Synlait

# THE ROAD AHEAD

## SYNLAIT HALF YEAR RESULTS INVESTOR PRESENTATION

19 March 2020


# TODAY'S AGENDA

- COVID-19 update
- Our six months in review
- Our financial performance
- Outlook
- Appendices

# COVID-19 UPDATE

Actively mitigating foreseeable risk

## INCIDENT ASSESSMENT TEAM REVIEWING SITUATION DAILY. FOCUSED ON MANAGING:

### Supply chain

- No significant operational impact to date
- Witnessing pressure on broader supply chain, particularly container space availability and shipping schedules. Managing this risk through strong relationships with raw material suppliers and logistics partners, and leveraging them to gain forward views of export capacity

### People measures and operational continuity

- Health and wellbeing of Synlait people is our priority. Focus on flattening the curve of spread, while keeping our sites and product moving
- Acted quickly and strongly to restrict people movements wherever possible, in line with New Zealand Government position
- All roles have been reviewed to see who can work from home. China office remains closed
- International travel suspended, domestic travel only to occur for essential business

### Product risk

- No evidence that food is a likely source or route of transmission of the virus, in line with European Food Safety Authority and Ministry for Primary Industries position

# OUR SIX MONTHS IN REVIEW

Advanced Dairy Liquid Packaging Facility

# HALF YEAR FINANCIALS AT A GLANCE

**$559M**
Revenue up 19%

**$26.2M**
Net profit after tax (NPAT) down 30% reflecting higher depreciation and interest costs as we invest for growth*

**$67.6M**
EBITDA in line with HY19

**$7.25KGMS**
Forecast base milk price for the 2019 / 2020 season announced in January
Next update late May

**22%**
Increase in sales of consumer packaged infant formula to 21,571 MT

**$180M**
Unsecured, subordinated, fixed rate bonds successfully listed on NZX

*Due to month end shipment challenges we fell slightly below our guidance range. This is a timing issue and has no impact on FY20 guidance

All comparisons in this presentation are to HY19 unless stated otherwise

# THE FIRST HALF HAS NOT BEEN WITHOUT ITS CHALLENGES

| Challenges | Approach |
|---|---|
| Uncertainty remains regarding land at Synlait Pokeno | • Supreme Court hearing next month (April 2020)<br>• Remain comfortable with legal position |
| Customer pipeline is exciting, but new, announceable, and material agreements yet to materialise | • Well progressed on material customer opportunites that will further diversify Synlait and fill up new facilities<br>• Sales pipeline for infant formula base powder rebuilding as multinational brand owners reset supply options |
| Consolidation of infant nutrition players in China and progress on SAMR registrations impacting short-term demand plans | • Opportunity to build leadership position with The a2 Milk Company in China<br>• Leverage credibility to partner with established players<br>• Chinese infant formula regulatory environments continue to move toward the Synlait model of integrated infant formula manufacturing |
| Commissioning of long shelf line and sales | • Customer pipeline strong<br>• Product development well supported by Palmerston North Research & Development Team<br>• Commissioning delayed as a result of initial challenges with liquid milk line |
| Covid-19 impact | • Spread and risk posed to Synlait continues to be monitored, see slide 3<br>• Contributed to the bottom end of the updated guidance range being lowered (announced last month) |
| Short-term financial performance | • Updated FY20 guidance between $70 million and $85 million NPAT. Previously announced earnings guidance was for profits to continue to grow in FY20, with the rate of profitability increasing at least at a similar rate to FY19 over FY18.<br>• Core earnings remain sound, previous assumptions mean Synlait is not able to fully absorb costs of starting up new investments in FY20<br>• Deferred and re-phased planned operating costs by more than $10 million in FY20. Cost reduction focus will continue moving forward |

# STRONG PROGRESS MADE TOWARDS LONG-TERM STRATEGY IN THE HALF YEAR

## DOING MILK DIFFERENTLY

### OUR GROWTH STRATEGY

| | Sports Nutrition | Everyday Dairy | Infant Nutrition | Foodservice | Next Big Thing |
|---|---|---|---|---|---|
| | LONG TERM FOCUS | MEDIUM TERM FOCUS | CURRENT FOCUS | MEDIUM TERM FOCUS | LONG TERM FOCUS |
| **HY20** | • Watching brief, need to progress | • Inaugural liquid milk customer well serviced<br>• Dairyworks acquisition completed, represents material step in diversification strategy | • 22% growth in consumer packaged infant formula sales<br>• Partnership with The a2 Milk Company continues to strengthen: extended supply agreement<br>• Synlait Pokeno a world class facility, built on time and on budget. | • Exploring opportunities in functional creams<br>• Will seek to leverage integrated cheese value chain being established with Talbot Forest and Dairyworks | • Small, agile projects underway<br>• Focused on disruptive and future growth opportunities |

## FOR A HEALTHIER WORLD

### OUR ENABLING STRATEGY

| | Net Positive for the Planet | Build a Healthier Synlait | World Class Value Chain |
|---|---|---|---|
| **HY20** | • 12-month nitrogen loss reduction trial underway<br>• Investigating alternative fuel sources, including trials for biomass and bio-diesel in milk tankers<br>• Water reduction initiatives identified. Target to reduce consumption by approx. 50,000 cubic meters annually | • 34% drop in injury rate, TRIFR 9.0 HY20 (HY19: 13.7)<br>• Staff engagement at record levels<br>• Prime Minister Jacinda Ardern opened Whakapuāwai, goal to plant 20,000 trees in 2020<br>• ERP project progressing well, completing design stage | • IWS programme progressing well across business with significant efficiencies recently delivered at Auckland site<br>• New GACC regulatory approvals endorse unique competitive advantage in securing market access<br>• Construction of Dry Store 4 on-track<br>• Dunsandel farmland purchased, supports strategic supply chain initiatives |

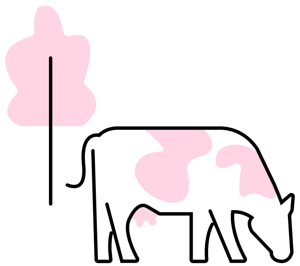
# WHAT MAKES US DIFFERENT

Our unique capabilities underpin our sustainable competitive advantage

## ESTABLISHED

**Differentiated milk supply**

- A1 protein free milk
- Grass Fed™
- Lead With Pride™

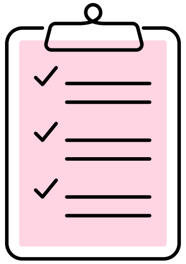


Developed an **integrated manufacturing** chain

- Operate high spec, large scale plants
- Integrated Work Systems (IWS) programme driving efficiencies

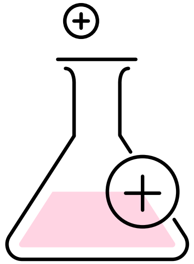
Navigated complex **regulatory environments**

- Track record of providing market access for customers, securing regulatory approvals for Synlait sites, processes and products



Built in **quality testing standards** onsite

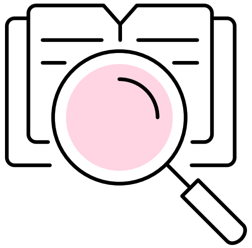
- Zero defects targets
- Test raw materials, finished products and facilities
- Full quality assurance and traceability



## BUILDING

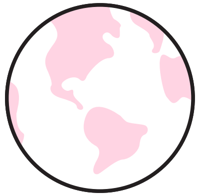
Focus on **research, development and innovation**

- Dedicated research and development team
- Product development in attractive categories and markets a priority
- Capability to create custom dairy products for customers



Creating a **sustainable** value chain

- Committed to ambitious 10-year targeats
- Greenhouse gas inventory and pathway to emissions reduction established



# INFANT NUTRITION

Our core business is growing

## PERFORMANCE

- Sales of consumer packaged infant formula increased 22% to 21,571 MT. The a2 Milk Company's growth contribution has not changed, short-term channel demand changes and inventory planning means Synlait's growth does not always match in-market sales
- Demand indications from The a2 Milk Company suggest Covid-19 had a positive impact on consumer-packaged infant formula sales in the first two months of the 2020 calendar year, however the company was unable to quantify the FY20 impact
- Sales of infant formula base (IFB) powder down. Sales pipeline for FY21 re-building as multinational brand owners resetting supply options resulting in short-to-medium term demand changes

## CUSTOMERS

The a2 Milk Company partnership continues to strengthen as we share benefits of scale:

- extension of infant formula supply agreement to July 2025 (at the earliest), provides increased term and volume, over the products for which Synlait have exclusive supply rights. Confident historical margins can be protected, provided Synlait continues to generate manufacturing efficiencies;
- look forward to discussions with The a2 Milk Company to consider arrangements which may facilitate participation in manufacturing and recognise Synlait's expertise;
- focus on product development and innovation to support The a2 Milk Company's growth; and
- implemented tamper-evident infant nutrition packaging.

