Synlait Milk Limited

Independent Adviser's Report and Appraisal Report

Prepared in Relation to the Allotment of Shares to Bright Dairy Holding Limited and Allotment of Shares and Disputes Settlement with The a2 Milk Company Limited

20 August 2024

Statement of Independence

Northington Partners Limited confirms that it:

- Has no conflict of interest that could affect its ability to provide an unbiased report; and
- Has no direct or indirect pecuniary or other interest in the proposed transaction considered in this report, including any success or contingency fee or remuneration, other than to receive the cash fee for providing this report.

Northington Partners Limited has satisfied the Takeovers Panel, on the basis of the material provided to the Panel, that it is independent under the Takeovers Code for the purposes of preparing this report.

Table of Contents

1.0 Executive Summary ... 5

1.1. Introduction ... 5
1.2. Regulatory Requirements ... 5
1.3. Summary of our Assessment of the Merits of the Bright Placement, a2MC Placement and a2MC Settlement ... 6
1.4. Consequences of Acceptance or Rejection of Resolution 1 and Resolution 2 ... 9

2.0 Scope of the Report ... 11

2.1. Regulatory Requirements ... 11
2.2. Basis of Assessment and Evaluation ... 12

3.0 Industry Overview ... 14

3.1. New Zealand Dairy Industry ... 14
3.2. New Zealand Milk Supply Chain ... 14
3.3. New Zealand Milk Processing ... 14
3.4. Global Dairy Commodity Market ... 16
3.5. Global Infant Formula Market ... 19

4.0 Profile of Synlait ... 24

4.1. Overview of the Company ... 24
4.2. Dunsandel ... 24
4.3. North Island Assets ... 25
4.4. Dairyworks ... 27
4.5. Synlait Farms ... 28
4.6. Milk Supply ... 28
4.7. Customer Relationships ... 29
4.8. Financial Overview ... 29
4.9. Ownership and Share Price Performance ... 35
4.10. Strategy, Key Issues and Outlook ... 36
4.11. Summary of Equity Raising and Bank Refinancing ... 37
4.12. Summary of a2MC Settlement ... 38

5.0 Company Valuation ... 40

5.1. Valuation Approach ... 40
5.2. Valuation Methodology ... 40
5.3. Valuation Summary ... 42
5.4. Key Assumptions ... 43
5.5. Assessed Future Earnings ... 49
5.6. Synlait Component Valuation ... 50
5.7. Synlait Insolvency Valuation ... 54

6.0 Assessment of the Merits of the Bright Placement, a2MC Placement and a2MC Settlement ... 58

6.1. Comparison of the Bright Placement Price Relative to Assessed Value ... 58
6.2. Impact on Synlait's Financial Position ... 58
6.3. Impact on Synlait Control ... 59
6.4. Alternatives to the Bright Placement ... 61
6.5. a2MC Settlement ... 61
6.6. Advantages and Disadvantages to Non-associated Shareholders ... 62
6.7. Likelihood of Bright Placement and a2MC Placement and a2MC Settlement Being Approved ... 63
6.8. Voting For or Against the Resolutions ... 63

Appendix 1. Sources of Information Used in this Report ... 64
Appendix 2. Comparable Company and Transaction Evidence ... 65
Appendix 3. WACC Input Parameters ... 67
Appendix 4. Declarations, Qualifications and Consents ... 68

Abbreviations and Definitions

a2MC	The a2 Milk Company Limited and its subsidiary companies including A2 Infant Nutrition Limited (the counterparty to the NPMSA)
a2MC Placement	The issue of 76,283,104 Synlait shares to The a2 Milk Company at an issue price of $0.43 per share
a2MC Settlement	Settlement of the various disputes between Synlait and a2MC in respect of certain disputes that have arisen under or in connection with the NPMSA and clarification of certain operational matters relating to access and support under the NPMSA
AMF	Anhydrous Milk Fat
Appraisal Report	This report prepared by Northington Partners
Bonds	The unsecured subordinated fixed rate bonds issued by Synlait and listed on NZDX with a maturity date of 17 December 2024
Bright	The 39% majority shareholder in Synlait, Bright Dairy Holding Limited
Bright Placement	The issue of 308,333,333 Synlait shares to Bright at an issue price of $0.60 per share
CNCA	Certification and Accreditation Administration of the Peoples Republic of China
Code	The Takeovers Code
Company	Synlait Milk Limited
Dairyworks	Dairyworks Limited
DIRA	Dairy Industry Restructuring Act 2001
Dunsandel	Synlait's manufacturing site located in Dunsandel, Canterbury
EBITDA	Earnings before interest, tax, depreciation, and amortisation (and impairments)
Equity Raising	The proposed $217.8 million capital raising by Synlait under the Bright Placement and a2MC Placement
ERP	Enterprise Resource Planning
FX	Foreign Exchange
Farmgate Milk Price	Farmgate milk price, the price per kg of milk solids paid by Fonterra for milk set in accordance with the milk price manual
FSSI	Foodstuffs South Island
FY	In relation to Synlait, financial year ending 31 July
IFRS-16	International Financial Reporting Standard 16 relating to the treatment of leases
IPO	Initial public offering
kgMS	Kilograms of milksolids
kT	Kilotonne (1,000 tonnes)
MT	Metric Tonne
Non-associated Shareholders	Shareholders of Synlait not associated with Bright or a2MC (as the case may be)
Northington Partners	Northington Partners Limited
North Island	Synlait's North Island assets including Pokeno and RPD as well as its warehouse facility in Wiri, Auckland
Notice of Special Meeting	The notice of special meeting of Synlait shareholders and accompanying material in relation to the Bright Placement, a2MC Placement and a2MC Settlement
NPMSA	Nutritional Powders Manufacturing and Supply Agreement
NZ	New Zealand
NZDX	The listed debt market operated by NZX
NZX	NZX Limited
OIO	Overseas Investment Office
Pokeno	Synlait's manufacturing site located in Pokeno, Waikato
PP&E	Property Plant and Equipment
RPD	Synlait's canning facility at Richard Pearce Drive, Auckland
SAMR	State Administration for Market Regulation

Settlement Deed	The deed of settlement between a2MC and Synlait recording the terms and conditions of the a2MC Settlement dated 16 August 2024
Shareholder Loan	The $130 million loan facility with Bright Dairy International Investment Limited
SMD	Special Milks Dryer
SMP	Skim milk powder
Synlait	Synlait Milk Limited or Synlait Group (as the context requires)
Synlait Group	Synlait and its subsidiaries
WMP	Whole milk powder

1.0 Executive Summary

1.1. Introduction

Synlait Milk Limited ("**Synlait**" or "**Company**") is a dairy and nutrition processor which manufactures infant formula, milk-powder based products, liquid milk and other advanced nutritional products. The Company's shares are held by approximately 6,500 shareholders with a primary listing on the NZX Main Board (and a secondary listing on the ASX). The Company also has $180 million of subordinated bonds listed on the NZDX ("**Bonds**") maturing on 17 December 2024.

After a period of rapid investment to support geographic, product and customer diversification, Synlait has incurred significant levels of increased debt. Over the last few years, the Company has also experienced considerable earnings volatility with compressed margins for its key nutritional products. This has resulted in current net debt levels increasing to approximately $551 million, relative to expected FY24 EBITDA in the region of $30 million (which, as discussed on page 32 is subject to adjustments for non-recurring items, audit and other end of year adjustments). Even if earnings could be improved in the short term, the current debt level is unsustainable.

In order to meet its short-term debt obligations and provide a more sustainable financial position, Synlait commenced a recapitalisation plan in 2023. The first stage of this process comprised a $130m shareholder loan ("**Shareholder Loan**") from Bright Dairy International Investment Limited, a related company of Bright Dairy Holding Limited ("**Bright**"). The Shareholder Loan was approved by shareholders in July 2024 and used by Synlait to satisfy its $130 million repayment obligation to its banks on 15 July 2024.

The Shareholder Loan was always envisaged as a first step to provide time to raise new equity to further reduce debt and refinance Synlait's existing bank facilities. Synlait has now reached agreement with Bright and The a2 Milk Company Limited (The a2 Milk Company Limited and its subsidiary companies including A2 Infant Nutrition Limited (the counterparty to the NPMSA)) ("**a2MC**") to raise approximately $217.8 million (the "**Equity Raising**") and has reached agreement with a2MC to settle various disputes ("**a2MC Settlement**"). Synlait shareholders are now being asked to approve two inter-conditional ordinary resolutions relating to the Equity Raising and a2MC Settlement:

- **Resolution 1**: a $185 million issue of shares to Bright which would increase its shareholding in the Company from 39.01% to 65.25% ("**Bright Placement**"); and
- **Resolution 2**: a $32.8 million issue of shares to a2MC (or any wholly-owned subsidiary it directs to acquire the shares to be issued) which would maintain its current 19.83% shareholding (**"a2MC Placement"**) in Synlait. As the a2MC Placement and the a2MC Settlement are each conditional on the other occurring, Synlait has included the approval of the a2MC Settlement as part of this resolution.

Synlait and a2MC are party to a Nutritional Powders Manufacturing and Supply Agreement ("**NPMSA**"), pursuant to which Synlait procures the manufacture and supply of certain infant milk products for a2MC. Various disputes have arisen under the NPMSA which the parties were unable to resolve commercially, leading to a formal arbitration process. The parties have now managed to resolve matters prior to a formal arbitration hearing and Synlait and a2MC entered into a Settlement Deed on 16 August 2024 to record the terms of the a2MC Settlement. The a2MC Settlement is conditional on completion of the Equity Raising, as well as completion of the bank refinancing that is being negotiated in parallel with the Equity Raising. On these conditions being satisfied and the one-off payment referred to below being made to Synlait, the a2MC Settlement resolves those disputes in full. The a2MC settlement includes Synlait's acceptance of the validity of a2MC's cancellation of Synlait's exclusive supply rights for infant milk formula from 1 January 2025, certain product pricing and cost variations under the NPMSA and a one-off payment of $24.75 million from a2MC to Synlait (which largely comprises amounts withheld in accordance with the terms of the NPMSA). Further details of the a2MC Settlement are set out in Section 4.12.

1.2. Regulatory Requirements

Synlait is a "Code Company" for the purposes of the Takeovers Code. As the Bright Placement will result in Bright increasing its voting control of Synlait from 39.01% to 65.25%, the Code requires the directors of Synlait to obtain an Independent Adviser's Report on the merits of the allotment of shares

under the Bright Placement. This Independent Adviser's Report is to be included in, or accompany, the notice of special meeting ("**Notice of Special Meeting**") pursuant to the Code.

The Bright Placement, and separately the a2MC Placement together with the a2MC Settlement, also constitute "Material Transactions" (or a related series of transactions) with a "related party" under the NZX Listing Rules. These transactions therefore require approval of Synlait's shareholders (other than Bright and its "associated persons" and its "associates", as those terms are defined in the NZX Listing Rules and the Code respectively) in respect of the Bright Placement, and a2MC and its "associated persons" in respect of the a2MC Placement and a2MC Settlement. Pursuant to the NZX Listing Rules, the Notice of Special Meeting to be sent to shareholders must be accompanied by an Appraisal Report, prepared by an independent adviser to opine on the fairness of the transactions to shareholders not associated with the relevant related party.

As set out in more detail in Section 2.0, this report has been prepared in accordance with the requirements of Rule 18 of the Code and NZX Listing Rule 5.2.1.

1.3. Summary of our Assessment of the Merits of the Bright Placement, a2MC Placement and a2MC Settlement

Our full assessment of the merits of the Bright Placement under the Code and the fairness of the Bright Placement on the one hand, and the a2MC Placement and a2MC Settlement on the other hand are set out in Section 6.0. A summary of our assessment is provided below in Table 1.

Table 1: Summary of Conclusions

Item	Key Conclusions	Further Information
Bright Placement Issue Price	– We have estimated the value of Synlait's equity in a range between $0.46 and $0.83 per share, with a mid-point value of $0.64. Our valuation assumes that the Equity Raising is successfully completed and that the Company continues to operate as a going concern. This value range is based on an assessment of the component parts of Synlait's business and assumes a 100% control position. – Despite using a relatively narrow range for the enterprise value of Synlait, the wide equity value range is an unavoidable consequence of Synlait's high financial leverage ($551m net debt as of 31 July), where small changes to factors that influence business value have a large impact on equity value. – Given the Bright Placement issue price of $0.60 is within our range and only ~6% below the mid-point of our range, we conclude that the issue price is reasonable. – Without the Equity Raising, there is a high possibility of an insolvency event (administration or receivership). In order to compare the potential value outcome for Non-associated Shareholders under this scenario, we have also estimated the potential value that may be realised by Synlait following a liquidation process. While the potential outcomes in this scenario are highly uncertain and will depend on a range of factors that are difficult to predict, we have estimated a hypothetical insolvency value range of $0.15 - $0.50 per share (approximately 33% – 60% of our going concern value). This outcome relies on a liquidator or receiver being able to generate strong buyer interest for Synlait's assets and completing the process over a reasonable time period. If these conditions are not satisfied, we believe that our assessed range could significantly overstate the potential insolvency value of Synlait.	**Section 5.0 & Section 6.1**
Impact on Synlait's Financial Position	– The Equity Raising is critical to Synlait continuing as a going concern. Without it, there is a high possibility of an insolvency event (administration or receivership) due to Synlait's ongoing debt obligations, including upcoming bank repayment requirements and the maturity of the $180m of outstanding Bonds in December 2024. Due to change of control provisions attached to the Bonds, repayment is expected in November 2024 following the Bright Placement for those that elect to redeem, with the balance being redeemed at maturity in December 2024. – The Equity Raising is also an essential element needed to obtain bank refinancing. The revised banking facilities are expected to provide sufficient liquidity to repay the Bonds when they come due.	**Section 6.2**

Item	Key Conclusions	Further Information
	– Despite the Equity Raising being significant relative to Synlait's current market capitalisation, debt levels are still expected to remain high relative to earnings following completion of the Equity Raising (and the payment of approximately $24.75 million under the a2MC Settlement). Pro forma debt at the completion of the transactions will represent 3.7x forecast FY25 EBITDA, versus our view of an appropriate target level below 3.0x. – However, the material improvement in debt levels, along with the bank refinancing which is a condition of the a2MC Placement and a2MC Settlement, will provide the company with the necessary headroom to explore further avenues for debt reduction and earnings improvement.	
Impact on Control	– As a result of the Bright Placement, Bright's special governance rights in Synlait's constitution will cease to apply and it will instead have the rights that accrue to any majority shareholder of an NZX listed company under the Companies Act. – We consider that due to Bright's existing constitutional rights, the effective impact on governance and key Board decision rights following the Bright Placement is not material. This is because Bright already has effective Board control and this position is not going to materially change following the Bright Placement. – Conversely, the Bright Placement will increase Bright's ability to exert shareholder control over Synlait due to the increase in its voting rights. At the current shareholding level (39.01%), Bright can only block special resolutions requiring 75% support. When it moves to a 65.25% shareholding, Bright will be able to influence all shareholder decisions (unilaterally pass ordinary resolutions and block special resolutions) unless it is prohibited from voting on the relevant matter under the NZX Listing Rules or the Code. However, we note that Bright's 65.25% shareholding will not be sufficient to unilaterally pass special resolutions. Depending on the number of the other minority shareholders who participate in the vote, approval of special resolutions will likely require a2MC's support. – Notwithstanding Bright's existing control over Synlait's strategy and plans, business operations, capital structure, dividend policy and financial and operating policies, Bright may apply its higher level of control in ways that are not always consistent with the interests of other shareholders or that are not always consistent with the long-term strategy being implemented by Synlait. – Non-associated Shareholders currently have control of 41.16% of Synlait shares, and this level will reduce to 14.91% following completion of the Equity Raising. While this represents a significant reduction in voting control, we expect that the value impact for Non-associated Shareholders will be positive relative to prevailing share prices prior to 15 August. This reflects that the Equity Raising is being completed at an average issue price significantly higher than the market price for Synlait shares and will substantially de-risk the business.	**Section 6.3**
Alternatives to the Equity Raising	– The alternatives for raising the quantum of equity required by Synlait with the level of certainty and within the necessary timeframes are limited. – While the Equity Raising could have been structured as a pro-rata rights offer, the offer price would have to be at a significant discount (rather than the premium under the Bright Placement and a2MC Placement) to encourage participation. Irrespective of the discount offered, we believe the Company would be unlikely to obtain the level of support required from the Non-associated Shareholders and the shortfall would need to have been taken up by Bright and a2MC in any event (subject to Takeovers Code limitations). The impact for any minority shareholders who did not participate would also likely be far worse than under the Equity Raising given the likely pricing differential. – Other alternatives to the Equity Raising include the Company soliciting a full takeover offer, winding up the business or selling individual assets such as North Island and Dairyworks. – Given Bright's current shareholding, the prospects of a full takeover offer are low unless it was from Bright itself or from a third party whose offer was	**Section 6.4**

Item	Key Conclusions	Further Information
	acceptable to Bright. Ultimately, Bright's shareholding controls the prospects of a takeover and this will not change as a result of the Bright Placement. – a2MC will also have effective negative voting control over a full takeover and can significantly influence any scheme of arrangement requiring 75% shareholder approval where there is only one interest class, or block a scheme proposed by Bright (or its associates, as defined in the Code), as Bright would be prevented from voting in the same interest class as shareholders not associated with Bright for the purposes of the 75% voting threshold. – We believe it is unlikely that the wind-up of Synlait would deliver higher value to Non-associated Shareholders compared to our assessed Going Concern Value, particularly in Synlait's current financial position and with the prospect of permanently losing milk supply under current farmer cessation notices. Even if a wind-up strategy was pursued, receipt of any asset sale proceeds would not occur before Synlait's upcoming debt repayment obligations. – Given the process already undertaken to sell Dairyworks and the North Island Asset's current poor financial performance, we also believe individual asset sales are unlikely to deliver the level of proceeds required to reduce debt to sustainable levels. Notwithstanding that view, we believe these divestments are likely to remain viable options to further reduce debt following the Equity Raising. – On balance, we consider that Non-associated Shareholders are more likely to receive a higher value outcome under the Equity Raising and subsequent a2MC Settlement, despite the shareholding dilution. The outcome from an insolvency event is highly uncertain, both in terms of the quantum and timing of any proceeds being distributed to shareholders. Shareholders would also lose the ability to trade their shares.	
Assessment of the a2MC Settlement	– The a2MC disputes with Synlait in respect of the NPMSA and associated arbitration proceedings have created a great deal of uncertainty and distraction for the business. If both resolutions relating to the Bright Placement and a2MC Placement / a2MC Settlement are approved and Synlait completes its bank refinancing, all current disputes will be resolved in full and a2MC will pay Synlait the settlement amount of approximately $24.75 million. This includes amounts largely withheld from payment in accordance with the terms of the NPMSA pending resolution of matters in dispute. – The impact of the a2MC Settlement includes Synlait acknowledging the validity of a2MC's cancellation of Synlait's supply exclusivity and losing that exclusivity from 1 January 2025. However, the change of control triggered by the Bright Placement would have given a2MC cause for termination of exclusivity in any event. We also note that while loss of exclusivity is likely to see a2MC procure infant formula product from other suppliers (including its own Mataura Valley facility), our view is that it is unlikely to significantly impact on a2MC's demand for Chinese labelled product, at least in the medium term. Synlait's Dunsandel site will still retain the SAMR registration for a2MC China label infant formula (subject to the next review in 2027). – The dispute settlement also provides a2MC with a second SAMR slot at Synlait's Dunsandel manufacturing site for a new China label infant formula product, as well as enhanced access to that site, its people and information relevant to Synlait's supply of Advanced Nutrition products to a2MC. In our opinion, this could provide a2MC with information which may put it in a better position to obtain its own SAMR licence and subsequently move away from Synlait as its key manufacturer. – Separate to the dispute settlement, we expect that a2MC is already actively exploring opportunities to develop and enhance its own manufacturing capabilities. Synlait will also continue to monitor the cost-benefit of maintaining the NPMSA with a2MC while exploring new customer opportunities to mitigate the impact of a2MC potentially transitioning volumes elsewhere. – Settlement of the other disputes largely centres around pricing and cost allocation. Synlait expects that the wider settlement arrangements mean	**Section 6.5**

Item	Key Conclusions	Further Information
	that, when taken as a whole, the overall profitability of the products produced for a2MC is expected to be moderately impacted due to additional costs and adjustments to manufacturing standards. – a2MC is Synlait's most significant customer and contributor to value and the continued success of the relationship between a2MC and Synlait benefits both parties. We believe that taken collectively, the a2MC Settlement and a2MC's participation in the Equity Raising also demonstrates Synlait's value to a2MC and the perceived value of maintaining a good working relationship between the two companies. On balance, we believe that the a2MC Settlement is in the best interests of Non-associated Shareholders.	

1.4. Consequences of Acceptance or Rejection of Resolution 1 and Resolution 2

The resolutions relating to the Bright Placement and a2MC Placement / a2MC Settlement are conditional on each other. This means that the Bright Placement, the a2MC Placement and the a2MC Settlement will only occur if both resolutions relating to the Bright Placement and the a2MC Placement / a2MC Settlement are approved and implemented, and the bank refinancing is completed.

As Bright can vote on Resolution 2 (a2MC Placement) and has indicated its intention to vote in favour, the chances of it being passed are almost certain due to Bright controlling approximately 49% of the necessary 50% votes required to pass the resolution. The outcome of Resolution 1 is less certain as Bright cannot vote on this resolution and a2MC, which has indicated its intention to vote in favour (subject to the independent directors not changing or withdrawing their voting recommendation to shareholders), only controls approximately 33% of the votes capable of voting. However, based on a2MC's support and the small level of remaining shares required to vote and likely voting, there is also a high chance Resolution 1 will be supported. For example, based on the level of participation of Non-associated shareholders in relation to the vote on the Shareholder Loan in July of ~69%, only ~15% of those shareholders would be required to support the Bright Placement to meet the 50% approval threshold.

If both resolutions are passed, the bank refinancing takes place and the conditions of the a2MC Settlement conditions are satisfied, we believe:

- Synlait's share price will increase relative to the closing share price on the NZX Main Board on 15 August 2024 (the last undisturbed share price prior to the announcement of the conditional a2MC Settlement) due to the removal of the considerable uncertainty relating to the a2MC dispute and financial position, and reflecting the economic impact of the Equity Raising occurring at a premium to the market price for Synlait shares;
- While Synlait's debt levels will remain relatively high following the Equity Raising, the Company will have the ability to better consider future debt refinancing options without being in a distressed financial position. All else equal, this should allow Synlait to deliver improved performance and the flexibility to consider future asset sales, if required, in a stronger position to deliver higher value for all shareholders; and
- Non-associated Shareholders will retain the ability to trade their Synlait shares.

The consequences of not passing one or both resolutions could potentially be dire for Synlait. Without approval of both resolutions allowing the Equity Raising to complete, the bank refinancing will not occur and the Company, or its banking syndicate, is likely to initiate a formal insolvency process. In that scenario, trading of Synlait shares on the NZX Main Board would likely cease (under the NZX Listing Rules, NZX has absolute discretion to suspend trading) and shareholders would lose their ability to realise any remaining value from their investment in the short term. In this instance, the value that Synlait shareholders may obtain is highly uncertain and would be significantly influenced by the competitive interest that could be generated by the receiver or administrator for Synlait's assets.

