



17 October 2018

NZX/ASX Market Release

## **Investor Presentation**

Please find attached a presentation to be given today by The a2 Milk Company Limited at Citi's 10<sup>th</sup> Annual Australian and New Zealand Investment Conference in Sydney.

An update on progress in the Company's key markets during the first quarter of FY19 is provided on page 26.

There is no change to the Company's FY19 outlook statement, set out on page 28.

The next update on performance is expected to be provided at the time of the Company's Annual Meeting on 20 November 2018.

**The a2 Milk Company Limited**

**Jayne Hrdlicka**

**Managing Director & CEO**



# Citi Australia & New Zealand Investment Conference

Sydney | 17 October 2018





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- The a2 Milk Company at a glance
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# The a2 Milk Company at a glance

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## Our purpose

Helping people enjoy a better life

## Our vision

To be the most innovative and smart choice for dairy

## Our ambition

To be the most admired and commercially attractive dairy-based brand globally





# The a2 Milk Company at a glance

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- The a2 Milk Company (“a2MC”) is in the business of producing, marketing and selling premium branded dairy nutritional products in targeted global markets
- All a2MC branded products contain only A2 beta casein protein type rather than both A1 and A2 types found in conventional cows’ milk products
- Uniquely focussed on building a branded and differentiated business supported by an integrated business model and strong first mover advantage

(all figures NZ\$)

**\$923m**

**FY18 Revenue ↑ 68%**

**\$7.3b**

**Market capitalisation<sup>1</sup>**

**\$27c**

**FY18 EPS ↑ 113%**

<sup>1</sup> Based on share price of NZ\$9.89 at 12 October 2018 (quoted securities only)

<sup>2</sup> Basic earnings per share



# What is the a2 Milk® brand difference?

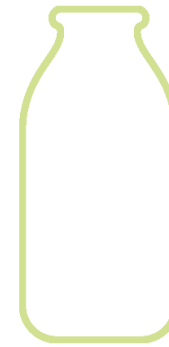
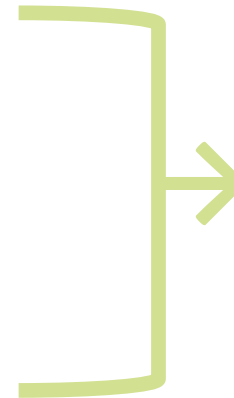
- The brand difference starts with specially selected cows
- The a2 Milk Company has significant years of knowledge and experience and takes great care in bringing our consumers the very best quality dairy nutritional products always free from the A1 protein
- A1 and A2 proteins digest differently - many people who have issues digesting conventional milk find they can enjoy a2 Milk®



Originally all cows produced milk containing only the A2 protein<sup>1</sup>



Genetic mutation occurred in European herds and spread via migration and modern farming practices