- Customer pipeline remains strong, material opportunities well progressed with established players
- Stream-lined logistics services to improve customer service and quality control and reduce costs

# EVERYDAY DAIRY

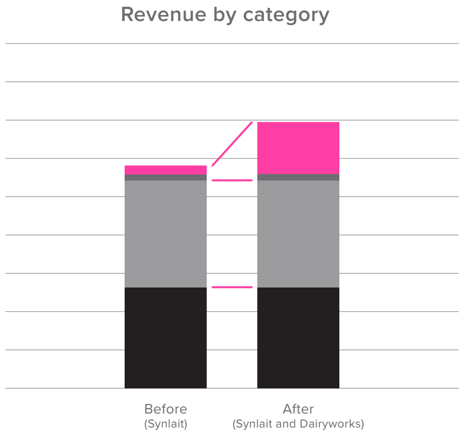
Through the Dairyworks acquisition we have established a material position in a complementary category that will diversify Synlait

## DAIRYWORKS PROVIDES SYNLAIT WITH …

### … an immediately sustainable earnings stream

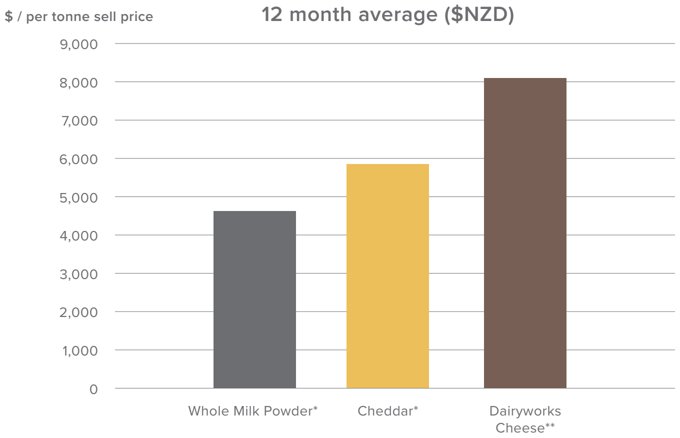
- Dairyworks purchased for $112 million
- Overseas Investment Office granted consent. Settlement 1 April 2020
- Price reflective of approx. 7.1x EBITDA multiple based on 12 months of forecast earnings to 31 March 2020. Lower than previously announced 7.5x EBITDA multiple due to strong growth, driven by successful entry into Australia
- Forecasting sustainable earnings stream of approx. $15 to $20 million EBITDA emerging in next two years as growth momentum and synergies realised
- Combined, Talbot Forest and Dairyworks, expected to achieve pre-tax return on invested capital of 20% after expected synergies

### … diversification reducing site, customer, category, and market concentration risk




* Category, channel and geography splits based on forecast FY20 revenue

### … flexibility to optimise stream returns above base commodity prices. We are now closer to the consumer




* Global Dairy Trade reference prices

** Dairyworks average sale price

# NET POSITIVE FOR THE PLANET

This represents the stand we are taking for the planet

- 12-month nitrogen loss trial recently completed
- Investigating alternative fuel options to reduce coal reliance
- Bio-diesel fuel trial completed with our logistics partner
- Synlait now ranks third out of all packaged foods companies following latest Sustainalytics score (improved from 34.9 to 21.3)


Prime Minister Jacinda Ardern visited New Zealand's first large-scale electrode boiler, which provides renewable process heat for the Advanced Dairy Liquid Packing facility. Synlait made a deliberate decision to not build another coal boiler as part of its sustainability strategy announced in 2018, which leads the way to a lower emissions future for New Zealand as we work to reach our goal of reducing off-farm greenhouse gas emissions by 50% by 2028.

# BUILD A HEALTHIER SYNLAIT

This is about strengthening our company

## LIVE OUR PURPOSE

- Whakapuāwai, an environmental programme connecting, our people, our farmers, and our community through the planting of native trees, opened by Prime Minister Jacinda Ardern. On-farm planting commenced, goal is to plant 20,000 trees in 2020

## DELIVERY OF GROWTH ENABLING SYSTEMS

- Enterprise Resource Planning project progressing well, completing design stage

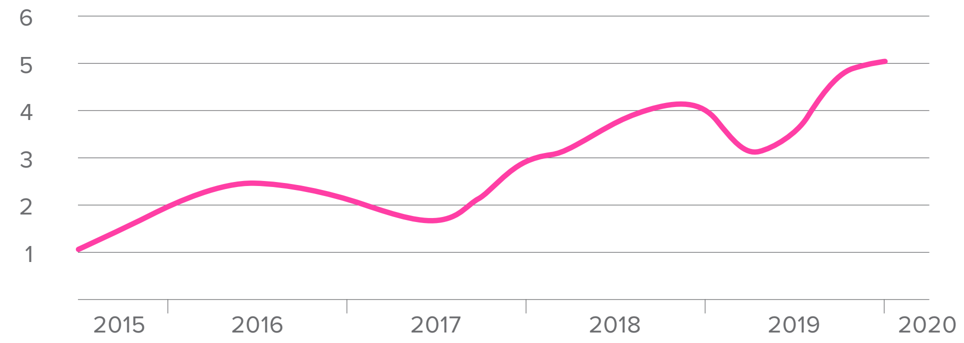
## CULTURE AND CAPABILITY

- Record engagement levels across Synlait
- Ratio of ‘engaged’ to ‘actively disengaged’ staff 5.11:1

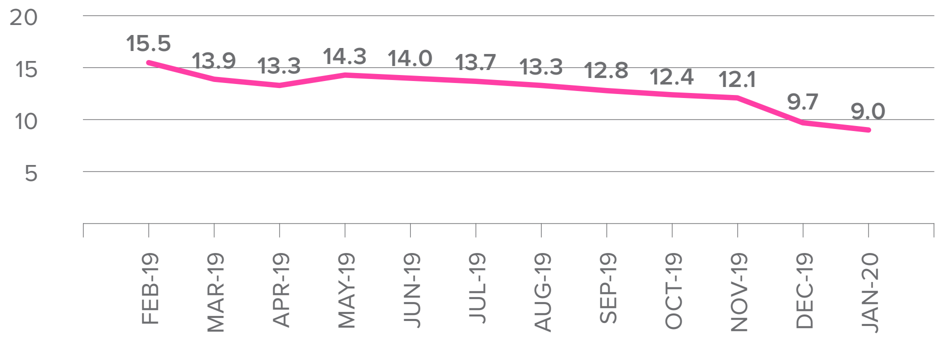
## PROVIDE A SAFE PLACE TO WORK

- Significant improvement in staff safety attitude survey. Average 2019 score was 4.07 (2018: 3.40)
- Injury rate down 34%. TRIFR 9.0 HY20 (HY19: 13.7).

Ratio of engaged to actively disengaged staff




Injury rate continues to fall



# WORLD CLASS VALUE CHAIN

This is what creates value for our customers

## MANUFACTURING EXCELLENCE AND WORLD CLASS SUPPLY CHAIN MANAGEMENT AND PLANNING

- Dry Store 4 on time and budget. Recent farmland acquisition enables further supply chain initiatives that support Dunsandel's expansion
- IWS programme progressing well across business. For example, Synlait Auckland had a 21% reduction in unplanned downtime

## SAFE FOOD AND MARKET ACCESS

- Received infant formula registration from General Administration of China Customs (GACC) for Synlait Auckland
- GACC (general dairy) registration received for Synlait Pokeno. Enables export of milk powders (IFB) to China
- GACC registration received for Advanced Dairy Liquid Packaging facility for export of cream-based products to China
- Minister Xiao Yaqing of the State Administration for Market Regulation – China (SAMR) visited Synlait Pokeno in November

## HEALTHIER FARMING PRACTICES

- On track to have approx. 125 farms Lead With Pride™ certified in the South Island, and 15 in the North Island, at end of FY20, up from 92 and 0 respectively in FY19

Synlait farm suppliers, alongside our customers, are our most important partners. We pride ourselves on knowing them as people, rather than numbers.

