



THE POWER OF  
INNOVATIVE  
PARTNERSHIPS



FY16 INTERIM REPORT PRESENTATION  
31 MARCH 2016

# DISCLAIMER

This presentation, dated 31 March 2016, provides additional comment on our media release and interim report of the same date.

As such, it should be read in conjunction with, and subject to, the explanations and views of our future outlook on market conditions, earnings and activities given in that release and interim report.

# KEY MESSAGES

- Favourable first half (HY16) underlying NPAT of \$12.3m (\$0.4m HY15).
- Infant volumes have grown 155% to 7,498 MT for HY16.
- Sufficient milk supply secured to meet forecast growth of nutritional sales in FY17 despite forecast milk production decline.
- All growth initiative projects completed with third spray dryer and quality testing laboratory commissioned during HY16.
- FY16 profitability on track to be in advance of anything achieved to date.



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# DELIVERING ON OUR STRATEGY

- Our strategy is to become a trusted supplier of choice to some of the world's leading milk-based health and nutrition companies.
- Category growth driven by increased canned infant formula sales.
- 7,498MT of nutritional sales in HY16 accounts for 36% of total FY16 forecast sales.
- Continuing to move customers up our value chain with nutritional products accounting for 16% of HY16 sales (7% in HY15).
- Nutritional partnership growth directly supports our strategy.
- Realised financial benefits of being the sole manufacturer for the a2 Platinum® infant formula range.



# INNOVATIVE PARTNERSHIPS

- We work with our a2 Milk™ suppliers to produce milk with only the A2 beta-casein protein.
- We continue to work closely with The a2 Milk Company™ and expect this partnership to grow deeper over time.
- We also established the Grass Fed™ standard to support the development of Munchkin's Grass Fed™ infant formula enabling differentiation.
- The first trial batches of Grass Fed™ infant formula have been manufactured for clinical studies in the US and the product is due for launch in NZ and Australia in May 2016.
- Both a2 Platinum® and Grass Fed™ infant formulas are targeting growth in the respective home markets and in China.



# ACCELERATING FUTURE GROWTH

- Three large scale spray dryers and a special milks dryer operating well with excellent plant utilisation and product yield.
- Quality testing laboratory completed late 2015 which provides efficient onsite testing capability.
- Consumer packaging facility demand exceeding expectations.
- Forecast sales to nutritional customers from FY17 likely to accelerate future growth plans.



# PRIORITISING OUR MILK SUPPLIERS

- For the second year running, we are advancing a higher proportion of our final milk price than would be normal to support them through a difficult period of cashflow for the businesses.
- Supplier premiums for differentiating milk inside the farm gate expected to be \$6m in FY16 with more than half of our suppliers receiving a premium payment in FY16.
- A lower milk price has impacted milk production as farmers work to reduce costs and we expect FY16 production from our supplying farms to be down 5% on last year.
- We have grown our milk supply base by 28 farms to 201 farms for the 2016 / 2017 season.
- Sufficient milk supply secured to meet forecast growth of nutritional sales in FY17.



# IMPROVING FINANCIAL RESULTS

- Favourable HY16 underlying NPAT of \$12.3m (\$0.4m HY15).
- Continuation of increased nutritional sales from second half of FY15 a key driver in HY16 profitability.
- Strengthened balance sheet following completion of initial public offering (IPO) growth initiatives and significant debt reduction.





# SIX MONTH HIGHLIGHTS

NUTRITIONALS SALES (MT)

7,498<sup>HY16</sup>

2,946 HY15

INGREDIENTS SALES (MT)

38,858<sup>HY16</sup>

39,635 HY15

TOTAL SALES (MT)

46,356<sup>HY16</sup>

42,851 HY15

GROSS PROFIT  
PER MT (NZD)

\$996<sup>HY16</sup>

\$590 HY15

OPERATING CASH FLOW  
(IN MILLIONS NZD)

\$4.0<sup>HY16</sup>

(\$62.6) HY15

EBITDA  
(IN MILLIONS NZD)