The insolvency process would also incur significant cost and could take some time. While we have assessed a hypothetical insolvency value range of $0.15 - $0.50 per share, this could materially overstate possible outcomes, and it is possible that shareholders would receive a lower value for their

shares. We also acknowledge that the insolvency process could deliver a value outcome above our range, particularly if strong competitive tension can be maintained during the sale process for the Dunsandel plant. We expect that a2MC would be highly motivated to participate in the process, but suggest it is harder to determine the level of interest from other parties and the likely value these parties would attribute to Dunsandel.

On balance and having regard to all relevant factors, we conclude that the merits of the Bright Placement, a2MC Placement and a2MC Settlement outweigh the negative aspects and are in the best interests of existing Synlait shareholders. In our opinion, the terms and conditions of both the Bright Placement, the a2MC Placement and the a2MC Settlement collectively are fair to Non-associated Shareholders.

2.0 Scope of the Report

2.1. Regulatory Requirements

2.1.1. Takeovers Code Requirements

Synlait is a code company as defined by the Code and is therefore subject to the provisions of the Code.

Rule 6 of the Code prohibits:

- a person who holds or controls no voting rights or less than 20% of the voting rights in a code company from holding or controlling an increased percentage of the voting rights in the code company unless, after that event, that person and that person's associates hold or control in total not more than 20% of the voting rights in the code company; or
- a person who holds or controls 20% or more of the voting rights in a code company from holding or controlling an increased percentage of the voting rights in the code company,

unless done in compliance with exceptions to this fundamental rule.

One of the exceptions, set out in Rule 7(d) of the Code, enables a person to become a holder or controller of an increased percentage of voting rights by an allotment of voting securities in the code company if the allotment is approved by an ordinary resolution of the code company (on which neither that person, nor any of its associates, may vote).

The Bright Placement will result in Bright increasing its control of the voting rights in Synlait from 39.01% to 65.25%. Accordingly, the Non-associated Shareholders will vote at the Company's special meeting of shareholders on the Bright Placement resolution in accordance with the Code. Rule 18 of the Code requires the directors of a code company to obtain an Independent Adviser's Report on the merits of an allotment under Rule 7(d). This Independent Adviser's Report is to be included in, or accompany, the notice of meeting pursuant to Rule 16(h).

Synlait requested Northington Partners to prepare an independent adviser's report setting out, in its opinion, the merits of the Bright Placement for Non-associated Shareholders. Our appointment was approved by the Takeovers Panel on 17 June 2024. We note that the a2MC Placement does not have any direct Takeovers Code implications because under the Equity Raising, a2MC is maintaining voting rights of less than 20% (i.e. only participating to maintain its current shareholding).

2.1.2. Listing Rule Requirements

The Bright Placement, a2MC Placement and a2MC Settlement are subject to rule 5.2.1 of the NZX Listing Rules. Pursuant to those rules, Synlait may not enter into a Material Transaction with a Related Party (i.e. Bright or a2MC) unless that transaction is approved by an ordinary resolution of shareholders not associated with the Related Party or is conditional on such approval.

A "Material Transaction" for the purposes of the NZX Listing Rules includes a transaction, or a related series of transactions, whereby an Issuer "issues its own Financial Products having a market value" of an amount above 10% of the Average Market Capitalisation of the Company. Under the terms of the Bright Placement, Bright is being allotted new Synlait shares with a value of $185 million, representing a value in excess of 255% of Synlait's Average Market Capitalisation.[1] Similarly, the a2MC Placement constitutes a Material Transaction under the NZX Listing Rules. The a2MC Placement and the a2MC Settlement are each expressed to be conditional upon the other occurring, and approval of the a2MC Settlement was therefore included by Synlait as part of the resolution relating to the a2MC Placement.

NZX Listing Rule 7.8.8 requires that the notice of special meeting to consider the ordinary resolutions referred to above must be accompanied by an Appraisal Report, prepared by an independent appraiser to opine on the fairness of the transaction to shareholders not associated with the relevant related party. NZX Listing Rule 7.8.5(b) requires that the notice of special meeting to consider the ordinary resolution relating to the Bright Placement is also accompanied by an Appraisal Report.

[1] Based on the 20-day volume weighted average price of Synlait shares traded on the NZX up to 20 August, being the last trading day before the announcement of the Equity Raising.

This report is addressed to the independent directors of Synlait for the benefit of shareholders not associated with Bright or Bright's representatives on the Synlait board in relation to Resolution 1 and for the benefit of shareholders not associated with a2MC in relation to Resolution 2.

2.1.3. Declarations

Pursuant to Listing Rule 7.10.2, we state that:

(i) In our opinion, the terms and conditions of both the Bright Placement and the a2MC Placement and a2MC Settlement (taken together) are fair to Non-associated Shareholders. The grounds for this opinion are set out in this report;

(ii) We believe that the shareholders entitled to vote on the resolution in relation to the Bright Placement, and the a2MC Placement and a2MC Settlement will be provided with sufficient information to understand all relevant factors and on which to make an informed decision. The two main sources of information are this report and the Notice of Special Meeting;

(iii) We confirm that we have been provided with all of the information that we believe is required for the purposes of preparing this report; and

(iv) The material assumptions on which our opinion has been based are clearly set out in the body of this report.

2.2. Basis of Assessment and Evaluation

The exact meaning of the word "merits" is not prescribed in the Takeovers Code and there is no well accepted, authoritative New Zealand reference that clearly establishes what should be considered when assessing the merits of a transaction. Although the Takeovers Panel has published a guidance note about the role of an Independent Adviser, it has been careful not to limit the scope of the assessment and states that the relevant factors that should be taken into consideration will depend on the features of the proposed transaction as well as the prevailing circumstances of the parties involved. However, the Takeovers Panel suggests that a merits assessment is broader than a valuation assessment and will include other positive and negative aspects of a transaction.

The content required to be included in the Appraisal Report pursuant to the NZX Listing Rules is clearly set out in rule 7.10.2. Among other things, the Appraisal Report must state whether or not the independent appraiser considers that the terms and conditions of the proposed transaction are "*fair*" to the Company's shareholders other than those shareholders (if any) that may be associated with the related parties to the transaction. Although there is no statutory definition of "*fair*" or any specific guidance provided in the NZX Listing Rules, our assessment of the fairness of the Bright Placement, a2MC Placement and a2MC Settlement are based on a consideration of:

- The consequences for the existing shareholders if the respective resolutions are approved or not approved (noting both resolutions must be approved for the Bright Placement and a2MC Placement and a2MC Settlement to occur); and
- The overall terms for the Bright Placement and a2MC Placement, including an assessment of the Bright Placement issue price relative to fair value and the impact of the overall a2MC Settlement terms on Synlait's future performance.

In respect of both the Takeovers Code merits and the NZX Listing Rule fairness assessments, we have evaluated the Bright Placement, a2MC Placement and a2MC Settlement by reviewing the following factors:

- The estimated control value range for Synlait and the Bright Placement issue price when compared to that value range;
- The estimated value for a minority shareholding in Synlait and the a2MC Placement issue price when compared to that value range;
- The financial implications of the Equity Raising for Synlait, particularly with reference to its current borrowings and financial leverage position;
- The current and potential future trading conditions for Synlait considering its trading environment and business risks, both with and without the Equity Raising and a2MC Settlement;

- Synlait's prospects and the potential consequences of not approving the resolutions, including the possible outcomes from an insolvency process as well as the potential to raise sufficient new equity from other sources; and
- The impact on control of the Company, and the market price and liquidity of Synlait shares.

This report should not be used for any other purpose and should be read in conjunction with the declarations, qualifications and consents set out in Appendix 4.

3.0 Industry Overview

3.1. New Zealand Dairy Industry

The New Zealand dairy industry is a cornerstone of the domestic economy and represents approximately one quarter of the country's exports (NZ$19.6b). Key contributors to New Zealand's competitive advantage in dairying include:

- The country's relatively temperate climate which provides conducive conditions for grass and feed growth.
- Renewable fresh water volumes which are nearly four-times the global average, meaning the country has ample water resources to support irrigation.
- High level of suitable land resources with ~40% of the country covered in exotic grassland (land covered with non-native grasses used for pasture including dairy, sheep and beef farming).
- A skilled farming workforce and a commitment to research and development of innovative agricultural practices.
- Maintenance of liberal trade policies and FTAs with key markets including China (duty-free access to this market in place from January 2024).

The New Zealand milk season runs from June to May each year, with a highly seasonal production profile as a result of New Zealand's low-cost pasture-based farming systems. This contrasts with high cost feed-based systems in other markets, and provides New Zealand with a significant competitive advantage over most other dairy producers.

New Zealand produces approximately 21 billion litres of milk annually, of which close to 95% is exported to ~130 different countries worldwide.

3.2. New Zealand Milk Supply Chain

Fonterra Co-operative Group Limited ("**Fonterra**") collects approximately 80% of all milk produced in New Zealand, with the majority collected from its farmer shareholders. However, a growing proportion of the milk pool is now collected by independent processors.

Figure 1 below outlines the key parts of the New Zealand milk supply chain.

Figure 1: New Zealand Dairy Supply Chain

Sources: MPI, Northington Analysis. Note raw milk supply from Fonterra to independent processors represents DIRA milk allocation primarily to Goodman Fielder, but also new independent processors.

3.3. New Zealand Milk Processing

Independent dairy processors play a growing role in the New Zealand industry, with Fonterra's share of milk collection reducing from ~95% in 2001 to ~80% today. Since Fonterra was formed and the Dairy Industry Restructuring Act 2001 ("**DIRA**") was introduced, several independent milk processors have established a meaningful position in the market. These include:

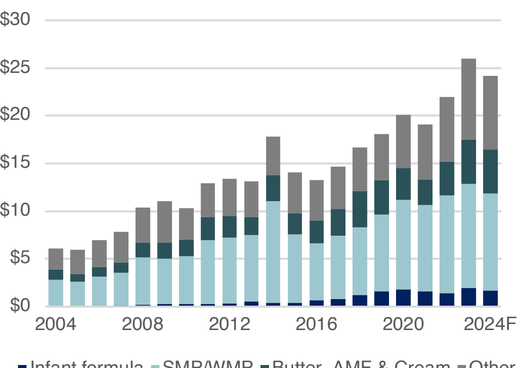
- Synlait: The Company has two main production sites in Dunsandel and Pokeno, capable of producing milk powders, infant formula, and anhydrous milk fat for export, as well as a range of fresh milk products for the domestic market.
- Open Country Dairy Limited: Owned by the Talley's Group and predominantly focused on the efficient production of commodity dairy products, primarily for export markets.
- Westland Dairy Company Limited: Westland is a wholly owned subsidiary of Inner Mongolia Yili Industrial Group ("**Yili**"). With its primary processing site in Hokitika, the company focuses on producing milk powder, butter, AMF and lactoferrin products.
- Oceania Dairy Limited: A wholly owned subsidiary of Yili, Oceania operates a plant in Glenavy, South Canterbury which is capable of producing 47,000 tonnes of milk powder per annum. Additionally, the plant includes an infant formula blending and canning line, UHT production lines, and produces AMF.
- Tatua Co-operative Dairy: A domestically owned co-operative operating from Tatuanui, Waikato.
- Miraka Limited: Owned by a group of Māori trusts and incorporations together with a Vietnamese investor, Vietnam Dairy Products. From its facility in Mokai near Taupo, the company produces a range of powders, frozen milk and UHT products.
- Olam Food Ingredients New Zealand Limited ("**OFI**"): is a subsidiary of Singapore-based food and agri-business Olam International. The first stage (45,000 tonne) of its Tokoroa facility was commissioned in 2023, producing WMP for the export market.

Despite the increasing share of the milk pool which is processed by independent processors, the market continues to be dominated by Fonterra. The introduction of DIRA was the enabling legislation for the creation of Fonterra via the merger of the New Zealand Dairy Group and Kiwi Co-operative Dairies and seeks to regulate Fonterra's market position by imposing a number of obligations on the co-operative.

A key element of the DIRA legislation is the determination of the price that Fonterra pays for milk supply (the "**Farmgate Milk Price**"). The Farmgate Milk Price is set by calculating the price a 'notional producer' could afford to pay for raw milk and still achieve a reasonable rate of return on invested capital. Given Fonterra's market position, the price that the majority of independent milk processors pay for milk is typically linked to the Farmgate Milk Price. However, the differences between the 'notional producer' and independent processors give rise to risks for an independent processor producing reference products (WMP, SMP and butter/AMF) if they are unable to achieve the same processing efficiencies, product mix, sales phasing, pricing, FX rates, cash costs and operating performance as the 'notional producer'. Conversely, there are also opportunities to sell higher value non-reference products such as Advanced Nutrition products.

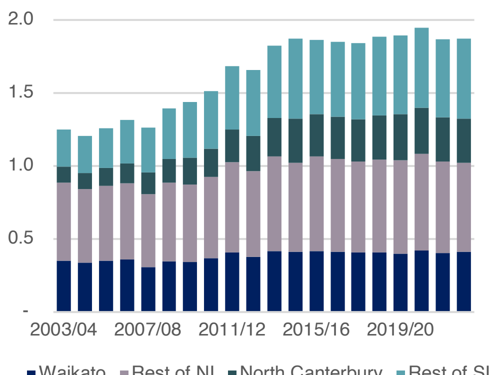
The perishable nature of milk and the need to handle peak seasonal volumes mean dairy processors need to make substantial investments in processing capacity which result in underutilisation in off-peak periods. Given their high fixed cost base, processors are heavily incentivised to maximise capacity utilisation. While recent decades have seen favourable supply-side and demand-side conditions for new entrants into the dairy processing sector, the environment has shifted in recent years and a number of issues have arisen for processers located in certain regions or focused on some production niches.

Figure 2: New Zealand Dairy Exports ($ billion)



Source: Ministry for Primary Industries SOPI Dec-2023

Figure 3: Milk Solids Production (billion kgMS)



Source: LIC Dairy Statistics

In regions like Waikato, competition for milk has intensified amongst domestic processors as new entrants vie for a milk supply pool that is expected to flatten in line with regulatory pressures and the attractiveness of alternative land uses (including horticulture, forestry, and urban development). Figure 3 above shows that production in most regions has been reasonably static for some time.

3.4. Global Dairy Commodity Market

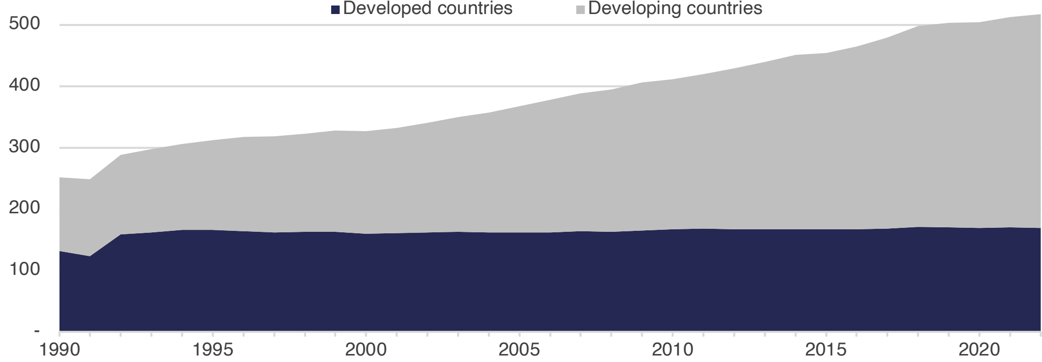
3.4.1. Global Dairy Demand

Milk is a bulky and highly perishable product that needs to be processed soon after collection. Partly reflecting these attributes, only a small proportion (less than 10%) of global milk production is traded, mostly in the form of processed products such as WMP, SMP, Cheese, Butter and UHT liquid milk products. All other milk is consumed as fresh dairy products.

While some large dairy markets are largely self-sufficient in their production (e.g. India), higher incomes and shifting consumer preferences have supported a sustained period of growth in the trade of dairy products. In recent decades, China has been the key import market for products from Oceania in particular.

As summarised in Figure 4 below, dairy consumption in developed countries has remained relatively constant over the past 30 years while consumption in developing countries has increased significantly as a result of population and income growth.

Figure 4: Dairy Product Consumption (million MT)



Source: OECD-FAO Agricultural Outlook

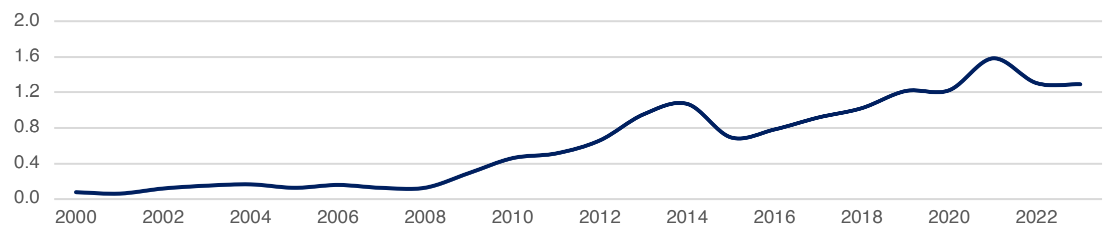
The global average consumption of fresh dairy products per person is projected to grow by about 1%[2] annually over the next decade, primarily driven by rising per-capita income. Although per capita

[2] OECD-FAO Agricultural Outlook

consumption is expected to increase, the slowing rate of global population growth is expected to moderate overall consumption growth during this period.

While China has been a key source of trade growth in dairy products over the past two decades, China's dairy sector is at an inflection point. Following an extended period of rapid import growth driven by population and income growth, significant growth in domestic production and evolving consumer preferences have shifted market dynamics considerably in recent years.

Figure 5: China Imports of Dairy Commodities (million MT)

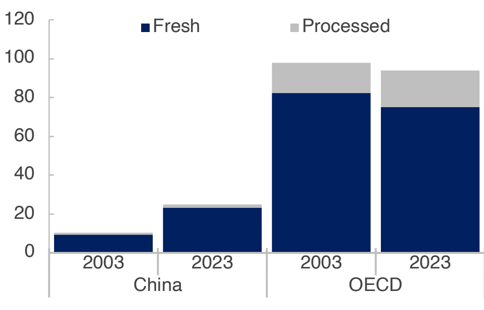


Source: OECD-FAO Agricultural Outlook, Dairy Commodities include Butter, Cheese, WMP and SMP.

Once considered a luxury product, dairy products have become a staple in Chinese households, driven by shifts in consumer attitudes and increased dietary inclusion of dairy. Fresh milk and dairy-based drinks form the largest segment of the dairy market, accounting for 42.5%[3] of dairy consumed in 2021. Fresh and yoghurt-based beverages have been the fastest growing categories and are dominated by Yili, Mengniu Dairy and Bright Food Group.

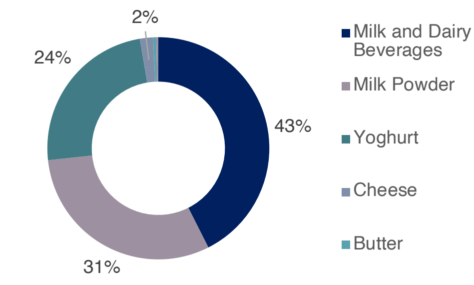
SMP and WMP continue to be used mostly in the manufacturing sector. WMP is used for either direct recombining for the drinking milk sector, cultured and blended products, bakery trade or manufacturing trade. A small share of dairy products, particularly SMP and whey powder, are used in animal feed.

Figure 6: Dairy Consumption (kg/person)



Source: OECD-FAO Agricultural Outlook

Figure 7: China Dairy Product Consumption (%)



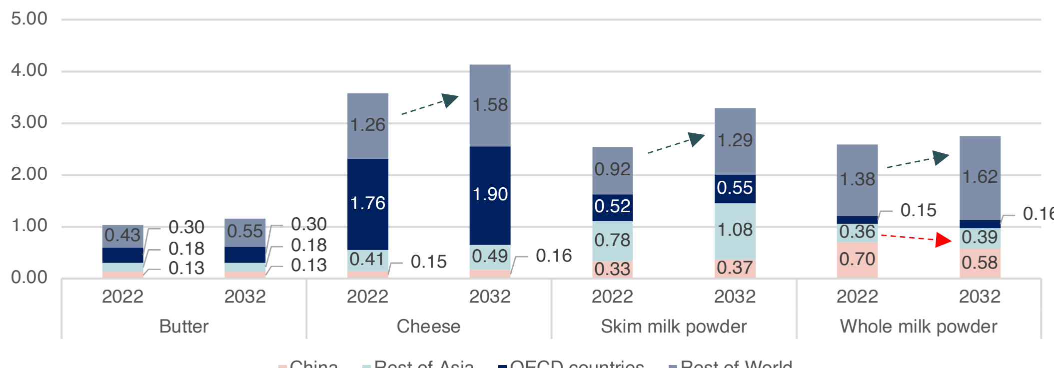
Source: China Business Industry Research Institute

While China's dairy consumption is expected to exceed supply for the next decade, the requirement to import certain products, like WMP, is expected to reduce as domestic milk production increases. Over the 10 years, the Chinese government has implemented several initiatives aimed at reducing reliance on imports. These include the "14th Five-Year Plan," which sought to improve the industrial structure of the dairy industry and established a 70% self-sufficiency target.

The impact of domestic substitution and government intervention was well illustrated in 2023, when surplus raw milk production led to government subsidies to stabilise the domestic processing sector. This resulted in greater production of WMP and higher domestic inventories. "The raw milk price within China has dropped to the lowest levels in over a decade, China is now looking to export WMP (though volumes remain low for now)"[4]. Consequently, demand for imports of whole milk powder (mostly from New Zealand) weakened. As illustrated in Figure 8 below, this dynamic is expected to persist for the coming decade.

[3] https://www.china-briefing.com/ China Business Industry Research Institute
[4] U.S. Dairy Export Council, International Demand Analysis April 2024

Figure 8: China Imports of Dairy Products (million MT)



Source: OECD-FAO Agricultural Outlook, 2023

As China's demand for dairy commodities moderates, trade in dairy products is anticipated to become more diversified. Import demand from other emerging economies, such as those in Southeast Asia, is expected to rise. This growth is driven by increasing incomes that support shifts towards higher-value foods and livestock products, while land constraints and limited domestic production capacity hinder local industry development.

3.4.2. Global Dairy Commodity Market

Wholesale dairy prices are influenced by a range of factors including global economic conditions, agro-climatic factors and exchange rates. Global economic conditions, including growth in major markets and exchange rate fluctuations, play a crucial role in driving demand and export viability. Regulatory changes and trade policies also significantly impact market dynamics, altering competitive landscapes and therefore affecting prices.

International commodity prices for major dairy products from 2013 to 2024 are summarised below in Figure 9.