All conventional milk is a mix of A1 and A2 proteins<sup>1</sup>

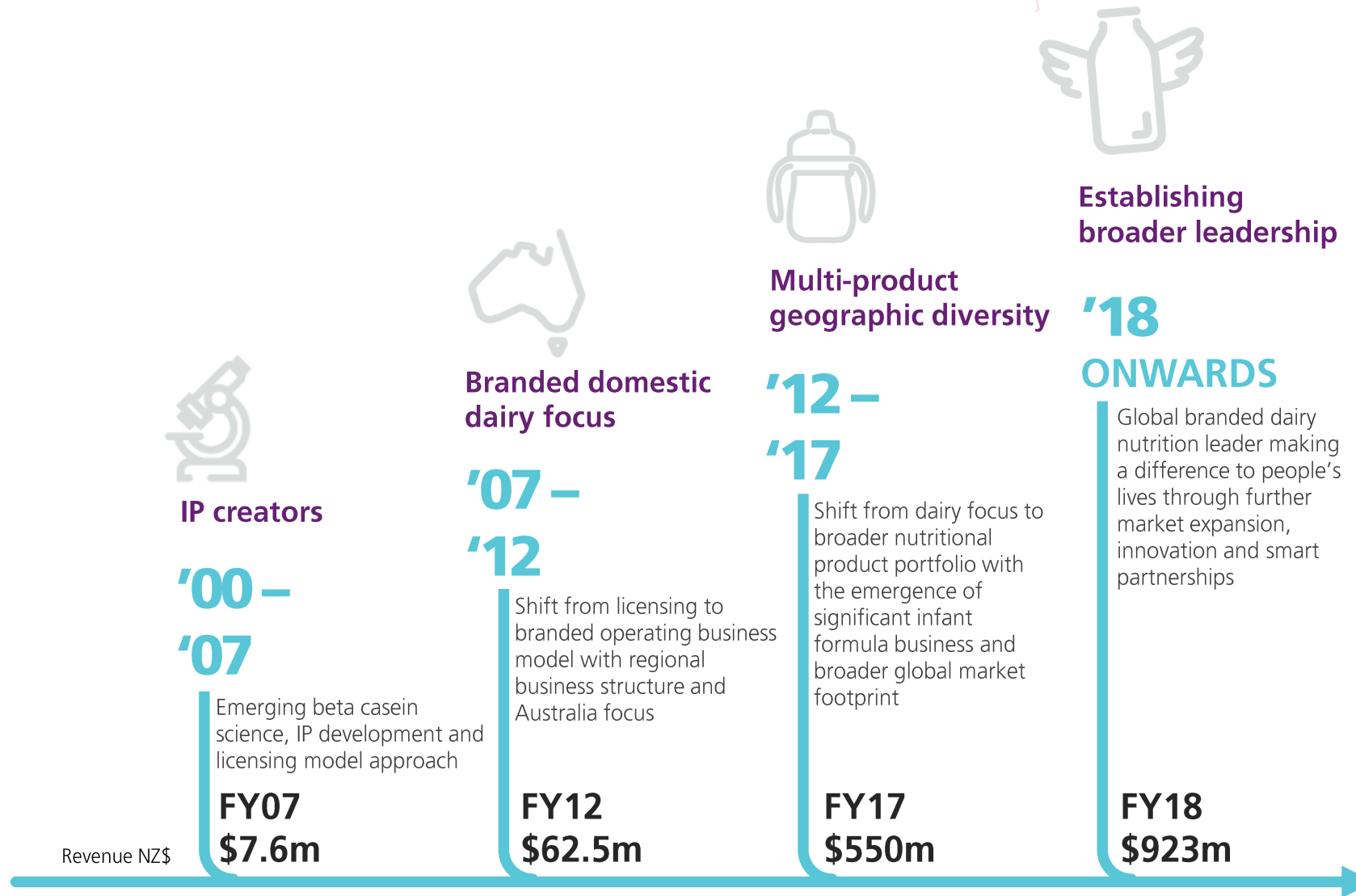


a2MC milk naturally contains only the A2 protein and is free from A1 protein<sup>1</sup>

<sup>1</sup> A1 and A2 protein refers to A1 and A2 beta casein protein types respectively



# FY18 – a transformative year







## FY18 results highlights

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# FY18 highlights

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- Total revenue of \$922.7 million<sup>1</sup> +68% over the prior corresponding period (pcp)
- EBITDA of \$283.0 million +101% on pcp
- Net profit after tax of \$195.7 million +116% on pcp
- Strong cash conversion - operating cash flow of \$231.1 million +131% on pcp
- EBITDA to sales margin of 31% up from 26% in the pcp
- Basic earnings per share (EPS) of 27.0 cents up from 12.7 cents in the pcp
- Infant formula share strengthening to 5.1% in China<sup>2</sup> and 32% in Australia<sup>3</sup>
- Substantial physical distribution growth to ~10,000 stores in China and ~6,000 stores in the US
- Enhanced strategic partnerships with Synlait and Fonterra

<sup>1</sup> All figures in NZ\$

<sup>2</sup> Kantar Infant Formula market tracking of Tier 1 and Key A cities for 12 months ending June 2018 by value (Kantar track a substantial proportion of the total market)

<sup>3</sup> Aztec Australian Grocery and Pharmacy Scan value share 12 months ending 30/06/18



# Financial summary

NZ\$ million	FY18	FY17	% change
Revenue	922.7	549.5	+68% • Reflects strong growth across all regions
Gross margin	464.3	263.5	+76% • GM of 50.3% reflects higher infant formula sales and favourable currency movements
Distribution	(26.8)	(20.2)	+33% • Lower relative distribution costs reflects product mix and scale efficiencies
Marketing <sup>1</sup>	(73.6)	(42.0)	+75% • Increased marketing investment primarily to support growth in China and the US
Employee costs	(34.8)	(23.0)	+51% • Employee cost increases reflect capability build in core markets and corporate
Administration & other	(46.1)	(37.2)	+24% • Reflects costs to support business expansion and increased scale
EBITDA	283.0	141.2	+101%
EBIT	280.9	138.5	+103%
NPAT	195.7	90.6	+116% • Improved effective tax rate to 30.9% reflecting lower ratio of tax losses (not tax effected) and non-deductible expenses
NZ\$ million	Jun-18	Jun-17	% change
Cash on hand	340.5	121.0	+181% • Cash on hand reflects strong NPAT contribution and efficient working capital
Inventory	64.1	28.4	+125% • Infant formula build to more sustainable levels

