



NEXT GENERATION

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Synlait Milk Limited Interim Results FY18

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STRATEGIC UPDATE



John Penno

MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER



OPENING REMARKS

- **RECORD HALF YEAR NET PROFIT OF \$40.7 MILLION** COMPARED TO \$10.6 MILLION FOR THE SAME PERIOD LAST YEAR (H1 FY17) GENERATED FROM INCREASING CANNED INFANT FORMULA VOLUMES, AND IMPROVED INGREDIENTS MARGINS
- **STRENGTHENED BALANCE SHEET** WITH REDUCTION OF NET DEBT TO \$50 MILLION FROM \$147 MILLION
- ACHIEVED **ORGANIC GROWTH** IN INFANT FORMULA CAPACITY, WITH VOLUMES UP 36% OVER H2 FY17
- **GEOGRAPHIC GROWTH** INITIATED WITH COMMISSIONING OF SYNLAIT AUCKLAND AND PURCHASE OF SYNLAIT POKENO
- ANNOUNCED FOODSTUFFS SOUTH ISLAND CONTRACT TO MANUFACTURE FRESH MILK AND CREAM WITH A \$125 MILLION INVESTMENT IN ADVANCED LIQUID DAIRY PACKAGING FACILITY **TO EXPAND INTO NEW CATEGORIES**
- **ENHANCED CAPABILITY** WITHIN SENIOR LEADERSHIP TEAM WITH THREE NEW APPOINTMENTS
- **INVESTMENT IN RESEARCH AND DEVELOPMENT** WITH THE OPENING OF SYNLAIT PALMERSTON NORTH
- **UNLOCKING CAPACITY** WITH THE COMMISSIONING OF THE NEW WETMIX KITCHEN AT SYNLAIT DUNSANDEL
- **ACHIEVED CFDA REGISTRATION** FOR THE a2 MILK COMPANY'S™ INFANT FORMULA IN CHINA

WE ARE A
GROWTH COMPANY

INGREDIENTS



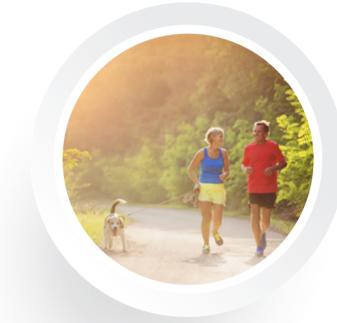
INFANT NUTRITION



EVERYDAY DAIRY



ADULT NUTRITION



OUR CATEGORIES

TO: SUCCEED

WE WILL LEVERAGE OUR UNIQUE VALUE CHAIN IN EACH CATEGORY TO BUILD SUCCESSFUL BUSINESSES THAT CONTRIBUTE TO OUR LONG-TERM SUCCESS

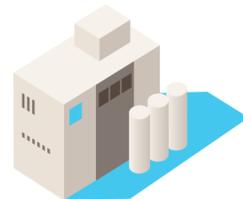
OUR VALUE CHAIN



DIFFERENTIATED MILK SUPPLY



RESEARCH + CATEGORY DEVELOPMENT



MANUFACTURING EXCELLENCE



CONSUMER PACKAGING



QUALITY TESTING LABORATORY



REGULATORY CAPABILITY

OUR CATEGORIES



DELIVERED IN CONSUMER, FOODSERVICE AND INGREDIENTS PACKAGING

	INGREDIENTS	INFANT NUTRITION	EVERYDAY DAIRY	ADULT NUTRITION
	BUILD SALES - PEOPLE, TECHNICAL	BLENDING + CONSUMER PACKAGING II	FRESH MILK	PRODUCT DEVELOPMENT
	TAILOR PRODUCT TO CUSTOMER NEED	WETMIX II	EXPORT CREAM OPPORTUNITIES	MARKET RESEARCH
		RTD INFANT FORMULA		RTD BLENDED DAIRY BEVERAGE

DIVERSIFY MARKETS - CATEGORIES, CUSTOMERS, GEOGRAPHY				
DELIVER HIGHER VALUE PRODUCTS				
ADAPT TO A CHANGING WORLD DEMOGRAPHIC				
FOCUS ON B2B, BUT MOVE CLOSER TO CUSTOMERS AND CONSUMERS				
BUILD SUPPLY CHAIN INTEGRITY				

STRONG CONTRIBUTOR TO STRATEGIC GOAL WEAK CONTRIBUTOR TO STRATEGIC GOAL

A PORTFOLIO OF INFANT FORMULA CUSTOMER PARTNERSHIPS



- STAGE 4 INFANT FORMULA MANUFACTURED SINCE JUNE 2017
- CHINESE FOOD AND DRUG ADMINISTRATION (CFDA) REGISTRATION RECEIVED IN FY17
- EXCLUSIVE SUPPLIER OF THE a2 MILK COMPANY'S™ INFANT FORMULA TO CHINA AND AUSTRALASIA MARKETS



- CURRENTLY AVAILABLE IN AUSTRALIA AND NEW ZEALAND
- DISTRIBUTING NATIONWIDE IN AUSTRALIA THROUGH COLES SUPERMARKETS
- PENDING U.S. FOOD AND DRUG ADMINISTRATION (FDA) REVIEW

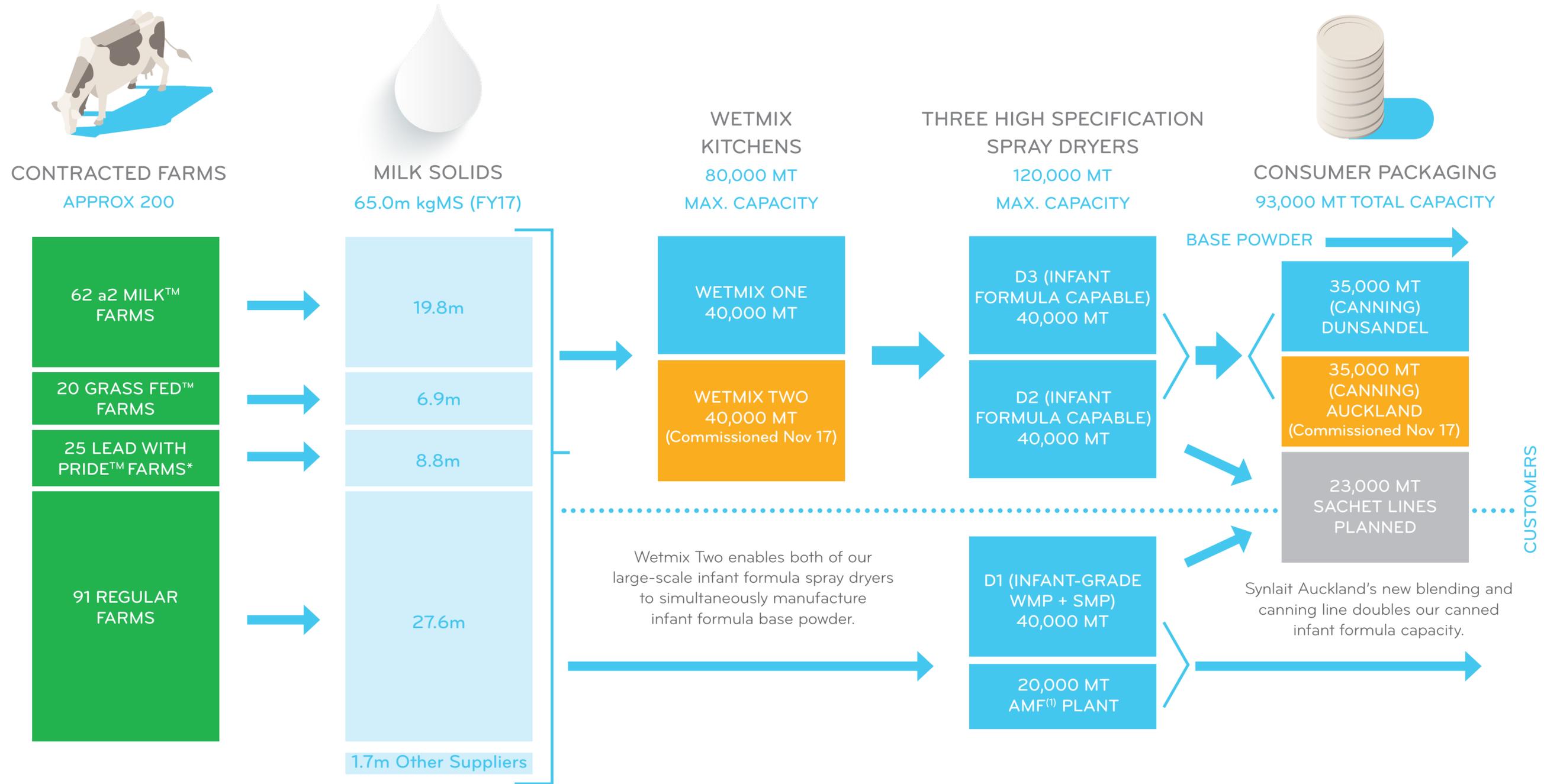


- NEW FIVE-YEAR SUPPLY AGREEMENT SIGNED IN AUGUST 2017
- CFDA REGISTRATION APPLICATION SUBMITTED



- NEW SUPPLY AGREEMENT SIGNED IN FEBRUARY 2018
- CFDA APPLICATION TO BE SUBMITTED APRIL 2018

WE HAVE UNLOCKED INFANT FORMULA CAPABILITY



*Some Lead With Pride™ farms also supply a2 Milk™ and Grass Fed™, total Lead With Pride™ farms is 53.