Figure 9: Average Wholesale Prices for Select Dairy Products (USD / MT)

$8,000
$7,000
$6,000
$5,000
$4,000
$3,000
$2,000
$1,000
$0
2013 2014 2015 2016 2017 2018 2019 2020 2021 2022 2023 2024

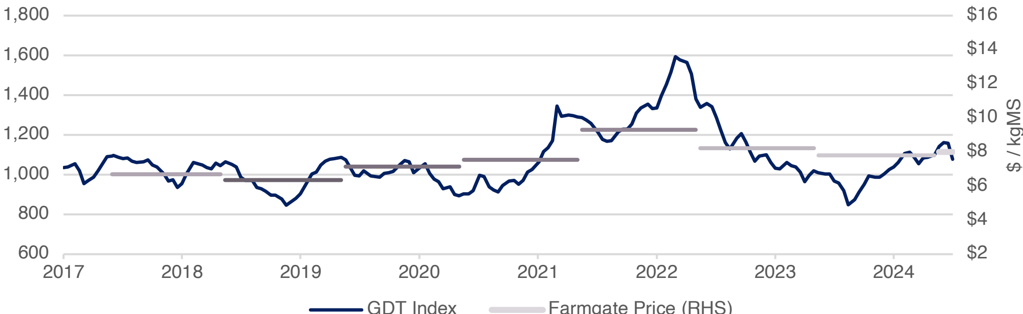
Butter Cheddar SMP WMP

Source: Global Dairy Trade

The Global Dairy Trade ("**GDT**") Price Index measures the average prices of dairy products sold at auctions on the GDT platform – which is owned and managed via a strategic partnership between the European Energy Exchange, Fonterra, and the NZX. The index tracks the movement of prices across various dairy products such as WMP, SMP, butter, cheese, and other milk derivatives, and provides a bellwether for dairy commodity market sentiment.

After reaching a peak in March 2022, international dairy powder prices have fallen steeply (dairy fats including butter and AMF prices have performed better), reflecting the combined effects of weaker global economic conditions and building inventories in key markets like China. Although a weaker NZ Dollar has helped NZ exporters, lower clearing prices have pushed farmgate prices down. Increased input costs, particularly in relation to debt servicing, fertiliser and labour costs have compounded the impact of weakening prices and significantly increased financial stress for New Zealand's farmers.

Figure 10: GDT Index vs Farmgate Price ($/kgMS)



Source: GDT, Fonterra

Lower production in response to lower profitability and tighter environmental regulations are expected to offset demand side pressures, with recent GDT auctions suggesting more stable prices as a new equilibrium is found.

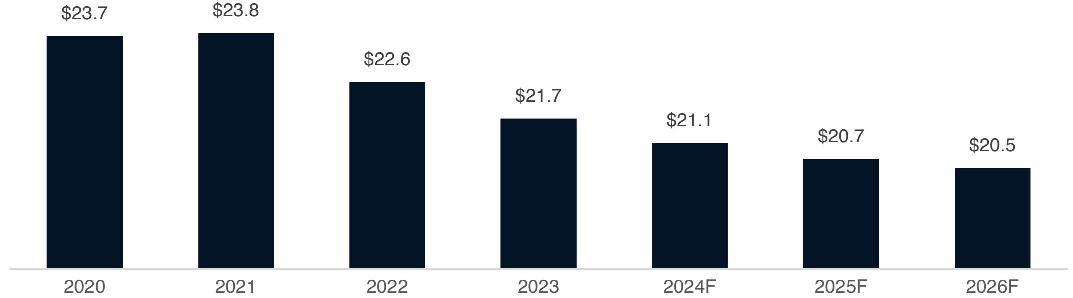
3.5. Global Infant Formula Market

The global baby milk and infant formula ("**IMF**") market is estimated to be worth USD$54 billion[5], and is forecast to grow to ~USD$70 billion[6] over the next 5-years. Key global markets include China, USA, Indonesia, Russia and Vietnam.

3.5.1. China – Drivers

China holds the top position in the global infant nutrition market, in terms of value and volume for both the domestic market and value of imports. The market experienced significant growth over the past decade, peaking at ~US$24b in 2021[7]. Demand has however moderated since and is estimated at ~US$21b in 2024F[8], with further reductions expected in the following two years. This downward trend is summarised in Figure 11.

Figure 11: China Infant Formula Market Size (billion USD)

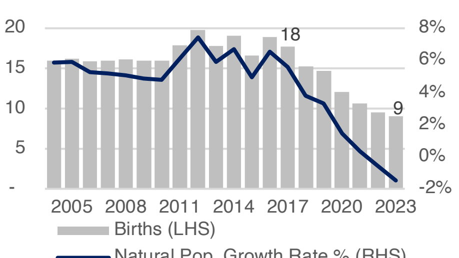


Source: Euromonitor, assumes USD/CNY rate of 7.25

The rapid growth in demand for IMF in China is relatively recent and, similar to other dairy products, key drivers have been population and income growth. Since 2021, China's infant nutrition market has seen a noticeable slowdown, directly tied to a significant decline in birth rates. From 2017 to 2023, the number of annual births dropped from approximately 18 million to around 9 million (see Figure 12). This is despite the country formally abolishing its decades old one-child policy in 2016. Officials are hopeful for a slight uptick in 2024, supported by an increase in registered marriages, which have historically shown a strong positive correlation with births (see Figure 13). However, the rising cost of living (particularly in large cities), record high youth unemployment, and a weak property sector (where the vast majority of household wealth is stored) is expected to keep pressure on China's birth rate.

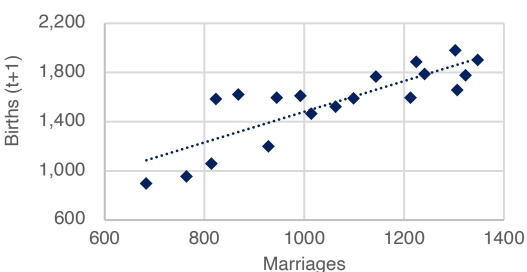
[5] Statista Market Insights
[6] Statista Market Insights
[7] Euromonitor
[8] Euromonitor

Figure 12: China Births (Million) and Birth Rate



Source: National Bureau of Statistics of China

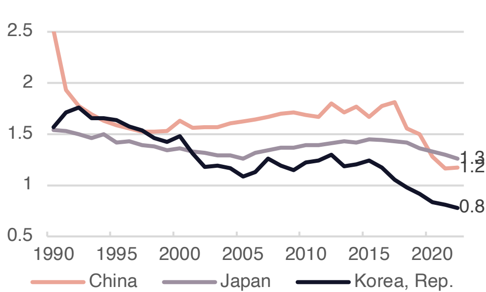
Figure 13: China Marriages vs. Births (10k)



Source: National Bureau of Statistics of China, Reuters

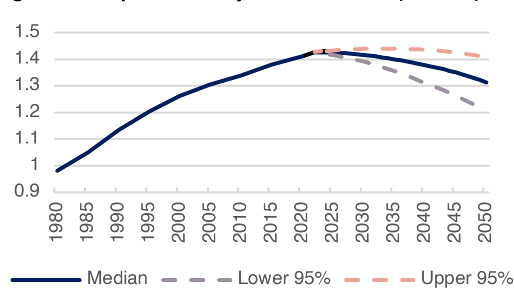
Shifting attitudes on child-rearing among younger generations could be cause for longer-term concern. As illustrated in other East Asian states, reversing these trends is extremely challenging.

Figure 14: Fertility Rate (births per woman)



Source: World Bank

Figure 15: Population Projections – China (Billions)



Source: United Nations World Population Prospects, 2022

Fertility rates in South Korea and Japan, which were approximately 1.5 in the late 20th century, have steadily declined over the past two decades, reaching 0.8 in Korea and 1.3 in Japan in spite of policy action to boost the birth rate. Long-term, the United Nations World Population Prospects report forecasts China's population will shrink by over 100 million by 2050.

3.5.2. China – Market Participants

Considering the scale of the market and geographic size of China, the infant formula market is reasonably concentrated with just a handful of dominant local and international brands. Prominent international brands such as Nestlé and Danone compete alongside leading domestic brands including China Feihe and Yili, which together with other domestic brands control ~55%[9] of the market.

The Chinese market was significantly affected by a series of high-profile food safety scandals in the 2000s and early 2010s, most notably the addition of melamine to milk-based products. This resulted in a sharp decline in consumer confidence in domestically manufactured products and the government's ability to effectively regulate food safety standards. Significant numbers of Chinese parents subsequently switched to buying foreign brands, with some reports suggesting the foreign products commanded over 60% market share in 2015[10]. Brands from New Zealand consistently ranked highly in consumer preference.

Central government has made a concerted effort to rebuild trust, adopting some of the most stringent food safety regulations in the world.

- 2010 saw the Introduction of the National Food Safety Standard for Infant Formula (GB 10765-2010). This standard introduced guidelines for the nutritional content and safety of infant formula.
- Since 2013 there has been a requirement that international manufacturers obtain a General Administration of Customs of China ("**GACC**") license (previously known as a Certification and Accreditation Administration of the People's Republic of China licence ("**CNCA**")) to manufacture infant formula products intended for sale in China.
- General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China ("**AQSIQ**") introduced new restrictions requiring foreign makers of infant

[9] Euromonitor
[10] Statistia – Brand origin distribution in baby formula market in China 2007-2021

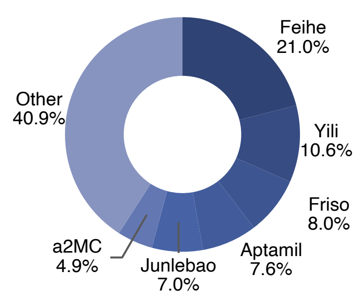
formula milk powders to register the products, as well as their manufacturing and storage facilities, before the products can be sold in China.

- In 2016, the China Food and Drug Administration ("**CFDA**") announced new measures for manufacturers of infant formula to register brands and recipes with them in order to import products from 1 January 2018:
  - In line with these regulations, all infant formula products imported and sold in China must be produced by manufacturing facilities registered with the GACC and must be registered.
  - Each manufacturing site is also restricted to registering a maximum of three different product series, with each series containing up to three products. This means a registered site can have no more than nine infant formula products registered in total.
  - The registration process involves lengthy application procedures, on-site inspections, product testing, and the approval of labelling and artwork[11].
  - The regulations still permit the sale of non-registered products via Daigou or CBEC channels. Noting that, Chinese-labelled formula makes up ~85%[12] of IMF sales in China.
- In March 2018, a restructure of the CFDA was announced. A new structure, the State Administration for Market Regulation ("**SAMR**") consolidated the regulatory functions of several ministries. SAMR is now responsible for the comprehensive coordination of China's food safety system, the development of major food safety related laws, policies and regulations.
- In 2021, China introduced new national standards for infant formula, which took effect from 2023 following a two-year transition period. These new standards, GB 10765-2021 for infant formula, GB 19766-2021 for older infant formula, and GB 10767-2021 for young children formula replaced the older standards put in place in 2010. The new standard revised the minimum and maximum values of nutrients such as selenium, manganese and choline, mandated lactose content, banned fructose and sucrose and imposed a requirement to re-register products with SAMR.
- These new standards are some of the most prescriptive in the world, with industry experts claiming the registration process will require months or years to complete and cost several million dollars.[13]

In addition to new regulations, there has been a concerted effort by Chinese authorities to rationalise domestic manufacturers with a view to reducing the number of suppliers. This shift has been encouraged by the government's "Action Plan for the Promotion of Domestic Infant Milk Powder".

As a consequence of these regulations and the renewed trust in larger domestic players, there has been a shift towards domestically produced products, with the market share of Chinese players increasing from 19% in 2016 to over 40% in 2023[14].

Figure 16: Market Share (China Label)



Source: a2MC

Figure 17: NZ's Rolling 12 Month IFM Exports (million kg)

Source: Stats NZ

Increasing regulatory complexity combined with domestic competition and the plummeting birth rate have seen some foreign brands withdrawn from the market. A notable example is Abbott

[11] CRIS Group
[12] Source: a2MC annual result presentation
[13] Source: https://thechinaproject.com/2022/09/29/chinese-parents-increasingly-trust-and-buy-local-infant-formula-brands/
[14] Source: Euromonitor, 2023. Will not tally with footnote 8 as different sources.

Laboratories' withdrawal in late 2023. However, the market still offers "pockets of growth" for brands that can achieve good product-market fit. Lactalis Ingredients, a leading global ingredients manufacturer, pointed to the continuation of two trends in the Chinese IMF market – premiumisation and market accessibility[15].

The premiumisation trend in the Chinese IMF market is well-established with Chinese parents increasingly conscious of the nutritional content of IMF. For over a decade, this has driven demand for premium formulas with differentiated ingredients. Examples include:

- Products made from milk containing only the A2 type beta casein protein and no A1 protein have seen a significant rise in popularity in recent years with several companies, including Bellamy's, Danone's Aptamil and Yili, entering this growing sub-segment.
- Products containing high levels of lactoferrin in their formulations have surged in popularity, with both international and domestic brands looking to capitalise on this trend.
- While still relatively niche, organic milk and goat milk formulations have attracted consumer interest in the premium and super-premium segments. China leads the world in organic baby formula consumption, accounting for two-thirds of the market share by value, worth €1.8 billion[16].

While the premium segment has historically been dominated by foreign brands, there has been increasing competition from the likes of China Feihe, which has been able to differentiate itself by marketing its products as scientifically "designed for Chinese babies".

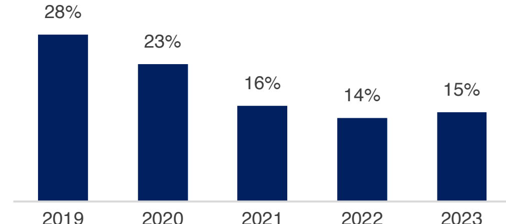
Increased competition and a softer market have resulted in brands adopting lower pricing strategies and increasing promotional activities to remain competitive. In the first quarter of 2023, nearly 50% of market value was sold on promotion[17], noting that this could be due in part to discounting old stock prior to transitioning to products manufactured under the new GB standard.

Table 2: China IMF by Segment

	CAGR 2014-18	CAGR 18-23E
Super-premium	39.5%	16.9%
Premium	20.5%	16.3%
Regular	5.0%	-1.2%
Total	11.2%	6.9%

Source: China Feihe IPO Prospectus, 2019

Figure 18: English Label Share



Source: a2MC disclosures.

Market Accessibility has been another trend identified by Lactalis Ingredients. Urbanisation and growing incomes in lower tier cities and rural areas means these large population bases are increasingly able to consume higher-value products like IMF. a2MC's announcement regarding its intentions to "grow its cross-border e-commerce and lower tier cities presence" appears to support this view.

3.5.3. China – Distribution

There are four major distribution channels for consumers to purchase IMF: specialty mother and baby stores ("**MBS**"), traditional retailers (i.e. supermarkets and hyper markets), daigou and e-commerce.

Offline channels dominate the market, accounting for around 62%[18] of infant formula sales in China. These channels include:

- MBS: These specialised stores offer a wide range of baby products and have historically dominated the category.
- Traditional retailers: This category includes supermarkets, hypermarkets, pharmacies, and convenience stores. Data from china-briefing.com suggests this channel accounts for less than 10% of sales.

Online channels make up the remaining 38% of IMF sales.

[15] Source: https://www.lactalisingredients.com/news/blog/infant-nutrition-market-in-china-a-rapidly-changing-market/
[16] Source: Armor Proteines (April 2022)
[17] Source: Bain Consulting – China Shopper Report 2023
[18] Source: Northington estimate

- Daigou: This network of individual shoppers located abroad purchases infant formula on behalf of Chinese residents and ships it to them. Daigou often communicate with customers via online messaging platforms like WeChat and Weibo, and they also operate personal stores on e-commerce platforms. While the channel was crippled by Covid era travel restrictions, the resumption of international studies by Chinese students is expected to support on-going activity.
- Cross-border e-commerce ("**CBEC**") platforms: These are business-to-consumer online platforms, such as Tmall Direct International and JD.com, where international companies sell English label products that comply with the regulations of the country of origin.

Although the majority of infant formula sales are generated through offline channels, increased trust in the authenticity and quality of products sold through CBEC channels, and the emergence of new community-based e-commerce platforms (example Babytree app) are shifting consumer behaviour.

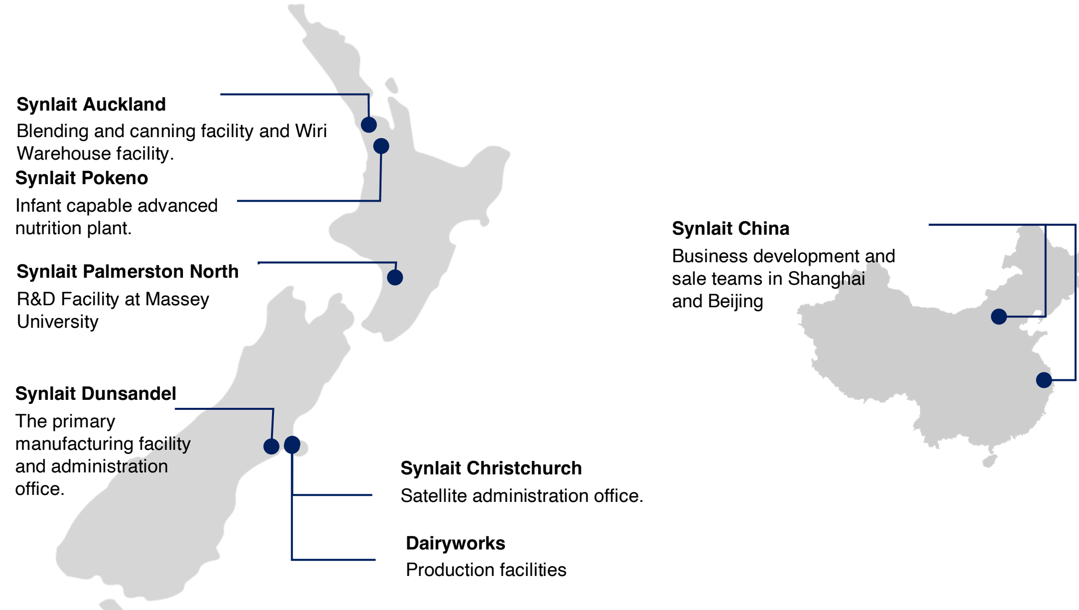
4.0 Profile of Synlait

4.1. Overview of the Company

This section sets out a summary of Synlait's business and its key production assets. A history of the Company and its important milestones is included in the Appraisal Report (dated 25 June 2024) prepared in relation to the Shareholder Loan.

Synlait currently operates across eight locations in New Zealand and China, as summarised in Figure 19.

Figure 19: Operating Locations



4.2. Dunsandel

Synlait's primary manufacturing facility and administration office is located at Dunsandel, Canterbury. First commissioned in 2008, the plant has been expanded over time and now has capacity to process over 800 million litres of fresh milk per year.

Dunsandel has over 900 FTE employees, primarily in manufacturing and warehousing roles but also including quality control and lab testing. In addition to its processing facility, Synlait owns ~580 hectares of farmland surrounding the site.

Table 3: Summary of Dunsandel Plant and Capacity

Facility	Capacity	Commissioned	Output
Dryer 1	45,000 MT	Aug-08	Infant grade WMP & SMP
Dryer 2	45,000 MT	Sep-11	IMF base powder, Infant grade WMP & SMP
Dryer 3	45,000 MT	Sep-15	IMF base powder, Infant grade WMP & SMP
SMD	1,800 MT	Jul-09	Specialty milk powders
AMF	25,000 MT	Sep-08	AMF liquid milk products
Dairy Liquid Packaging	110ML	Mar-19	Milk, cream and long-life products
Lactoferrin 1	20 MT	Apr-14	Lactoferrin
Lactoferrin 2	20 MT	Nov-18	Lactoferrin
Wetmix Kitchen 1	40,000 MT	Sep-11	Infant formula base powder

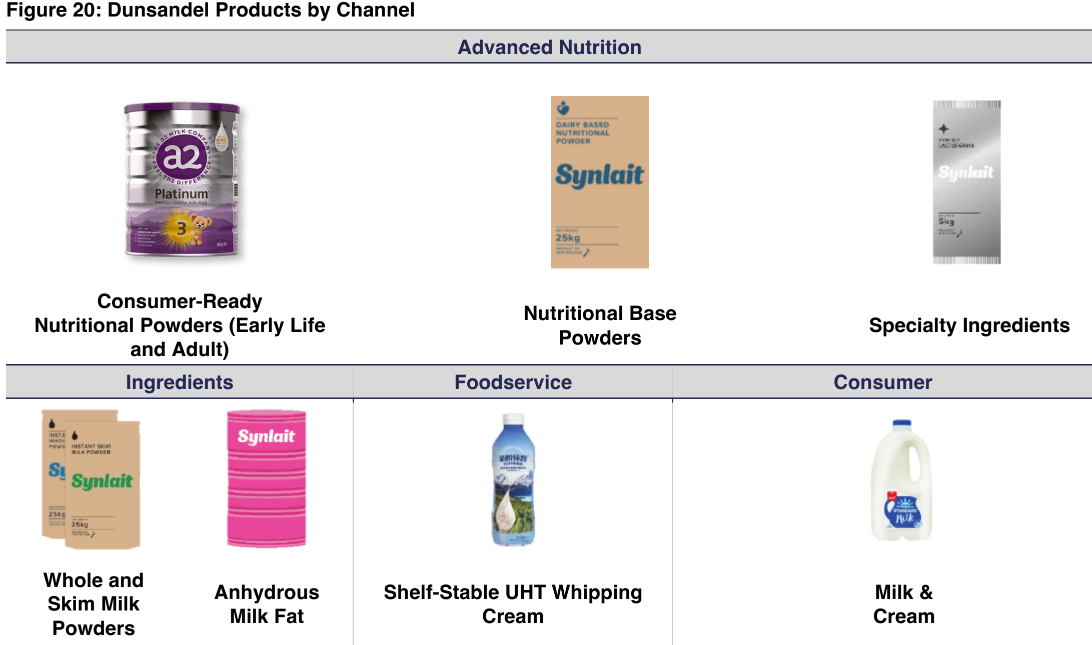
Wetmix Kitchen 2	45,000 MT	Nov-17	Infant formula base powder
Blending & Canning	40,000 MT	Jul-14	Infant formula

Dunsandel manufactures three main categories of product from raw milk:

1. Ingredients:
   a. Milk powders: SMP and WMP sold as finished powders for in-market repackaging into consumer packs and as ingredients into other dairy manufacturing processes;
   b. Cream products: AMF manufactured and sold in industrial packs.
2. Advanced Nutrition:
   a. Formulated dairy-based infant formula sold either in industrial packs as base powders for blending and packaging into consumer packs or sold in consumer packs for customers including a2MC. These products can contain considerable volumes of ingredients other than raw milk.
   b. Other speciality ingredients including lactoferrin, an extremely high-value specialty ingredient used in a range of nutritional food products around the world and recognised for its anti-bacterial and anti-inflammatory properties.
3. Advanced Liquid Packaging: fresh milk and cream manufactured under Synlait's 10-year supply contract with Foodstuffs South Island for its private label brands, as well as UHT cream produced for customers including Savencia Group.

Dunsandel is central to Synlait's production of high-value Advanced Nutrition products. A summary of the key products produced at Dunsandel is presented in Figure 20.

Figure 20: Dunsandel Products by Channel



4.3. North Island Assets

The Company's newest dairy facility is located at Pokeno, Waikato. In addition to being able to produce infant grade dairy products, the facility is also provisioned for the production of plant-based Advanced Nutrition and other adult based nutritional products. The Company's other North Island assets include a blending and canning facility located at a leased location close to Auckland airport and a leased warehouse facility located in Wiri. Synlait North Island has a total of approximately 270 FTE employees across its three sites operating primarily in manufacturing and warehousing roles. North Island also utilises shared services from Dunsandel including lab testing.

In November 2020, Synlait announced that it had entered into a manufacturing supply agreement with a global leader in Advanced Nutrition products. While the plant was largely complete at the time,

an additional ~$100 million investment for additional processing and packaging customisation was required to satisfy the customer's requirements for plant-based products.