\$32.1<sup>HY16</sup>

\$2.8 HY15

NET DEBT  
(IN MILLIONS NZD)

\$292.0<sup>HY16</sup>

\$278.0 HY15

UNDERLYING NPAT  
(IN MILLIONS NZD)

\$12.3<sup>HY16</sup>

\$0.4 HY15

TOTAL ASSETS  
(IN MILLIONS NZD)

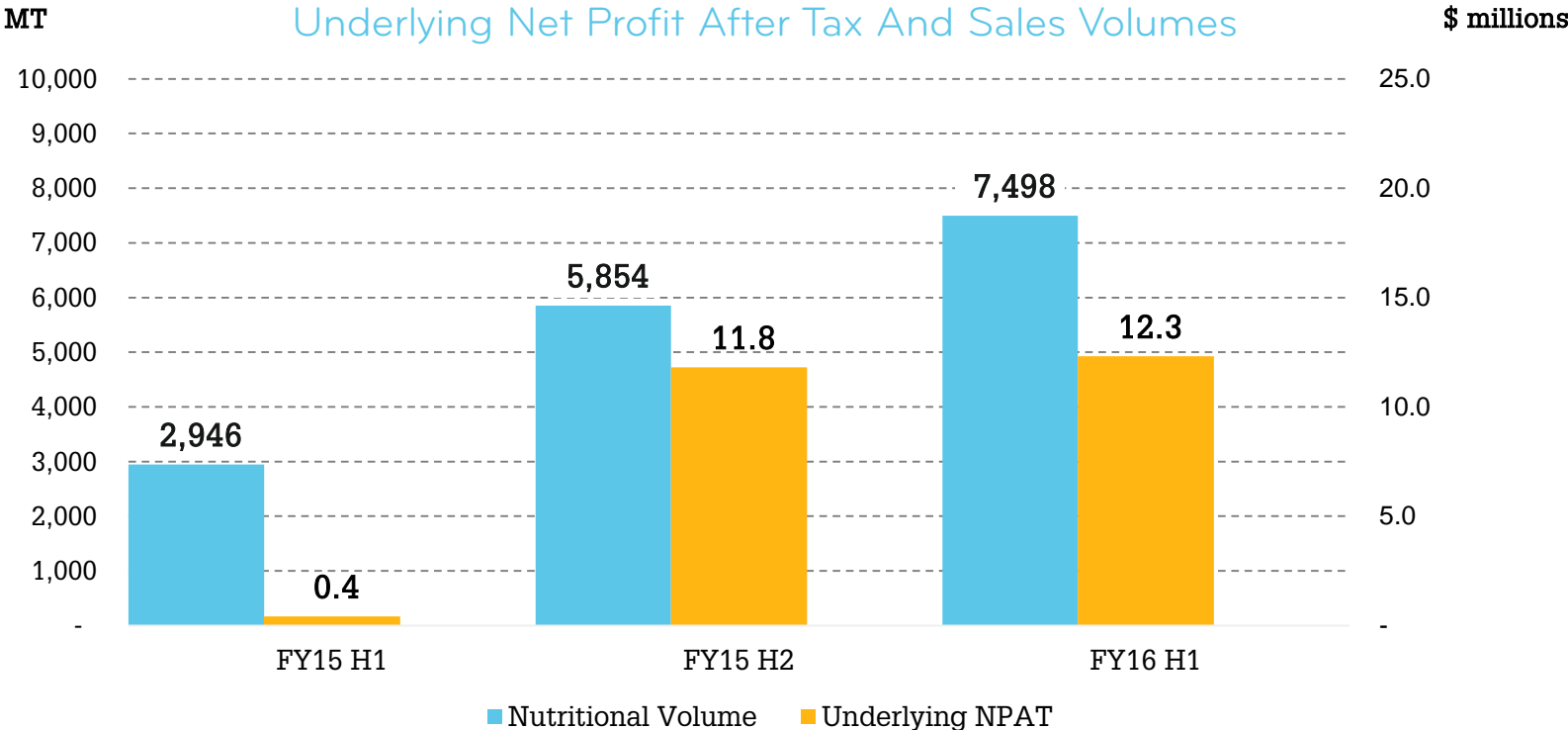
\$659.5<sup>HY16</sup>

\$548.8 HY15

# FINANCIAL ANALYSIS

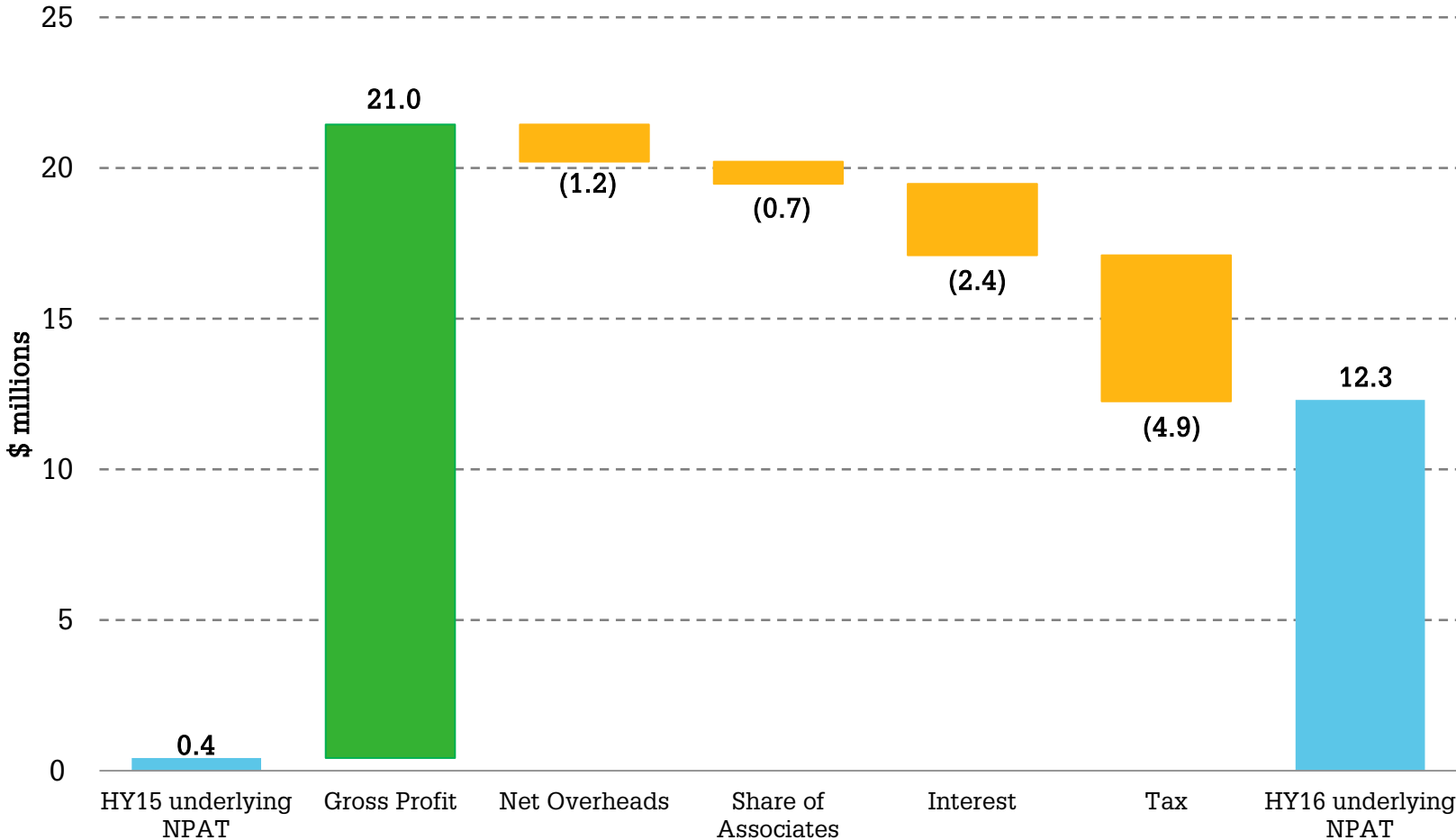
# MAINTAINING MOMENTUM

- First half underlying NPAT in line with second half underlying NPAT in FY15.