# OUR FINANCIAL PERFORMANCE

Synlait's dedicated laboratory at Dunsandel

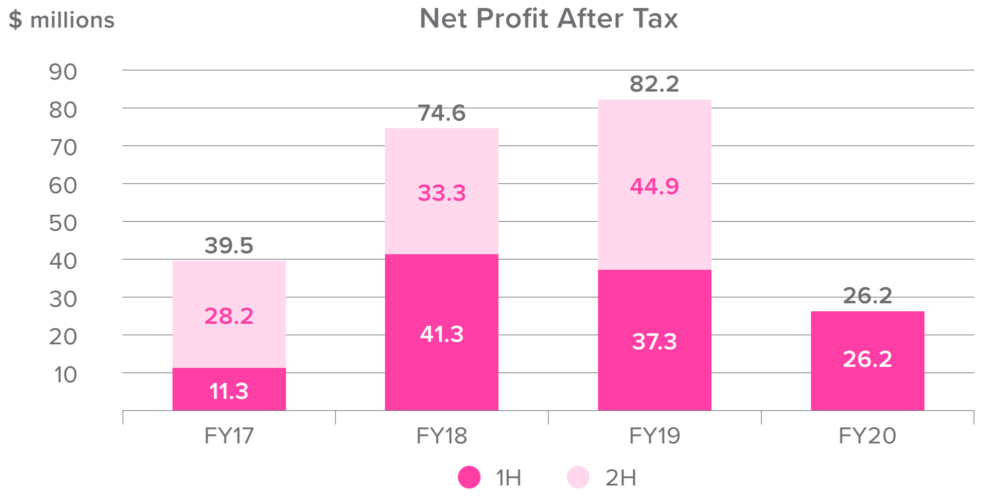
# RESULTS AT A GLANCE

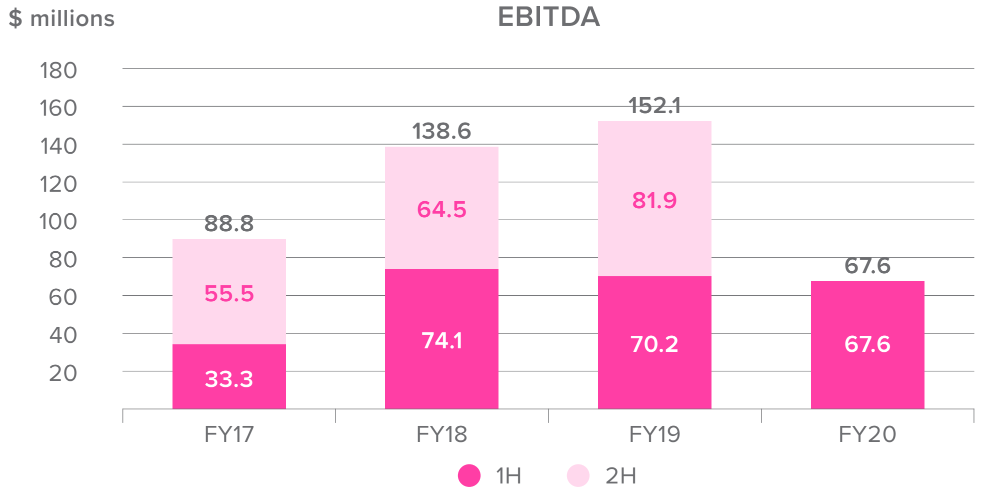
- Net profit after tax down 30% reflecting higher depreciation and interest costs as we invest for growth
- Sales of consumer packaged infant formula increased 22% to 21,571 MT, albeit at lower margins as previously signalled
- Total milk processed was up 8.5% due to increased milk supply for Pokeno
- Sales of powders and cream reduced by 18% to 46,259 MT (HY19: 56,116 MT) primarily due to delayed deliveries

**As communicated in the February guidance update Synlait's HY20 performance was impacted by:**

- increased incremental interest, manufacturing and SG&A costs associated with the Pokeno and Advanced Dairy Liquid Packaging facilities; and
- lower sales volumes of ingredient products than anticipated due to sales phasing and product mix impacts
- lower sales of infant base powders due to the China infant nutrition market consolidation.

| | HY19 | HY20 | Percentage change |
|---|---|---|---|
| Revenue | $471 million | $559 million | 19% |
| NPAT | $37.3 million | $26.2 million | -30% |
| EBITDA | $70.2 million | $67.6 million | -4% |
| Depreciation costs | $13.7 million | $21.2 million | 55% |
| Financing costs | $4.1 million | $9.5 million | 132% |



# SALES VOLUME AND INVENTORY

Total revenue up 19% to $559 million (HY19: $471 million), driven by increased consumer packaged infant formula sales and a lift in commodity prices

## CONSUMER PACKAGED INFANT FORMULA

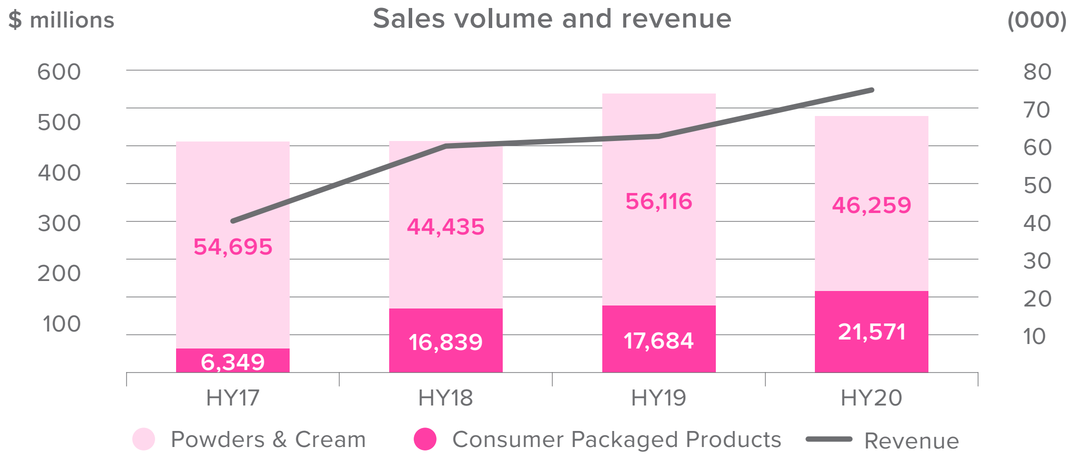
- Sales increased 22% to 21,571 MT (HY19: 17,684 MT)

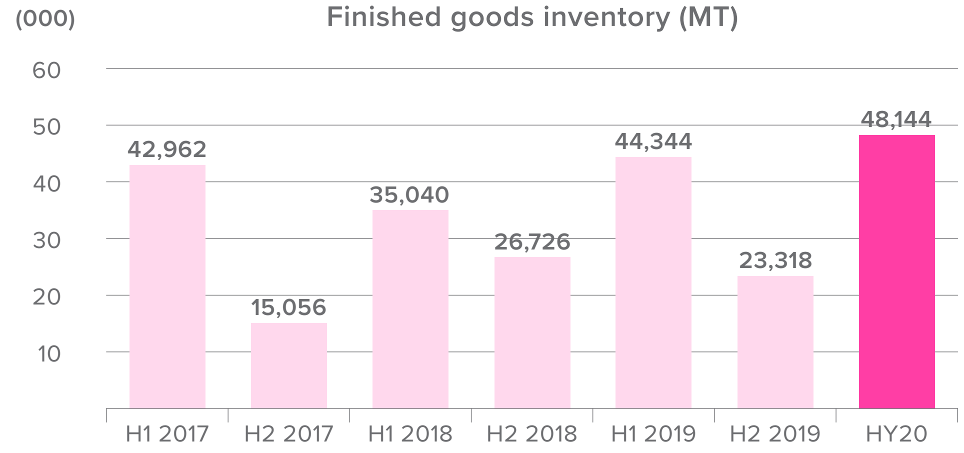
## FINISHED GOODS

- Inventory increased 9% to 48,144 MT (HY19: 44,344 MT)
- Increase driven by 8% more milk being processed during HY20 and larger stock build of infant base powders due to an increase in safety stock requirement from increase sales volumes
- Expect to hold significantly higher volumes of infant base powder at the end of FY20 as cover for the same reason

## LACTOFERRIN

- Sales increased 30% to 7.7 MT (HY19: 5.9 MT)



# PRODUCTION VOLUME

## MILK PRODUCTION

- Milk processed up 8.5% to 46.7 million kgMS (HY19: 43.1 million kgMS)
- Total production (excluding liquid milk, lactoferrin and cheese) increased 4%. Driven by a 25.9% uplift in production of consumer packaged infant formula to 22,212 MT
- Product mix moved towards consumer packaged infant formula (HY19: 19% vs HY20: 24%)