Note: ⁽¹⁾ AMF = Anhydrous Milk Fat

SECOND NUTRITIONAL POWDER MANUFACTURING SITE: POKENO, WAIKATO

- Synlait is investing in nutritional powder manufacturing capacity to meet customer demand for infant formula products
- Establishing this capacity on a second site allows mitigation of our current single-site risk
- Also introduces access to a second milk pool which further reduces our risk profile
- Our site acquired in Pokeno, North Island meets these needs while also providing a platform for growth in other categories
- Initial investment on site will be one infant formula capable spray dryer and related infrastructure at a cost of circa \$260 million, capable of manufacturing 40,000 MT of infant base powder per annum
- Investment to be funded through debt facilities



LEAD WITH PRIDE™

TRANSFORMATIONAL IN THE DAIRY INDUSTRY, SYNLAIT'S LEAD WITH PRIDE™ PROGRAMME RECOGNISES AND REWARDS THOSE SUPPLIERS WHO ARE ACHIEVING DAIRY FARMING EXCELLENCE. LEAD WITH PRIDE™ IS AUSTRALASIA'S ONLY INTERNATIONALLY ACCREDITED ISO / IEC 17065 DAIRY FARM ASSURANCE SYSTEM AND MEASURES DAIRY FARMS ON FOUR PILLARS OF DAIRY FARMING; ENVIRONMENT, ANIMAL HEALTH AND WELFARE, MILK QUALITY, AND SOCIAL RESPONSIBILITY.

LEAD WITH PRIDE™

PROGRAMME PILLARS

LEAD WITH FORESIGHT

ENVIRONMENT

LEAD WITH GREATNESS

MILK QUALITY

LEAD WITH CARE

ANIMAL HEALTH AND WELFARE

LEAD WITH INTEGRITY

SOCIAL RESPONSIBILITY



ENTRY INTO EVERYDAY DAIRY WITH LIQUID MILK

- **Exclusive supply arrangement with Foodstuffs South Island to supply private label fresh milk and cream** (Value and Pams brands) from early 2019
- **Distributed in their network of** PAK'n SAVE, New World, Four Square and On The Spot stores
- **Ten year agreement** with demand to underpin capital investment
- **\$125 million modern and sophisticated advanced liquid dairy packaging facility** to be constructed at our Dunsandel site
- **Investment to be funded** through debt facilities
- **Annual capacity of 110 million litres** of which one third will be initially utilised for Foodstuffs South Island products
- **Synlait's current milk supply adequate** to meet the volumes of the contract
- **New facility will be capable of manufacturing** a range of traditional and new products
- **New product development** to be supported from our new R+D centre in Palmerston North
- **Long life cream export category** also **presents attractive opportunities we intend to pursue**



MASSEY AND FOODPILOT CORE TO DELIVERING SYNLAIT'S ASPIRATIONS

- Synlait Palmerston North was opened on Friday 2 March by Massey University's Vice Chancellor, Professor Jan Thomas, and the mayor of Palmerston North, Grant Smith
- Our Palmerston North R+D capability consists of a laboratory, office and access to Massey University's FoodPilot plant
- **FoodPilot is the largest and best equipped publically accessible pilot plant** in the Southern Hemisphere
- Massey University offers access to an **extensive network of expertise**
- **Extensive lab facilities** covering multiple disciplines
- Palmerston North is the hub of dairy R+D in New Zealand (surrounded by Crown Research Institutes like Ag Research, Plant and Food)
- While Palmerston North will initially focus on dairy liquids, we have R+D teams elsewhere working on nutritional powders, packaging and many other areas



PEOPLE



Deborah Marris - GENERAL COUNSEL AND HEAD OF COMMERCIAL

Deborah Marris is joining Synlait from her previous role as Managing Director, Global Compliance with Barclays Bank, India.

Prior to that she held senior executive roles with other global organisations, including as General Counsel (Asia Pacific, Europe and America), Chief of Staff (New Zealand) and also Head of Tax (New Zealand) for ANZ Bank.

Deborah established her career initially with 15 years working as a senior lawyer for firms throughout New Zealand, the United Kingdom and Hong Kong.

Deborah holds a Bachelor of Commerce and Administration and a Bachelor of Laws (Hons) from Victoria University of Wellington and is a qualified barrister and solicitor in New Zealand.



Dr. Suzan Horst - DIRECTOR OF QUALITY, REGULATORY AND LABORATORY SERVICES

Suzan Horst has most recently been Director Quality Affairs, Business Group EMEA (Europe, the Middle East and Africa) for FrieslandCampina. She has held other senior roles since joining them in 2005, including Director Corporate QA, crisis and issue management and Corporate Quality Assurance Manager.

Prior to joining FrieslandCampina, Suzan was Global Food Safety Competence Manager for Nutreco BV and lectured agricultural economics and food safety before that.

Suzan holds a Ph.D. in Agricultural Economics and a Bachelor of Science in Animal Husbandry from the Wageningen University and Research Centre in the Netherlands, part of which involved study at Massey University in New Zealand.



Hamish Reid - GENERAL MANAGER OF BRAND AND CHIEF SUSTAINABILITY OFFICER

Hamish Reid takes the lead on developing Synlait's strategy for sustainability with a particular focus on our aspiration to further improve our environmental and social performance from farm to fridge. He will also lead our thinking as we continue evaluating potential B2C opportunities.

Hamish has deep experience in food and beverage marketing, predominantly for Danone in Paris and Saatchi & Saatchi in London. More recently, Hamish has established an award-winning not-for-profit in New Zealand and consulted to businesses around the world developing environmental and social programmes that boost economic performance.