Table 4: Summary of North Island Plant and Capacity

Facility	Capacity	Commissioned	Output
Pokeno			
Dryer	45,000 MT	Sep-19	Infant base formula as well as WMP & SMP
Wetmix Kitchen 1	45,000 MT	Sep-19	Infant formula base powder
Wetmix Kitchen 2	40,000 MT	na	Plant-based nutritional products
Blending & Packaging	23m units	2022	Sachets or pouches of Advanced Nutrition products
Auckland			
Blending and Canning	40,000 MT	Nov-17	Infant formula

Synlait has invested a total of approximately $450 million in the North Island since 2018 as part of its strategy to diversify customers, products and geography. While this expansion was at the time supported by strong commercial rationale based on expected growth in demand levels for Advanced Nutrition products (including potential a2MC demand), the Covid-19 disruptions and changing economic circumstances have subsequently resulted in a considerable change in outlook.

Some performance issues and customer demand levels lagging well below expectations have meant that plant utilisation has been extremely low. Consequently, Synlait's North Island assets have performed poorly and are expected to generate meaningful losses and negative cash flows over the medium term (estimated >$20m EBITDA loss contribution in FY24).

As part of its on-going strategic review, Synlait has considered a range of scenarios and options for the North Island assets, including:

- Focus on Advanced Nutrition only: This would avoid commodity ingredients production (which currently have a negative economic contribution) and allow an exclusive focus on processing both milk and non-milk derived Advanced Nutrition products, both of which can sustain positive margins.
- Divestment: Either sell the North Island assets on an as-is basis to potential buyers with an interest in Advanced Nutrition or shut down the plant and realise the value of land and buildings as well as plant and equipment on a salvage value basis.
- Mothball the plant: We understand that Synlait considered a scenario where the plant is mothballed and then potentially recommissioned as a nutritional ingredients plant upon securing a level of demand which would ensure a sufficient level of capacity utilisation. This alternative is no longer being pursued.

We have reviewed these options and believe the analysis shows that unless Synlait can drive a significant increase in Advanced Nutrition sales volumes from the North Island assets, shutting down this part of the business may be the best value option for Synlait (see Section 5.4.3 for the potential value implications of these scenarios). We believe that continuing to operate under the current state is economically unviable and value decretive, would require considerable additional funding to remain operational in circumstances where Synlait already has substantial capital needs and would involve considerable on-going business risk. The main contributing factors to this conclusion are:

- Global market conditions have reduced demand for nutritional products such as infant formula in key markets. Unless the North Island plant can operate at >30% of capacity (vs less than 15% currently), it is unlikely that the North Island operation can make a positive cash earnings contribution. Synlait also currently has surplus capacity at Dunsandel at a lower marginal cost of production, and any immediate increase in demand for dairy-based Advanced Nutrition products would therefore be better serviced from this plant.
- While Waikato is New Zealand's largest milk supply region, there is significant competition for milk supply from more than 15 processing plants in the region, seven of which are independent of Fonterra. Many of these operators have a competitive advantage over

Pokeno for the cost of milk and are strongly incentivised to maximise utilisation of their own plants.

- Considering the level of surplus production capacity across the industry, Pokeno's current low utilisation and highly bespoke plant configuration, we believe that potential buyer interest for the North Island assets is likely to be limited to market participants for Advanced Nutrition products or be at levels significantly below replacement value. Pokeno was not optimally configured for ingredients manufacturing and while it could run exclusively as a WMP and SMP plant, this would generate negative cash flows due to lack of scale, the high cost of milk supply and not being configured to process cream or AMF (other milk outputs).
- Pokeno is located at the centre of New Zealand's key economic regions (Auckland, Waikato and Bay of Plenty) and port gateways (Auckland Airport, Ports of Auckland and Port of Tauranga), and is therefore a relatively attractive logistical location. With 14,300m^2 of covered dry-storage and office space, the site would likely attract demand for potential industrial uses (freight and logistics) at minimal reconfiguration cost.

As noted above, the Company leases premises at Auckland Airport and Wiri to support its North Island operations. Key terms of the leases are summarised in Table 5 and we note that these obligations would need to be factored into the assessment of strategies to mothball or sell the North Island assets.

Table 5: North Island Lease Commitments

Facility	Description	Current Lease Terms	Expiry
Auckland Airport	~5,110m^2 warehouse (blending and canning)	~$1m + CPI	2031
Wiri	~18,000m^2 warehouse (~7,000m^2 sublet)	~$5m + CPI	2032

4.4. Dairyworks

Synlait acquired Dairyworks in 2020 for approximately $112 million (~7.1x forecast FY20 EBITDA). The acquisition was made to support Synlait's diversification strategy into the "everyday dairy" category and was funded through bank debt.

Dairyworks predominantly packages and sells cheese and butter products into the supermarket and foodservice channels in New Zealand, with brands that include Rolling Meadow, Alpine and Dairyworks. A considerable portion of its revenue is also generated from private label contracts with Foodstuffs. The core product range is summarised in Table 6.

Table 6: Dairyworks' Core Product Range

Products	Inputs	Example Product Types	Sales & Marketing / Distribution
Cheese	Bulk cheese supply (25kg Blocks)	– 1kg, 750g, 250g Blocks – Cheese Slices – Grated / Powdered Cheese – Shaved Cheese – Cheese Sticks – Cheese and Cracker Snacks – Soft Cheeses	– Supermarkets – Food Service (including convenience / service stations) – Export
Butter	Finished and bulk supply	– 500g Blocks – 227g (half pound) and 454g (pound) – New 100g butter sticks	– Supermarkets – Food Service (including convenience / service stations) – Export
Milk Powder	Finished packaged milk powder	– Full Cream Milk Powder (400g & 1kg) – Skim Milk Powder (400g & 1kg)	– Supermarkets – Food Service (including convenience / service stations) – Export

Dairyworks has approximately 280 staff and primarily operates out of its Christchurch processing facilities. It procures bulk dairy products from a range of local and international processors, including Fonterra, and processes those products into finished packaged goods. Its primary customers include New Zealand grocery (Foodstuffs and Woolworths), Woolworths Australia and certain food service businesses.

While Dairyworks has performed well under Synlait ownership (~$21 million EBITDA contribution in FY23 and expected to contribute a meaningful percentage of Synlait's overall FY24 EBITDA), Synlait announced its intention to divest Dairyworks in June 2023. The Dairyworks business was considered non-core to "Synlait's diversified growth strategy and does not leverage our core right to win competencies in Advanced Nutrition and Foodservice". However, following an extensive sale process which generated interest in the business from a number of parties, offers did not materialise at levels acceptable to the Company and the business was formally withdrawn from the market.

4.5. Synlait Farms

Synlait owns large scale irrigated dairy farm properties adjacent to its site in Dunsandel with a total area of approximately 580 hectares. These farms were originally owned by Synlait but sold in 2013 and then bought back in 2020 as a result of disputes over shared water use with the owner. The repurchase provides Synlait with greater control over the water rights for use at the Dunsandel plant and for disposal of factory water onto the properties. It also provides Synlait opportunities to evaluate and trial sustainable farming practices and on-farm research.

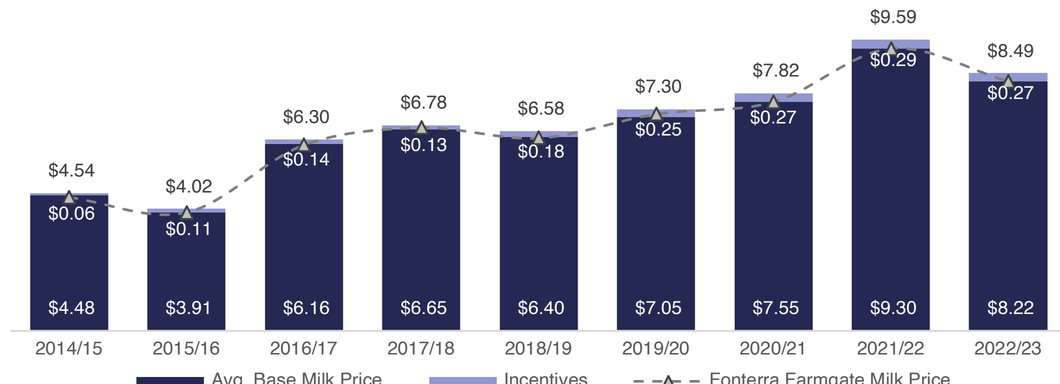
Synlait purchased the farms for $25.7 million (approximately $44,000 per hectare). This represented the value as if the farms were not disadvantaged by Synlait's rights to use and discharge water. Therefore, the purchase price represented a premium to the market value for the properties at the time (i.e. an arms-length third party may pay less than this value due to Synlait's rights to take and discharge water).

4.6. Milk Supply

Synlait has attracted and maintained its supplier base by building strong long-term relationships with its farmers. The growth in supplier numbers has been supported by offering financial incentives, allowing farmers to supply milk without having to acquire shares in the Company, as well as helping farmers to implement innovative and sustainable farming practices.

A key feature of Synlait's relationship with farmers is its practice of paying incentive payments over the base milk price for suppliers who participate in special milk programmes such as a1 protein-free, grass fed, and Lead With Pride™. Figure 21 illustrates the impact of these incentive payments on the average milk price paid to farmers since the 2014/15 season. This shows that over the last 9 years, Synlait's average payout inclusive of incentive payments represents a ~3% premium to Fonterra's Farmgate Milk Price.

Figure 21: Historical Milk Price Payment ($ per kgMS)



Sources: Synlait annual, interim reports and NZX announcements

Synlait's milk supply pool grew to 285 farms (South Island 220, North Island 65) in the 2022/23 milking season, but dropped to 274 farms (South Island 215, North Island 59) for the most recent season. Cessation notices from farmer suppliers also increased dramatically in May this year

following publicity over the Company's financial issues. Synlait announced to the market on 4 June that 'a significant majority' of the Company's farmer supplier base have submitted cessation notices. The cessation notice period is however two-years, meaning that notices received in the year between 1 June 2023 to 31 May 2024 would not take effect until after the completion of another two seasons.

Synlait notes that the retention of milk supply remains a critical priority and that submitting a cessation notice provides farmers with an option, rather than a clear intention to sign with other processors. Rebuilding supplier confidence and securing the withdrawal of these cessation notices is clearly going to be a key element of Synlait's recovery plan and will be a priority following the Equity Raising.

4.7. Customer Relationships

Synlait has built several key relationships with leading food and Advanced Nutrition brands in both New Zealand and overseas. These customers include a2MC, Nestle, Danone, Friesland Campina, Foodstuffs South Island and a large multinational food and nutrition business. Synlait's top three customers account for ~55% (FY23) of its revenue.

Synlait has been a key manufacturing partner for a2MC since 2012, producing infant formula under the NPMSA. Synlait holds the SAMR registration for a2MC's Chinese labelled 至初® Infant Formula (stages one, two and three, to manufacture and export these products to the China market until September 2027. This SAMR registration is held by Synlait and attached to the Dunsandel facility.

In 2020, Synlait announced that it had entered into an agreement to manufacture, blend, and package nutrition products, including plant-based products, at its Pokeno site for a large multinational customer. Commercial production commenced in Q4 FY23 following significant additional investment which included the establishment of a second wetmix kitchen and a sachet line.

4.8. Financial Overview

4.8.1. Key Value Drivers

Synlait has a focus on supplying Advanced Nutrition and dairy ingredients to leading health and nutrition companies internationally. While it operates in the traditional commodity ingredients market similar to other New Zealand processors such as Fonterra and Open Country Dairy, it is also differentiated by its focus on significantly higher value infant formula and adult nutritional products. Table 7 highlights the historical volume and profitability contributions from each of its key channels and the factors which have been impacting on Synlait's more recent performance.

Table 7: High Level Summary of Synlait's Key Value Drivers

	Average Contribution to Sales Volume / Gross Profit (FY19 – FY23)	Key Earnings Drivers	Factors Impacting Current Performance
Advanced Nutrition	20% / 80%	• Customer volumes • Contract pricing arrangements • Cost of milk and other ingredients • Manufacturing costs	• Optimising product mix (i.e. maximising Advanced Nutrition) and plant utilisation • Extremely poor utilisation of North Island assets and high cost of milk (milk premiums, high transport costs and high operating costs)
Ingredients	60% / 10%	• Residual volumes (after satisfying Advanced Nutrition, consumer and foodservice customers) • Commodity market pricing • Cost of milk • FX and ability to generate "lead bucket" margins • Processing costs	• High cost of milk relative to competition and the "notional processor" which largely sets the national Farmgate Milk Price • Sub-optimal plant performance and supply chain issues • Recent unfavourable FX and lead bucket impacts

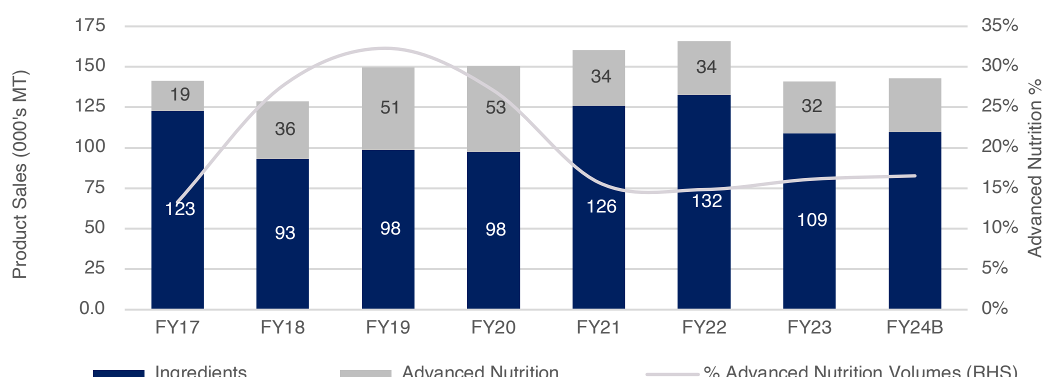
Consumer	20% / 10%	• Retail volumes • Retail pricing • Cheese/milk prices • Processing and packaging costs	• Underutilisation of liquid milk facility • Low margins on fresh milk and cream contract

Source: Northington Partners.

The summary in Table 7 shows that while the majority of Synlait's volumes relate to sales of commodity ingredients such as WMP, SMP and AMF, approximately 80% of its historic profitability is generated from the sale of Advanced Nutrition products. This is predominantly based on infant formula produced for a2MC, but also reflects increasing volumes to new customers including those serviced by the North Island assets.

Since inception, Synlait's on-going investment in manufacturing facilities has significantly increased production capacity. This relates to both expansion of processing capacity at the Dunsandel plant as well as the establishment of the new plant at Pokeno in 2019. However, as demonstrated in Figure 23, the expansion of processing capacity has coincided with a significant decline in demand for infant Advanced Nutrition products and slower than anticipated increases in demand for other Advanced Nutrition Products. All of these factors have in turn resulted in significant plant underutilisation (Figure 22).

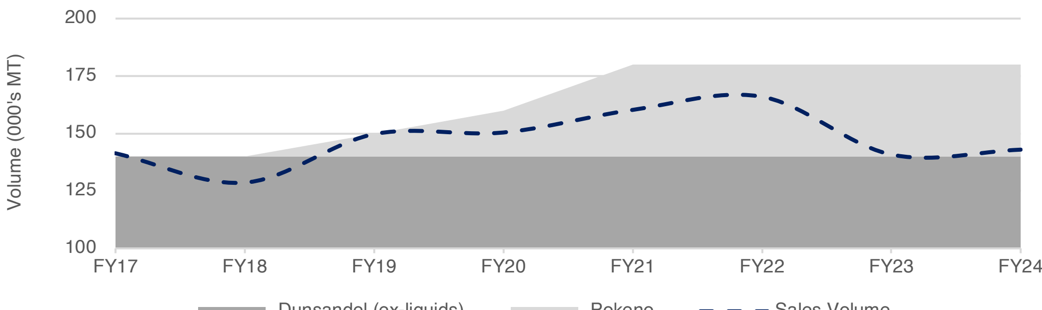
Figure 22: Advanced Nutrition and Ingredient Sales



Source: Synlait, Synlait Annual Reports and Investor Presentations

Generally speaking, Synlait's production facilities are capable of producing both commodity Ingredients and Advanced Nutrition products, but with manufacturing optimised for the higher value nutrition customers. As discussed in Section 4.3, North Island is also not suited to producing dairy ingredients because of the high cost of milk, transport and energy, as well as the plant configuration focused on non-dairy products. This means that Synlait currently has significant spare capacity (>30kT) without earnings to offset its fixed manufacturing costs.

Figure 23: Estimated Ingredients and Advanced Nutrition Capacity vs Sales Volumes (000's MT)

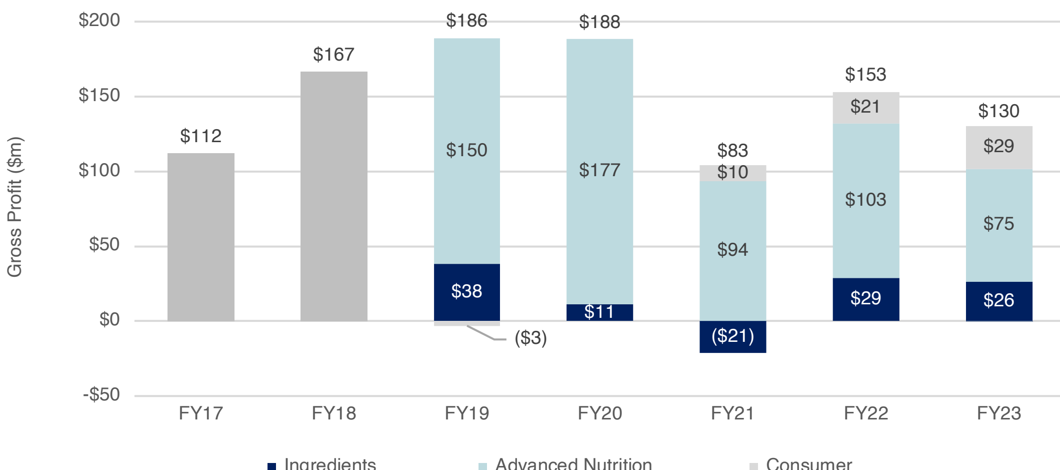


Source: Northington Partners' estimates

Because commodity price fluctuations are a significant driver of both revenue and cost of goods sold, gross profits are a better indication of Synlait's business performance. Figure 24 and Figure 25

demonstrate the majority of Synlait's profitability is generated from Advanced Nutrition sales with peak gross profits between FY18 and FY20 coinciding with a greater percentage of Advanced Nutrition products, driven by increased demand from a2MC. Figure 24 also demonstrates that ingredients are only marginally profitable (and likely to contribute negatively to earnings when an appropriate allowance for indirect costs was included). This reflects Synlait's positioning to target Advanced Nutrition with a significantly higher cost base (including cost of milk) relative to commodity focussed processors.

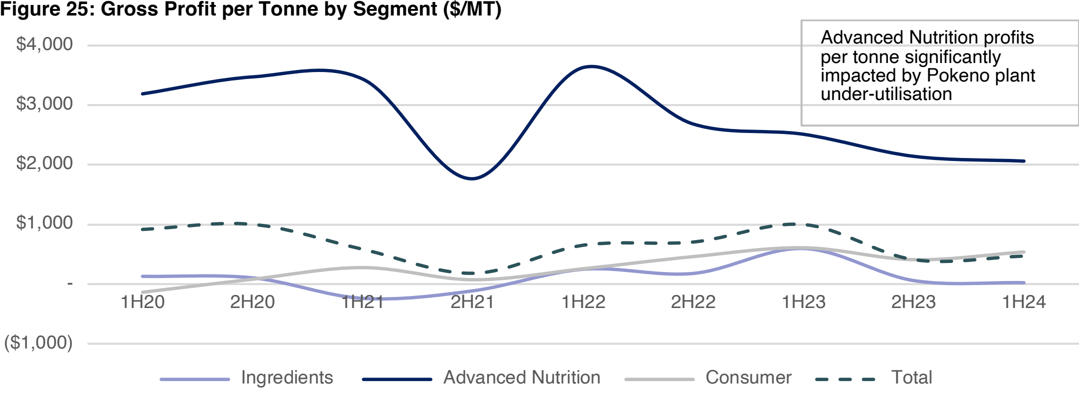
Figure 24: Gross Profit by Segment ($m)



Source: Synlait. Note: no available split by segment available for FY17 and FY18 when Synlait used different reporting segments.

Synlait's Advanced Nutrition gross profits since 2021 have also been negatively impacted by the commissioning of the North Island plant and the addition of significant manufacturing overhead which have lead to material increases in costs per unit of production. However, this has generally been isolated at Pokeno with less of an impact on the profitability of Advanced Nutrition at Dunsandel.

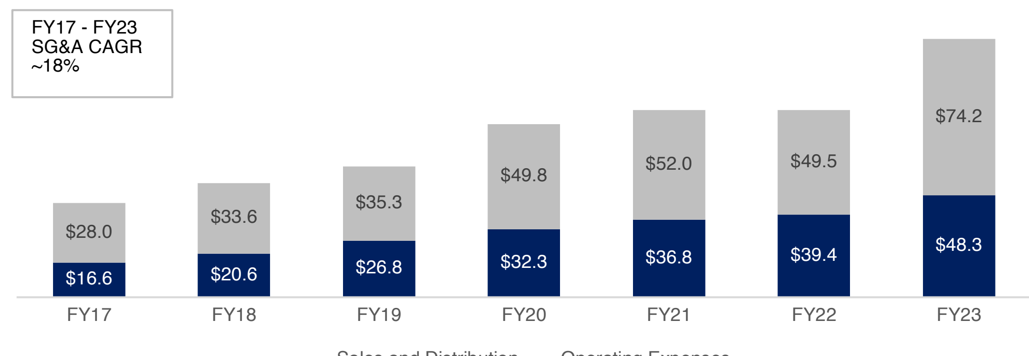
Figure 25: Gross Profit per Tonne by Segment ($/MT)



Source: Synlait Annual Reports and Investor Presentations

An additional contributor to Synlait's recent underperformance is the considerable increase in indirect costs (sales and distribution and administration / head office) over the last 5 years. This has been compounded by implementation of new IT systems, costs of ramping up the North Island operations and higher consultancy costs in relation to litigation and recapitalisation workstreams, as well as broader inflationary pressures. Figure 26 demonstrates an increase in total indirect costs of approximately 200% over a period during which gross profits have largely remained flat.

Figure 26: Synlait Total Indirect Costs ($m)



Source: Synlait. Note: indirect costs include depreciation.

Synlait's flat gross profits and increasing indirect costs has culminated in weakening earnings performance. The level of capital employed in the business has at the same time increased significantly as a result of investment in the North Island. Figure 27 demonstrates that Synlait's historic EBITDA has ranged from as high as $154 million in FY20 to $50 million the following year. We estimate that this has translated to returns on capital employed of 15%-18% in FY18 – FY19 to less than 5% currently. While Synlait has struggled to achieve scale economies with its large, fixed cost base, it is capable of supporting significantly higher volumes which are needed to improve overall earnings.

Figure 27: Synlait Historic EBITDA ($m)

Source: Synlait disclosures. Note: FY19-23 EBITDA restated for revised product costing adjustments while FY17-18 EBITDA reflects old costing methodology.