## LACTOFERRIN PRODUCTION

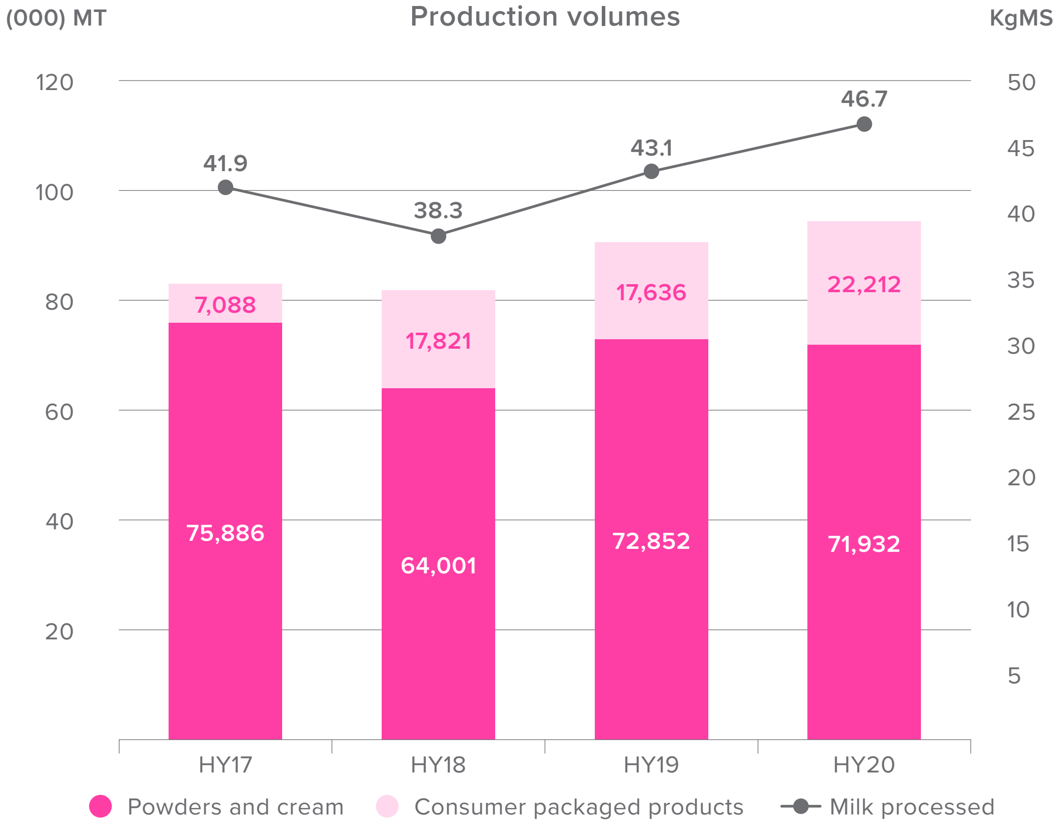
- Increased significantly to 12 MT in HY20 (HY19: 7 MT)
- Stage two of lactoferrin manufacturing expansion in full production throughout HY20, resulted in higher throughput of milk and increased yield

## TALBOT FOREST CHEESE

- Production was 1,999 MT in HY20

## ADVANCED LIQUID DAIRY PACKAGING FACILITY

- Production was 15.3 million litres of milk and cream for Foodstuffs South Island
- Facility commissioned in April 2019




*Excludes liquid milk, speciality ingredients and cheese

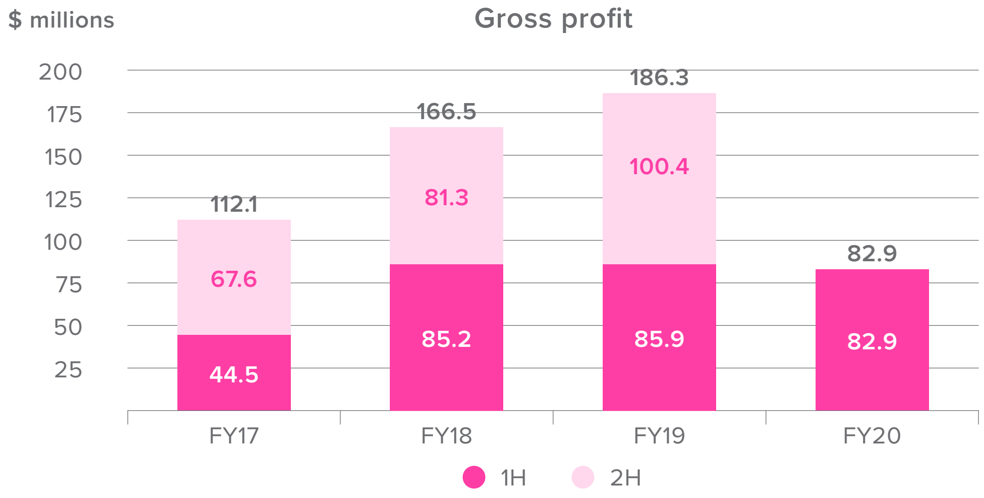
# GROSS PROFIT PERFORMANCE

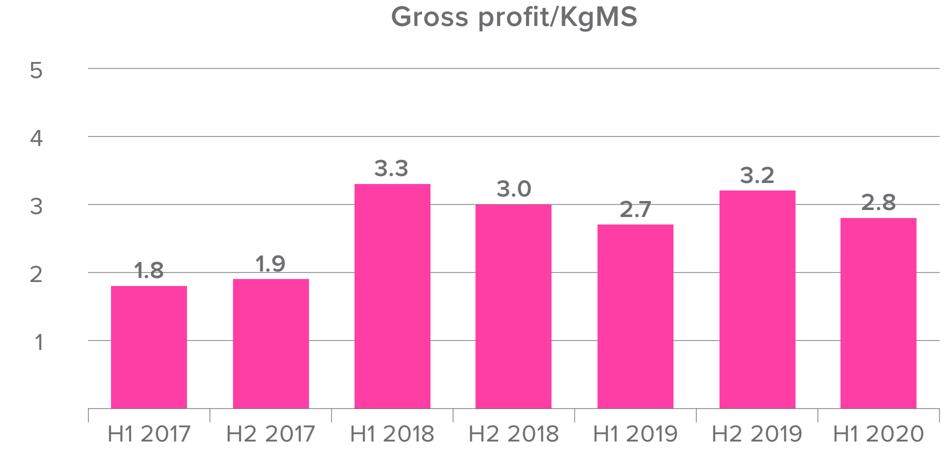
## GROSS PROFIT PERFORMANCE

- Gross profit has reduced to $82.9 million (HY19 $85.9 million)
- Driven by increased sales of consumer packaged infant formula, offset by an increase in overhead costs (explained further on slide 19)

## GROSS PROFIT / KGMS SOLD

- Synlait continues to maintain a healthy gross profit/kgMS sold

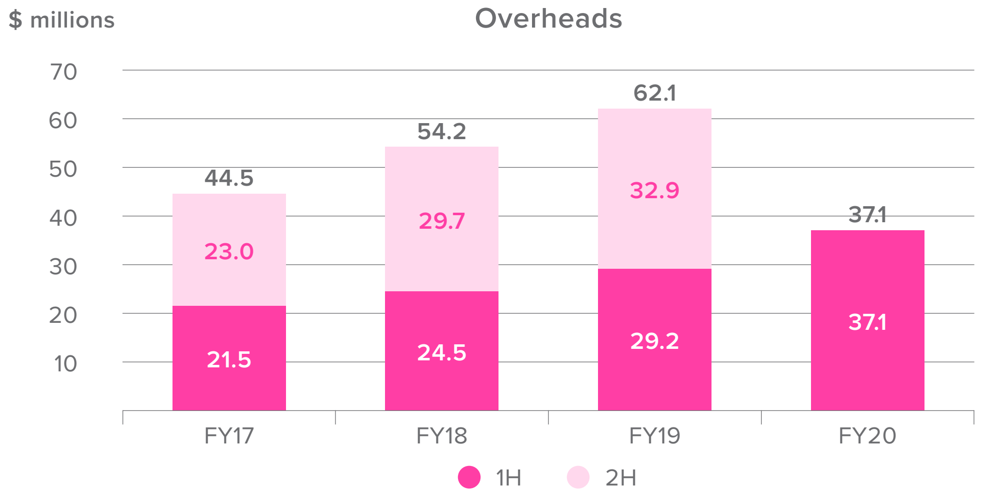


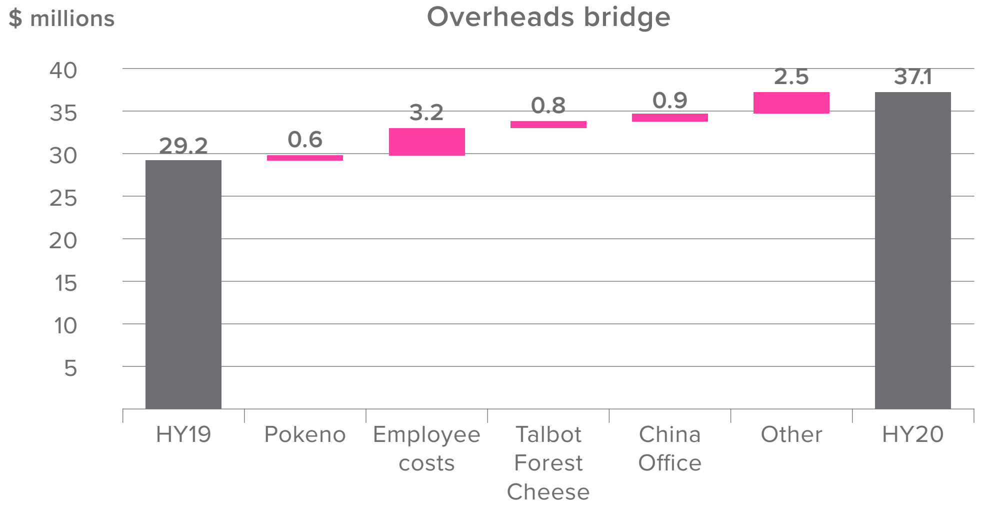




Gross Profit/MT (prior metric) is still available in the appendix section, note it does not include liquid products