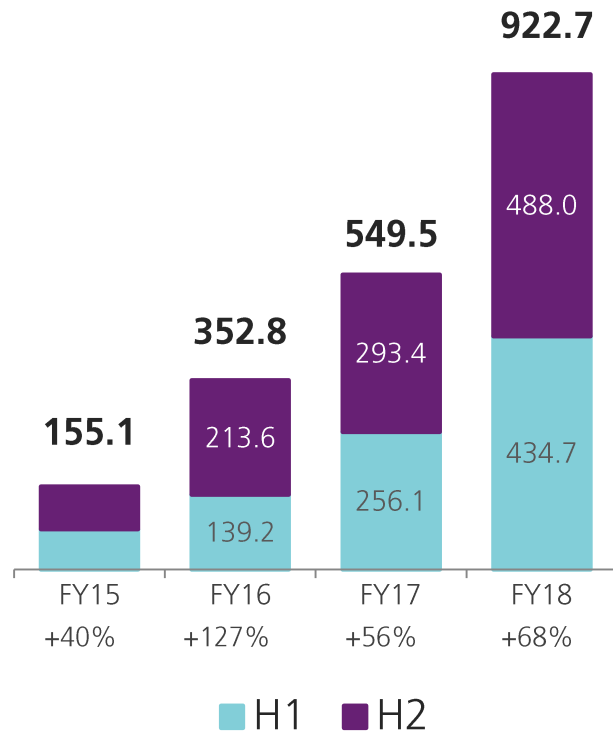
<sup>1</sup>Consumer marketing excludes China trade marketing costs of ~\$10m previously forecast as marketing expense



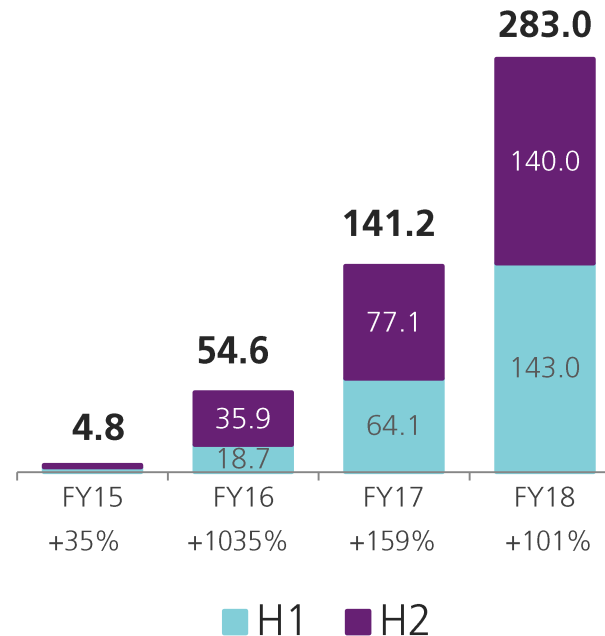


# Historic perspective<sup>1</sup>

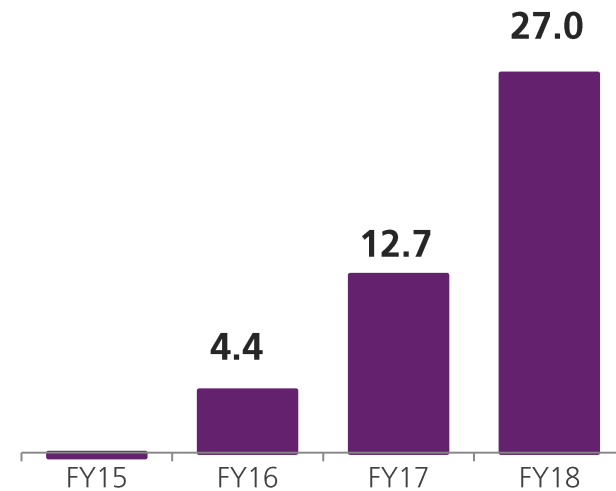
Group revenue (NZ\$ million)



Group EBITDA<sup>2</sup> (NZ\$ million)



Basic Earnings Per Share (cents)



<sup>1</sup> The Company's financial year ends 30 June; 1H refers to the first half period from 1 July to 31 December; 2H refers to the second half period from 1 January to 30 June

<sup>2</sup> EBITDA is a non-GAAP measure and represents earnings before interest, tax, depreciation and amortisation, and is shown before non-recurring items



# Geographic and product segment performance

NZ\$ million		Australia & New Zealand	China & other Asia	UK & USA <sup>2</sup>	Corporate	Total Group
FY18	Revenue	656.6	233.6	32.4	-	922.7
	EBITDA <sup>1</sup>	262.2	81.3	(27.6)	(32.8)	283.0
	EBITDA %	39.9%	34.8%	NM	-	30.7%
FY17	Revenue	439.6	88.9	21.0	-	549.5
	EBITDA	155.3	32.7	(22.5)	(24.4)	141.2
	EBITDA %	35.3%	36.8%	NM	-	25.7%
% Change	Revenue	49.4%	162.9%	54.1%	-	67.9%
	EBITDA	68.8%	148.2%	NM	34.2%	100.5%

## Revenue



### Liquid milk

**\$142.4m**

+13.1% on pcp



### Infant nutrition

**\$724.2m**

+83.8% on pcp



### Other nutrition

**\$56.1m**

+89.2% on pcp

<sup>1</sup> EBITDA is a non-GAAP measure and represents earnings before interest, tax, depreciation and amortisation