OUR FINANCIAL RESULTS



Nigel Greenwood
CHIEF FINANCIAL OFFICER

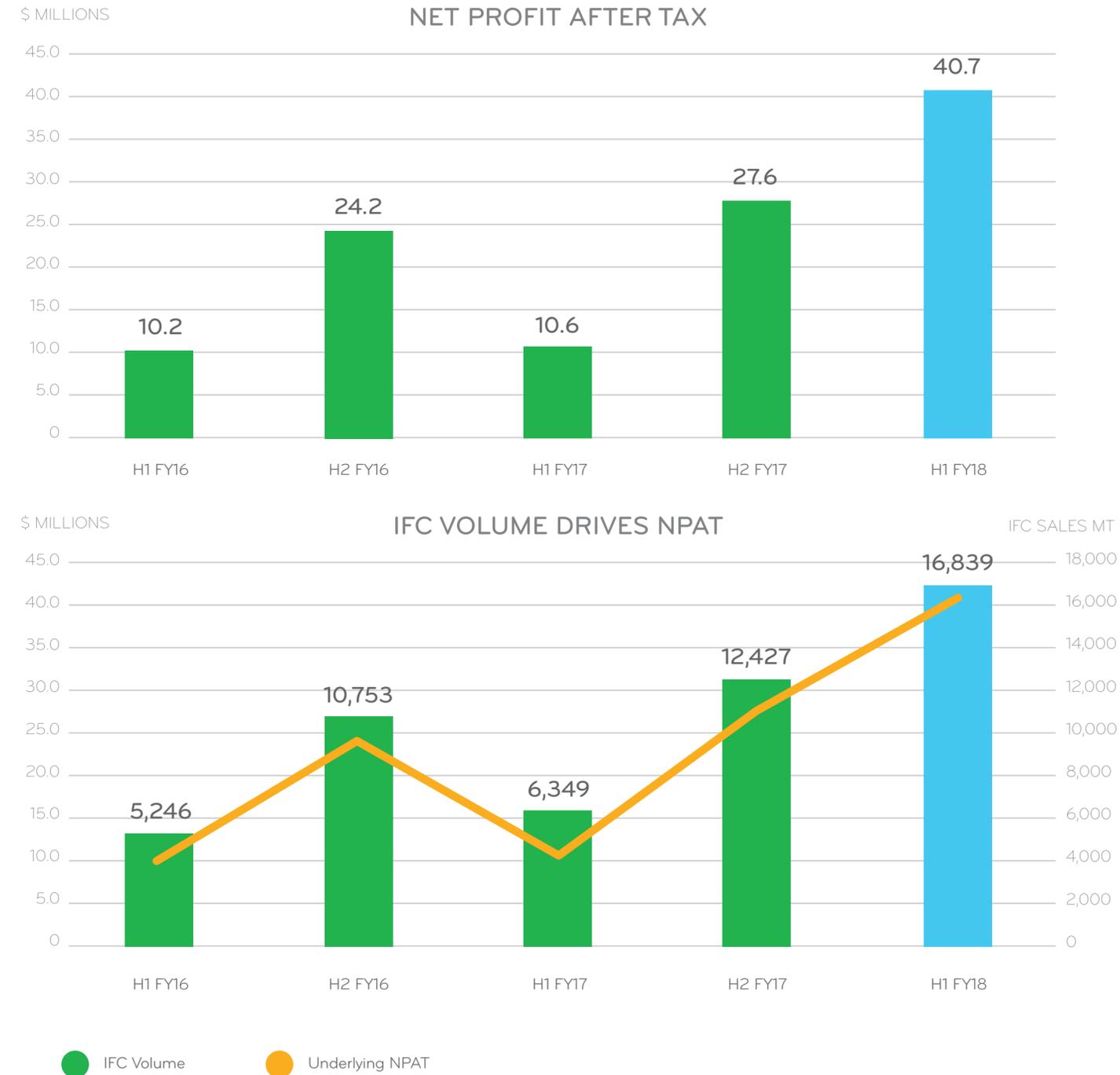


OVERVIEW

- First half profit eclipses all previous results
- Profit growth is product margin led, driven by increasing canned infant formula volumes, and improved ingredients margins
- First half performance includes some gains not expected to be repeated in the second half
- Lower debt levels have continued to improve profit and loss leverage

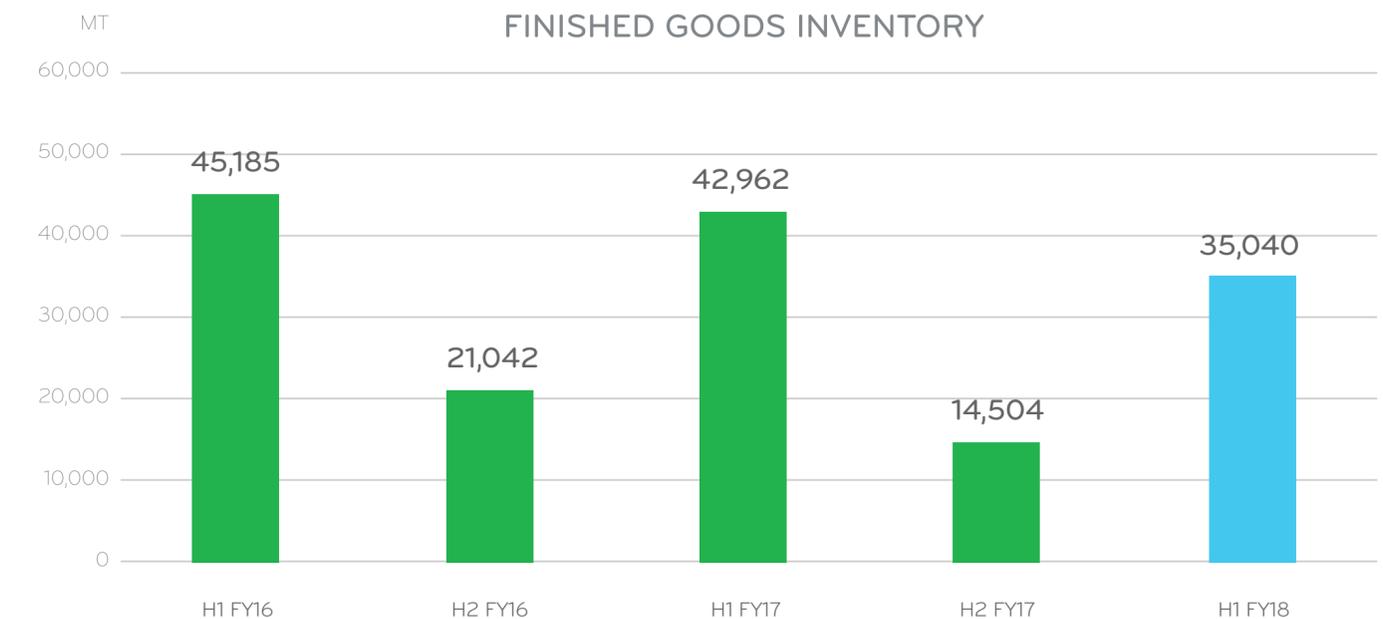
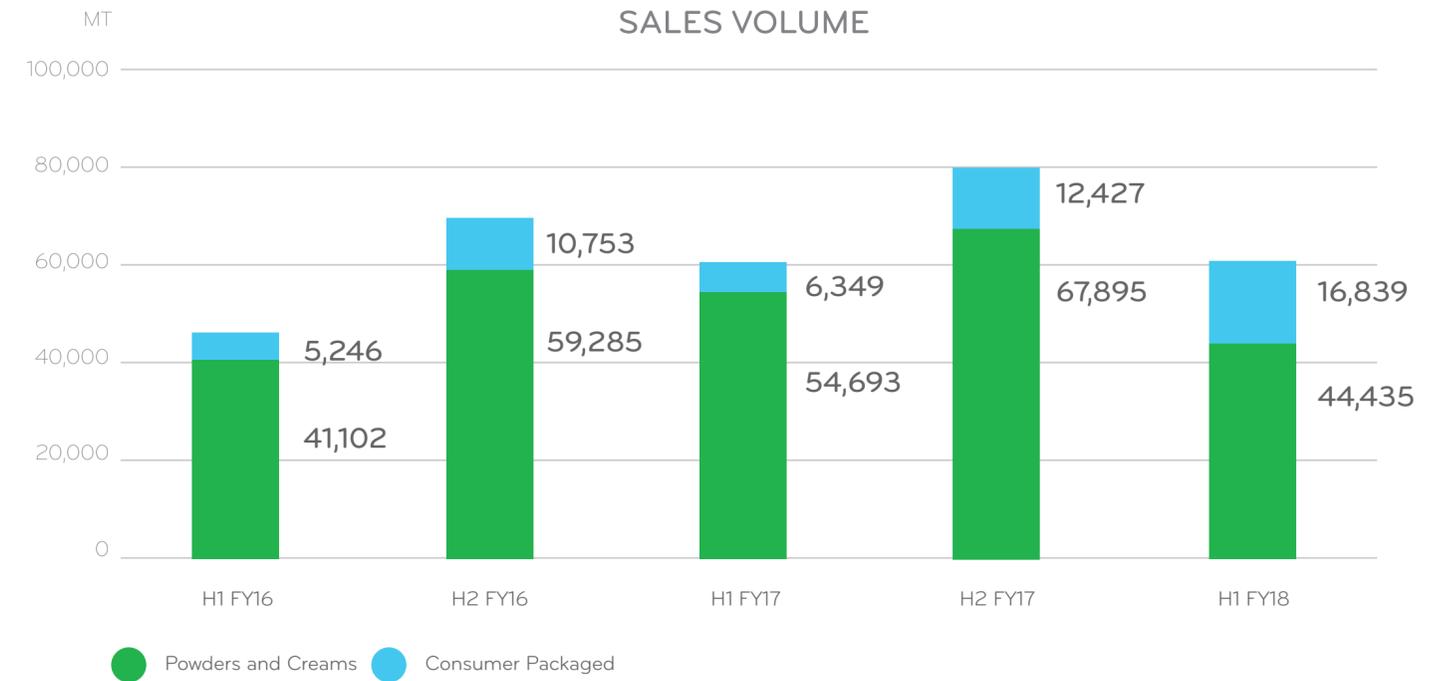
EBIT INCREASED TO
\$61.2m
 (H1 FY17: \$21.9m)