4.8.2. Historical Financial Performance

Synlait's financial performance for the four years ending 31 July 2023 is summarised in Table 8.

The Company's recent performance has been highly variable, with the low level of earnings since FY21 expected to continue in FY24. The deterioration in performance has been attributed to a range of factors that include unfavourable market conditions, excess capacity, cost pressures and execution challenges.

- Following nearly a decade of profits, the Company reported a loss in FY21 of $28.5 million. This outcome was primarily driven by a dramatic decrease in Advanced Nutrition volumes due to lower Chinese demand for infant formula following the Covid-19 pandemic, as well as a material rebalancing to Ingredients which created operating challenges and resulted in lower overhead recoveries.
- As Synlait shifted capacity towards manufacturing Ingredients during FY21, margins in this segment also deteriorated significantly (see Figure 25). The business faced challenges in adjusting to the new product mix, as well as external impacts including butter prices being very high relative to AMF prices. Because Synlait does not produce butter, a sharp increase in global dairy commodity prices meant it was unable to capture price premiums.
- In FY22, Synlait reduced Ingredients production and redirected capacity back to Advanced Nutrition products. This shift resulted in improved margins year-on-year in both segments.

The improvement was driven by significant reductions in costs in real terms, higher manufacturing cost recoveries, favourable FX movements, higher carry-over inventory and optimising product mix in favour of the SMP/AMF lead-bucket.

– Ingredients and Advanced Nutrition margins deteriorated in FY2023, partly due to the distraction of a difficult ERP system implementation and other high profile customer projects. This was compounded by much higher costs as a result of ramping up activity at the North Island sites and the UHT cream business.

– Synlait's consumer business has steadily improved profitability over the last few years primarily driven by the performance of Dairyworks.

– The Foodservice segment was launched in FY23 following a delayed start. While this part of the business is still young, the Company expects that demand for its UHT cream product will contribute positively in the future.

– Synlait continued to face challenges in FY24, impacted by lower plant performance, continued unfavourable FX movements, lower margins resulting from poor cost recoveries at the North Island manufacturing facilities and ongoing inflationary pressures. Synlait's deteriorating credit position has also significantly impacted on the business.

– Synlait has withdrawn guidance for FY24. It is still working through its year-end processes which are likely to impact the final FY24 results, and it is not yet in a position to update the market. Subject to any impacts arising from the year-end adjustments, EBITDA is expected to be in the region of $30 million prior to non-recurring items. We expect that the outcome for FY24 will be materially impacted by impairment charges for Synlait's North Island manufacturing facilities and Dairyworks, approximately $80 million of which was recognised in Synlait's half year results to 31 January 2024.

Table 8: Synlait Financial Performance

	Financial Year Ending 31 July			
$ million	2020	2021	2022	2023
Revenue	$1,302.0	$1,367.3	$1,660.6	$1,603.6
Cost of sales	($1,098.3)	($1,300.0)	($1,513.8)	($1,459.6)
Gross profit	**$203.7**	**$67.3**	**$146.8**	**$144.0**
Other income	$0.4	$3.9	$22.8	$16.3
Share of loss from associates	$0.0	($0.0)	-	-
Sales and distribution expenses	($32.3)	($36.8)	($39.4)	($48.3)
Admin & operating expenses	($49.8)	($52.0)	($49.5)	($74.2)
Impairment / FVLCD	-	-	($12.2)	-
ERP implementation costs	-	-	($3.3)	($6.8)
Earnings before interest and tax	**$122.0**	**($17.7)**	**$65.1**	**$31.0**
Finance expenses	($19.8)	($20.5)	($18.7)	($32.8)
Finance income	$0.1	$0.0	$0.2	$0.3
Derecognition of financial assets	($1.7)	($1.0)	($2.4)	($5.8)
Net finance costs	($21.4)	($21.5)	($21.0)	($38.3)
Profit before income tax	**$100.7**	**($39.2)**	**$44.1**	**($7.3)**
Income tax expense	($26.3)	$10.7	($5.6)	$3.0
Net profit after tax	**$74.3**	**($28.5)**	**$38.5**	**($4.3)**

Source: Synlait Financial Statements

4.8.3. Historical Financial Position

Table 9 summarises Synlait's financial position for the last four financial years, as well as at the end of the first six months of FY24 (31 January 2024).

Table 9: Synlait Financial Position

	Financial Year Ending 31 July				31 January
$ million	2020	2021	2022	2023	2024
Cash and Cash Equivalents	$5.9	$16.0	$14.5	$9.3	$30.5
Inventories	$269.4	$270.9	$232.9	$250.3	$316.3
Derivatives	$36.6	$31.0	$8.2	$22.8	$15.5
Current Tax Assets	($18.2)	$6.2	$6.2	$6.0	$15.0
Trade and Other Receivables	$78.0	$125.2	$107.7	$92.8	$116.5
Property Plant and Equipment	$965.2	$1,027.3	$1,019.9	$997.8	$952.6
Right of Use Assets	$18.5	$14.0	$25.2	$42.2	$35.5
Intangible Assets	$109.5	$127.5	$161.3	$86.6	$68.0
Assets Held for Sale	-	-	-	$177.9	$163.5
Total Assets	**$1,465.0**	**$1,618.2**	**$1,576.0**	**$1,685.6**	**$1,713.3**
Liabilities					
Borrowings	$529.	$492.9	$354.5	$422.7	$589.8
Liabilities related to Held for Sale Assets	-	-	-	$60.6	$43.2
Lease Liabilities	$19.3	$15.0	$31.6	$49.4	$46.5
Derivatives	$19.0	$19.6	$76.5	$26.9	$13.6
Trade and Other Payables	$238.8	$264.1	$323.1	$281.0	$286.6
Deferred Tax Liabilities	$53.9	$59.4	$41.9	$54.7	$34.8
Total Liabilities	**$860.5**	**$851.0**	**$827.6**	**$895.2**	**$1,014.5**
Net assets	**$604.5**	**$767.1**	**$748.4**	**$790.4**	**$698.9**
Issued Capital	$268.5	$464.8	$464.8	$464.8	$464.8
Reserves and Retained Earnings	$336.0	$302.3	$283.6	$325.6	$234.1
Total Equity	**$604.5**	**$767.1**	**$748.4**	**$790.4**	**$698.9**

Source: Synlait Financial Statements

The main features of Synlait's financial position are summarised as follows:

- Synlait's investment in Pokeno (mostly prior to FY20) significantly increased the value of property, plant and equipment. This was funded primarily through debt and a $200 million equity raising (placement and share purchase plan) in FY21.
- Working capital (inventory and receivables less payables) represents a substantial investment for Synlait and fluctuates significantly during the year due to the seasonality of milk production (peaking September – October). Inventory (raw materials and finished goods) increases until sales volumes match production, generally from April onwards. Year-end (31 July) typically represents a low point in working capital and debt.

- Synlait's net debt increased to $559 million (excluding $43 million of lease liabilities) as at 31 January 2024 and was $551 million as at 31 July. Relative to recent earnings (including the expected outcome for FY24), this level of debt is unsustainable.

4.8.4. Historical Cash Flows

Table 10 summarises Synlait's historical cash flows for the four year period from FY20 to FY23.

Table 10: Synlait Summary of Cash Flows

	Financial Year Ending 31 July			
$ million	2020	2021	2022	2023
Operating Cash Flow				
Profit/(loss) for the year	$74.3	($28.5)	$38.5	($4.3)
Add Non-cash adjustments	$80.5	$85.6	$82.2	$93.0
(Increase)/decrease in trade and other receivables	$1.8	($45.3)	$17.3	($1.2)
(Increase)/decrease in inventories	($104.5)	($1.6)	$38.0	($69.6)
Increase in trade and other payables	$51.7	$5.6	$57.0	$21.1
Net cash inflow from operating activities	**$103.8**	**$15.9**	**$232.9**	**$39.0**
Cash flows from investing activities				
Net investment in property, plant and equipment	($139.2)	($116.2)	($53.9)	($48.8)
Acquisition of Subsidiaries / JVs	($72.9)	-	-	-
Other Investing Activities	($11.1)	($20.6)	($11.8)	($13.1)
Net cash outflow from investing activities	**($223.2)**	**($136.8)**	**($65.6)**	**($62.0)**
Cash flows from financing activities				
Net Increase / (Decrease) in Borrowings	$132.4	($41.9)	($143.1)	$63.0
Interest paid	($23.0)	($23.1)	($26.1)	($44.3)
Share Capital	-	$196.1	-	-
Net cash inflow / (outflow) from financing activities	**$109.4**	**$131.1**	**($169.2)**	**$18.7**
Net change in cash and cash equivalents	**($10.1)**	**$10.2**	**($1.9)**	**($4.3)**

Source: Synlait Financial Statements

4.9. Ownership and Share Price Performance

Synlait's top five shareholders (as at 1 July 2024) are set out in Table 11. Bright is the largest shareholder, maintaining its 39.0% shareholding since the IPO in 2013. The Company's next largest shareholder is a2MC who, as discussed above, is also a key customer of Synlait.

Table 11: Top 5 Shareholders

Shareholder	Shares Held (m)	Shareholding Percentage
Bright Dairy Holding Ltd.	85.27	39.0%
The A2 Milk Company (NZ) Limited	43.35	19.8%
Chester Asset Management Pty Ltd	9.30	4.3%
Accident Compensation Corporation	6.82	3.1%
New Zealand Funds Management Ltd.	5.62	2.6%

Source: Iress, NZX filings (1 July 2024)

Figure 28 summarises Synlait's shareholder return performance for the period between listing (23 July 2013) and 19 August 2024, relative to the NZX50 Gross Index (inclusive of dividends).

Although Synlait initially outperformed the market on the back of strong demand for infant formula driven by a2MC, its returns have trailed the broader index since late 2020. The performance since that time has largely paralleled Synlait's lower earnings outlook, diminished Chinese demand for infant formula, the contract disputes with a2MC which arose during 2023, extremely poor returns from the North Island assets and subsequent debt issues.

Figure 28: Synlait Total Shareholder Return Relative to NZX Gross Index (Rebased to IPO Price)

Source: IRESS, Northington Partners. Period from 23 July 2013 to 19 August 2024.

4.10. Strategy, Key Issues and Outlook

Synlait's long-term strategy is unlikely to change materially if the Equity Raising is successfully completed, with an on-going focus on maximising Advanced Nutrition (and increasingly, Foodservice UHT) volumes. This will leverage Synlait's existing capabilities, quality controls, operational expertise and sustainable milk supply (including through their Lead With Pride™ farmer certification programme).

The development and planned growth of the Advanced Nutrition business is centred around expanding Synlait's product offerings in China and Southeast Asia, supported by accelerating the growth of the Foodservice UHT cream business into the same markets. While Synlait's immediate outlook will be linked to China's demand for infant formula and a2MC's success in that market, Synlait will clearly be seeking to develop new customers and products, including growing adult nutrition and developing new infant formula. Synlait's success with this strategy will largely revolve around its ability to deliver sustainable and reliable products to these markets. Its execution in this respect should be supported by Bright's relationships.

While Ingredients is less of a profit driver for Synlait, it can create large swings in financial performance and underpins the Advanced Nutrition channel. Consequently, Synlait will continue its efforts to maximise returns in Ingredients through efficiency improvement and its "lead bucket" strategy. This largely revolves around optimising:

- Asset utilisation and plant performance and reliability;

- Product mix to take advantage of the value differentials that often exist between WMP, SMP, AMF and butter relative to how the Farmgate Milk Price is determined;
- Manufacturing schedules over the year to maximise plant utilization and the phasing of different products;
- Direct contracting with customers (rather than selling through GDT or other markets) and manufacturing products where a premium can be secured because of the composition or functionality of the relevant product; and
- A hedging strategy that delivers the same (or better) effective FX rates compared to those that underpin the Farmgate Milk Price.

Effectively dealing with the key issues that have negatively impacted Synlait's recent performance will be critical to Synlait successfully delivering on its strategy. These include growing volumes and utilization through the North Island assets, sustaining milk supply, improving plant reliability and performance issues, reducing supply chain constraints and improving Ingredients margins.

It is obviously also very important that Synlait completes the Equity Raising and maintains a strong balance sheet. This will reduce the Company's solvency and credit risks and eliminate the considerable distraction these issues have had on the business.

4.11. Summary of Equity Raising and Bank Refinancing

The Equity Raising comprises two components which will deliver combined gross proceeds of approximately $217.8 million:

- the Bright Placement for approximately $185 million at an issue price of $0.60 per share; and
- the a2MC Placement for approximately $32.8 million at an issue price of $0.43 per share.

Synlait has not offered the chance for any other shareholders to participate in the Equity Raising for reasons set out in the Notice of Special Meeting under the heading "What is the impact on shareholders and why was a placement to the two major shareholders chosen?". These include the high risks involved with an additional investment in Synlait shares given its current financial situation and the issue price would have needed to be at a significant discount to market price. On the other hand, the two largest shareholders have a detailed understanding of the business, were able to conduct due diligence in an expediated manner and had a willingness to subscribe at a premium to the market price.

The impact of the Equity Raising on the shareholder position is illustrated in Table 12. While Bright and a2MC between them currently own approximately 60% of Synlait's shares, successful completion of the Equity Raising will result in them controlling approximately 85% of the shares on issue.

Table 12: Synlait Shareholdings Before and After Equity Raising

	Current Shareholdings		**Equity Raising**		**Post Equity Raising Shareholding**	
	Shares	*%*	*Shares*	*$m*	*Shares*	*%*
Bright	85,266,605	39.01%	308,333,333	$185.0	393,599,938	65.25%
a2MC	43,352,509	19.83%	76,283,104	$32.8	119,635,613	19.83%
Non-associated Shareholders	89,962,547	41.16%	-		89,962,547	14.91%
Total	**218,581,661**	**100.0%**	**384,616,437**	**$217.8**	**603,198,098**	**100.0%**

The Equity Raising is part of a wider plan by Synlait to reset its balance sheet and provide a platform to return to sustainable growth for the benefit of all shareholders, as well as Synlait's farmer suppliers and broader stakeholders. The first phase of that plan was implemented in July, with the drawing of the Shareholder Loan from Bright to repay $130 million of Synlait's bank borrowings. The proceeds of the Equity Raising will be used to further reduce bank borrowings, which in turn will provide the bank funding headroom which is needed to repay the Bonds.

The Notice of Special Meeting includes further details on the key governance rights that Bright has under Synlait's constitution before and after the Bright Placement, as well as details on the Bright and a2MC deed polls which restrict both parties from disposing of their shares received as part of the Equity Raising for a period of 12 months from the date of allotment. Section 6 of this report also

includes important information for shareholders to consider as a consequence of the Bright Placement, its impact on control and potential market for Synlait shares following the Equity Raising.

The Notice of Special Meeting also includes further details on Synlait's proposed bank refinancing. Synlait's existing banking arrangements comprise two main facilities (a seasonal working capital facility and revolving credit facility), a significant portion of which are maturing on 1 October 2024. Synlait is seeking to amend and extend its existing facilities with the potential for new banks to join the current banking syndicate.

Completion of the bank refinancing is expected to be conditional on the completion of the Bright Placement and the a2MC Placement and evidence that Synlait has entered into a settlement with a2MC. All lenders to the bank refinancing have confirmed that they have received credit approval, and documentation is expected to be completed during September.

Total facilities are expected at $450 million with a 12-month term. The refinanced bank facility limits are expected to be seasonally adjusted, with step-ups and step-downs over time to match Synlait's expected funding needs as a result of its seasonal payments profile.

Indicative feedback from the proposed lenders is that the refinanced Bank Facilities will be subject to the following financial covenants:

- Maximum net leverage ratio (the ratio of net senior debt to EBITDA) of 2.50x on the balance date for the financial year ending on 31 July 2025.
- Minimum interest cover ratio (the ratio of EBITDA to interest expense) of 2.50x at each quarter date for the financial year ending on 31 July 2025.
- Working capital ratio (the ratio of inventory and debtors to amounts outstanding under the facilities) must exceed 1.20x for the period from 1 August to 31 March in each year and 1.50x from 1 April to 31 July in each year.
- Shareholders' funds to exceed $500 million at all times.

If Synlait fails to refinance its banking facilities, the Bright Placement, a2MC Placement and a2MC Settlement will not proceed. In this scenario it is likely Synlait will face an insolvency process unless alternative arrangements can be made with Synlait's banks.

4.12. Summary of a2MC Settlement

Synlait's Notice of Special Meeting in relation to the Bright Placement, a2MC Placement and a2MC Settlement includes details of the various disputes under the NPMSA between Synlait and a2MC. Settlement of the disputes under the Settlement Deed remains conditional on completion of the Bright Placement and the a2MC Placement and the bank refinancing terms being satisfied.

The key terms of the Settlement Deed include:

- A one-off payment from a2MC to Synlait for a net amount of approximately $24.75 million (including amounts that had been largely withheld in accordance with the terms of the NPMSA from payment pending resolution of the disputes);
- Cancellation of Synlait's exclusive supply rights under the NPMSA by notice on 15 September 2023 is valid but that exclusivity will not end until 1 January 2025;
- Synlait's commitments in the NPMSA to procure the supply of a minimum annual volume of product, and certain priority arrangements in favour of a2MC, shall continue after the end of exclusivity;
- a2MC owns the intellectual property rights for the product specifications of all finished products manufactured under the NPMSA and is free to manufacture and/or procure the manufacture of those products utilising the product specifications;
- Synlait has agreed to make available a second SAMR registration slot at Dunsandel for a new China label infant formula product under the NPMSA which a2MC intends to utilise. Registration is subject to SAMR approval and is to be obtained by December 2029;
- The parties have agreed to resolve the various pricing disputes between them as to the application of the controllable and non-controllable costs provisions in the NPMSA;

- A new infant milk formula product being developed for the USA will be included under the NPMSA, with a2MC contributing to certain Synlait development and US FDA registration costs; and
- Synlait will provide enhanced access to the Dunsandel facility, people and information relevant to a2MC's supply in addition to adjustments to manufacturing standards.

5.0 Company Valuation

5.1. Valuation Approach

Given its recent performance and current financial position, the value of Synlait is subject to considerable uncertainty. This uncertainty reflects a range of factors which are affecting the business, some of which have been brought about because of its recent low level of profitability and heightened debt position. Synlait's financial problems have and are likely to continue to impact on broader stakeholders, including staff, suppliers, customers and capital providers (banks and shareholders). These issues have or could materialise in a number of ways which make Synlait's future viability hard to predict, and include:

- A significant majority of Synlait's farmer suppliers have given cessation notices for termination of milk by the end of the 2025/2026 milk season. Without security of milk supply, Synlait's ability to sustain a profitable business will be questionable.
- Synlait's distressed position has resulted in certain major suppliers declining to advance goods or services on credit, which has meant that Synlait has to prepay for key supplies in advance. This has resulted in significantly increased investment in working capital.
- There is a risk that key customers may have lost confidence in Synlait as a supplier of Advanced Nutrition and Ingredients products. This may result in those customers sourcing products from other suppliers or pushing for more favourable purchase terms (i.e. lower pricing or extended payment).
- The possibility of reduced staff morale and diminished culture could result in Synlait losing key staff and struggling to retain or attract the quality of employees required. This could lead to reduced operating performance.

Given the Company's position and the key issues which shareholders should consider when deciding whether or not to support the Equity Raising, we have assessed the value of Synlait under two scenarios:

1. **Going Concern Value:** This assumes that the Equity Raising is successfully completed and Synlait has sufficient funding to continue to operate as a going concern business. Under this scenario, we have assessed value based on the revised business plan and strategy that Synlait expects to implement following the completion of the recapitalisation. This scenario therefore assumes that the factors outlined above which are currently impacting the business do not persist.
2. **Insolvency Value:** If the Equity Raising does not proceed, we assume that Synlait will face an insolvency scenario, either through voluntary administration or receivership. We have assessed a separate value estimate under this scenario which is predominantly based on an analysis of potential realisation values under a business break-up.

In both cases, our assessed value range represents the estimated full underlying value for 100% of Synlait's business and therefore incorporates a premium for control.

5.2. Valuation Methodology

The most reliable evidence as to the value of a business or asset is the price at which the business or immediately comparable businesses have been bought and sold in an arm's length transaction. In the absence of direct market evidence, estimates of value are made using a range of methodologies. In most cases, value is determined as a function of the estimated level of cash returns that the business is expected to generate in the future. The specific approach that is used to estimate this value is dependent on the nature of the business and the expectations regarding future performance.

The two main approaches usually adopted in the valuation of larger assets and companies are summarised as follows:

- Earnings Multiple: This method determines value by applying a valuation multiple to the assessed level of maintainable annual earnings (or cash flows), where the multiple is chosen to reflect both the growth prospects and the risk associated with the future performance of the

business. Depending on the nature of the business, earnings can be appropriately measured at the EBITDA, EBITA, EBIT, or NPAT levels.

– Discounted Cash flows: A DCF approach is based on an explicit forecast of the annual cash flows that will be generated over a specified forecast period (typically between 5 and 10 years). The value of cash flows expected beyond the explicit forecast period is incorporated into the valuation process by capitalising an estimate of maintainable cash flows for the terminal period. A DCF model is therefore usually made up of two components:

  (i) The present value of the projected cash flows during the forecast period; and

  (ii) The present value of all other cash flows projected to occur after the explicit forecast period. This component is commonly referred to as the terminal value.

Given the considerable variability and uncertainty in earnings performance for all of Synlait's business units, we believe that a range of methodologies is appropriate. We also suggest that the valuation should be based on a sum-of-the-parts approach to better reflect the current position and material differences in the operating performance of the business units. We have therefore assessed a separate value for Dunsandel, the North Island assets, Dairyworks and "other" assets based on the different valuation approaches summarised in Table 13. Rather than incorporate an allocation of the business overhead costs into the values for each business unit, we have assessed a separate value for overheads as well.

Table 13: Synlait Component Valuation Methodology Summary

Asset	Going Concern Valuation Methodology	Insolvency Valuation Methodology
Dunsandel	DCF model and Earnings Multiple	Potential outcome from a competitive sale process, taking account of likely buyer set and limitations of existing contractual arrangements. Assessed with reference to our Going Concern Value, but with adjustments for administration / receivership costs and disposal costs.
North Island Assets (Pokeno and RPD)	DCF model, cross-checked against "alternate use" values assuming the plant is de-commissioned and sold (i.e. repurposed for logistics / industrial property purposes)	Estimated realisation value assuming assets are sold for alternate use and after allowance for associated disposal and holding costs.
Dairyworks	Earnings Multiple, cross-checked against the value of binding and indicative offers received following the recent competitive sale process	Largely reflective of our Going Concern value but with adjustments for administration / receivership costs and disposal costs.
Other assets	Farms valued at assessed current "market value"	The Going Concern Value less disposal costs.

For Dunsandel and the North Island Assets, we have primarily relied on a DCF valuation approach. This reflects:

– Synlait's recent and near-term financial performance is not necessarily reflective of expected future earnings. The expected material improvement in medium-term earnings would make reliance on an earnings multiple based approach difficult, given that the implied multiples for comparable businesses or transactions are based on companies that are not experiencing the same issues as Synlait.

– A DCF approach allows for more explicit measurement of the impact of key business drivers and value sensitivities for assumptions which are critical in Synlait's turnaround plan (including variables such as Advanced Nutrition volumes and plant capacity utilisation).