<sup>2</sup> UK & US Operating EBITDA includes \$2.2 million in impairment charges in FY17



Strategic progress

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# Macro consumer trends support our momentum



**Growing consumer demand for health and wellness products**



**Food safety, naturalness and provenance**



**Growing middle class in Asia**

# How we are unique



# Strategic priorities

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## BRANDED DAIRY NUTRITIONAL PRODUCT PORTFOLIO

Across a continuum from the purity of fresh a2 Milk™ to customised A1 protein-free products

Targeting the whole family from infants to adults to satisfy their growing digestive health needs



## INVESTING IN ATTRACTIVE MARKETS

Asia Pacific focus  
(ANZ, China, Other Asia)

USA

UK

New market opportunities



## DEEPENING OUR PROPRIETARY KNOW-HOW AND A2 PROTEIN EXPERTISE

Integrated intellectual property portfolio

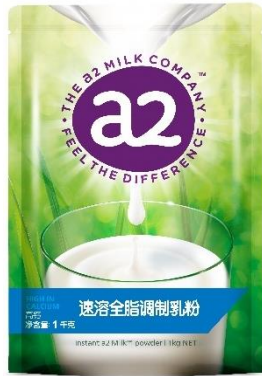
Leading operational & compliance capability

Investing in relevant scientific research

Differentiated brand development

# New products & markets

a2 Milk™ powder into China and Vietnam



a2 Milk™ into Singapore



a2 Platinum® Stage 4 into ANZ and China<sup>1</sup>



a2 Platinum® Pregnancy into ANZ and China<sup>1</sup>



a2 Milk™ into NZ (July FY19)



a2 Platinum® into Hong Kong



a2 Milk™ into SE and NE USA



a2 Milk™ blended with Mānuka honey into ANZ



<sup>1</sup> Cross border e-commerce (CBEC)



# Enhanced strategic partnerships

- **Synlait Milk**

- Foundation infant nutrition partner
- Multiple NZ manufacturing sites
- Exclusive supply partnership for infant and pregnancy powdered nutrition in ANZ and China
- New product innovation capability
- Enhanced supply agreement (announced July FY19)
- Increased shareholding to 17.4% (August FY19)

- **Fonterra Co-operative Group**

- New comprehensive agreement announced February FY18
- Multiple Australian and NZ manufacturing sites
- Exclusive supply rights for infant nutrition in new emerging markets (Other Asia, Middle East) and potential to develop new non-infant nutrition products globally
- NZ fresh milk licence (launched in limited supply from July FY19; national rollout in October)