NET DEBT DECREASED FROM
\$147m
 TO **\$50m**



SALES VOLUME

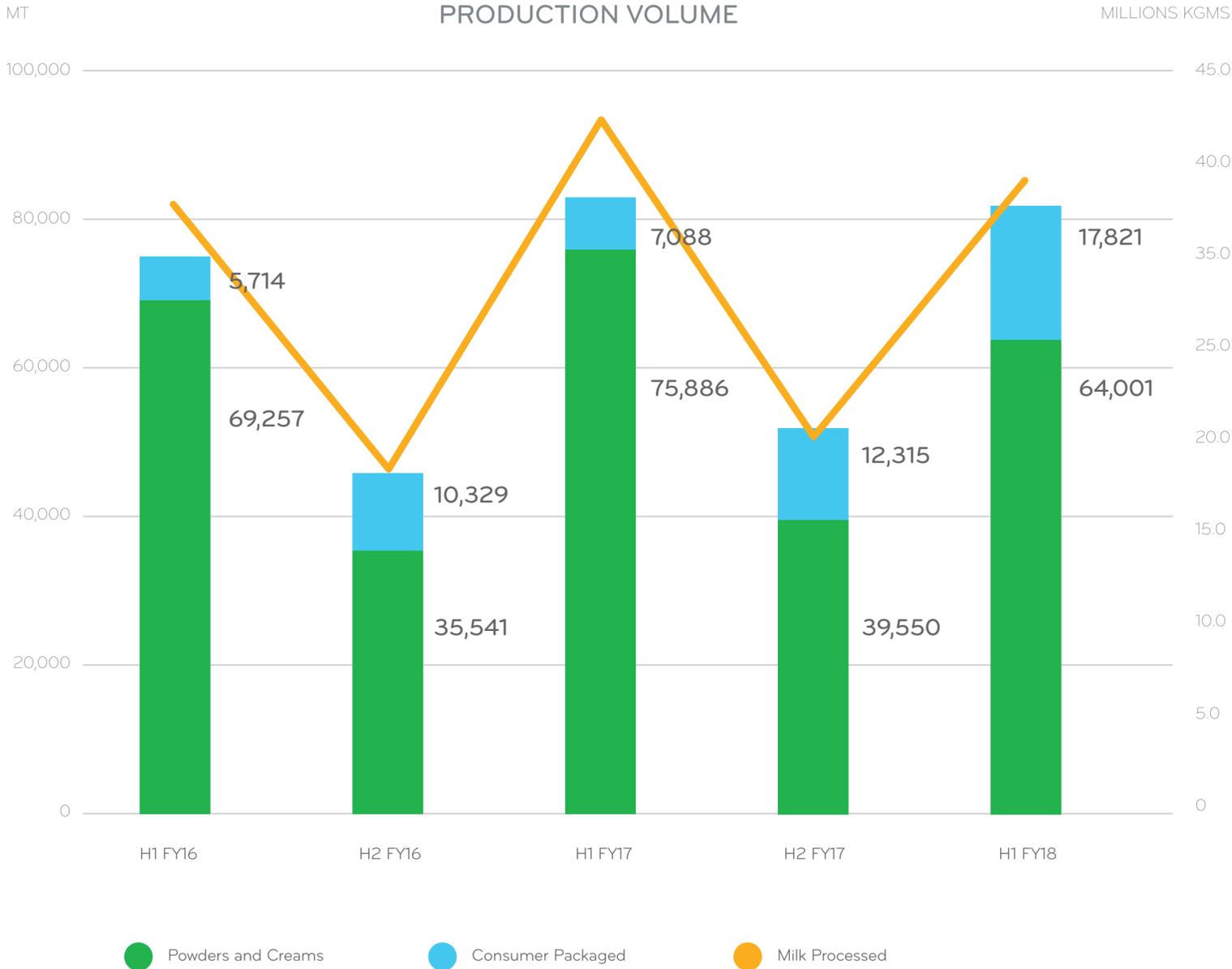
- H1 FY18 powders and cream volumes down on prior year due to:
 - Increase of milk consumed in canned infant formula
 - Sell down of distressed inventory in H1 FY17
- Despite lower sales volume, the proportion of powders and cream sold in the first half relative to full year expectations was 48% (H1 FY17 45%)
- Growth trajectory of canned infant formula has continued, with total consumer packaged volumes nearly tripling from the same period last year and up 36% on H2 FY17
- Finished goods inventory of 35,040 MT was 18% lower than H1 FY17, reflecting improved inventory management and supporting growth in operating cash flow



Sales volumes for specialty ingredients are not shown on the graph.

PRODUCTION VOLUME

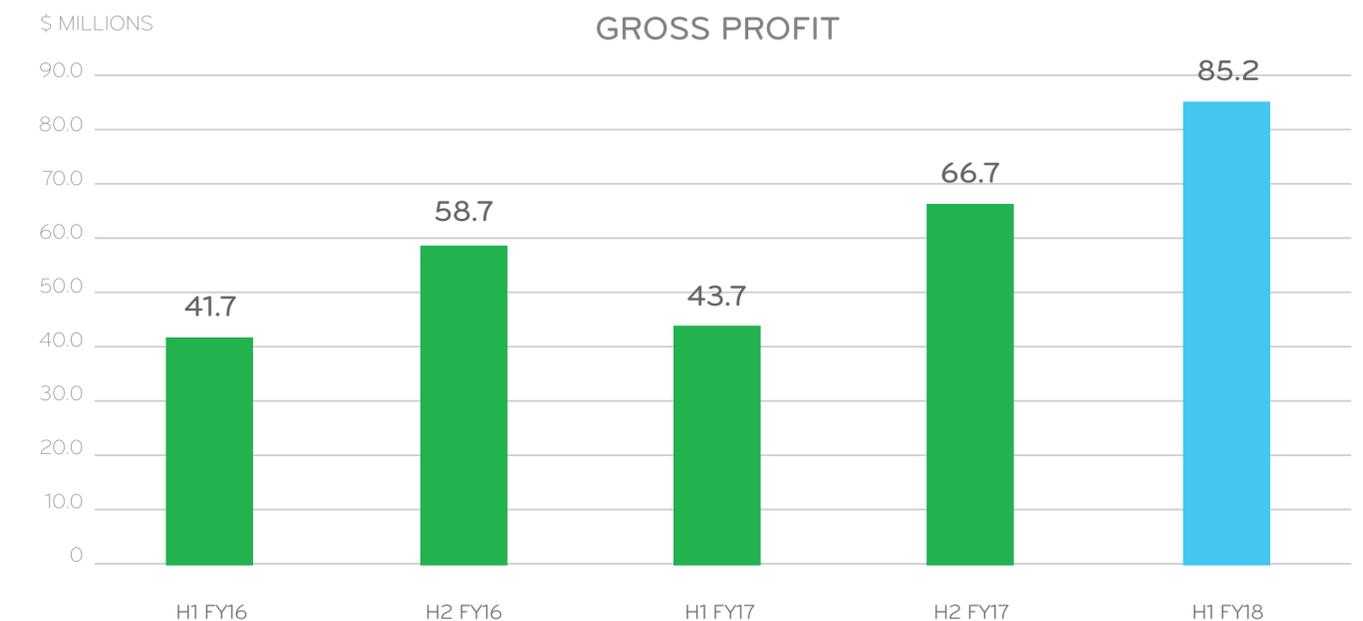
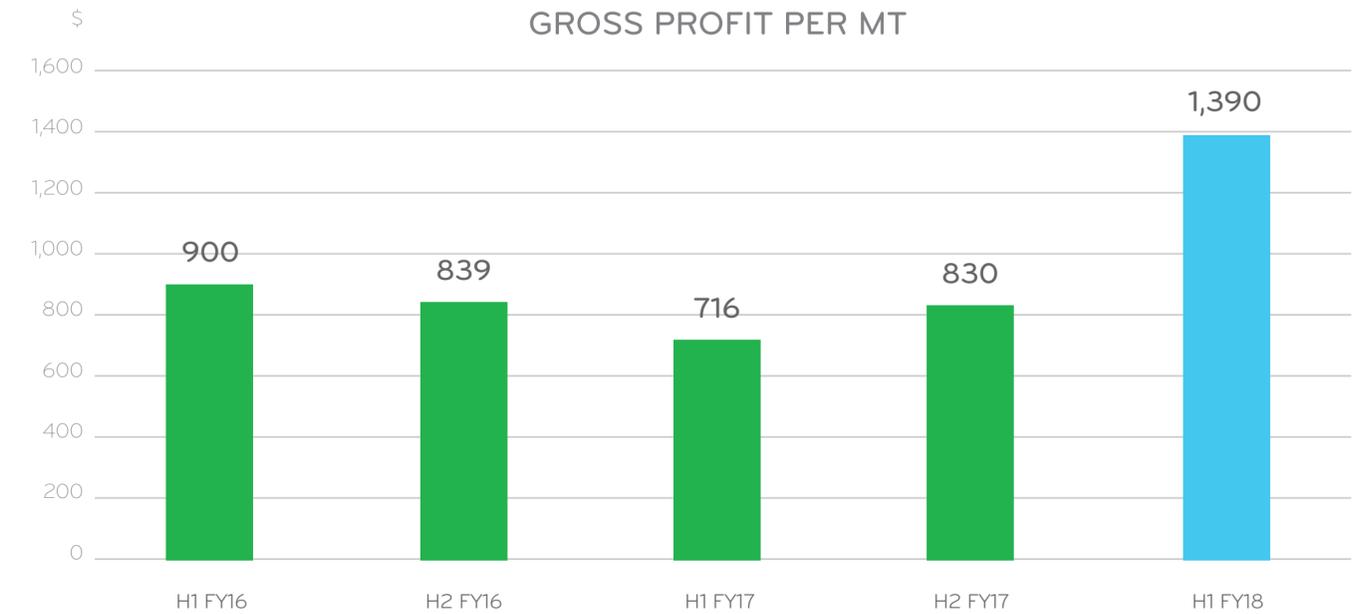
- First half contracted milk supply consistent with prior years' collections at 41.4 million kgMS
- Total production volumes slightly down on H1 FY17 (81,815 MT vs 82,980 MT)
- Increased infant base powder production to meet canned infant formula demand has seen 3.3 million kgMS sold (0.4 million kgMS H1 FY17)
- Milk production exhibits seasonality that drives overhead recovery, with 61% of expected FY18 milk processed in H1



Sales volumes for specialty ingredients are not shown on the graph.