– Synlait has prepared detailed budgets for both FY25 and FY26 as part of its business plan, which together with its "Long Range Plan" provide a suitable base case financial projection which can be incorporated into a DCF valuation. We note that the detailed projections (and key assumptions) have been shared with Synlait's banking syndicate as part of the refinancing process and have therefore been subjected to considerable scrutiny from a range of external parties and advisers. While clearly still subject to a high level of uncertainty, this scrutiny provides some level of comfort that the inputs to the DCF model have been well tested.

While Dairyworks is run as a standalone business, Synlait does not report performance for Dunsandel and the North Island Assets as separate locations or segments. Therefore, although the majority of

direct cash revenues and costs from the respective sites are relatively straight forward to identify, some group costs (particularly indirect costs) and working capital components are difficult to accurately apportion across the assets. In order to assess performance and cash flows by site, Synlait has applied an allocation framework model which has been externally reviewed and verified as being suitable for location-based profitability and cash flow analysis.

While we have used this cash flow allocation approach in our DCF modelling for Dunsandel and the North Island, we have valued the indirect overhead costs separately within the sum-of-the-parts valuation. This reflects that the allocation methodology for these costs (largely based on the relative levels of FTE employees at each location) potentially distorts the true economic costs of administrating each site. For example, under the approach adopted by Synlait, the current indirect cost per tonne of production at the North Island site is approximately 3 times that of Dunsandel. In our view this outcome simply reflects the North Island Asset's high FTE overhead and low plant utilisation, and potentially distorts the relative standalone values. Our alternative approach also allows us to better assess the costs a prospective purchaser would ascribe by location under potentially different management or ownership scenarios.

5.2.1. Valuation Date

We have adopted a valuation date of 31 July 2024. This represents the end of Synlait's financial year and the most recent date for which key balance sheet items are available (including net bank debt and the Company's working capital position).

Our valuation was finalised on 20 August, prior to the completion of Synlait's end of year financial reporting and audit process. While some of the balance sheet items relied on in our assessment may therefore change following completion of this report, we do not expect these variances will be material to our valuation outcome.

However, our valuation remains sensitive to any unforeseen events that could occur after the date of this report such as material movements in commodity prices, FX rates, interest rates and the market values for other relevant listed companies. When considering the merits of the placements to Bright and a2MC, or the Equity Raising as a whole, shareholders should therefore take account of the impact of any significant changes to the operating environment (if any) that have occurred after the date of this report.

5.3. Valuation Summary

As summarised in Table 14 below, our Going Concern Enterprise Value range for Synlait based on a sum-of-the-parts approach is between $652 million and $732 million. Approximately 83% of the Going Concern Value is attributable to the cumulative value of Dunsandel and the North Island Assets ("**Synlait Milk**"), and the majority of that value is attributable to Dunsandel.

Our assessment of the component parts of Synlait and value assumptions are set out in greater detail in Section 5.4. Equity value is estimated as Enterprise Value less Synlait's net debt as at 31 July 2024 of $551 million. This results in a value range of $0.46 - $0.83 per Synlait share.

Table 14: Going Concern Value Summary

Valuation Component	Valuation Range ($m)		Implied EV/FY25 EBITDA
	Low	High	
Dunsandel	*$872*	*$922*	
North Island	*$80*	*$101*	
Overheads	*($412)*	*($412)*	
Total Synlait Milk	**$541**	**$611**	**10.7x - 12.1x**
Dairyworks	$85	$95	3.9x - 4.3x
Synlait farms	$26	$26	nm.
Total Enterprise Value	**$652**	**$732**	**8.7x - 9.8x**
Net Debt	**($551)**	**($551)**	

Valuation Component	Valuation Range ($m)		Implied EV/FY25 EBITDA
	Low	High	
Equity Value	**$101**	**$181**	
Fully Diluted Shares on Issue (m)	**218.6**	**218.6**	
Equity Value / Share	**$0.46**	**$0.83**	

Source: Northington Partners. EBITDA and multiples presented on a pre-IFRS16 basis (i.e. excluding lease liabilities and including cash lease expenses). The EBITDA multiples for the component parts of Synlait Milk are excluded due to commercial sensitivities and subjectiveness around overhead allocation which has been valued separately.

In relation to our Going Concern Value for Synlait, we note the following:

- As discussed in Section 5.1, the Going Concern Value assumes that the Equity Raising is successfully completed and Synlait resolves the issues currently impacting the business. In particular, we assume the Company maintains its current level of milk supply and that the majority of farmer suppliers withdraw their cessation notices.
- The Dunsandel valuation incorporates the cash flows to be received from a2MC as part of the Settlement Deed, as well as other improvements in its working capital position following completion of the Equity Raising. Our value is therefore not necessarily representative of the standalone value for Dunsandel because it incorporates the excess working capital that is expected to unwind and contribute to short-term cash flows.
- The implied multiple for Synlait Milk of 10.7x – 12.1x should be interpreted with caution. It misrepresents the component EBITDA multiples for the respective business units (Dunsandel, North Island and Overheads) due to the North Island Asset's negative FY25 EBITDA contribution but positive value. While the separate multiples for each business unit are not disclosed for commercial reasons, the implied multiple for Dunsandel (excluding overheads) is lower than the overall multiple for Synlait Milk.
- Our Going Concern Value represents a relatively narrow enterprise value range of approximately ±6% relative to the mid-point of $691 million. However, this translates to an unavoidably wide equity value range of ±29% compared to the mid-point. This outcome simply reflects Synlait's high level of net debt compared to the assessed Enterprise Value. While the exaggerated impact of leverage leads to a broad range for value per share, it clearly illustrates the equity value sensitivity to elevated debt levels (where relatively small changes in business value have a disproportionate impact on equity value).
- Net debt only includes bank borrowings, the Shareholder Loan and the outstanding Bonds as of 31 July. No adjustment is necessary for lease liabilities as the cash lease costs are explicitly included in our DCF cash flow forecasts.
- Similarly, no adjustments are necessary for seasonal working capital or the higher working capital currently embedded in the component businesses as we have explicitly incorporated the impact of projected future cash flow fluctuations into the DCF valuation.

5.4. Key Assumptions

5.4.1. DCF Overview

Our DCF framework for Synlait is based on the Company's most recent budgets and detailed Long Range Plan, with a number of modifications to reflect our assessment of the key input assumptions (volumes, milk supply and margins).

We have explicitly forecast post-tax cash flows for the five years to FY29, with all future cash flows beyond this period incorporated into a terminal value. Cash flows are assessed on an un-levered (pre-debt) basis with the relative costs of debt and equity incorporated into our assessed required rate of return via the Weighted Average Cost of Capital model. We have used mid-period discounting.

Other adjustments to our cash flows include the inclusion of cash lease costs rather than utilising the IFRS-16 reclassification of cash flows and EBITDA, which means that we do not treat lease payments as a capital or financing payment. As noted above, this also means that no adjustment is made to Enterprise Valuation for IFRS-16 lease liabilities when determining equity value.

5.4.2. Key Assumptions for Dunsandel Valuation

Dunsandel is Synlait's largest and most important asset, both by plant capacity and contribution to profitability. It is also of significant strategic value to a2MC as a2MC's only source of SAMR-registered Chinese labelled infant formula, as well as a key source for English labelled product. Dunsandel is also expected to produce the following products:

- commodity milk ingredients;
- liquid milk and cream (to service the 10-year Foodstuffs South Island contract until at least 2029); and
- UHT products, lactoferrin and other Advanced Nutrition products for the export market.

Table 15 below summarises the key assumptions and variables used to forecast Dunsandel's future cash flows.

Table 15: Key Assumptions for Dunsandel

Assumption	Discussion
Advanced Nutrition and Ingredients - Production and Sales	**Advanced Nutrition** – Sales to a2MC currently represent the majority of Dunsandel's total Advanced Nutrition sales volumes, a significant portion of which is Chinese labelled. As part of the NPMSA, a2MC provides rolling 12-month forecasts of required volumes. a2MC Advanced Nutrition volumes for FY25 are based on current a2MC estimates. – Although Synlait's exclusivity under the NPMSA with a2MC will end on 1 January 2025, we expect that production of both China and English label product for a2MC is likely to continue for the foreseeable future. We do however allow for significantly reduced volumes for English label from the second half of FY26. This reflects our assumption that a2MC will still want to supplement its own English label manufactured product with Synlait production and the strategic importance of Synlait's SAMR registration to a2MC for the China market. – Synlait has agreed to make available to a2MC a second SAMR registration slot at Dunsandel for a new China label registered infant formula product, with registration subject to SAMR approval and to be obtained from SAMR by December 2029. – Total Advanced Nutrition volumes are expected to reach 40kT over the forecast period (relative to a range over the last 5 years of ~30 – 50kT), made up of both existing and new customer volumes based on current and future customer leads. This includes an allowance for new infant formula sales into South East Asia (not requiring SAMR) and sales of lower margin base powder. – While a2MC is likely to continue to develop its own manufacturing capability, including through Mataura Valley Milk in Southland, we consider the probability of a2MC obtaining a new SAMR registration for China labelled product and diverting those volumes away from Synlait to be low over the medium term (and particularly not before Synlait's current registration expires in September 2027). a2MC's future decisions around vertically integrating manufacturing will also depend on a range of future variables that are hard to predict. These include the relative cost of third-party supply versus manufacturing directly, competing uses for capital at a2MC and future sales volumes into China. While the loss of a2MC Advanced Nutrition volumes would clearly have a significant impact on Synlait's future profitability and value, we think it is reasonable to assume that Synlait will retain the a2MC volumes or can successfully transition to new customers with similar volumes and pricing over the forecast period. However, we have performed a sensitivity analysis to reduced Advanced Nutrition volumes in Section 0 to demonstrate the potential value impact. – Lactoferrin production volumes are expected to be maintained at current levels, with USD pricing broadly consistent with rates achieved by Synlait in FY24, noting there has been a material reduction in lactoferrin pricing since FY22/23. **Ingredients** – Annual Ingredients sales volumes are forecast to reduce by approximately 30kT over the short term due to lower contracted volumes of milk supply (see below) and higher prioritisation of Advanced Nutrition and UHT cream volumes. – Long term annual Ingredient sales volumes are forecast to be maintained at approximately 90kT.

Plant Performance	– Plant performance and reliability were below expectations in FY24. The forecasts assume that these issues are rectified and Dunsandel has a gradual return to performance levels more in line with historical results.
Milk Supply	– Milk supply is critical to Synlait's business and the withdrawal of cessation notices by a material number of suppliers is a key assumption in our forecast for the going-concern business. – Although the Equity Raising will improve the Company's creditworthiness and should support increased farmer confidence in the business, we have made a temporary allowance for additional milk payments over and above Synlait's existing incentive programs. We expect these payments will be needed, in the short term at least, to encourage farmer suppliers to withdraw their cessation notices. While margins and profitability will be reduced as a result, we consider the payments are necessary to regain farmer confidence and mitigate against potential loss of supply. – We have assumed steady state annual milk supply of ~65m kgMS at Dunsandel (~12% lower than FY24 levels), reflecting our expectation that some goodwill with farmers has been lost as a result of Synlait's recent financial performance. – Lower milk supply impacts on total Ingredient production levels over the forecast period, as noted above in our production and sales assumptions.
Pricing and Gross Margins	– It is not possible to accurately forecast commodity ingredient prices. However, given that commodity prices impact both Synlait's revenue and cost of goods sold, assumed future margins on Dunsandel production are more relevant. – Long-run gross margins for Advanced Nutrition products are forecast to be broadly consistent with historical levels at Dunsandel (approximately $2,900 per tonne on a blended basis including a range of Advanced Nutrition products). This projection includes an allowance for a moderate impact on the overall profitability of products produced for a2MC as a result of the wider settlement arrangements with a2MC, when taken as a whole (due to additional costs and adjustments to manufacturing standards). – Ingredient margins prior to any allowance for FX impacts are forecast at approximately $290 per tonne. This includes provision for the anticipated margin impact of "lead bucket" and contractual premiums above GDT (see below). – Gross margins for other products (including liquids and UHT cream products) are forecast at approximately $300 per tonne.
FX and Lead Bucket	– Because the majority of milk commodity products are sold in USD, the future NZD/USD exchange rates and hedging strategy can have a significant impact on earnings. Fonterra's Farmgate Milk Price establishes the milk price for other processors (including Synlait) and is set using Fonterra's actual average economic FX conversion rate for a season. Any variation from the Fonterra FX rate can therefore significantly impact on Synlait's relative earnings (positive if Synlait's actual FX rate is lower and negative if Synlait's actual FX rate is higher). – While Synlait's FY23 and FY24 performance was negatively impacted by unfavourable FX hedging positions relative to Fonterra (approximately $0.015 differential in both years), it is unusual for this to occur repeatedly. Over the longer term, Synlait has achieved FX rates on average slightly more favourable than Fonterra. – We assume that Synlait will achieve FX rates consistent with Fonterra for both the upcoming season and over the longer term. Given that Fonterra has now increased its periodic disclosures regarding its FX hedging position, other processors should be in a position to more readily benchmark their FX hedging positions for consistency. – The product mix (WMP/SMP/AMF) and price differentials relative to the notional producer and Fonterra are assumed to be broadly consistent with those historically achieved by Synlait.
Liquids	– Long term liquid milk sales volumes are forecast at approximately 31kT, broadly consistent with historical volumes.
Foodservice	– UHT cream sales volumes are assumed to grow to ~13kT relative to 1.7kT achieved by Synlait in the first full 6 months of commercial production during 1H FY24 (which implies annualised sales of 3.4kT).
Manufacturing Costs	– Manufacturing costs per tonne on an inflation adjusted basis are assumed to be broadly consistent with recent levels.

Sales and Distribution Costs	– Sales and distribution costs on an inflation adjusted basis are assumed to be broadly consistent with recent levels.
Working Capital	– Trade debtor and creditor positions are forecast to revert towards historical levels as normal credit terms for key suppliers are re-established following the recapitalisation and the a2MC disputes are resolved and the withheld receivables are paid. – Inventory ratios are also expected to normalise as the business improves working capital efficiency through time, supported through improved ERP reporting and Company initiatives to reduce stock wastage and obsolescence.
Capital Expenditure	– Capital expenditure is expected to range between $25m - $30m per annum over the forecast period, largely representing maintenance capital expenditure. – Terminal year capital expenditure of approximately $30m is assumed relative to depreciation of approximately $40m. The lower capital expenditure estimate reflects the assumed levels required to maintain the plant at the expected manufacturing volumes, which are lower than Dunsandel's capacity.
Discount Rate	– We have applied a post-tax WACC of 11% for Dunsandel and included a sensitivity analysis around this level. The WACC reflects our assessment of the required return for the business when considering its recent performance and the ongoing risk factors (including a2MC volumes, SAMR registration renewal in 2027, ongoing volatility in Ingredients). – The WACC assumptions used for Dunsandel are detailed in Appendix 3.
Terminal Value	– Based on an assumed 2% perpetual growth rate in the terminal year.

5.4.3. Key Assumptions for the North Island Assets Valuation

As discussed in Section 4.8, the North Island business is performing poorly and this performance is the largest contributing factor to Synlait's current financial issues. The North Island capital expenditure of approximately $450 million has been predominantly funded through debt and the business has accumulated negative earnings since it was established.

We have valued the North Island business using the same DCF framework that was adopted for Dunsandel. Table 16 summarises the key DCF assumptions, which again reflect the base case scenario provided by Synlait but with a number of changes we believe are sensible in the circumstances.

The North Island business is not economically viable in its current form and at current utilisation levels. Significant increases (i.e. more than double) in the current sales volumes are necessary to create more value than what could be realised by simply ceasing operations, selling Pokeno and sub-letting the RPD and Wiri properties. This shut down strategy represents a floor value against which to compare the potential going concern value of the North Island business unit under the Company's adopted plan.

Table 16: North Island DCF Cash Flow Forecast Assumptions

Assumption	Discussion
Advanced Nutrition and Ingredients Production and Sales	– North Island is not economically viable as a commodity ingredients processor relative to the "notional producer" which manufactures reference commodity products (the framework used by Fonterra in determining the Farmgate Milk Price). It is also uncompetitive compared to other processors in the Waikato region (particularly Open Country, OFI and Fonterra). This reflects the high cost of milk paid by Synlait, which includes incentive payments and higher milk transport costs (due to the spread of farmer suppliers), as well as Pokeno's high energy costs from utilising natural gas and low scale economies. We estimate that the North Island milk incentives and higher transport costs alone (compared to the notional producer) would erode the entire capital cost allowance under the Farmgate Milk Price (estimated at ~$0.60/kgMS for the 2023/24 season). – Therefore, while North Island is capable of Ingredients processing and has produced commodity milk products in the past, we believe that future production may be entirely focussed on non-milk Advanced Nutrition products for both existing and new customers.

	– Sales of plant-based Advanced Nutrition products produced at North Island are assumed to grow from ~4kT in FY24 to ~13kT in FY29 under our base case scenario. This represents ~30% of the plant capacity at Pokeno.
Milk Supply	– We believe that it is possible that an outcome of Synlait's strategic review may mean that it will look to phase out its North Island milk supply as the Pokeno facility transitions to Advanced Nutrition volumes only. – On that basis (but noting that this is based on our assumption rather than Synlait's view) we have then assumed that all current milk supply arrangements (~10 million kgMS for the current season) are concluded by May 2026 and excess milk in the intervening period is sold to other processors at a modest loss (including farmer milk premiums and transport costs to the point of sale).
Pricing and Gross Margins	– Forecast pricing is based on the current terms in place with Synlait's key North Island customer. – Based on current sales volumes, North Island is loss making at the gross profit level due to very low-capacity utilisation and a large, fixed manufacturing overhead which is not recovered. – Gross profit per tonne of Advanced Nutrition products is forecast to improve to ~$1,400 per tonne.
Sales and Distribution Costs	– Assumed sales and distribution costs are ~$1,000per tonne. On an inflation adjusted basis, these projected costs are broadly consistent with recent levels.
Working Capital	– Assumed working capital ratios are broadly consistent with Dunsandel levels, but with allowance for the different manufacturing profiles (which leads to a relatively higher level of inventory). – Approximately $40m of receivables is assumed to be sold under a new receivables assignment facility with banks.
Capital Expenditure	– Capital expenditure is forecast to be limited to maintenance expenditure of approximately $5m per annum (with annual inflation adjustments). – This compares to total plant and equipment depreciation (ex leases) of approximately $15m. We consider that current depreciation levels are not consistent with the ongoing capital expenditure requirements for the North Island Assets given the nature of the plant and the equipment age.
Discount Rate	– We have applied a post-tax WACC of 13% (i.e. 2% higher than Dunsandel) based on the significant business uncertainty and our assessment of the considerable customer and execution risk at Pokeno.
Terminal Value	– Based on an assumed 2% perpetual growth rate in the terminal year.

Source: Northington Partners.

Given the significant uncertainty regarding the prospects for the North Island Assets, including existing and new customer demand, we have also estimated a value assuming the plants are shut down and sold for alternative purposes such as general manufacturing and/or industrial warehousing. Our key assumptions for estimating the shut-down value are summarised in Table 17, along with the resulting value range.

Table 17: North Island Shut-down Assumptions and Value

	Present Value Range ($m)[1]	Assumptions
Plant Closure Costs	($8) - ($2)	– Includes redundancy costs, inventory write-offs and lease make good costs, offset by income up to closure. – Plant ceases operations in February 2025. – The RPD and Wiri sites are assumed to include lease make-good and termination costs of approximately $5m on the basis that new tenants are found (termination payment reflecting the lease on the new tenancy vs Synlait's).

		– All milk supply arrangements terminated by May 2026. Cost of milk until that point based on current supplier agreements and cost of transport. Cost offset by assumed proceeds from reselling the milk.
Plant and equipment salvage value	$31 - $44	– Our estimate of plant salvage values for transferrable assets (dryer and process plant, canning, packing, materials handling and other equipment) net of decommissioning costs are based on assumed secondary market values. – The net salvage values compare to the total current depreciated value of approximately $200m for transferrable assets. – The plant and equipment is assumed to be decommissioned and sold by July 2025.
Land & Buildings	$57	– Estimated value for Pokeno land and buildings of $50m based on assumed industrial lease rates consistent with the area (~$140/sqm), a valuation capitalisation rate of 6% and a $10m allowance for the spare development land. – This value has been cross-checked against an adjacent industrial property which sold in 2021. – The value for Pokeno compares to the cost for the land of $30m in 2018 and current rateable value of the land and buildings of $97.3m.
Total	**$80 - $100**	

[1] *Present values determined using our assessed WACC for the North Island assets of 13%*

The resulting value for the North Island Assets under a shut-down scenario of $80 million - $100 million represents a significant discount to the capital invested (approximately $450 million). We believe that this outcome reasonably reflects North Island's sub-optimal scale, high operating costs (driven by the cost of milk and plant configuration) and the low level of plant utilisation. In our view, the returns required to justify the investment (over $60 million EBIT at an assumed 10% post-tax target return on capital employed) have never materialised and are unlikely to be generated in the medium term.

The North Island shut-down value is broadly consistent with our DCF Going Concern Value range and therefore supports the adopted value range in Table 14. This also implies that unless Synlait is confident of increasing sales volumes from current levels of ~4kT to over 13kT (approximately 40% capacity utilisation) over the medium term, the closure and sale of North Island may deliver a better commercial outcome.

5.4.4. Overhead Costs

Overhead assumptions for Dunsandel and North Island are broadly consistent with Synlait's projections, with total general and administration costs (excluding Dairyworks) averaging ~$53 million over the forecast period. This includes an allowance for $8 million of total cost reductions over FY25 and FY26 as part of the Company's cost saving initiatives.

While these overhead costs support the various business units in the Group, they largely reflect the current fixed cost base of Synlait including finance, human resources, IT and head office costs. Management believes that any sale of component Group assets such as North Island or Dairyworks would be unlikely to result in any significant reduction in these costs over and above the cost saving initiatives noted above.

We have valued the overhead costs using a DCF model using the same discount rate as applied to Dunsandel (i.e. 11%).

5.4.5. Dairyworks

We consider the best estimate of value for Dairyworks should reflect the feedback from the recent sale process undertaken by Synlait. While the offers received for Dairyworks ultimately did not culminate in a transaction, the Company engaged Jarden to carry out a comprehensive sale process and marketed the opportunity to an extensive list of prospective investors.

We understand that serious interest was expressed by several parties at price levels that translated to an FY24 EBITDA multiple (excluding cash lease costs) considerably lower than Synlait's purchase multiple (7.1x forecast EBITDA at the time of purchase in 2020).

As the offers for Dairyworks may have included an implicit discount due to Synlait's known financial distress, we have applied value multiple assumptions that we believe reflect the current market environment (following discussion with management on the sale process and feedback received). Consequently, our Dairyworks valuation range has been assessed as follows:

- Assumed maintainable EBITDA multiple range of 4.25x – 4.75x; and
- Estimated maintainable EBITDA of ~$20 million (after cash lease costs).

Based on these assumptions, the assessed enterprise value range is $85 - $95 million.

We have cross-checked the valuation range against a simplified DCF model assuming current Company forecasts for FY25 and FY26, nominal growth levels thereafter, approximately $3 million in annual maintenance capital expenditure and a discount rate of ~13%. This modelling supports our earnings multiple value range for Dairyworks.