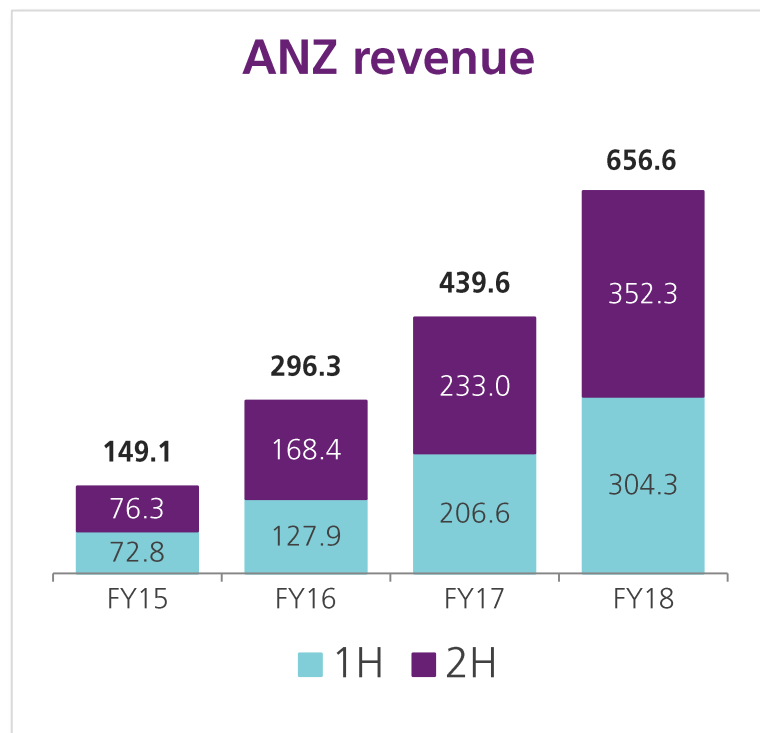


## FY18 regional performance

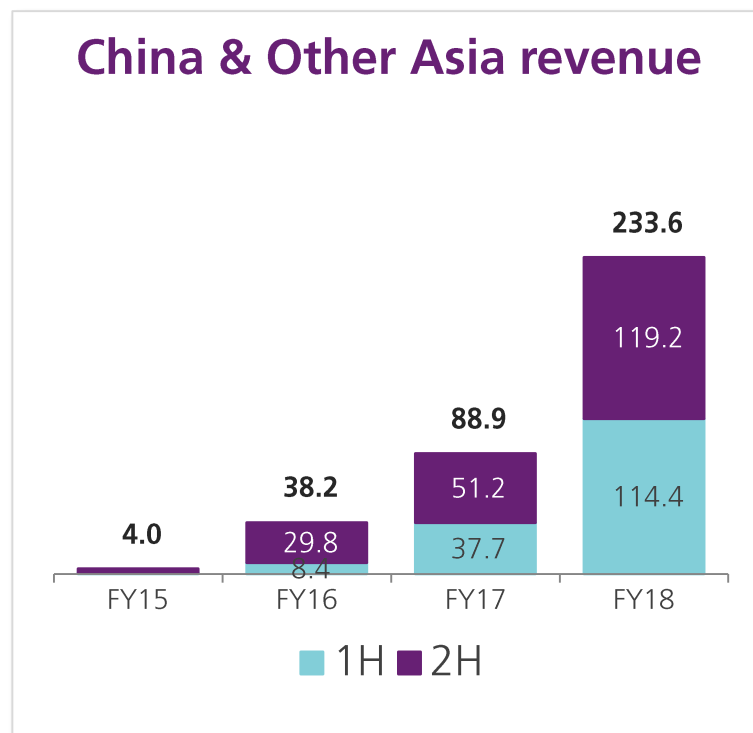
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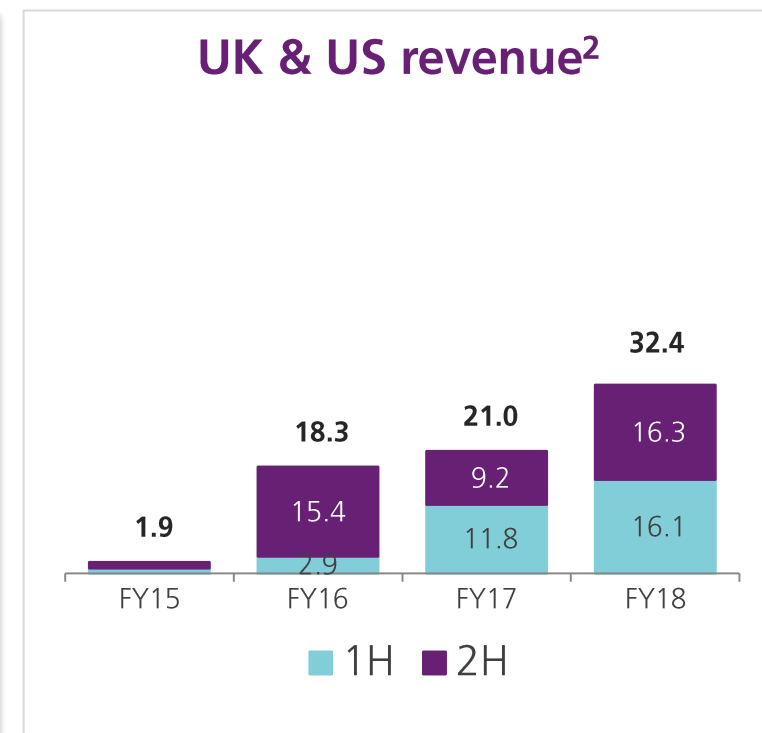
# FY18 regional performance overview (NZ\$ million)<sup>1</sup>



- **Revenue:** \$656.6 million
- **EBITDA:** \$262.2 million



- **Revenue:** \$233.6 million
- **EBITDA:** \$81.3 million



- **Revenue:** \$32.4 million
- **EBITDA:** (\$27.6) million

<sup>1</sup> The Company's financial year ends 30 June; 1H refers to the first half period from 1 July to 31 December; 2H refers to the second half period from 1 January to 30 June  
<sup>2</sup> UK & USA Segment revenue includes ~\$15m revenue contribution in FY18 from infant formula sold to UK exporters



# Australia and New Zealand

- Continued outstanding ANZ revenue and earnings performance
- a2 Milk™ branded fresh milk achieved record value market share of ~9.8% from ~9.3%<sup>1</sup> in pcp
  - Further share growth to ~10% in the latest quarter<sup>2</sup>
  - Revenue grew ~4% on pcp
- Strong growth in a2 Platinum® infant formula:
  - Number one infant formula brand in Australia, market value share increased from ~26% to 32%<sup>3</sup>
  - a2 Platinum® Stage 4 (launched August 2017) performed above plan
  - Launched online platform to improve access for Australian parents
  - Packaging changeover progressing in line with expectations
- Other nutritional products revenue significantly higher than in pcp
  - Healthy whole milk powder and skim milk powder sales growth
  - Mānuka & Pregnancy products launched 4Q18
- Highest national brand advertising spend in both infant formula and milk categories