# OVERHEADS

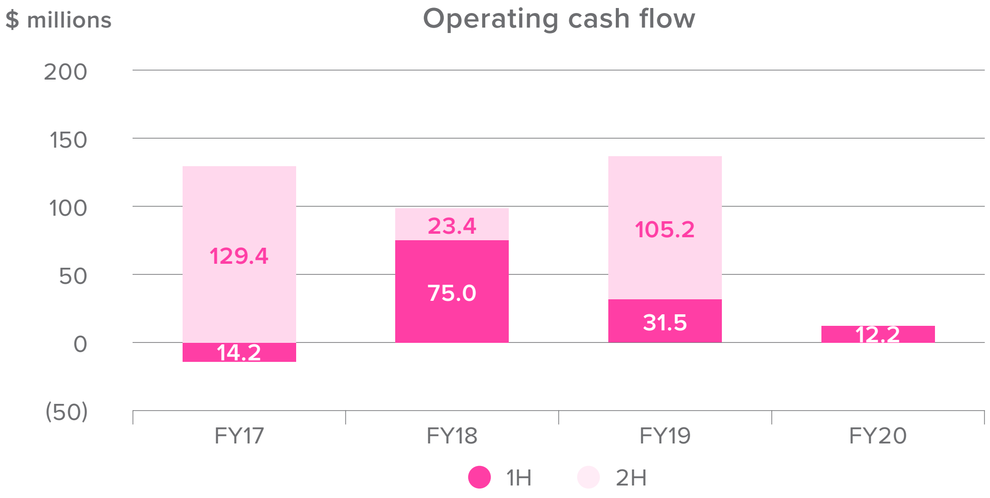
- Overhead costs increased 27% to $37.1 million (HY19: $29.2 million) driven by a:
  - $3.2 million increase in employee costs reflecting ongoing investment in people. This continues to be Synlait's largest driver reflecting continued decision to invest in our capability;
  - $0.9 million establishing China sales office;
  - $0.8 million contribution from Talbot Forest cheese; and
  - $0.6 million increase in Synlait Pokeno overheads
- There is an increased focus on controlling overhead expenses

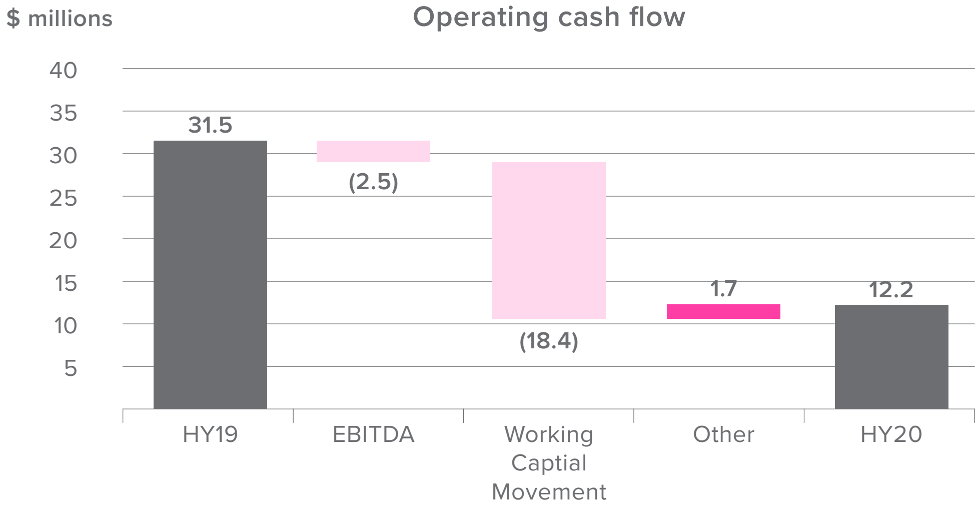


# OPERATING CASH FLOW

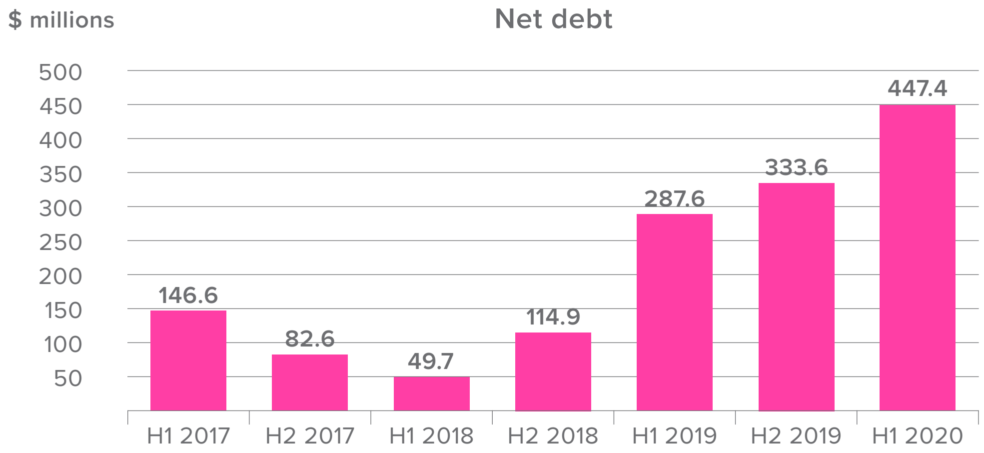
- Synlait typically experiences seasonality in cash flows due to the milk production curve
- Operating cash flow was down 61% to $12.2 million in HY20 (HY19: $31.5 million)
- Reduction primarily due to inventory build during HY20, which was $52.1 million greater than HY19, with an increase in infant base powder on hand
- Will have stronger second half cashflow from increased consumer packaged infant formula sales and a reduction in inventory

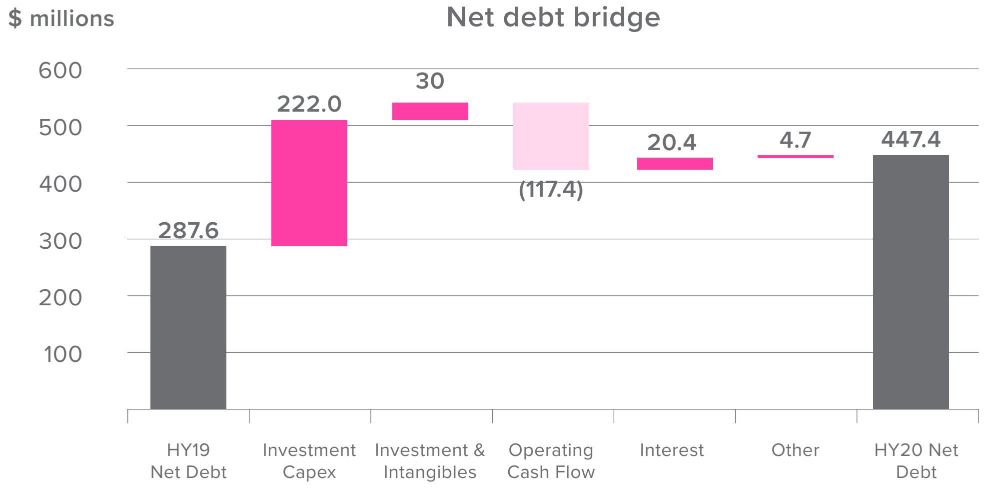


# NET DEBT

- Net debt increased $159.7 million to $447.4 million in HY20 (HY19: $287.6 million)
- Continued significant investment in major growth projects and operational projects continued with $220.0 million of capital expenditure:
  - Second infant-capable manufacturing facility in Pokeno: $156.0 million
  - Advanced Dairy Liquid Packaging facility at Dunsandel: $32.8 million
- In addition to this, investment and intangibles spend of $30 million, includes Talbot Forest Cheese acquisition (settled August 2019)
- Net debt now made up of existing banking facilities and NZX listed $180 million of unsecured, subordinated, fixed rate bonds
- Planned drawdown of additional debt to acquire Dairyworks in April and farmlands adjacent to our Dunsandel facility, increasing debt by $112 million and $25.7 million respectively. Drawdowns are from existing bank facilities
- Forecasts reflect that we will remain within banking covenant leverage ratios despite high capital expenditure spend and lower profit guidance. Remain committed to long-term target leverage ratio of no higher than 2.5x