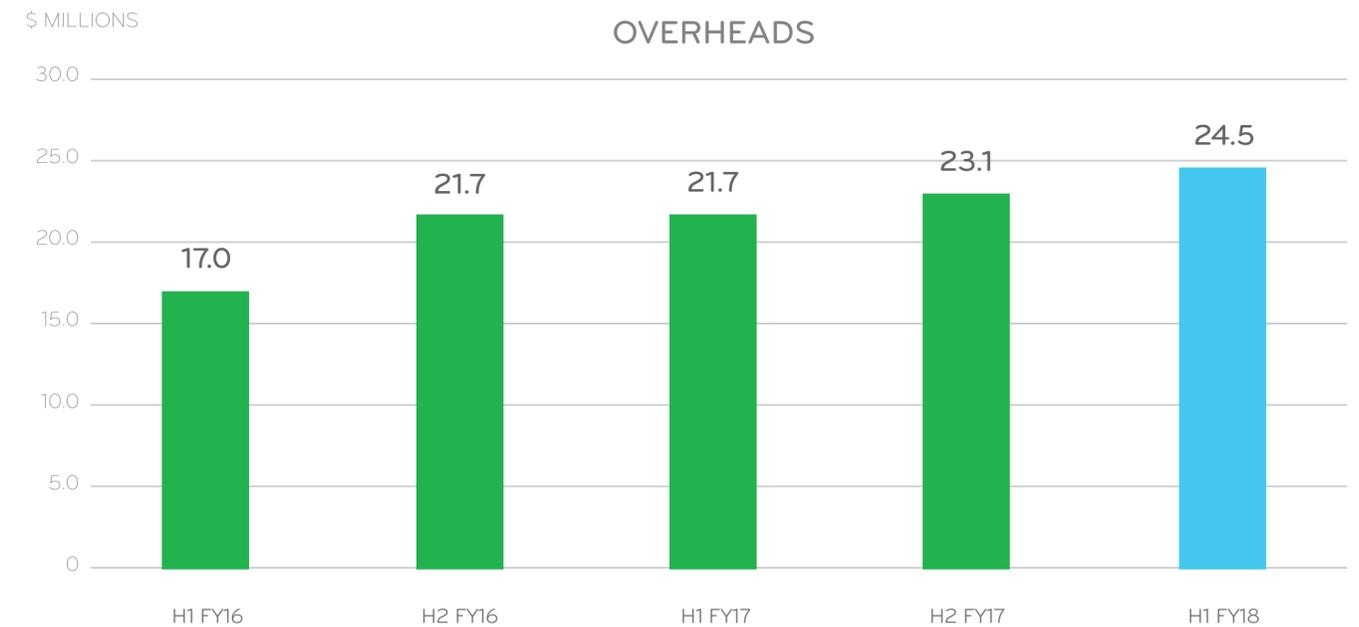
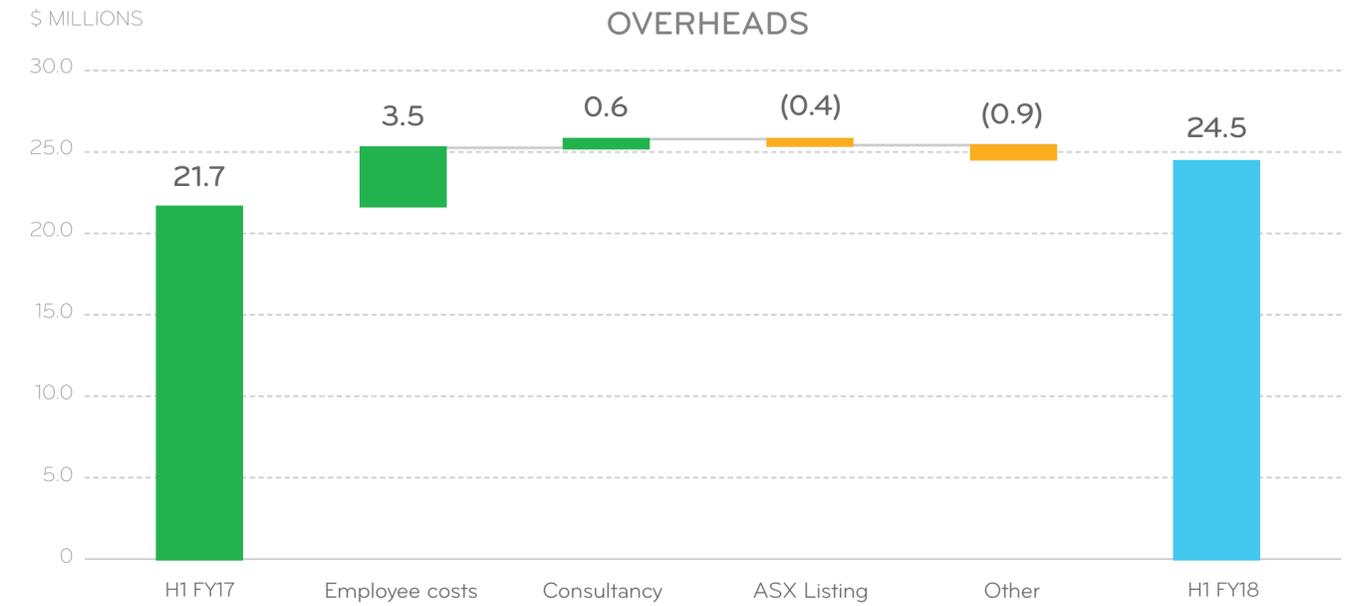
GROSS PROFIT PER METRIC TONNE

- Consumer packaged sales volume growth and improved ingredient margins have driven the increase in gross profit per MT from \$830 per MT to \$1,390 per MT
- Margin expansion has been:
 - Reduced sales of powders and cream products (18.8%) following the uncommon sell down in H1 FY17
 - High utilisation of all facilities, particularly Wetmix and consumer packaging
 - Intra-seasonal timing differences that are not forecast to repeat in the second half
 - Reduction of onerous contracts provision from \$6.2 million in H1 FY17 to \$0.2 million in H1 FY18
- All of these have supported a \$41.5 million increase in Gross Profit to \$85.2 million
- Management expect some of this margin expansion to retrace in the second half due to:
 - Spare capacity following commissioning of our new Wetmix and consumer packaging facilities
 - Seasonal variation in milk production
 - Sales phasing upside not expected to be repeated in H2 FY18