<sup>1</sup> Aztec Australian Grocery Weighted Scan 12 months ending 30/06/18 vs YA

<sup>2</sup> Aztec Australian Grocery Weighted Scan Qtr ending 30/06/18

<sup>3</sup> Aztec Australian Grocery and Pharmacy Scan 12 months ending 30/06/18 vs YA



# China and other Asia

- Exceptional performance for the China and other Asia business
- Flexible multi-product, multi-channel infant formula strategy:
  - Kantar consumption market share by value increased from ~2.8% to ~5.1%<sup>1</sup>
  - Distribution in China Mother Baby Stores (MBS) increased to ~10,000 stores
  - China Label accounted for ~12% of Group infant formula sales, up from ~6% in FY17
  - Direct sales into China increased significantly in cross border e-commerce channels (CBEC)
  - Successful participation in key seasonal online sales events in China during first half
- Growing brand awareness driven by increased sales and marketing investment in new brand campaign, social media and big digital activation events with live streaming
- a2 Platinum® infant formula launched in Hong Kong through high-end pharmacy outlets in September
- Continued to build local China capability
- SEA initiatives progressing well with fresh milk in Singapore, milk powder in Vietnam and new agreement with Yuhan Corporation in South Korea

<sup>1</sup> Kantar Infant Formula market tracking of Tier 1 and Key A cities for 12 months ending June 2018 vs 12 months ending 30/06/17 by value (Kantar track a substantial proportion of the total market)



# China infant formula regulatory environment

## Key regulatory milestones continue to be actively managed and achieved:

- CFDA<sup>1</sup> registration achieved by Synlait Milk for the Company's China label infant formula in September 2017
  - Newly-registered China label packaging launched to the market June 2018; transition and performance of new pack proceeding well
- Synlait Milk CNCA<sup>2,3</sup> infant formula applications progressing:
  - New Auckland facility registered with MPI<sup>4</sup>; infant formula CNCA registration/application progressing well
  - CNCA registration renewal process at Dunsandel facility continues; re-application is required by Chinese authorities for all international facilities

## China's regulatory environment continues to evolve and Company continues to actively monitor China's regulatory framework:

- New China e-commerce law passed 31 Aug 2018 (effective 1 Jan 2019); Company expects further implementation guidance, including implications for CBEC grace period (due to expire 31 Dec 2018)
- A number of China regulatory bodies have consolidated under a new State Administration for Market Regulation (SAMR) to streamline regulatory processes
  - SAMR assumes responsibility for formula registration and enforcing advertising regulations in market
  - China customs now assumes responsibility for plant registrations<sup>3</sup>, import requirements, testing and product clearance



<sup>1</sup> China Food and Drug Administration (CFDA)

<sup>2</sup> Certification and Accreditation Administration of the People's Republic of China (CNCA)

<sup>3</sup> CNCA (split into China Customs & SAMR) – CNCA plant registration will be managed in the future by China Customs

<sup>4</sup> Ministry of Primary Industries (New Zealand)

# UK & USA

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## UK

- a2 Milk™ branded fresh milk volume increased more than 50% on pcp; continues to be a challenging market to deliver scale
- Company will transition between suppliers early in FY19; not anticipated to create any disruption to stock availability