# OUTLOOK

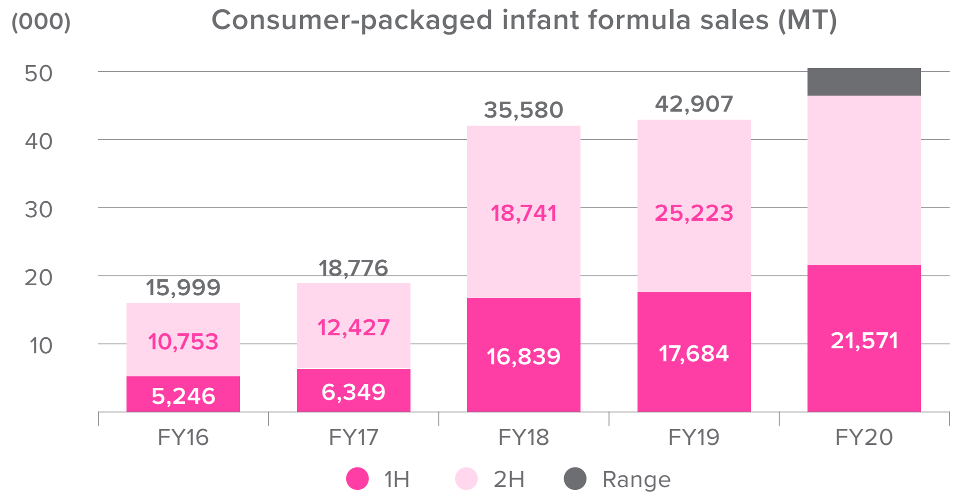
Synlait, Pokeno

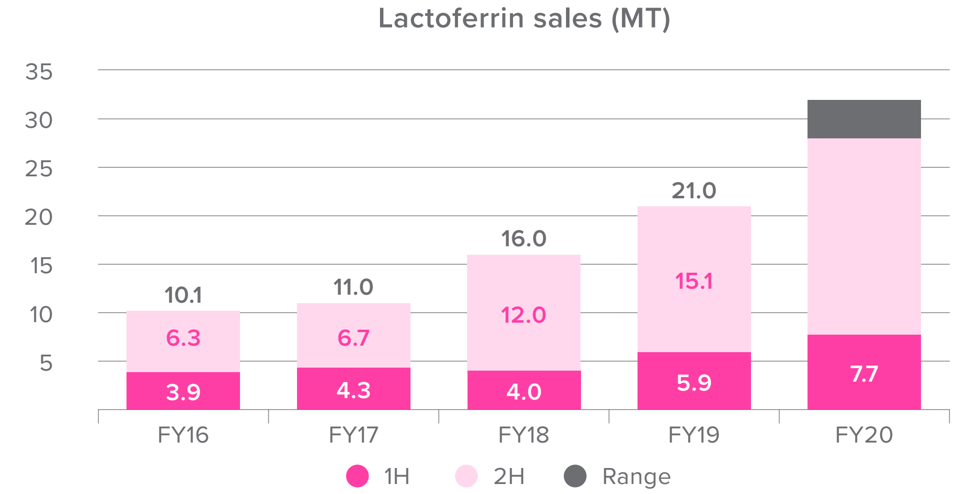
# SECOND HALF RETURNS

We are on track to deliver ...

On track to deliver stronger sales of consumer packaged infant formula and lactoferrin in the second half of FY20. This is driven by the seasonality of our business. Historically:

- Consumer packaged infant formula sales are higher in the second half, than the first (FY19: 41% occurred in H1)
- Lactoferrin sales are seasonal due to production phasing, both volume and pricing to increase on last year (FY19: 72% occurred in H2)
- Synlait Pokeno will be operational for the final six months of FY20 compared with four months in HY20, due to commissioning and regulatory approvals

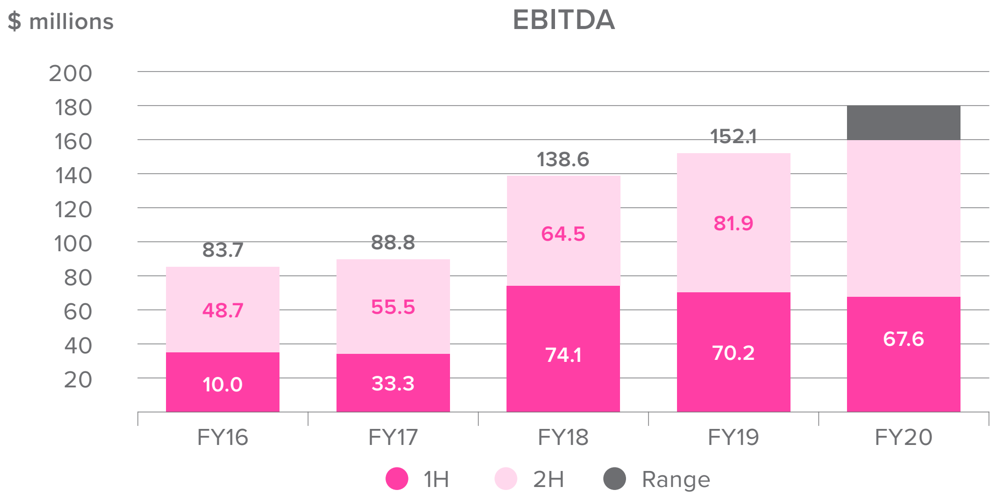


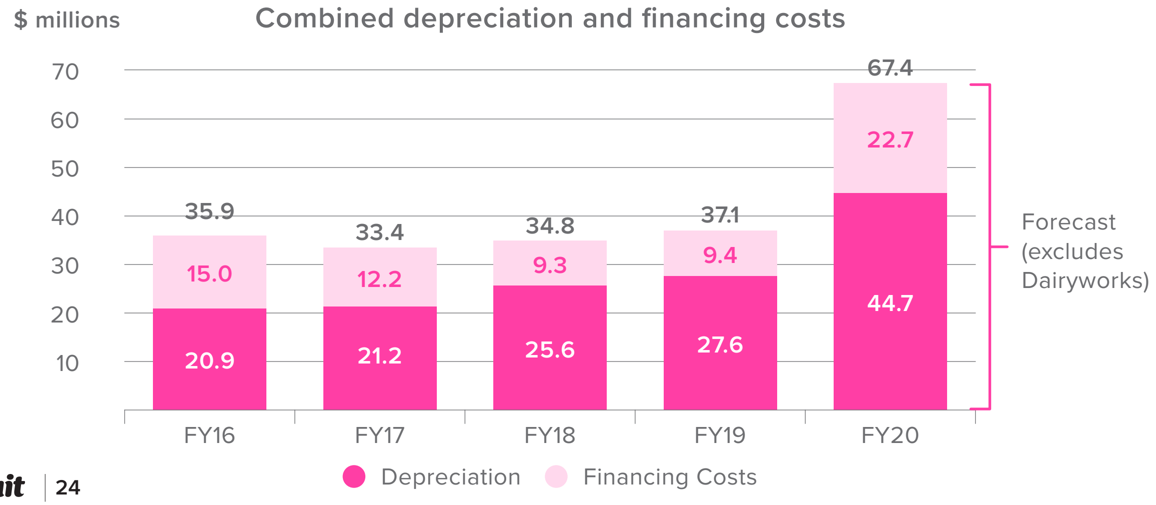



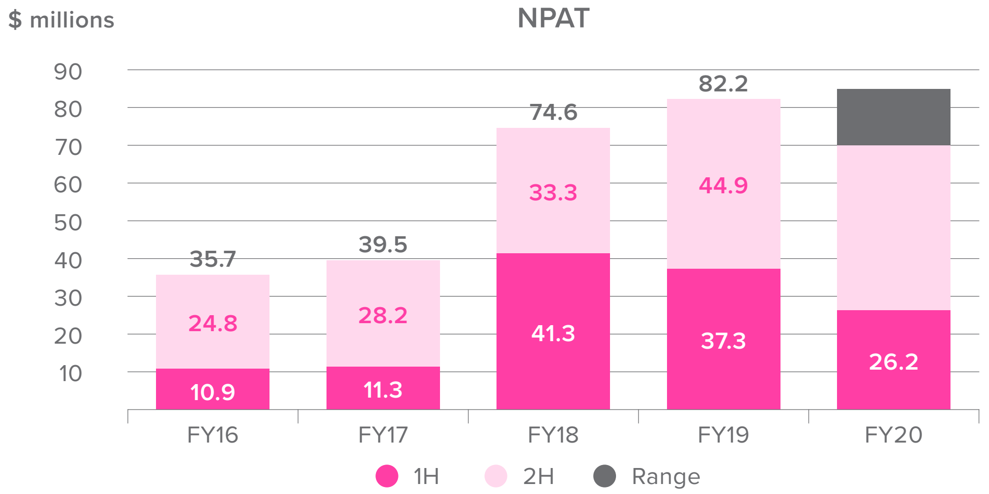
# FULL YEAR OUTLOOK

… NPAT guidance range of $70 million to $85 million

- FY20 EBITDA is expected to be stronger than FY19 due to higher sales of consumer packaged infant formula and lactoferrin offset by increased operational costs
- Synlait has a strong and growing core business which has put us in the position of being able to invest for the future

