



18 December 2020
NZX/ASX Market Release

Updated 1H21 and FY21 guidance

The a2 Milk Company today provides an update to its guidance for 1H21 and FY21.

We advised in August of a number of issues being experienced relating to our infant nutrition business as a result of COVID-19. This included the flow-on effect of pantry destocking continuing into FY21 following the strong sales uplift in 3Q20 and lower than anticipated sales to retail daigous in Australia, primarily due to reduced tourism from China and international student numbers.

In September we further advised that we had also started to observe additional disruption to the corporate daigou / reseller channel, particularly due to the prolonged Stage 4 lockdown in Victoria, with a contraction beyond our previous expectations.

At that time, we believed this to be a single channel logistics issue and were of the view that the impact to the daigou channel would prove to be temporary, assuming stabilisation of COVID-19 related issues in Australia.

At our Annual Meeting in November, we noted that we were maintaining our previously advised guidance, but that due to the volatility arising from COVID-19, and the difficulties this presents with forecasting, naturally there was uncertainty to that forecast. We also acknowledged that the outlook provided for a significant increase in revenue in the second half, dependent on a number of key assumptions, including an improvement in the daigou channel and continued growth in our China label business.

Recent sales performance

The effect of the disruption in the daigou channel, which represents a significant proportion of our infant nutrition sales in our ANZ business, has proved to be more significant and protracted than was previously anticipated. While this has predominantly affected infant nutrition sales, sales in our other nutritional segment have now also been impacted.

We had expected a moderation of the disruption to this important channel during the second quarter. While there has been some improvement, with infant nutrition sales through this channel expected to be higher in the second quarter than the first quarter, the acceleration of the recovery in recent weeks has been slower than we had previously expected.

Notwithstanding our recent focus on activating the CBEC channel in a manner which complements our daigou business, the disruption we are experiencing in the daigou channel is now having a more significant impact in CBEC. As previously noted, the daigou channel plays an important role in stimulating demand across multiple sales channels, including CBEC. While our performance in CBEC in the competitive 11/11

online sales event showed year on year growth, sales in the CBEC channel in the period following that event have been below expectation.

1H21 and FY21 infant nutrition sales revenue in the ANZ segment and the CBEC channel

With the recent sales performance in the daigou channel not being as strong as previously expected, we now consider that the recovery in this important channel through the balance of the fiscal year will also be slower. We expect that COVID-19 related travel restrictions will continue to negatively impact the reseller channel due to reduced travel between Australia and China through the remainder of FY21, with limited prospect of a return of a significant number of international students and tourists to Australia during the period.

Our internal sales forecasts for both the daigou and the CBEC channels for the remainder of FY21 are now materially lower. Notwithstanding the interdependency between these channels, given the strategically important role of the daigou channel, including in new user recruitment, we intend to strengthen our focus on reactivating the daigou channel in the second half.

1H21 Mother & Baby Stores (MBS) revenue

It is pleasing to note our performance in China label in MBS remains very strong and we anticipate revenue growth in the first half above 40 per cent on the prior corresponding period. Our 12-month rolling market value share in MBS also continues to increase, now at 2.3 per cent as at the end of October, with increases in both same store sales and the number of new stores in the first half.

Strong underlying brand health metrics

Notwithstanding the channel disruption noted above, we continue to record strong underlying brand health metrics in China. Our most recent research again highlighted positive trends in lead indicators such as awareness and intention to purchase. We continue to see a positive impact from the marketing investment in activation and brand building activities supported by the on the ground capability investments we have made over the past 18-24 months.

As a result, we remain confident in the underlying strengths of the business and will continue a high level of investment in marketing during the balance of the year.

Liquid milk performing well

In addition, it should be noted that our liquid milk businesses in Australia and the USA have performed well through the first half, with both business posting strong first half growth as compared to 1H20.

Updated 1H21 and FY21 guidance

We now expect:

- Group revenue for 1H21 in the order of \$670 million, noting that 2Q21 will be higher than 1Q21
- Group EBITDA margin for 1H21 in the order of 27 per cent

Notwithstanding the unprecedented level of uncertainty and volatility in market conditions as a result of COVID-19 and foreign exchange headwinds, we now provide an update to our FY21 guidance as follows:

- Group revenue for FY21 of \$1.40 billion to \$1.55 billion
- Group EBITDA margin for FY21 of between 26 per cent and 29 per cent.

These numbers exclude any costs relating to the potential acquisition of an interest in Mataura Valley Milk Limited.

Medium-term target

As previously announced, the Board considers it appropriate that the Company target an EBITDA margin in the order of 30% in the medium-term. Notwithstanding the current headwinds, the Board considers the strength of the brand and the fundamentals of the business over the medium term remain sound.

Authorised for release by the Board of Directors

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