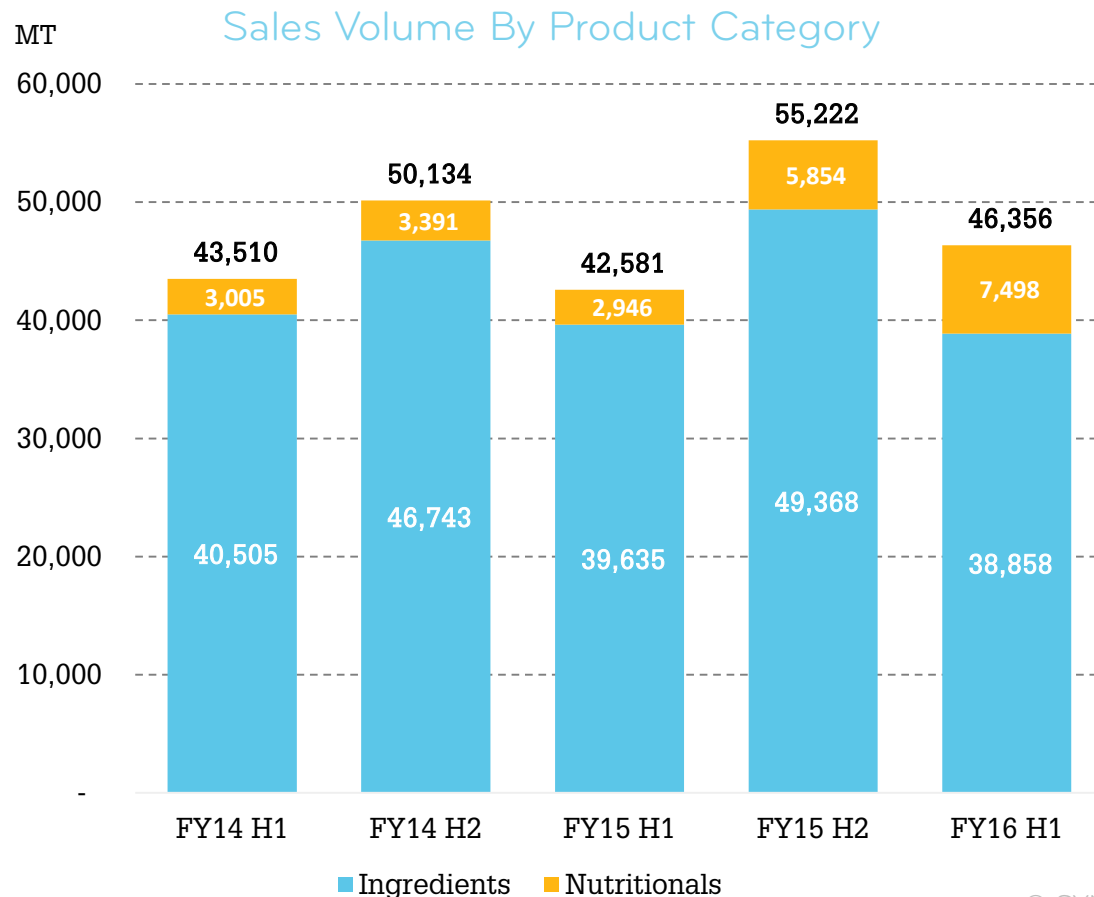
# MARGIN DRIVING PROFITABILITY

Underlying Net Profit after Tax (NPAT)