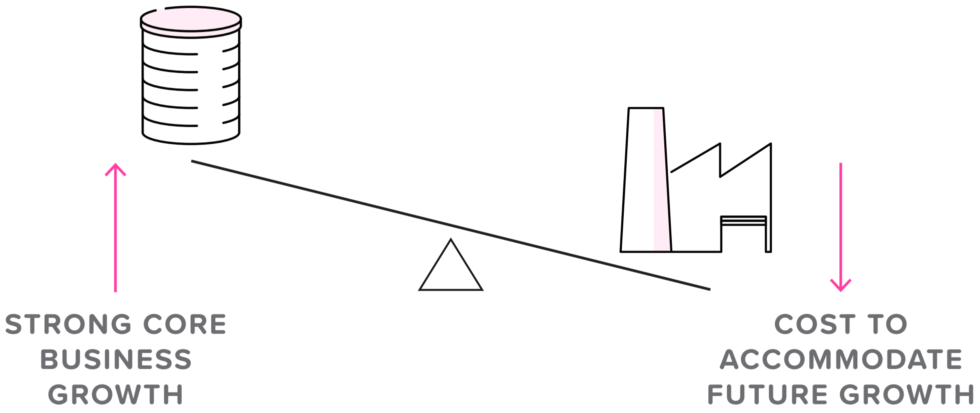


# CORE BUSINESS PERFORMING WELL, CONTINUES TO SUPPORT GROWTH STORY

- Establishing a scalable infant nutrition business that leverages Synlait's differentiated value chain is a core focus and remains a significant contributor to Synlait's growth strategy
- Core business growth continues driven by increased consumer-packaged infant formula and strong lactoferrin sales
- Diversifying Synlait through investments in complementary categories and markets is an important part of our long-term objectives
- Synlait Pokeno and the Advanced Dairy Liquid Packaging facility at Dunsandel are world class facilities built to accommodate future growth. We remain confident of delivering returns on these investments in line with our growth capital expenditure hurdles over the longer term



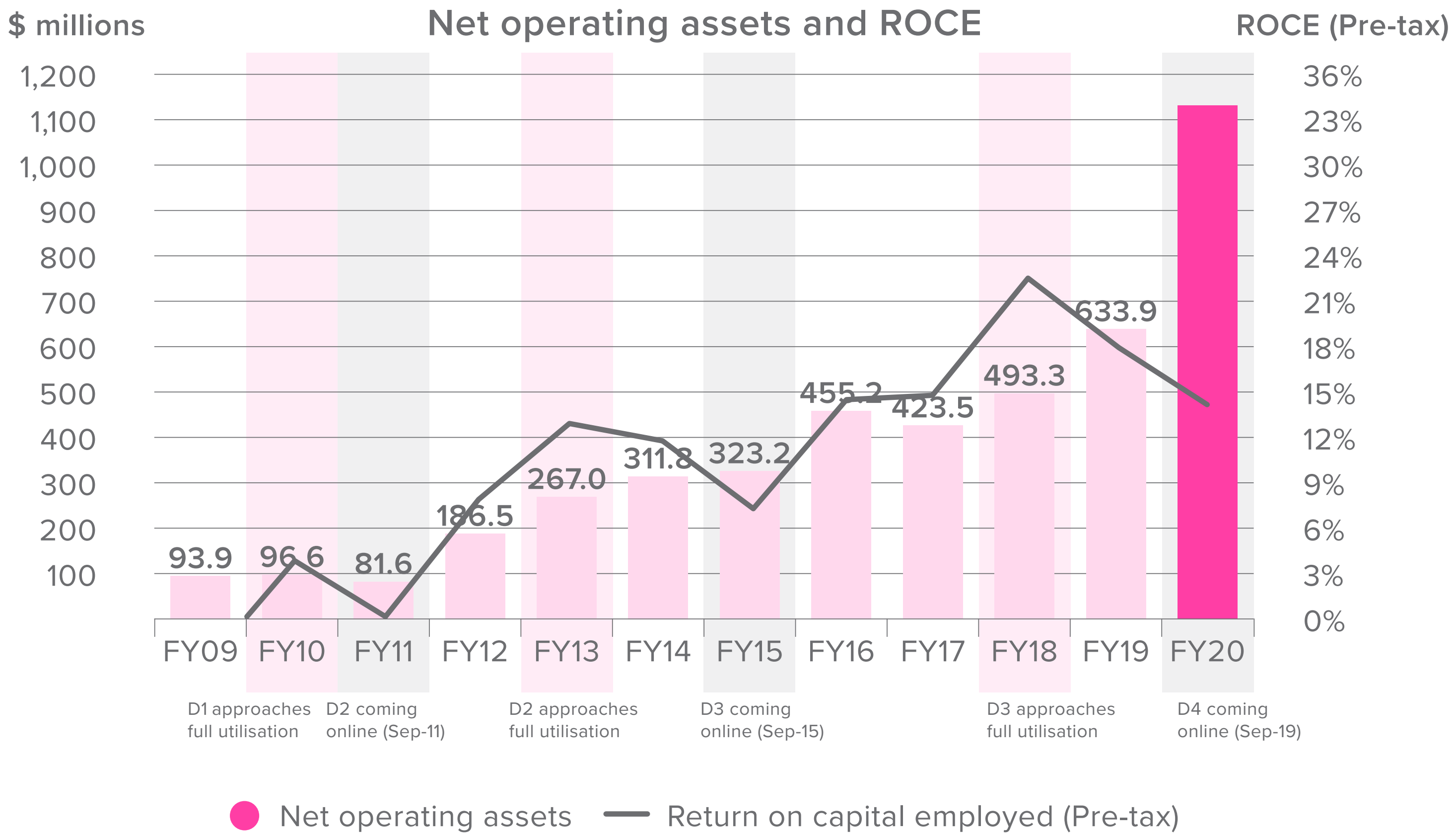
# CYCLICAL ROCE PROFILE: BUILDING IN FRONT OF THE CURVE

Synlait is nearing completion of its fourth major investment cycle, having invested $470 million in growth projects over the past 24 months

Building 'in front of the curve' results in a saw-tooth ROCE profile

Drivers of short-term return drag include:

- Low efficiency and utilisation rates of assets
- Low manufacturing and overhead recoveries – depreciation, operational staff, support staff
- Product mix weighting to lower value products during early months of operation




1) Return on capital employed (ROCE): EBIT / average capital employed
2) FY20 based on mid-range of forecast

# THIS CAPABILITY GIVES SYNLAIT CHOICE, BUT MARKET AND CUSTOMER OPPORTUNITIES MUST ALIGN

DISCOVERY

## OUR APPROACH TO BUSINESS DEVELOPMENT: ACTIVELY CREATING OPPORTUNITIES

### POTENTIAL MARKETS
We assess:

- Strategic fit
- Size
- Growth
- Market access
- Value potential
- Capability fit

### POTENTIAL CUSTOMERS
We assess:

- Strategic fit
- Partnership fit
- Brand fit
- Long-term value potential
- Market alignment
- Opportunity for 'test and learn' approach
- Specific requests

## SYNLAIT AND ITS TARGET CUSTOMERS

IMPLEMENTATION

**ENGAGE**
- Understand customer needs and product

**REFINE**
- Refine together and balance speed to market with time/cost

**COMMIT**
- Agree timeframe

**DELIVER**
- Project underway

## TYPICAL TIMEFRAME

Increasing value

| | |
|---|---|
| Existing products | 1 to 3 months |
| Minor customisation | 2 to 6 months |
| Major customisation | 6 to 24 months (depending on shelf-life and market registration requirements) |
| Consumer-packaged infant formula | 12 to 36+ months (depending on shelf-life and market registration requirements) |

