously, the other piece is our debt loading across the year and how that plays out with our ingredient sales. We've estimated at a high-level, roughly 10% across their total interest costs for next year because of improved pricing, which could be in the range of three or $4 million per annum.

Deidre Copley: Thank you. So no estimate on what your financing costs might be looking at for full year '24, putting it another way?

Grant Watson: You mean the interest rate?

Deidre Copley: Yes.

Grant Watson: I don't have that to hand, sorry.

Deidre Copley: Okay. Thank you.

Operator: Thank you. Your next question comes from Sam Xu, private investor. Please go ahead.

Sam: Hey, team. Could you just help us understand how that issue with A2 came about? Was that from the CO2 shortages in the front staff or was that a labour issue?

Grant Watson: I can't specifically talk to what sits behind their claim. We'll work through a process in good faith. And again, we refute their claim.

Sam: Okay, that's helpful. And just on the Abbott contract, how much of an impact can we expect from that going forward?

Rob Stowell: We won't be giving any information on that customer going forward.

Sam: Okay. Yeah, that's great. Thank you.

Operator: Thank you. There are no further questions at this time. I'll now hand back to Mr. Watson for closing remarks.

Grant Watson: Thank you to everyone for joining our call this morning. We look forward to connecting in with you on our annual results roadshow in the weeks ahead.

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

[END OF TRANSCRIPT]