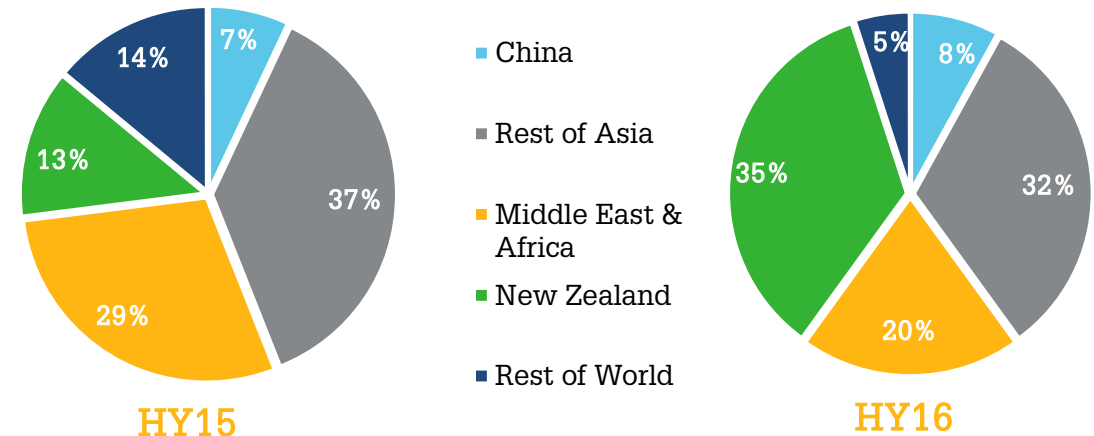


# RETAIL-READY PACKAGING STRONG VOLUME GROWTH

a2 Platinum® volumes improving nutritional and domestic sales

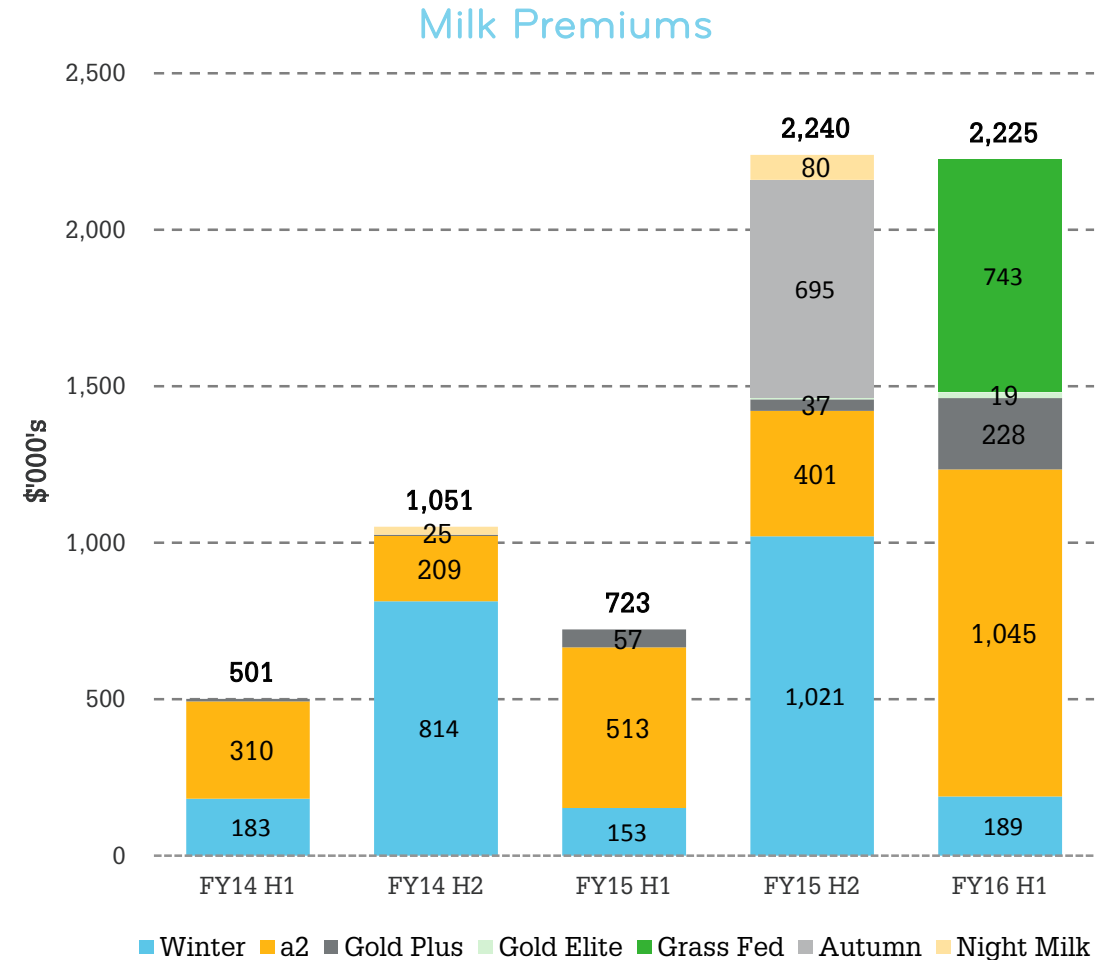


Sales Revenue by Geographic Region