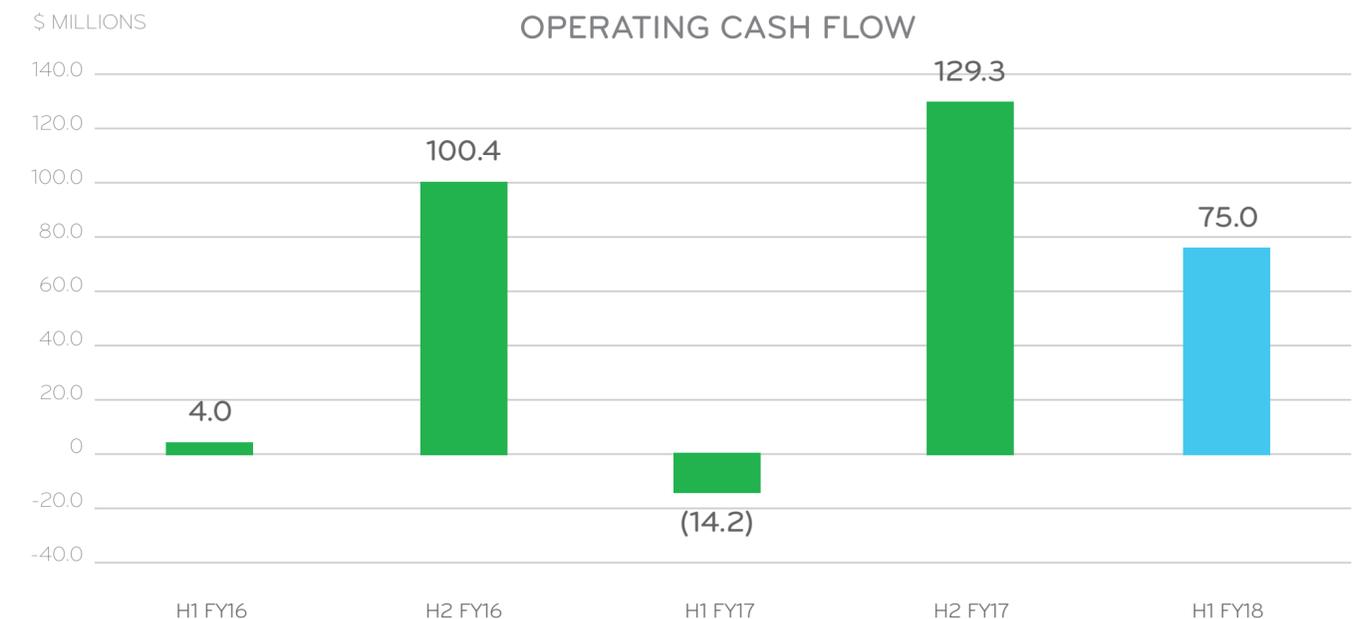
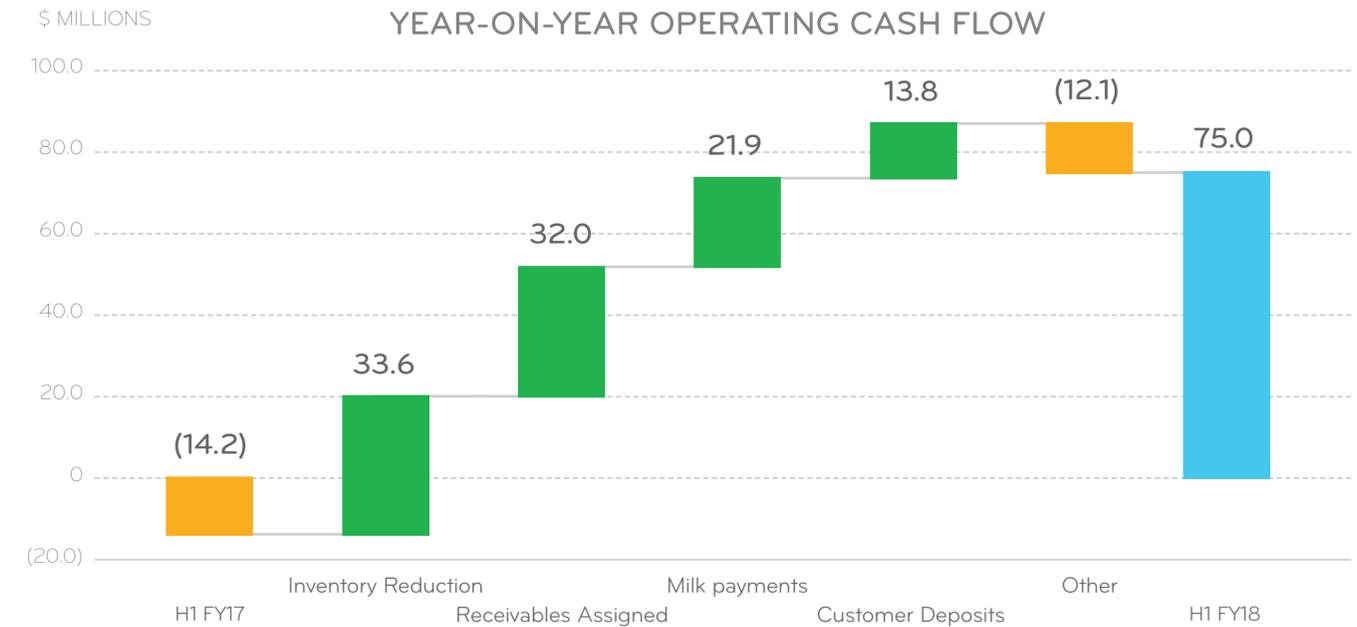
OVERHEADS

- Net overheads have increased by 13.1% over H1 FY17 to \$24.5 million, however only \$1.4 million, or 6%, above H2 FY17
- Largest driver of the increase is employee costs, which reflects the continued investment into capability for research and development, business development and leadership to support continuing growth and diversification



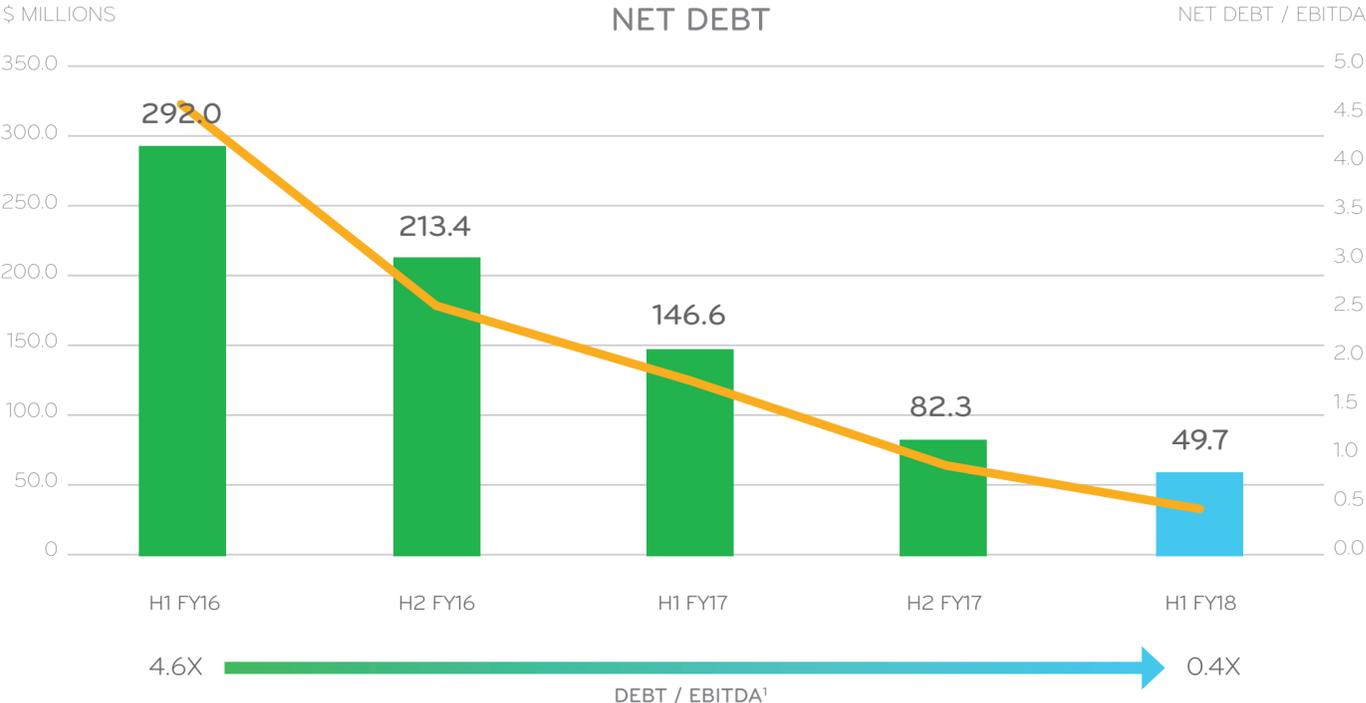
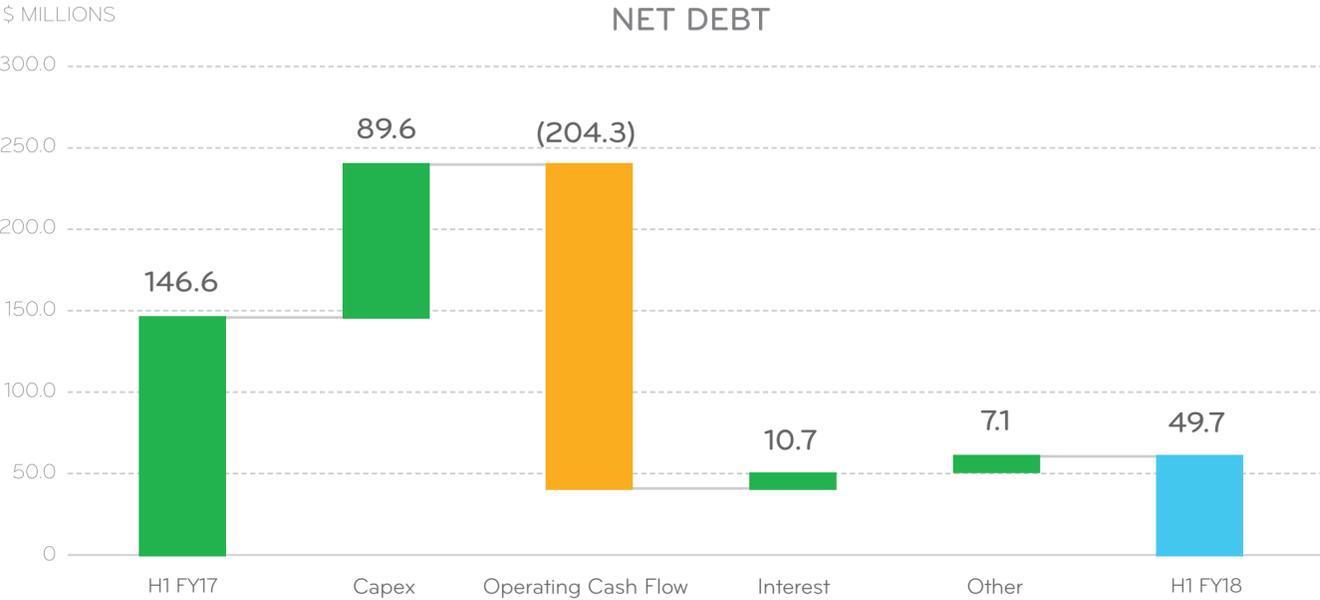
OPERATING CASH FLOW