5.4.6. Other Assets and Net Debt for Valuation Purposes

We have valued Synlait's farms using the 2020 purchase price of $25.7 million (approximately $44,000 per hectare). This is likely to represent a higher value than current market value given that Synlait is using part of the water consents attached to the land for processing purposes. However, we consider the assessed value appropriately reflects the strategic value of the water use and water and waste discharge rights for the Dunsandel factory. We also assume that any purchaser of Dunsandel would want to retain the water rights.

Net debt for valuation purposes is based on Synlait's consolidated net borrowings as of 31 July 2024, being our valuation date, based on total debt less cash.

5.5. Assessed Future Earnings

We have assessed an estimate of future maintainable earnings in order to cross-check our component valuation against earnings multiples. Noting that Synlait does not provide site-based estimates for earnings and is not currently intending to provide earnings guidance for FY25, our earnings estimate is based on the FY25 Group EBITDA that is incorporated into our valuation assessment. That is approximately $85 million (on an IFRS-16 basis), which equates to an adjusted EBITDA estimate of ~$75 million net of cash lease payments. This value is materially lower than Synlait's internal budget for FY25 but is higher than current broker consensus estimates (approximately $78 million on an IFRS-16 basis as at the date of this report).

The significant improvement on estimated FY24 EBITDA (which, as discussed on page 32 is in the region of $30 million) largely reflects the following:

- Losses from unfavourable FX movements which affected Ingredients margins in FY24 being avoided in FY25;
- Improved overall Advanced Nutrition volumes and margins (including FX impacts), largely driven by improved volumes in the North Island;
- Improved volumes at the Liquids plant;
- Positive impact from lagged contracts and improved lead bucket performance for Ingredients more than offsetting reduced volumes and assumed temporary increased milk payments;
- An expectation that the high levels of inventory price variances experienced in FY24 due to supply chain issues, historic ERP software implementation and other issues do not continue and that Synlait manages working capital more efficiently. This will contribute to improved margins over FY25 and beyond; and
- Synlait's initiatives to reduce costs.

As with FY25, we also note that our FY26 and longer-term forecast assumptions are generally more conservative than Synlait's current Long Range Plan estimates. This reflects our views on execution risks associated with achieving certain targets, particularly considering Synlait's recent performance issues. It also reflects our assumption that reduced a2MC volumes will not be replaced with new customer demand as quickly as expected, as well as other more conservative assumptions which we

think better account for the ongoing uncertainty in the broader market. As a result of our more cautious view, we note that our forecast Group EBITDA does not exceed the historic levels achieved between FY19 – FY20 over the 5-year forecast period of our DCF (in real price terms).

5.6. Synlait Component Valuation

5.6.1. Synlait Group Valuation

As set out in Table 18, our component sum-of-parts valuation for Synlait is between $652 to $732 million. In order to determine the equity value, we have deducted $551 million of net debt (as at 31 July 2024). This results in an equity valuation range of $0.46 - $0.83 per share, with a mid-point of $0.64.

Table 18: Synlait Enterprise and Equity Valuation ($ million)

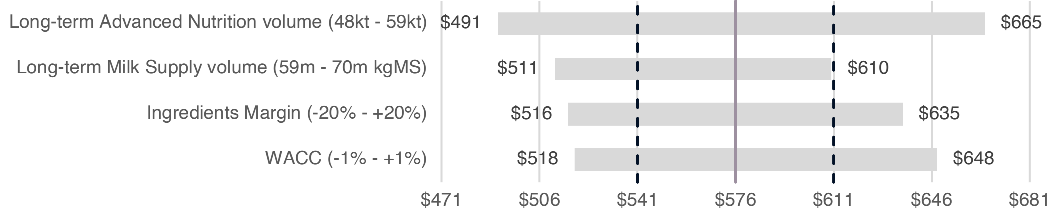
	Low	Mid	High
Dunsandel	$872	$897	$922
North Island	$80	$90	$101
Synlait Milk Overheads	($412)	($412)	($412)
Dairyworks	$85	$90	$95
Synlait Farms	$26	$26	$26
Enterprise Value	**$652**	**$692**	**$732**
Net Debt	($551)	($551)	($551)
Equity Value	**$101**	**$141**	**$181**
Shares on Issue (million #)	218.6	218.6	218.6
Value Per Share ($)	**$0.46**	**$0.64**	**$0.83**

Source: Northington Partners

5.6.2. Synlait Value Sensitivities

Given the relative size of Synlait Milk (comprising ~85% of our assessed enterprise value range) and the DCF approach adopted, we have considered the value sensitivity of Synlait Milk to changes to a range of key DCF assumptions. Figure 29 summarises the DCF value sensitivity of Synlait Milk to these key variables in the context of our assessed range of $541 million - $611 million.

Figure 29: Synlait Milk Enterprise Value Sensitivity Analysis ($ million)



Source: Northington Partners. Note: Advanced Nutrition volume and WACC sensitivity ranges are for Dunsandel and North Island combined, whereas milk supply and Ingredients margins only apply to Dunsandel.

Our assessed value is very sensitive to changes in all variables, but is particularly sensitive to the assumed volumes for Advanced Nutrition products. Relatively small changes (+/- 10%) to our long-term volume assumption of 53kT leads to a value increase or decrease of approximately $85 million, representing about 15% of our mid-point value of $576 million. As previously discussed, this sensitivity reflects the high margin that is currently generated from these products and reinforces the importance of maintaining the a2MC volumes or finding new customers with the same requirements.

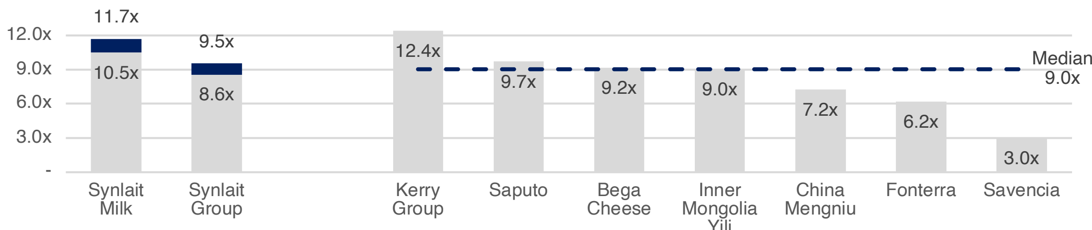
The value sensitivity to relatively small changes to key variables also reinforces the high level of uncertainty attached to our valuation range. Successful execution of Synlait's recovery strategy will be needed to achieve the assumed outcomes for Advanced Nutrition volumes, milk supply retention and Ingredients margins, and thereby support the assessed value level. Given the issues experienced over the last few years, there is clearly a risk that the Company will not deliver to plan and that the underlying value is not realised.

5.6.3. Implied Valuation Multiples

We have cross-checked our valuation range for both Synlait Milk and Synlait Group against earnings multiples for comparable listed companies and for transactions involving similar ingredients and high-value nutrition businesses.

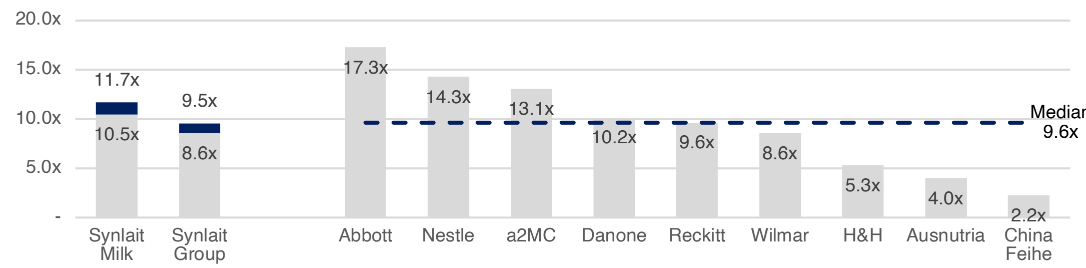
Figure 30 summarises implied EV/FY25 EBITDA multiples for comparable listed companies while Figure 31 provides multiples for the available transaction evidence. Appendix 2 provides details of the companies and transactions used.

Figure 30: EBITDA Multiples for Comparable Dairy Processing Companies



Source: Northington Partners, CapitalIQ (19 August 2024). See Appendix 2 for company details.
Note: Synlait multiples presented on a IFRS-16 basis for comparability. Fonterra Enterprise Value based on Fonterra Shareholders' Fund unit price rather than Fonterra Co-operative Group share price.

Figure 31: EBITDA Multiples for Comparable Consumer Goods, Nutrition and Ingredients Companies

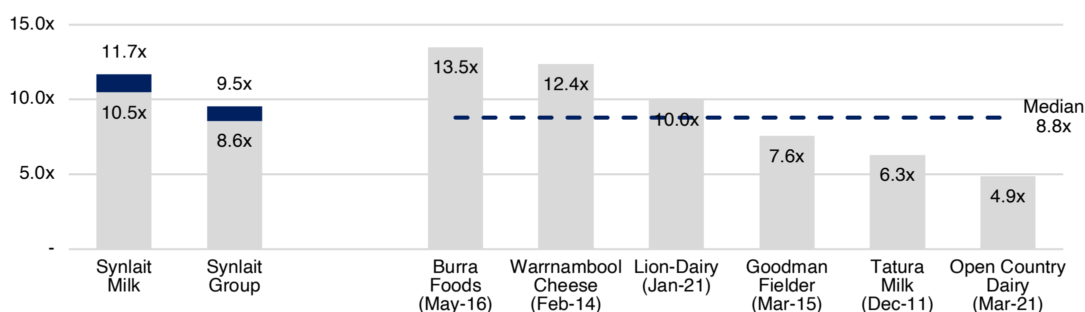


Source: Northington Partners, CapitalIQ (19 August 2024). See Appendix 2 for company details.
Note: Synlait multiples presented on a IFRS-16 basis for comparability.

In relation to the evidence above, we note:

- The implied multiple for our Going Concern Value for the Group is negatively impacted by the lower multiple applied to Dairyworks (4.25x – 4.75x). We therefore focus on the implied multiple for Synlait Milk which comprises the majority of value and we consider to be more relevant to the selected comparable companies.
- The implied trading multiples are based on share market prices and, therefore, do not include a premium that would otherwise be observed in the context of an offer that results in a controlling shareholding (i.e. the Bright Placement).
- When comparing Synlait to the comparable companies for valuation benchmarking, we would place more emphasis on the dairy processing businesses. While many of the global consumer and nutrition businesses share similarities (many process infant formula and other Advanced Nutrition products), the majority also own end-market brands with associated goodwill value and higher growth potential. We have therefore placed less reliance on these companies when assessing the reasonableness of our value range.

Figure 32: Relevant Comparable Transaction Evidence Enterprise Value to Forecast EBITDA Multiples



Source: Northington Partners, CapitalIQ, company announcements. See Appendix 2 for company details.
Note: Synlait multiples presented on a IFRS-16 basis for comparability. Open Country Dairy, Tatura Milk, Bura Foods and Lion Dairy represent LTM EV / EBITDA Multiples.

In relation to the transaction evidence above, we note:

- There has been a limited number of directly comparable transactions in the last 5 years. The Open Country Dairy transaction is relevant on the face of it, but Lion Dairy is less so given it owns a portfolio of branded milk, milk-based beverage, yoghurt and juice brands.
- Open Country Dairy's transaction multiple does not necessarily reflect a takeover premium because Talley's (the majority shareholder at the time) already controlled ~77% of the shares. Because Talley's reached agreement with Olam International Limited to sell its ~15% shareholding into the takeover offer, it immediately reached the necessary 90% compulsory takeover threshold. Given the uncertain market situation at the time (during covid-19) and the inability to determine Olam's motivations for sale, we would place less reliance on this transaction.

The implied multiples from the Going Concern Value are within the multiple range for similar comparable companies and towards the upper end of the multiples implied by the transaction evidence. We consider that the comparable company and transaction multiples support our DCF valuation range and note:

- The North Island Assets, which contribute negative earnings but have positive value, distort the implied multiple for Synlait Milk. Excluding North Island would reduce the Synlait Milk multiple.
- Applying an appropriate control premium to the comparable companies would result in a median multiple above the implied multiple range for Synlait Milk, particularly if North Island was excluded.
- There is limited recent and directly comparable transaction evidence to Synlait and we have therefore placed increased emphasis on comparable trading multiples (and the implied multiples if a control premium was applied).
- While there are inherent risks in achieving the significant earnings growth projected for FY25 (on which the implied multiples for Synlait are based), we consider this risk is captured within our Going Concern Value range through the risk premium which is included in our assessed discount rate.

5.7. Synlait Insolvency Valuation

If the Equity Raising is not approved, we expect that either Synlait or its banking syndicate will initiate a formal insolvency process. We believe that it is therefore important for shareholders to consider the potential value outcome under this scenario when determining whether or not to support the relevant resolutions.

We have estimated the hypothetical value impacts of a potential liquidation of the Company. This is largely based on our assessed Going Concern Value but with certain adjustments to reflect the distressed position of Synlait without the Equity Raising, the costs of administration / receivership and the time needed to liquidate and return any surplus capital to shareholders.

Table **19** provides a summary of our assumptions and the potential value outcome from an insolvency process.

Table 19: Summary of Synlait Insolvency Value

Asset	Discussion	Assessed Insolvency Value Range ($m)	
		Low	**High**
Synlait Milk (Dunsandel and North Island combined)	– The Insolvency Value reflects our Going Concern Value less 5%. This reflects our expectation of reasonably strong buyer interest in Dunsandel, albeit at value levels below intrinsic value to reflect the impacts of an insolvency process. – We note that Synlait would retain its SAMR registration in an insolvency event but there may be a risk that the relevant Chinese authorities could revoke the registration if insolvency had a serious impact on product quality or standards of the registration. – Questions over continued access to milk supply at a reasonable price could be an issue for some bidders.	$514	$580
Dairyworks	– Value based on recent bidder interest and no change assumed for liquidation scenario.	$85	$95
Synlait Farms	– Value based on purchase price and no change assumed for liquidation scenario.	$26	$26
Disposal costs and administration fees[1]	– Administrator / receiver, disposal and transaction costs	($40)	($40)
Net sale proceeds		**$584**	**$661**
Less borrowings		**($551)**	**($551)**
Surplus available for shareholders		**$34**	**$110**
Total per Synlait share		**$0.15**	**$0.50**

Source: Northington Partners. Note: borrowings assumed at 31 July 2024 level assuming that debt is able to be serviced by business earnings in the period up until sale of the individual assets.

[1] Northington Partners' estimates based on receivership/administration precedents including legal, administrator/receiver, sale and windup costs. Actual costs could be materially higher or lower depending on a range of factors.

Table 19 shows that under an insolvency scenario, our hypothetical Insolvency Value range is approximately $70 million lower than the Going Concern enterprise value (mid-point). After repayment of bank debt, the Shareholder Loan and Bonds which rank ahead of shareholders, this would result in an equity value range of $0.15 - $0.50 per share.

Under an insolvency scenario, Synlait shareholders are unlikely to have any ability to trade their shares, with any net proceeds only available for distribution to shareholders following the administrator / receiver concluding a liquidation. This means it could be many months before any value is realised.

We note that the impacts of insolvency are very uncertain and that these values could potentially overstate the eventual proceeds to shareholders in the event of a liquidation:

- The range is largely predicated on a receiver or administrator maintaining strong buyer interest for the component assets.
- In particular, we note that the Insolvency Value for Dunsandel is highly uncertain as it is reliant on continuity of farmer milk supply, retention of the SAMR registration and buyers' expectations in relation to the continuation of Advanced Nutrition volumes for a2MC.
- While a2MC would have a strong interest in Dunsandel to ensure continuity of its own supply, particularly for China label infant formula (which is reliant on the SAMR registration), other bidder interest is highly uncertain. Without strong competitive tension, the value outcome is also highly uncertain.
- If the marginal buyer was an Ingredients processor, the perceived value of Dunsandel would reduce significantly due to the much lower margins generated from commodity Ingredients products.

Based on this wide range of uncertainties, we caution shareholders that this valuation range should be used as a guide only. Any ability for a receiver to generate surplus proceeds over and above priority creditor claims that rank ahead of shareholders (primarily the banks, Bondholders, employees and IRD) is only likely to be possible if they can generate strong price tension for Dunsandel from multiple bidders and sell it quickly.

Viewed alternatively, in order for Synlait shareholders to receive net proceeds per share under an insolvency event equivalent to our Going Concern Value range, an administrator or receiver would have to achieve gross proceeds under liquidation which are approximately $0.18 per share higher than our Going Concern Value range (i.e. $0.64 - $1.01 per share). This is mostly due to the costs involved in administration or receivership - our estimate of approximately $40 million of disposal costs and administrator/receiver costs equates to approximately $0.18 per Synlait share. The timeframe required to complete the sale processes and distribute the proceeds is also uncertain. If the process takes longer than expected, the value of the liquidation scenario will reduce in present value terms.

6.0 Assessment of the Merits of the Bright Placement, a2MC Placement and a2MC Settlement

6.1. Comparison of the Bright Placement Price Relative to Assessed Value

As set out in Section 5.6.1, we have assessed the Going Concern Value for a controlling shareholding in Synlait in the range of $0.46 to $0.83 per share, with a mid-point of $0.64. Our valuation assumes that Synlait is successful in its recapitalisation plans and completion of the bank refinancing. If this is not achieved, we believe that the Company will need to initiate a formal insolvency process, in which case we have estimated an Insolvency Value range of $0.15 to $0.50 per share, with a mid-point of $0.33.

Figure 33 compares the Bright Placement and a2MC Placement issue prices to our assessed Going Concern Value and Insolvency Value.

Figure 33: Comparison of Bright Placement and a2MC issue price to Assessed Going Concern and Insolvency Values

Source: Northington Partners

In summary, the Bright Placement issue price of $0.60 per share is within our Going Concern Value range. Based on this comparison, we conclude that the Bright Placement reasonably reflects the control value for Synlait which is only likely to be achieved with the Equity Raising. The issue price for the Bright Placement is also higher than the Insolvency Value for Synlait shares, which represents the possible (and highly uncertain) proceeds per share that may be available for distribution to Synlait shareholders following completion of an insolvency process.

The issue price for the a2MC Placement of $0.43 is below our Going Concern Value range. However, we believe that the issue price for a2MC should reflect a discount to both our value range and the Bright Placement issue price because a2MC holds a minority 19.8% shareholding in Synlait. In this context, the issue price premium for the Bright Placement compared to the a2MC Placement issue price of ~40% is broadly consistent, if not towards the higher end, of premiums observed in the New Zealand market for control transactions. The issue price for the a2MC Placement also represents a 43% premium to the market price for Synlait shares as of 15 August (the undisturbed share price prior to the announcement of the conditional settlement with a2MC) whereas equity placements for minority parcels of shares are usually undertaken at a discount. We therefore conclude that the a2MC Placement issue price is reasonable taking into account all factors outlined in this report.

6.2. Impact on Synlait's Financial Position

Synlait's current financial position is unsustainable, with net debt levels of ~$550 million far too high relative to our expectation of FY24 earnings of $30 million.
Table **20** highlights the impact of the Equity Raising and $24.75 million a2MC settlement payment on pro forma debt levels relative to key credit ratios. This is based on our assumed EBITDA for FY25 of $85 million.

We suggest that even after completion of the Equity Raising and the settlement payment under the a2MC Settlement, Synlait's debt will remain relatively high on a total debt/EBITDA basis (3.7x) and close to expected senior debt covenant levels (2.2x vs 2.5x covenant for FY25). Without further debt reductions or earnings improvements above our earnings estimate for FY25, the projected leverage ratio (debt / EBITDA) will exceed a prudent target level. We suggest a total target below 3.0x is more appropriate and consistent with Synlait's peers (see Appendix 2).

Table 20: Synlait Key Debt Levels and Ratios pre and post Equity Raising

$m	FY24F	Impact of Bond Redemption	Impact of Equity Raise & a2MC Settlement Payment	Proforma FY24
Senior Borrowings (net of cash)	$241	+$180	-$238	$183
Shareholder Loan	$130			$130
Bonds	$180	-$180		-
Equity Raise	-		+$213[19]	-
a2MC Settlement	-		+$25	-
Total Debt	**$551**	**-**	**-**	**$313**
FY25F EBITDA				$85
Senior Debt / FY25F EBITDA	2.8x			2.2x
Total Debt / FY25F EBITDA	6.5x			3.7x

Source: Northington Partners. Northington Partners' estimated EBITDA stated on IFRS-16 basis while borrowings exclude IFRS-16 lease liabilities consistent with Synlait's current bank covenant definition.

New banking facilities are currently expected to be provided for a term of only 12 months. We believe that the short term proposed by banks reflects the ongoing uncertainty and the expectation that if Synlait delivered on a meaningful earnings recovery in FY25, refinancing the renewed facilities at maturity should be more straightforward than the current refinancing process. In order for Synlait to successfully refinance its bank borrowings next year, we note:

- While the end of financial year typically represents a low point in debt levels, Synlait is expecting to improve its working capital position (e.g. reduced investment in inventory and receivables) over the course of FY25 which should improve cash flows and debt levels (all else equal and based on current earnings estimates);
- Synlait's bank facilities include an "assignment facility" which allows Synlait to effectively sell certain customer receivables to the banks. Synlait intends to utilise this facility for its key North Island customer which will support lower debt levels;
- The new bank facilities will be utilised to redeem the Bonds. While the Shareholder Loan has a technical maturity date of June 2025 it can be extended for a further 12 months and it is unlikely that new bank facilities would be made available to repay the Shareholder Loan until Synlait has delivered improved earnings performance and reduced senior debt levels.
- Bright has indicated that with its increased shareholding it will be better able to leverage its parent company's investment grade rating, as well as extensive relationships with banks (both Chinese and overseas) to assist Synlait to secure more favourable borrowing terms, if required as part of any future refinancing;
- Synlait will be in a much better position to re-consider the sale of Dairyworks and / or the North Island Assets to further reduce debt levels, although any sale of Dairyworks would also reduce Group earnings; and
- Synlait is expecting to implement cost saving initiatives and will be in a better position to consider customer growth opportunities following completion of the Equity Raising. These initiatives should support an improved earnings outlook assuming there is no further deterioration in Synlait's key markets.

6.3. Impact on Synlait Control

6.3.1. Board Control

[19] Expected net proceeds from $217.8 capital raise.

As summarised in Section 4.11, Bright will increase its voting control of Synlait from 39.01% to 65.25% following completion of the Equity Raising. This is a principal reason Non-associated Shareholders have the opportunity to vote for or against the allotment of shares to Bright under the Equity Raising.

We suggest that Bright's existing special constitutional rights mean that the relative impact of the Bright Placement on governance and key decision rights is not material. This view reflects that:

- Under Synlait's current constitution, Bright effectively controls the Board already with the ability to appoint and remove of up to five out of eight directors (including the one Board appointed director). The constitution requires a minimum of three independent directors, who are appointed by the Board. The current Synlait Board is made up of four Bright appointed directors and three independent directors;
- Following the Bright Placement, Bright will be able to control the appointment and removal of all directors. The Board will be limited to a maximum of eight directors, including at least two independent directors and a minimum of two directors who must be ordinarily resident in New Zealand (pursuant to the NZX Listing Rules). Bright will have the ability to appoint up to six non-independent directors, who collectively will have the power to control all Board decisions unless they are restricted from voting on related party matters involving Bright; and
- While the minimum number of independent directors reduces from three to two (and Bright's effective appointment rights may increase from five to six), we do not consider that this materially increases Bright's Board control over what it can already exercise under Synlait's existing constitution.