# SIGNIFICANT GROWTH IN VALUE-ADD MILK PREMIUMS

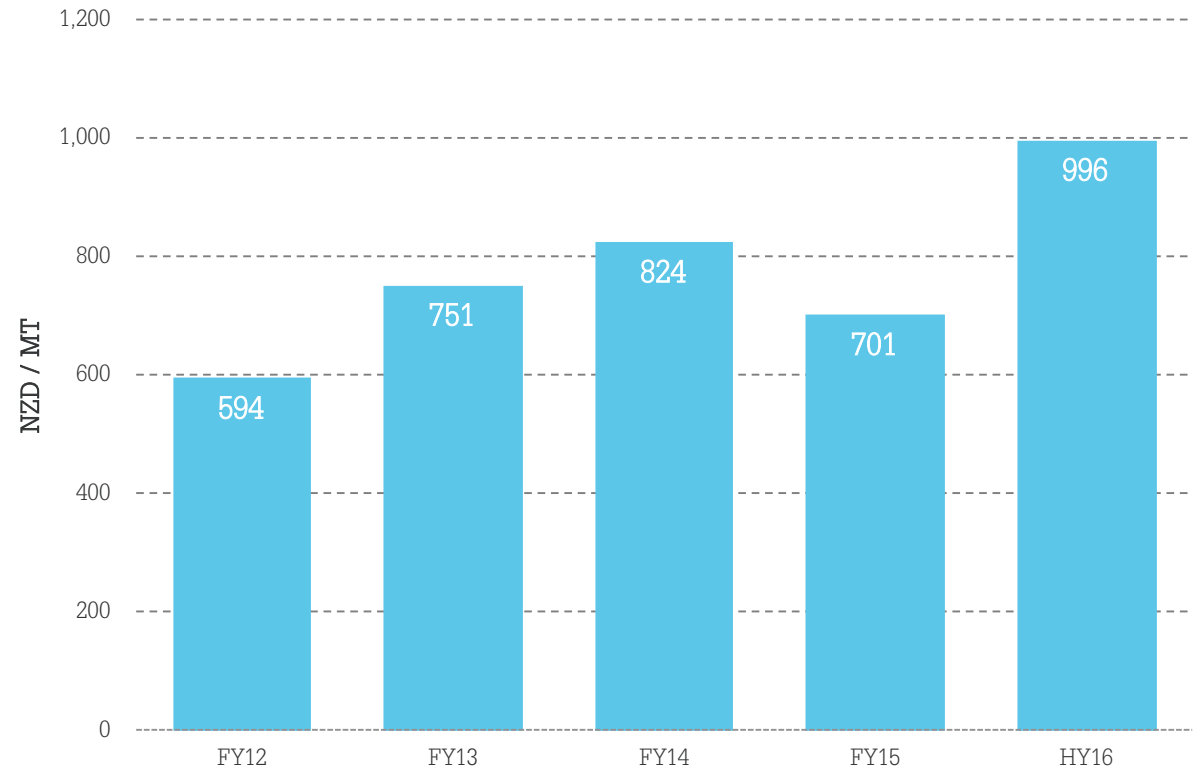
- Expect full year value-add premiums to be \$6.0m, double that paid in FY15.
- Introduction of Grass Fed™ premiums.
- a2 Platinum® premiums have doubled.