## USA

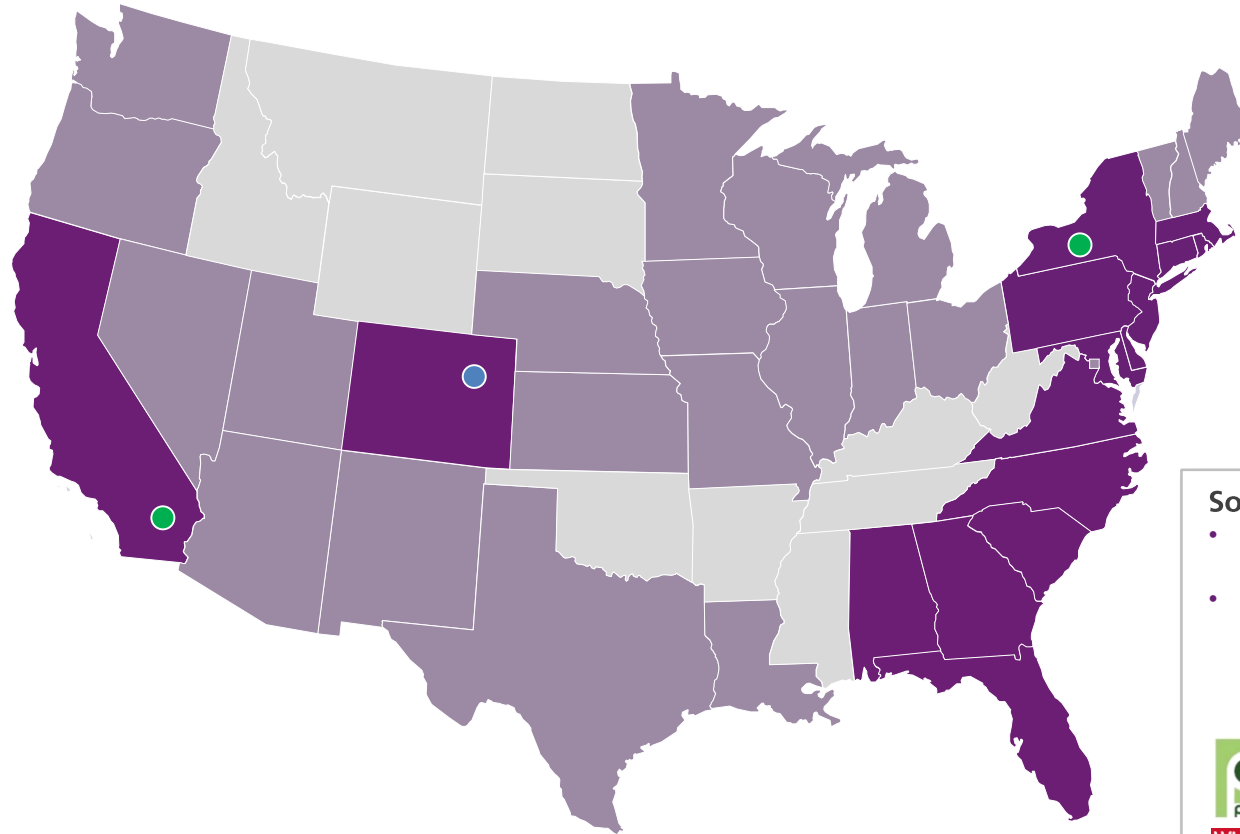
- Sales more than doubled year on year
- Distribution increased from ~3,000 to ~6,000 stores including Wegmans, Whole Foods, Ahold and more recently Costco and Walmart in select regions
- Brand awareness and national profile continues to build, supported by national advertising and active editorial and digital media programme
- Velocity growth continues with particularly strong performance in the natural channel (including Whole Foods & Sprouts)
- Opportunity to more quickly build distribution and brand awareness on a national basis sees revised outlook:
  - Planned investment for FY19 is ~US\$22 million; anticipating positive monthly EBITDA within three years
  - Investment primarily relates to marketing expenditure, sales activation and capability in market



# US distribution footprint

**Legend**

- Broad distribution
- Limited distribution
- No current distribution
- Processing and milk supply
- US office, Boulder, Colorado



**California**

- Launched April 2015
- Distribution in Sprouts, Whole Foods, Kroger & Safeway, Target & independent retailers

**Northeast**

- Entered market Jan 2018
- Improved speed of distribution build
- Whole Foods Northeast and major roll-out to over 1,400+ stores including ShopRite, Ahold Banners (Giant and Stop & Shop) Wegmans, and Market Basket

**Southeast**

- Entered March 2017 with significant and steady growth
- Distribution includes Publix (1,100 stores), Winn Dixie, Harris Teeter, Ingles, Earthfare, Costco & Walmart







**FY19 Q1 market  
update**

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# FY19 Q1 progress in key markets

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## Group

- Revenue for first 3-months consistent with Company expectations, reflecting continued strong growth in infant formula (English and China labels) and milk products

## China

- Infant formula consumption share by value increased from 5.1% (MAT June 2018) to 5.6% (MAT September 2018)<sup>1</sup>
- Mother baby retail store (MBS) distribution increased from ~10,000 stores to ~12,000 stores, with growing rate of sale in established stores
- Cross border e-commerce (CBEC) momentum building ahead of key online sales events

## ANZ

- a2 Milk™ branded fresh milk milestone with market value share now over 10% MAT<sup>2</sup>
- Leading value share position for a2 Platinum® infant formula maintained at 32%<sup>3</sup>
- Transition to new English label infant formula packaging completed in August

## USA

- Distribution footprint increased from ~6,000 stores to ~8,000 stores, with growing rate of sale in established key accounts
- Continued growth in new key accounts, including Costco and Walmart
- Brand awareness continues to grow off the back of national advertising

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<sup>1</sup> Kantar Infant Formula market tracking of Tier 1 and Key A cities for 12 months ending September 2018 vs 12 months ending June 2018 by value (Kantar track a substantial proportion of the total market)

<sup>2</sup> Aztec Australian Grocery Weighted Scan 12 months ending September 2018

<sup>3</sup> Aztec Australian Grocery and Pharmacy Scan 12 months ending September 2018







Outlook

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# Outlook

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- Anticipate further growth in revenue particularly in respect of nutritional products in ANZ and China, and liquid milk in the US
- Focus on growth initiatives in targeted emerging markets and new product development will continue
- Marketing expenditure as a percentage of sales expected to be higher than FY18 given continued investment in Australian market, re-phasing of 2H18 activities in China, and US market expansion investment support
- Overhead costs expected to be higher than FY18 – primarily headcount in China & Corporate to support continued growth
- Expect EBITDA to sales ratio broadly consistent with FY18
- Board continues to consider appropriate use of capital to support Company's growth strategy and supply chain development
- Includes review of opportunities to invest in blending and canning capability where appropriate as part of longer-term nutritional products sourcing arrangements







