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## Synlait publishes HY24 result: North Island strategic review commenced; and Bright Dairy and banking syndicate support in place.

Synlait Milk Limited (Synlait) has announced its financial results for the six months ended 31 January 2024. This includes a strategic review of its North Island assets, a letter of support from Bright Dairy, and banking amendments, including an extension to the \$130 million prepayment, and details of Synlait's well-progressed forward-looking recovery plan.

Synlait CEO Grant Watson commented: "It has been a challenging half-year for Synlait as we continue to reset the company to better achieve our strategic objectives, while working to significantly reduce our elevated levels of debt."

"The delivery of our half-year results brings together several reset initiatives, with the announcement of an amendment to our banking facilities, and a strategic review of the North Island assets. The balance sheet reset initiatives are underpinned by a letter of support from our largest shareholder, Bright Dairy. Bright Dairy's support, coupled with the banking syndicate's support, offers Synlait additional stability and confirms that our largest shareholder and banking syndicate remains very supportive."

"Our strategic focus is on Advanced Nutrition and Foodservice where we have a clear competitive advantage to deliver diversified, high-value growth. It is supported by a well-run Ingredients business enabled by our market-leading Lead With Pride™ on-farm excellence programme. We have built a world-class and highly flexible asset base, and we are well positioned ahead of emerging customer demand trends. Combined with our refreshed executive leadership team, we have all the pieces in place to execute on this strategy and deliver strong returns for our shareholders."

### Deleveraging plan in place

Synlait has a clear plan to deleverage its balance sheet and reduce total debt to a sustainable level. It has five elements:

#### 1. The banking syndicate remains supportive, with amendments confirmed:

- Extension of the \$130 million prepayment from 28 March 2024 to no later than 15 July 2024.
- An additional \$30 million of short-term funding from 28 March 2024 to 27 June 2024.
- Amendment of the shareholders' funds covenant from \$600 to \$400 million (an 'at all times' covenant).
- Amendment of the interest cover ratio from 2.25x to 1.75x for FY24.

#### 2. Bright Dairy support received

The Board has received a letter of support from Bright Dairy, the company's largest shareholder, which owns 39.01% of the shares in Synlait, that reinforces its ongoing support for Synlait. The letter includes a commitment to participate in a future equity raise and to extend a loan at the request of Synlait, subject to Synlait and Bright receiving all necessary approvals.



### 3. North Island assets strategic review commenced

Synlait will undertake a strategic review of its world-class North Island assets, including its manufacturing facility in Pokeno and its blending and canning facility in Auckland. It will explore the highest-value ownership structure of these assets to maximise value for all shareholders. The strategic review is expected to take several months, and there is no certainty that any transaction will result. No decisions will be made regarding any potential transaction or other outcomes until the completion of the strategic review.

### 4. Equity raise

Synlait is progressing with an equity raise alongside its strategic review of the North Island assets. Given that Synlait's share price is trading at a significant discount to its net tangible asset value, the Board believes that asset realisation should be progressed to produce maximum value for our shareholders. Equity raising remains an option under consideration by the Board in parallel to achieve deleveraging of Synlait's balance sheet.

### 5. Dairyworks sale process ongoing

Synlait remains in discussions with potential purchasers, but no sale has been completed or assured. This is a high value business, and the Board will ensure the best possible return is achieved for shareholders.

### Forward-looking business recovery plan well progressed

As well as resetting Synlait's balance sheet, several initiatives to accelerate volume growth and further optimise manufacturing, quality, and cost performance continue. Progress is detailed in the investor presentation (slides 22 to 25) and examples include improvements in asset stability, yield improvements, and continued enterprise resource management system efficiency improvements (now the system is fully embedded).

### Half year 2024 financial performance<sup>1</sup>

#### Key financial metrics in today's result included:

- Revenue up 3% to \$793.5 million.
- Earnings before interest, taxes, depreciation, and amortization (EBITDA) was \$19.9 million. Adjusted EBITDA was \$36.1 million.
- Net loss after tax was (\$96.2) million. Adjusted net loss after tax was (\$17.4) million.
- Net debt up 8% to \$559.0 million.
- Gross profit down 47% to \$43.6 million.
- Forecast base milk price for the 2023 / 2024 season is \$7.80 per kg/MS up from \$7.50 per kg/MS.

The adjusted half-year result was impacted by a less favourable market environment for the ingredients business, unfavourable FX, lower Advanced Nutrition volumes, and higher inventory write-downs, operational expenditure, and financing costs.

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<sup>1</sup> All comparisons are against HY23 (except for the milk price) and include the results of Dairyworks, which has been treated as a discontinued operation.



Three non-cash items also significantly impacted the HY24 result. We recorded an impairment charge of \$50.3 million, which was primarily driven by the underutilisation of our North Island manufacturing facilities. There was a \$31.1 million adjustment recorded to write down the net assets of Dairyworks to fair value less costs of disposal to reflect the value of non-binding offers received. Finally, there was a change in the basis of inventory overhead allocation methodology. The change was initially treated and forecasted as a policy change based on external accounting advice received; it was revised to be reflected as a change in estimate based on a technical interpretation of the accounting standards by our auditor, resulting in HY24 NPAT experiencing a non-cash adverse impact of \$8.4 million.

A further summary of Synlait's financial performance can be found in the investor presentation and in the financial statements, released with this announcement.

### Full year 2024 (FY24) guidance statement

Synlait has updated its FY24 guidance.

The previously announced guidance stated that earnings before interest, taxes, depreciation, and amortization (EBITDA) performance was expected to be broadly flat or down compared to FY23. Synlait's FY23 EBITDA was \$90.7 million.

Synlait now expects the FY24 EBITDA result to be significantly down on FY23 within the range of \$45 million to \$60 million, excluding a non-cash adjustment for the product costing method change of approximately \$17 million.

The FY24 EBITDA result is impacted by:

- Softening demand and/or margins across all business units.
- Adverse foreign exchange and product mix.
- Increased operating expenses e.g., legal costs, inventory management, and a range of other costs.

In addition to the above, Synlait is facing material uncertainties in respect of the timings and outcomes of various deleveraging options which are currently progressing. The deleveraging options include an equity raise, a North Island strategic asset review, and the sale of Dairyworks.

The half-year financial statements further detail these material uncertainties. All shareholders are encouraged to review this disclosure in detail.

The Board and Management remain fully committed to deleveraging Synlait's balance sheet and continuing the focus on improving profitability for the balance of 2024.

The FY24 EBITDA guidance excludes all current and future impairments relating to Synlait and Dairyworks.

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