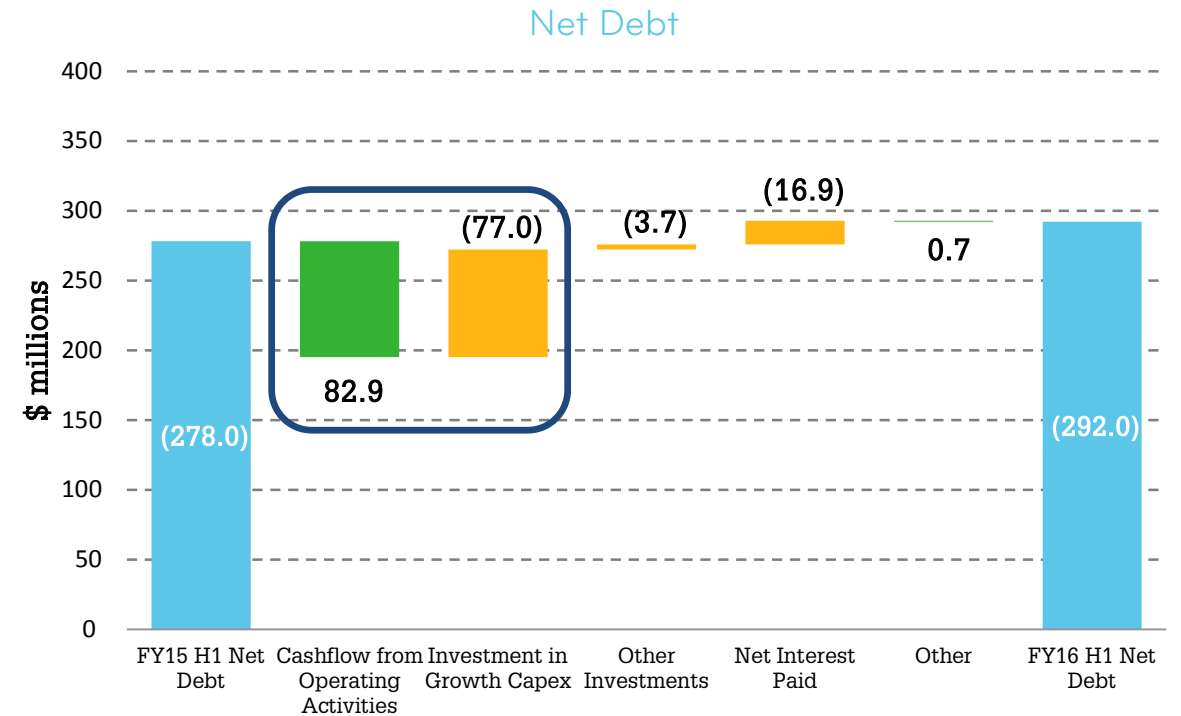
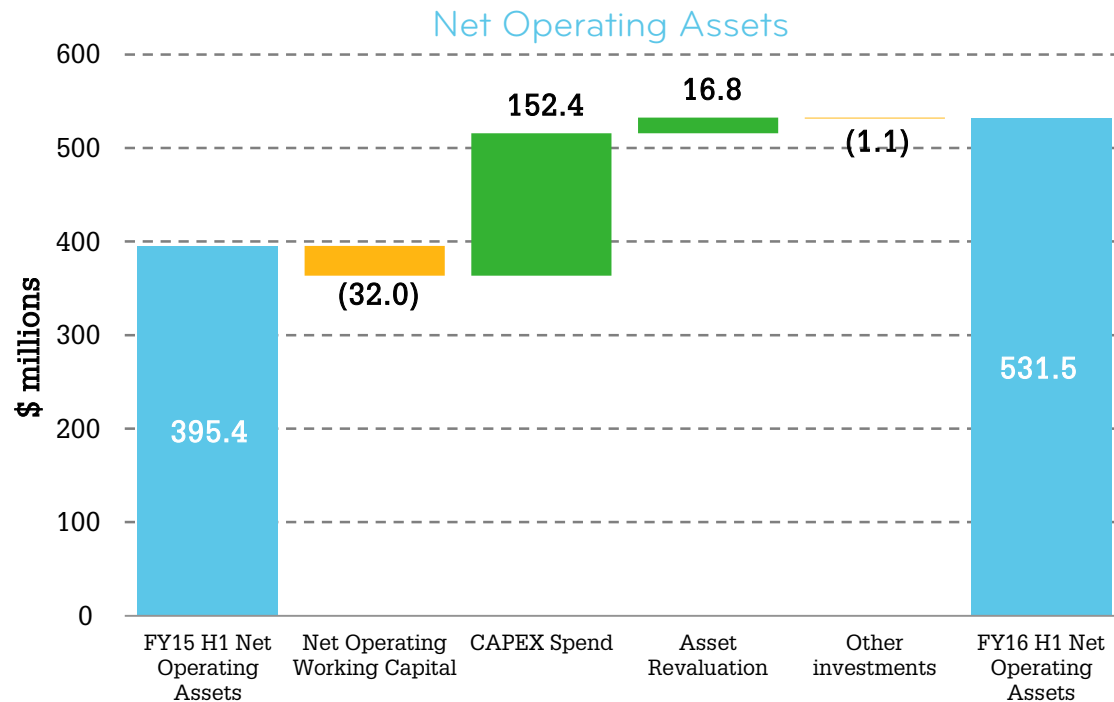
# STRONG GROSS PROFIT / MT