# Appendix

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## Reconciliation of non-GAAP measures

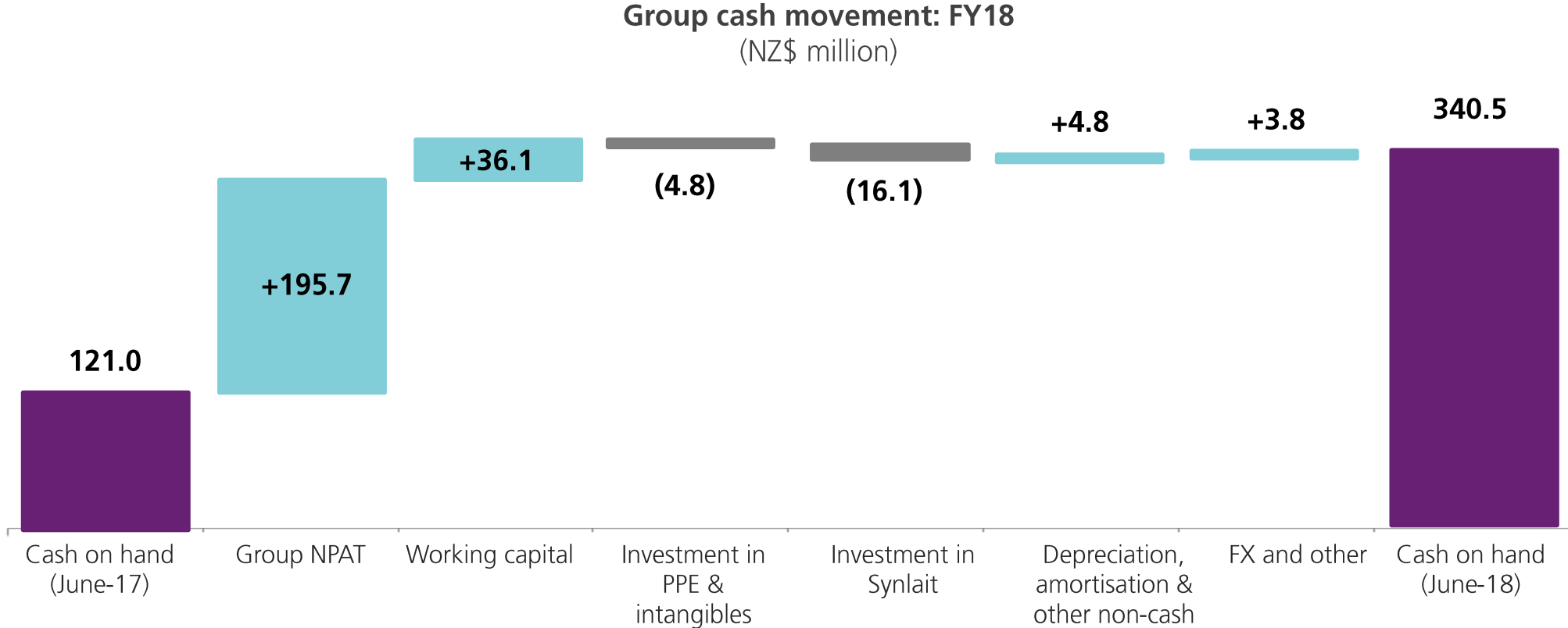
NZ\$ million	FY18	FY17
Australia & New Zealand segment EBITDA	262.2	155.3
China & other Asia segment EBITDA	81.3	32.7
UK & USA segment EBITDA <sup>1</sup>	(27.6)	(22.5)
Corporate EBITDA	(32.8)	(24.4)
EBITDA <sup>2</sup>	283.0	141.2
Depreciation/amortisation	(2.2)	(2.7)
EBIT <sup>2</sup>	280.9	138.5
Net interest income	2.4	0.9
Income tax expense	(87.5)	(48.7)
Net profit for the period	195.7	90.6

<sup>1</sup> UK & US Operating EBITDA includes \$2.2 million in impairment charges in FY17

<sup>2</sup> EBITDA and EBIT are non-GAAP measures. However, the Company believes they assist in providing investors with a comprehensive understanding of the underlying performance of the business



# Continued strong cash conversion



- Working capital benefitted from improved customer terms and includes increase in infant formula inventory







[thea2milkcompany.com](https://thea2milkcompany.com)





# Disclaimer

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This presentation dated 17 October 2018 provides additional comment on the Annual Report for the twelve months ended 30 June 2018 of The a2 Milk Company Limited (the “Company” or “a2MC”) and accompanying information released to the market on 22 August 2018. As such, it should be read in conjunction with the explanations and views in those documents.

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