- Synlait generated strong operating cash flows in H1 FY18 of \$75.0 million. This is an improvement of \$89.2 million from the same period last year and pleasing in the part of the year that typically experiences weak cash flows
- The improvement in operating cash flow has been driven by:
 - Better sales deliveries resulting in lower inventory on hand, generating \$33.6 million
 - Increased sales to customers in our receivables assignment program increasing from \$38.5 million to \$70.5 million
 - Returning to more traditional advance rate profiles for contracted milk suppliers from abnormally high rates in H1 FY17, generating a further \$21.9 million of operating cash flow
 - Increased infant formula sales leading to increased customer deposits of \$13.8 million



NET DEBT

- Record operating cash flow generation of \$204.3 million for the 12 months ended 31 January 2018 has fully funded our capital expenditure program and enabled the reduction of debt to low levels
- In the 12 months to 31 January 2018, Synlait has invested \$89.6 million in capital expenditure. The major components of this were Synlait Auckland (\$49.1 million) and our new Wetmix kitchen (\$29.2 million)
- This leaves the company well placed to fund its expansion plans in Dunsandel (advanced liquid dairy packaging facility \$125 million) and Pokeno (\$260 million infant formula manufacturing facility)



¹ Based on a rolling 12 month EBITDA (trailing)

OUTLOOK



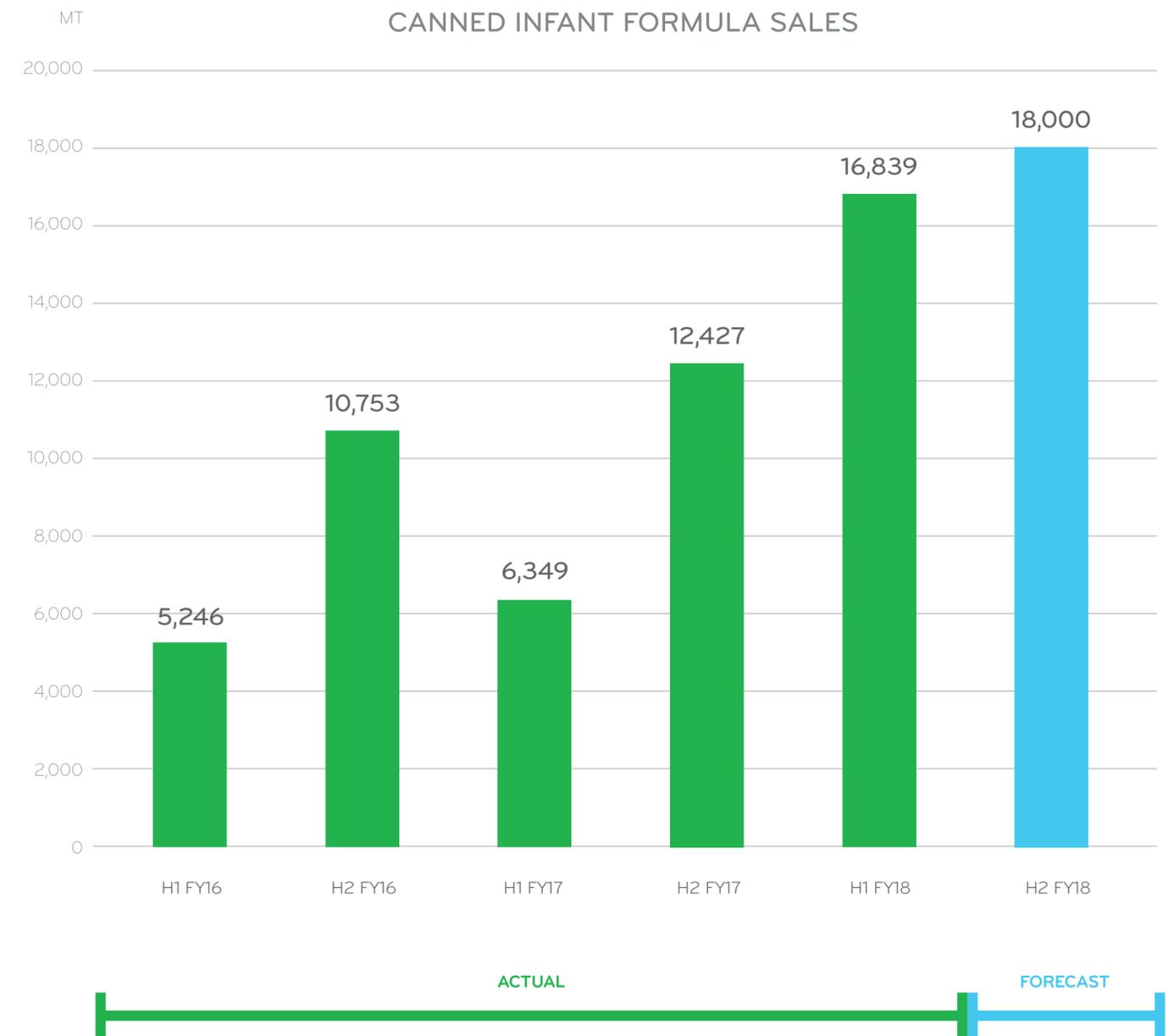
John Penno

MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER



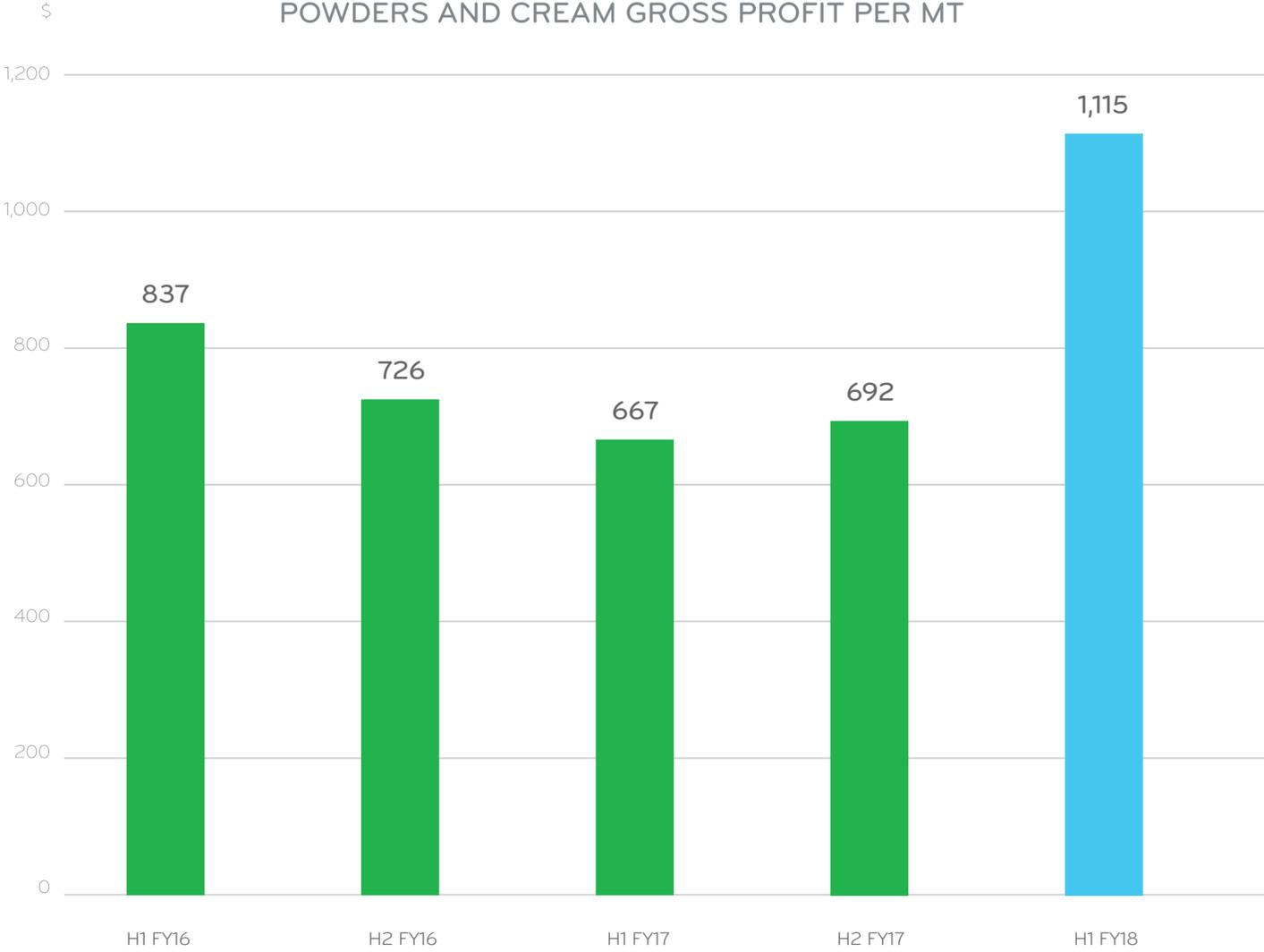
SECOND HALF RETURNS

- The material increase in first half earnings has been achieved from both large increases in manufacture and sales of our highest margin products, and through improved margin, and earlier sales of our ingredients products
- This earlier phasing of ingredients, combined with increasing commitments to R+D and business development, means earnings in the second half are expected to be lower than the first half
- Although the second half of FY18 is not expected to be as strong as the first half, we continue to forecast strong overall earnings growth for the full year
- Looking forward into FY19, ongoing growth in infant formula volumes are expected to continue to grow earnings