- Gross Profit increased to \$996/MT.
- Strong nutritional performance led by retail-ready packaging volumes.
- Expected to moderate for full year, however still well above anything achieved to date.

Gross profit per metric tonne



# STRONG OPERATING CASH FLOWS



- Growth in net operating assets driven by capital investment.

- \$77.0 million cash spend on growth capex funded predominantly through operating cashflow over the last 12 months.



# RECEIVABLES ASSIGNMENT

## Effective working capital management

- We have completed receivables assignment arrangements for FrieslandCampina and The a2 Milk Company™ receivables with the ANZ Bank and the BNZ, respectively.
- Results in the transfer of credit risk to the Bank on a non recourse basis enabling balance sheet derecognition of the receivable.
- Completed at a lower effective interest rate cost compared to our Bank working capital financing.
- Potential to complete process with two further customer receivables, Nestle and Danone prior to year end.

# FULL YEAR OUTLOOK

# EXPECT STRONG SECOND HALF

- The investment in customer and product development, people, plant and operating systems is beginning to transform earnings that we can achieve.
- Sales of nutritional products growth from 2,946MT (HY15) to 7,498MT (HY16), now contributing 16% of revenue (previously 7%), are the primary driver behind growth of underlying NPAT.
- We have committed customer orders to achieve an almost fourfold increase in canned infant formula sales in FY16 with manufacturing capability meeting these expectations.
- We expect growth will continue into FY17 as we begin regular manufacturing of Munchkin's Grass Fed™ infant formula and are currently employing a fourth shift in our consumer packaging facility, which will see it operating 24 / 7.
- FY16 profitability on track to be in advance of anything achieved to date.

# THANK YOU

Visit our Investor Centre at [synlait.com](http://synlait.com) for more information.

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