# POKENO: HOW WE ARE THINKING ABOUT UTILISATION

Short-and-long term drivers of return

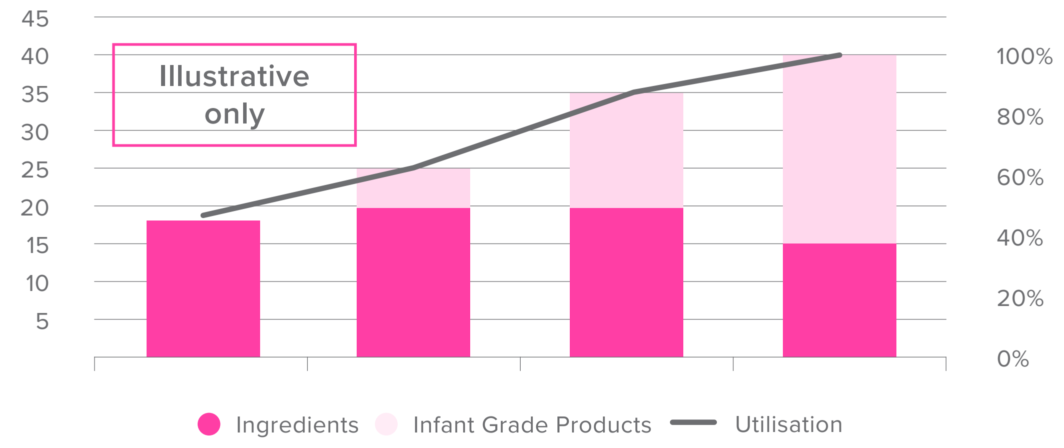
### SHORT-TERM (FY20 - FY21) DRIVERS OF RETURNS

1. Full year of revenue to offset full year of costs
2. Benefits of operating leverage as facility builds towards full production

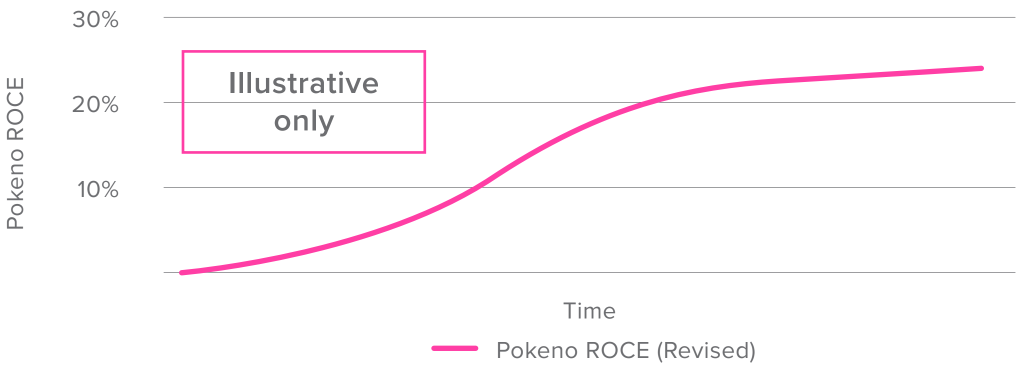
### LONGER-TERM (FY22+) DRIVERS OF RETURNS

1. Transition product mix into higher margin products
2. Increasing utilisation rates through efficiency programmes and production optimisation

Pokeno utilisation (illustrative only)




Pokeno ROCE profile (illustrative only)




1) Return on capital employed (ROCE): EBIT / average capital employed

# SYNLAIT GUIDANCE UPDATE

Synlait remains comfortable with its FY20 earnings guidance range, which was updated in February 2020.

Synlait expects FY20 earnings guidance to be between $70 million and $85 million net profit after tax. Notwithstanding that, Synlait still anticipates strong growth in consumer-packaged infant formula sales volumes over the full year. Factors contributing to this performance include:

- incremental costs of the new Pokeno facility impacting standard manufacturing costs;
- lower sales of infant base powders due to the China infant nutrition market consolidation;
- higher SG&A costs due to increased business size and the continued focus on investing in future growth opportunities; and
- a positive impact of a full year of operation of the expanded lactoferrin facility, albeit with more pricing volatility.

Synlait announced last week that Dairyworks is expected to make an EBITDA contribution of approximately $4 million in the remainder of FY20. This translates to an NPAT contribution of approximately $2 million, after borrowing costs and deprecation. Synlait did not consider this amount material enough to adjust its FY20 guidance range given wider global uncertainty emerging.

Fresh Milk Production Line - Synlait, Dunsandel

# KEY TAKEAWAYS FROM TODAY

1. Core business performing well, continues to support growth story
2. Confident of maintaining previous margins under extended The a2 Milk Company agreement
3. Customer pipeline remains strong, with material opportunities well progressed
4. Dairyworks provides a great base for us to build on and participate in the consumer branded sector
5. Confident we are building a strong, sustainable company we can continue to be proud of

# APPENDICES


Dunsandel milk reception bay

# GROSS PROFIT BY CATEGORY

| | Sales volume (MT) | | | Gross profit ($m) | | | GP/MT | | |
|---|---|---|---|---|---|---|---|---|---|
| | H1 2019 | FY 2019 | H1 2020 | H1 2019 | FY 2019 | H1 2020 | H1 2019 | FY 2019 | H1 2020 |
| Powders and Cream | 56,116 | 106,802 | 46,259 | 69.6 | 142.2 | 59.6 | 959 | 969 | 899 |
| Consumer Packaged Powders | 17,684 | 42,907 | 21,571 | 14.0 | 34.3 | 17.8 | 789 | 800 | 824 |
| Lactoferrin | 6 | 21 | 8 | 2.3 | 13.3 | 6.3 | 397,938 | 646,099 | 823,492 |
| **Subtotal** | **73,806** | **149,730** | **67,838** | **85.9** | **190.1** | **83.7** | **949** | **1,268** | **1,234** |
| Consumer Packaged Liquids | - | - | - | - | (3.5) | 1.2 | - | - | - |
| Cheese | - | - | - | - | - | (2.0) | - | - | - |
| **Grand Total** | | | | **85.9** | **186.3** | **82.9** | | | |

# BANKING FACILITIES, COVENANTS AND BOND ISSUE

## SYNLAIT CURRENTLY HAS FOUR SYNDICATED BANK FACILITIES IN PLACE WITH ANZ AND BNZ.

1. Working capital facility (multi-currency) – facility limit of $250 million and reviewed annually
2. Revolving credit facility (Facility A) – facility limit of $150 million, amortising $30 million on 1 August 2020 and maturing 1 August 2021
3. Revolving credit facility (Facility B) – facility limit of $50 million maturing on 1 August 2023
4. Revolving credit facility (Facility C) – facility limit of $50 million maturing on 1 August 2023

## BOND ISSUE

Synlait listed NZ$180 million of unsecured, subordinated, fixed rate bonds listed on the NZX in December 2019

## WE HAVE FIVE KEY COVENANTS IN PLACE WITH OUR SYNDICATED BANKS.

These are:

1. Interest cover ratio – EBITDA to interest expense of no less than 3.00x based on full year forecast result
2. Minimum shareholders funds – no less than $295.5 million
3. Working capital ratio – inventory and debtors to working capital facility outstanding of no less than 1.5:1
4. Leverage ratio – total debt to EBITDA is no greater than 4.0x
5. Senior leverage ratio – total debt excluding Subordinate Bond to EBITDA is no greater than 3.0x

We complied with these bank covenants at all times during HY20

# POKENO UPDATE

## Timeline of the process to date

**February 2018**
Synlait announced the conditional purchase of 28 hectares of land in Pokeno to establish our second nutritional powder manufacturing site. It was the vendor's responsibility to have the covenants removed

**November 2018**
High Court removed covenants over the land which required the land to be maintained as rural. The High Court declined to award compensation to the covenant holder on the basis that they would not suffer any loss as the covenants were of little practical value. Synlait then took legal title to the land

**May 2019**
Court of Appeal overturned the High Court decision to remove the historic covenants

**June 2019**
Synlait filed an application for leave to appeal to the Supreme Court to have this decision overturned

**August 2019**
Supreme Court advised there will be an oral hearing prior to a decision on whether leave to appeal the reinstatement of the land covenants on the site by the Court of Appeal will be granted

**September 2019**
Synlait confirmed that a reasonable settlement offer had been made and reinforced it remained comfortable with its legal position. Synlait determined, and the auditors agreed, that no provision was required under the accounting standards in its full year 2019 financial statements. Synlait also announced it processed the first milk at Pokeno in September

**October 2019**
Supreme Court announced it will hear the case surrounding Synlait's Pokeno land

**November 2019**
Supreme Court announced it will hear the case on Wednesday 29 and Thursday 30 April 2020

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All values are expressed in New Zealand currency unless otherwise stated.

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