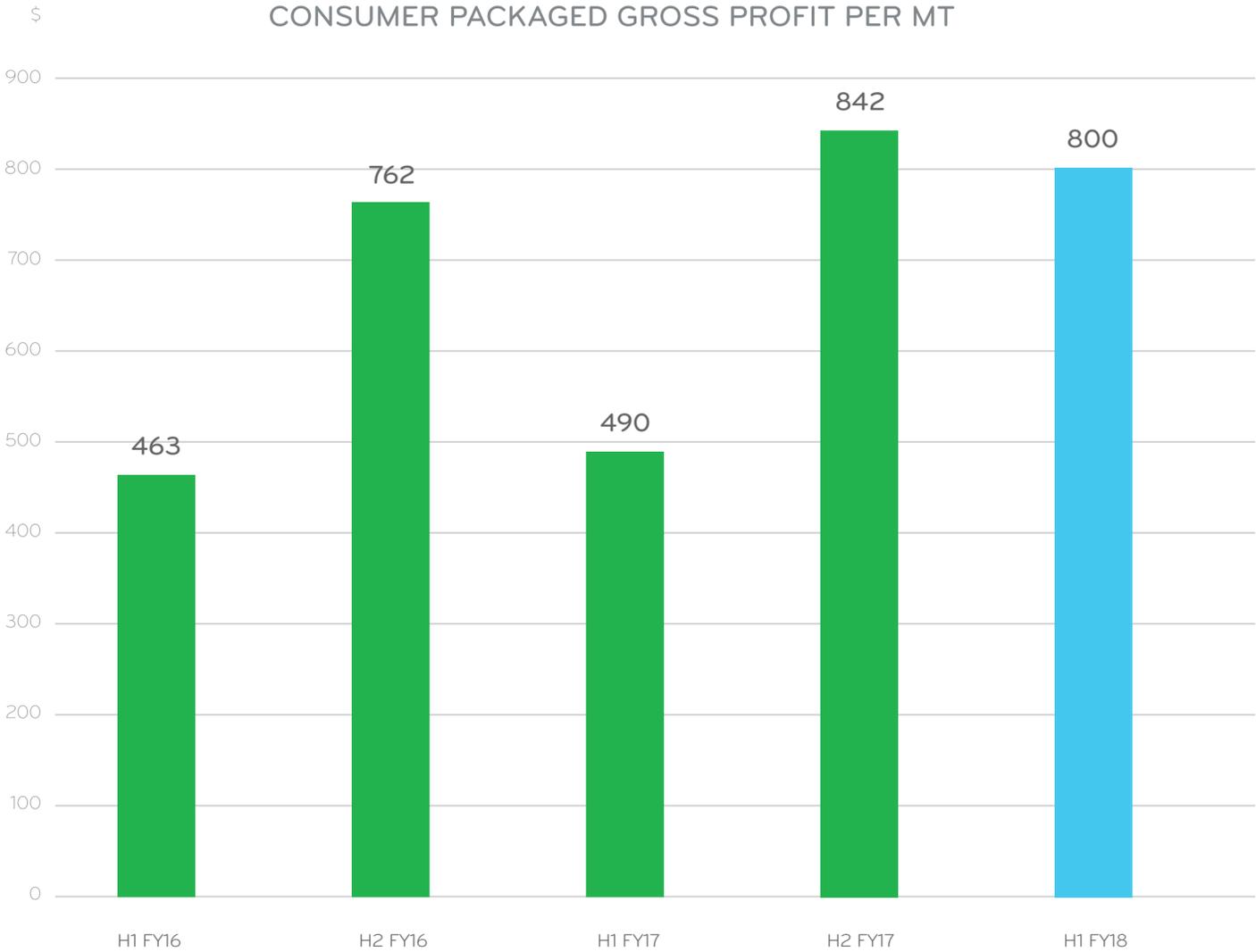


APPENDIX

GROSS PROFIT PER MT (POWDERS AND CREAM)

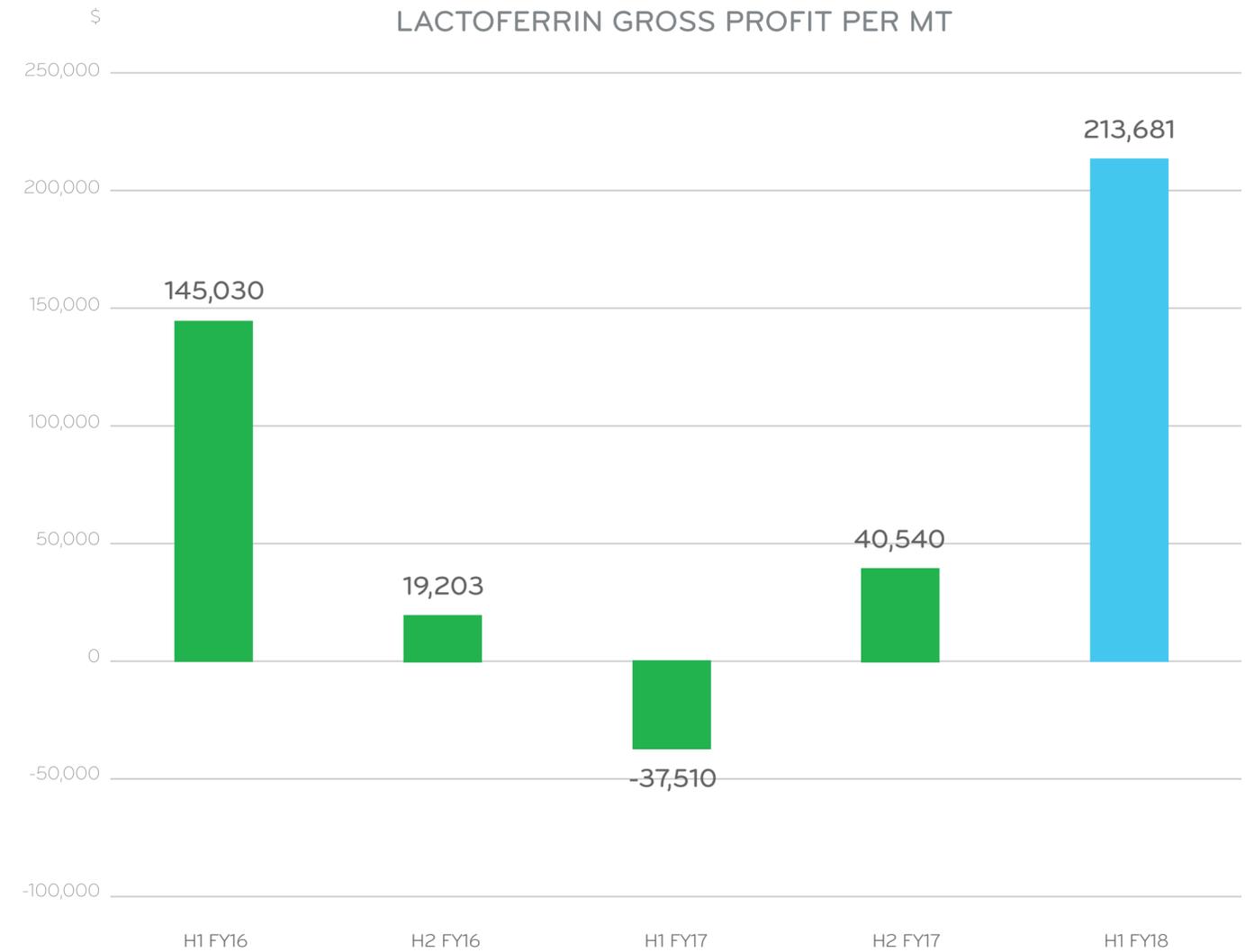


GROSS PROFIT PER MT (CONSUMER PACKAGED)



LACTOFERRIN UPDATE

- Synlait has a strong and [growing customer base for lactoferrin](#), spanning from use in health supplements to infant formula
- A demand and supply imbalance is driving a global strengthening in lactoferrin prices
- Demand for [lactoferrin is driven by increasing use in infant formula](#), particularly in China
- Synlait is well placed to deliver to global demand, with significant expertise in lactoferrin production
- In FY17, Synlait also gained [FDA approval to export lactoferrin to the U.S.](#) market for use in infant formula, enabling further market opportunities





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