6.3.2. Voting Control

The Bright Placement will increase Bright's ability to exert shareholder control over Synlait. While Bright currently has the ability to unilaterally block special resolutions (which require the approval of 75% of the votes cast by shareholders), it will have greater ability to influence the outcome of all shareholder decisions following the Bright Placement (where it is entitled to vote) as it will be able to singlehandedly pass or block ordinary resolutions (which require the approval of more than 50% of the votes cast by shareholders). However, we note that Bright's 65.25% shareholding will not be sufficient to unilaterally pass special resolutions. Depending on the number of the other minority shareholders who participate in the vote, approval of special resolutions will likely require a2MC's support.

a2MC will also have effective negative voting control over a full takeover and significantly influence any scheme of arrangement requiring 75% shareholder approval where there is only one interest class, or block a scheme proposed by Bright (or its associates, as defined in the Code), as Bright would be prevented from voting in the same interest class as shareholders not associated with Bright for the purposes of the 75% voting threshold.

6.3.3. Shareholding Dilution

Non-associated Shareholders of Bright and a2MC currently have control of 41.16% of Synlait shares, which will reduce to 14.91% following completion of the Equity Raising. Despite the Bright Placement and a2MC Placement issue prices reflecting a premium to Synlait's current share price, this significant level of share dilution is unavoidable due to the relative size and structure of the Equity Raising. While the Equity Raising could have been structured to allow participation by all existing shareholders in order to potentially avoid dilution, we believe that Synlait's rationale for not making the offer available to all shareholders (as outlined in the Notice of Special Meeting) is reasonable in the circumstances.

6.3.4. Economic Dilution

We note that while the share dilution under the Equity Raising for Non-associated Shareholders is significant, we expect any potential economic dilution (i.e. reduction in value of Synlait shares) will be low. In fact, the value of Non-associated Shareholders' shares is more likely to improve, all else equal, due to the following:

- The Equity Raising will materially reduce the ongoing insolvency risks for the Company, which in turn should lead to some level of recovery in the share price;
- The weighted average issue price under the Equity Raising of approximately $0.57 (reflecting the Bright Placement at $0.60 and a2MC Placement at $0.43) is 72% higher than the VWAP for Synlait shares of $0.33 for the 20 trading days to 19 August 2024. Theoretically, the "ex" price for Synlait shares following allotment of the new shares should be approximately $0.48 per share, reflecting that the issue price for the Equity Raising is at a premium to the current share price; and

- We also expect that following the Equity Raising, resolution of the a2MC disputes and the successful completion of the bank refinancing, the considerable ongoing uncertainty around Synlait's future will be partly mitigated and investor sentiment for Synlait will improve. This has already been partially reflected in Synlait's share price increasing by ~30% in the 2 trading days following the announcement by Synlait of its conditional settlement with a2MC on 16 August 2024.

While Synlait's share price immediately following the Equity Raising will be influenced by a range of market factors, we believe that Non-associated Shareholders should have some confidence that the trading value for Synlait shares is likely to improve compared to the status quo (and assuming the Equity Raising and a2MC Settlement are not completed).

6.4. Alternatives to the Bright Placement

The alternatives for raising the quantum of equity required by Synlait with the level of certainty and within the necessary timeframes are limited. The deleveraging strategy adopted by Synlait also needs to be supported by Bright given its current shareholding and existing Board control.

While the Equity Raising could have been structured as a pro-rata offer to all shareholders, we suggest that the issue price would have needed to be heavily discounted (relative to the prevailing market price) in order to encourage any meaningful participation from other shareholders. Support from retail investors could have been limited at any price, in which case Bright and a2MC would have needed to take up most of the offer anyway through their pro rata participation and any underwrite or shortfall allocation (subject to Takeovers Code limitations).

Other alternatives to the Equity Raising include the Company soliciting a full takeover offer, winding up the business or selling individual assets such as North Island and Dairyworks. In respect of these options, we note:

- Given Bright's current shareholding, the prospects of a full takeover offer are low unless it was from Bright itself or from a third party whose offer was acceptable to Bright. While a takeover has not been contemplated by Synlait, we do not consider that Bright increasing its shareholding from 39.01% to 65.25% will diminish the likelihood of any future takeover (Bright's ability to determine the outcome of any takeover for Synlait is effectively the same before and after the Bright Placement);
- Unless Synlait was to consider the sale of Dunsandel, we believe it is unlikely that the wind-up of Synlait would deliver higher value to Non-associated Shareholders than our assessed Going Concern Value. Furthermore, Bright controls any decision to sell Dunsandel through its current shareholding and ability to veto special resolutions (which would be required for a sale of Dunsandel due to its size). Bright has also stated that it would not propose any sale of Dunsandel, nor would it intend to support any sale of Dunsandel, were any such initiative proposed; and
- Given the process already undertaken to sell Dairyworks and the current performance of the North Island Assets, we believe individual asset sales are unlikely to deliver the level of proceeds required to reduce debt to sustainable levels. However, we believe these divestments are likely to remain viable options to further reduce debt following the Bright Placement.

6.5. a2MC Settlement

The a2MC disputes with Synlait in respect of the NPMSA and associated arbitration proceedings have created a great deal of uncertainty and distraction for the business. If both resolutions relating to the Bright Placement and a2MC Placement and a2MC Settlement are approved and Synlait completes its bank refinancing, all current disputes will be resolved in full and a2MC will pay Synlait an amount of approximately $24.75 million. This includes amounts that had been largely withheld in accordance with the terms of the NPMSA.

We believe that the resolution of the a2MC disputes on these terms is in Synlait's best interests for the following reasons:

- The dispute relating to exclusivity effectively becomes a moot point if the Bright Placement is approved, given that a2MC would have exclusivity termination rights following the change in control of Synlait. While loss of exclusivity clearly reflects a weakening of Synlait's position, we note in Section 5.4.2 our view that it is unlikely to impact on a2MC's demand for Chinese labelled product, at least in the medium term. Synlait will still retain the SAMR registration for the existing product (subject to the next review in 2027) and we expect that a2MC demand

could increase given that it has requested a second slot for a new China label a2 formula product;

- Synlait expects that the wider settlement arrangements mean that, when taken as a whole, the overall profitability of the products produced for a2MC is expected to be moderately impacted due to additional costs and adjustments to manufacturing standards;
- a2MC is Synlait's most significant customer and contributor to value and the continued success of the relationship between a2MC and Synlait benefits both parties; and
- Ongoing arbitration could be costly and time consuming, with unknown outcomes at a time when Synlait needs to focus on rebuilding its profitability.

Part of the dispute settlement includes providing a2MC with enhanced access to Synlait's Dunsandel manufacturing site, people and information relevant to Synlait's supply of Advanced Nutrition products to a2MC. This could provide a2MC with information which may put it in a better position to obtain its own SAMR registration and subsequently move away from Synlait as its key manufacturer.

Separate to the dispute settlement, we expect that a2MC is already actively exploring opportunities to develop and enhance its own manufacturing capabilities. Reflecting that risk, Synlait will continue to monitor the cost-benefit of maintaining the NPMSA with a2MC while also exploring new customer opportunities to mitigate the impact of a2MC potentially transitioning volumes elsewhere.

Notwithstanding this issue, we believe a2MC's participation in the Equity Raising demonstrates Synlait's value to a2MC and the perceived value of maintaining a good working relationship between the two companies. On balance, we believe that the a2MC Settlement is in Synlait's best interests.

6.6. Advantages and Disadvantages to Non-associated Shareholders

The Equity Raising is critical for Synlait's survival. Without it, the Company or its banking syndicate is likely to initiate a formal insolvency process. In that scenario, trading of Synlait shares on the NZX Main Board would likely cease (under the NZX Listing Rules, NZX has absolute discretion to suspend trading) and shareholders would lose their ability to realise any remaining value from their investment in the short term.

While the value that shareholders would ultimately receive under an insolvency process is highly uncertain, our Insolvency Value range of $0.15 to $0.50 reflects 34% - 61% of our Going Concern Value. We acknowledge that the insolvency process could deliver a value outcome above our Insolvency Value range, particularly if strong competitive tension can be maintained during the sale process for the Dunsandel plant. We expect that a2MC would be highly motivated to participate in the process, but suggest it is harder to determine the level of interest from other parties and the likely value these parties would attribute to Dunsandel.

Given the high level of uncertainty over potential value outcomes, we therefore suggest that some of the key advantages of the Equity Raising to Non-associated Shareholders are the ability to preserve the liquidity option from the NZX listing and enhance the value of each shareholder's shareholding (despite the associated ownership dilution).

Some of the other consequences of the Bright Placement include:

- Reduced likelihood of a takeover offer from Bright: in our view, because Bright will increase its shareholding from 39.01% to 65.25% by way of the Bright Placement, it is less likely to make a full takeover offer for the Company as it may consider that it already has sufficient control. Following the completion of the Bright Placement, Bright will not be able to increase its shareholding in Synlait unless it complies with the Code via a number of approaches:
  - By Bright making a full or partial takeover offer;
  - The acquisition of existing shares or allotment of new shares (similar to the Bright Placement) being approved by an ordinary resolution of Non-associated Shareholders; or
  - Through the "creep" provisions of the Code which would allow Bright to increase its voting control by up to 5% in any 12-month period after 12 months following the allotment of shares under the Bright Placement.

  While Bright could creep without necessarily having to pay a control premium, the Code provides protections to ensure that any other mechanism for obtaining further control would require Synlait to obtain an independent adviser's report on the merits of the offer including the assessed control value;

- Reduced likelihood of a takeover from other parties: any partial or full takeover offer from a third party would require Bright's acceptance. However, as noted in Section 6.3, moving from a 39.01% shareholding to 65.25% does not dramatically change the current position in this respect;
- Inconsistent interests: Bright will have greater control over Synlait's strategy and plans, business operations, capital structure, dividend policy and financial and operating policies. Bright may apply this control in ways that are not always consistent with the interests of other shareholders; and
- Impact on share liquidity: although shareholders will be diluted by the Equity Raising with respect to their relative ownership percentage, Synlait's free float number of shares does not change because the shares owned by Bright and a2MC are not included in the free float calculation. We therefore do not expect that the Bright Placement (and the a2MC Placement) will materially impact on the liquidity for Synlait shares. Liquidity may in fact improve if the Company's performance and outlook improves as a result of the recapitalisation.

6.7. Likelihood of Bright Placement and a2MC Placement and a2MC Settlement Being Approved

The Bright Placement and resolution relating to the a2MC Placement and a2MC Settlement are conditional on each other. This means that approval of the Bright Placement will only occur if the resolution in relation to the a2MC Placement and a2MC Settlement is also approved (and vice versa).

- As Bright can vote on the resolution relating to the a2MC Placement and a2MC Settlement and has confirmed that it intends to vote in favour, it is highly likely that the resolution will be approved. This reflects that Bright controls approximately 49% of the shares eligible to vote on the resolution (excluding a2MC's 19.8%) and a 50% approval threshold is required. Only a small number of shareholders are therefore required to also vote in favour (or not vote at all) for the resolution to be approved.
- The outcome of the Bright Placement is less certain. Given that Bright cannot vote on this resolution, a2MC controls approximately 33% of the remaining shares and has confirmed it intends to vote in favour of the Bright Placement. Depending on the level of voting participation from other shareholders, up to approximately 26% of the remaining shares are required to vote in favour for the resolution to pass. This assumes voting participation by 100% of all eligible shareholders, which is highly unlikely. Assuming the level of participation from shareholders other than Bright and a2MC is similar to the turnout for the vote on the Shareholder Loan in July (~69%), approximately 15% of those shareholders are required to support a2MC for the Bright Placement to meet the 50% threshold. We expect that this level of support will be achieved.

6.8. Voting For or Against the Resolutions

Voting for or against both resolutions in respect of the Bright Placement and a2MC Placement and a2MC Settlement is a matter for individual shareholders based on their own views as to business value and future market conditions, risk profile and other factors. Shareholders may need to consider these consequences and consult their own professional adviser if appropriate.

Appendix 1. Sources of Information Used in this Report

Other than the information sources referenced directly in the body of the report, this assessment is reliant on the following sources of information:

- Synlait's annual and interim reports and investor presentations.
- Discussions with senior personnel of Synlait and its advisers.
- Documentation for the Equity Raising and bank refinancing.
- Drafts of the Special Notice of Meeting to approve the Bright Placement and a2MC Placement and a2MC Settlement.
- Synlait's FY24 and FY25 budget and Long Range Plan.
- Various other documents that we considered necessary for the purposes of our analysis.

Appendix 2. Comparable Company and Transaction Evidence

The tables below summarise selected valuation trading multiples of listed companies that are broadly comparable to Synlait.

Table 21: Listed Australasian and Global Dairy Processing Businesses (NZD)

				EV / EBITDA		EV / EBIT		
Company	**Country**	**EV ($m)**	**Market Cap ($m)**	**FY24**	**FY25F**	**FY24**	**FY25F**	**ND / FY25F EBITDA**
Fonterra	New Zealand	11,409	7,007	5.4x	6.2x	7.8x	10.0x	2.3x
Bega Cheese	Australia	1,970	1,451	10.8x	9.2x	24.0x	17.5x	1.3x
Saputo	Canada	19,473	15,280	11.7x	9.7x	17.6x	14.8x	1.8x
Savencia	France	2,652	1,218	3.2x	3.0x	6.6x	6.0x	1.0x
Kerry Group	Ireland	31,043	27,907	13.5x	12.4x	17.8x	16.0x	1.3x
China Mengniu	Hong Kong	17,699	10,693	7.9x	7.2x	11.2x	10.2x	2.1x
Yili	China	39,043	35,126	9.2x	9.0x	12.1x	12.1x	0.7x
Average				8.8x	8.1x	13.9x	12.4x	1.5x
Median				9.2x	9.0x	12.1x	12.1x	1.3x

Source: CapitalIQ, Northington Partners' estimates, 19 August 2024
Note: ND / EBITDA - Estimated EBITDA stated on IFRS-16 basis while borrowings excluded IFRS-16 lease liabilities consistent with Synlait's current bank covenant definition. Fonterra Enterprise Value based on Fonterra Shareholders' Fund unit price rather than Fonterra Co-operative Group share price due to the inherent "restricted market discount" in the co-operative shares.

Table 22: Listed Consumer Goods, Nutrition and Ingredient Businesses (NZD)

				EV / EBITDA		EV / EBIT		
Company	**Country**	**EV ($m)**	**Market Cap ($m)**	**FY24**	**FY25F**	**FY24**	**FY25F**	**ND / FY25F EBITDA**
a2MC	New Zealand	4,851	4,533	15.4x	13.1x	17.9x	14.2x	nm
Ausnutria	Hong Kong	822	709	4.8x	4.0x	8.8x	7.1x	0.4x
H&H	Hong Kong	3,020	1,196	5.7x	5.3x	6.7x	6.2x	3.1x
Abbott	United States	333,674	320,613	18.8x	17.3x	21.5x	19.3x	0.7x
Danone	France	89,501	71,055	10.6x	10.2x	13.9x	13.1x	1.9x
Nestle	Switzerland	564,762	450,027	15.0x	14.3x	18.3x	17.4x	2.9x
Reckitt	United Kingdom	80,717	63,372	10.0x	9.6x	11.3x	10.9x	1.9x
Wilmar	Singapore	57,329	24,449	9.0x	8.6x	13.7x	12.8x	4.2x
Average				11.2x	10.3x	14.0x	12.6x	1.5x
Median				10.3x	9.9x	13.8x	13.0x	1.9x

Source: CapitalIQ, Northington Partners' estimates, 19 August 2024
Note: ND / EBITDA - Estimated EBITDA stated on IFRS-16 basis while borrowings excluded IFRS-16 lease liabilities consistent with Synlait's current bank covenant definition.

Table 23: Comparable Transaction Multiples

Date	**Target**	**Acquirer**	**Country of Target**	**Percent Acquired**	**EV (NZD, 100% basis)**	**LTM EV / EBITDA**	**NTM EV / EBITDA**
May-16	Burra Foods Pty. Ltd.	Inner Mongolia Fuyuan Farming Co., Ltd.	Australia	79%	427	13.5x[1]	
Feb-14	Warrnambool Cheese And Butter Factory Company Holdings Ltd.	Saputo Inc.	Australia	88%	644	16.7x	12.4x
Dec-11	Tatura Milk Industries Pty. Ltd	Bega Cheese Limited	Australia	30%	-	6.3x[2]	
Mar-21	Open Country Dairy Limited	Talley's Group Limited	New Zealand	15%	646	4.9x	
Jan-21	Lion-Dairy & Drinks Pty Ltd	Bega Cheese Limited	Australia	100%	562	10.0x[3]	
Mar-15	Goodman Fielder Limited (nka:Goodman Fielder Pty Ltd.)	First Pacific Company Limited; Wilmar International Limited	Australia	90%	1,976	8.6x	7.6x
	Mean					10.0x	nm.
	Median					9.3x	nm.

Source: CapitalIQ company announcements, Northington Partners' estimates, 26 July 2024
[1,2] Grant Samuel Independent Expert Report (March 2018)
[3] Bega Foods Investor Presentation (November 2020)

Appendix 3. WACC Input Parameters

Table 24 summarises the inputs used for deriving the WACC range for Synlait's Dunsandel business. A further specific equity risk premium of 2% was applied to estimate the WACC for Synlait's North Island Business. We note that these inputs would not necessarily reflect WACC parameters applied by Synlait for impairment testing or asset valuations for financial reporting.

Table 24: WACC Parameters

Parameter	WACC Inputs	Description
Leverage (Wd / Wd + We)	35%	Based on our estimate of the appropriate long-term target gearing for a company such as Synlait
Risk Free Rate (R_f)	4.7%	The prevailing 10-year government bond rates in New Zealand (based on the average between April 2024 and July 2024)
Corporate Tax Rate (T)	28%	The prevailing corporate tax rate in New Zealand
Cost of Equity:		
CAPM Model Structure	Simplified Brennan-Lally	Reflects the cost of equity model predominantly used in the New Zealand market.
Unlevered Beta ($ß_a$)	0.65 – 0.75	Represents our assessment of the systematic risk for Synlait considering its risk profile relative to the asset betas for a range of comparable companies assessed.
Levered Beta ($ß_e$)	1.00 – 1.15	Unlevered beta range adjusted using $(1 + D/E)ß_a$
Equity Market Risk Premium (MRP)	7.0%	Our view of the equity market risk premium is consistent with rates widely adopted by valuation practitioners in New Zealand (including the New Zealand Commerce Commission)
Equity Risk Premium (Pe)	2.9% - 3.2%	A company specific risk premium has been included to reflect the additional uncertainty associated with Advanced Nutrition volumes and presumed customer continuity incorporated into the DCF model and inherent unsystematic risks not captured in the company cash flows
Cost of Equity (K_e)	**13.2% - 14.6%**	Based on standard form of the CAPM model for the New Zealand market $R_f (1 – T) + ß_e (MRP) + Pe$
Debt Premium	3.0% - 3.25%	Reflects our assessment of Synlait's debt margins under non-distressed conditions, the credit margins for comparable issuers, the margin differential between reference 10-year swap rates and government bond yields and debt issuance costs (20bp)
Pre-tax Cost of Debt (K_d)	7.7% - 7.9%	Equal to the risk-free rate plus the debt premium
WACC	**10.5% - 11.5%**	**WACC = K_d * Wd * (1 – T) + K_e * We**

Source: Northington Partners' Analysis

Appendix 4. Declarations, Qualifications and Consents

Declarations

This report is dated 20 August 2024 and has been prepared by Northington Partners at the request of the independent directors of Synlait to fulfil the requirements of the Code and NZX Listing Rules. This report, or any part of it, should not be reproduced or used for any other purpose. Northington Partners specifically disclaims any obligation or liability to any party whatsoever in the event that this report is supplied or applied for any purpose other than that for which it is intended.

Prior drafts of this report were provided to Synlait for review and discussion. Although minor factual changes to the report were made after the release of the first draft, there were no changes to our methodology, analysis, or conclusions.

This report is provided for the benefit of shareholders not associated with Bright or Bright's representatives on the Synlait board in relation to Resolution 1 and for the benefit of shareholders not associated with a2MC in relation to Resolution 2. Northington Partners consents to the distribution of this report to those people.

Our engagement terms did not contain any term which materially restricted the scope of our work.

Qualifications

Northington Partners provides an independent corporate advisory service to companies operating throughout New Zealand. The company specialises in mergers and acquisitions, capital raising support, expert opinions, financial instrument valuations, and business and share valuations. Northington Partners is retained by a mix of publicly listed companies, substantial privately held companies, and state-owned enterprises.

The individuals responsible for preparing this report are Greg Anderson B.Com, M.Com (Hons), Ph.D and Jonathan Burke B.Com (Hons), BCM. Each individual has a wealth of experience in providing independent advice to clients relating to the value of business assets and equity instruments, as well as the choice of appropriate financial structures and governance issues.

Northington Partners has been responsible for the preparation of numerous independent reports in relation to takeovers, mergers, and a range of other transactions subject to the Takeovers Code and NZX Listing Rules.

Independence

Other than other independent roles with Synlait, Northington Partners has not been previously engaged by Synlait or (to the best of our knowledge) by any other party to the Equity Raising in relation to any matter for the Equity Raising or a2MC Settlement that could affect our independence. None of the Directors or employees of Northington Partners have any other relationship with any of the directors or substantial security holders of the parties involved in the Equity Raising.

This report comprises both an Independent Appraisal Report under the Code and an Appraisal Report for the NZX Listing Rules and along with the Appraisal Report in relation to the Bright Shareholder Loan comprised one engagement with Synlait. The preparation of this report will be Northington Partners' only involvement in relation to the Equity Raising. Northington Partners will be paid a fixed fee for its services which is in no way contingent on the outcome of our analysis or the content of our report.

Northington Partners does not have any conflict of interest that could affect its ability to provide an unbiased report.

Disclaimer and Restrictions on the Scope of Our Work

In preparing this report, Northington Partners has relied on information provided by Synlait. Northington Partners has not performed anything in the nature of an audit of that information, and does not express any opinion on the reliability, accuracy, or completeness of the information provided to us and upon which we have relied.

Northington Partners has used the provided information on the basis that it is true and accurate in material respects and not misleading by reason of omission or otherwise. Accordingly, neither Northington Partners nor its directors, employees or agents, accept any responsibility or liability for any such information being inaccurate, incomplete, unreliable or not soundly based or for any errors in the analysis, statements and opinions provided in this report resulting directly or indirectly from any such circumstances or from any assumptions upon which this report is based proving unjustified.

We reserve the right, but will be under no obligation, to review or amend our report if any additional information which was in existence on the date of this report was not brought to our attention, or subsequently comes to light.

Indemnity

Synlait has agreed to indemnify Northington Partners (to the maximum extent permitted by law) for all claims, proceedings, damages, losses (including consequential losses), fines, penalties, costs, charges and expenses (including legal fees and disbursements) suffered or incurred by Northington Partners in relation to the preparation of this report, except to the extent resulting from any act or omission of Northington Partners finally determined by a New Zealand Court of competent jurisdiction to constitute negligence or bad faith by Northington Partners.

Synlait has also agreed to promptly fund Northington Partners for its reasonable costs and expenses (including legal fees and expenses) in dealing with such claims or proceedings upon presentation by Northington Partners of the relevant invoices.

Northington
Partners