**TRANSCRIPTION**

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**[START OF TRANSCRIPT]**

Hannah Lynch: Good morning everyone and welcome to Synlait Milk Limited’s Half-Year Results conference call. I'm Hannah Lynch, the Head of Strategy and Corporate Affairs here at Synlait. I'll shortly hand over to our CEO Grant Watson and our CFO Rob Stowell who will provide you with an overview of today's presentation for our results. We'll then open the phone lines for question and answers. I ask as always that when we reach the Q and A portion of today's presentation that you keep your questions to two per person. If you have any follow-ups after the call, please feel free to reach out to me directly. Over to you Grant.

Grant Watson: Tena koutou and good morning to you all. Thank you for joining us on Synlait's Half-Year 2024 results call. It's been a challenging half-year for Synlait as we continue to reset the company to better achieve our strategic objectives of working to finalise a clear plan to materially reduce our debt. After significant levels of investment over a number of years, Synlait has too much capacity and too much debt. Interest rates have roughly doubled in recent years and birth rates have roughly halved in our largest infant formula market, China. Today we will explain our clear plans to utilise and/or reduce capacity to materially reduce debt. In terms of our financial results, for half-year to 31 January, 2024, Synlait they reported an adjusted EBITDA of $36.1 million, total EBITDA of $19.9 million non-adjusted, and then adjusted net loss after tax of $17.4 million in line with previous guidance on an adjusted basis.

The total net loss after tax, $96.2 million. Net debt sits at $559 million. These results are extremely disappointing for a range of reasons that we will cover off during the call. Turnaround activities are broken into three pillars. First pillar, leveraging our balance sheet. We have too much debt. Our second pillar, filling our plants or reducing our manufacturing capacity. We have too much capacity. Our third pillar, improving our profitability across pricing, product mix, operational costs, and SG&A. Combination of these three pillars will ensure we return Synlait to a position of sustainable, profitable growth. Today we announce confirmation of amendments to our banking facilities, strategic review of our North Island assets, a letter of support from our largest shareholder Bright Dairy, an increase our base milk price forecast from $7.50 to $7.80 and in doing so reinforce our commitment to paying a market competitive milk price.

We are very thankful that our largest shareholder and our banking syndicate remain supportive of our strategy, which is first and foremost focused on our Advanced Nutrition and Food Service businesses. These are areas where Synlait has a clear competitive advantage, can deliver diversified high value growth. To enable our strategy, we have world-class manufacturing assets that are highly flexible and scalable, which ensures we are well positioned ahead of emerging customer demand trends, especially in areas such as Early Life and Adult Nutrition. All of this has proven to be a competitive differentiator in our negotiations with our customers, both existing and new. We have several trials in place with new customers of scale with several new products in development. When you combine this with a refreshed leadership team and board, you have all of the pieces to execute against our strategy and return to profitability.

Moving to slide two, the three takeaways from today are: takeaway number one, we have a clear deleveraging plan by our banks and largest shareholder, which includes a strategic review of our North Island assets alongside our ongoing work to sell Dairyworks. Takeaway two, we have an aggressive forward-looking business recovery plan, which is working across the Synlait business to accelerate volume growth, reduce costs, and increase the utilisation of our assets. Takeaway three, our strengthened leadership and governance, led by a restructure of our executive leadership team earlier this year, and the recent appointment of George Adams as an independent director, positions us well for stronger execution. He acknowledged that there are a number of material uncertainties that we need to navigate our way through during the next 3 to 12 months. Please refer to note two in the financial statements for more information.

We need to deleverage Synlait, address our excess capacity, and get back to focusing on what we do best: sourcing, developing, and producing innovative, nutritional, and Food Service products for the world's best food companies, whether that's Nestle, Danone, Savencia, The a2 Milk Company.

Turning to slide three, we have a clear plan in place to deleverage. We have today announced a strategic review of our North Island assets in Auckland and Pokeno that will canvas several options to realise their value more fully, whether that's by potentially divesting those assets, the whole or in part. To be clear, do not go into the strategic review with any preconceived outcomes in mind other than to maximise profitability and shareholder value in the long term. These are world-class facilities with unique capabilities such as plant-based and dairy.

As we have discussed with many of you previously, we have at various points considered a capital raise. We have not taken this option off the table. I also want to note that the Dairyworks sale process remains ongoing. This is a high value business like the North Island Strategic Review, the board wants to ensure the best possible return for shareholders should this business be sold. As I've indicated in my opening comments, our banking syndicate has provided us with the relevant amendments to our banking facilities. Our cornerstone shareholder, Bright Dairy has provided a formal letter of support, made additional loan facilities available to us if we need it, and provided commitment to support an equity raise if this is required, all of which provides Synlait with additional confidence and stability in the near term.

Moving to slide four, I want to quickly highlight that a North Island Strategic Review was needed. If revenue and volumes are proxy, you can see that Dunsandel is a strong profit centre. The North Island assets are loss making. Stronger contribution from Synlait North Island assets is needed by filling capacity with new customers and/or increasing volume from existing customers or by divesting assets partially or fully.

Moving to slide five, in terms of key financial metrics half-year adjusted net profit after tax is a loss of 17.4 million in line with guidance on an adjusted basis. Total group revenue is 793.5 million, up 3% on the prior period. As mentioned, the adjusted underlying total group NPAT is a loss of $17.4 million and $31.7 million down on the prior period. Total group NPAT is 96.2 million loss and $101 million on the prior period. Adjusted underlying total group EBITDA is $36.1 million down $26.4 million on the prior period. Total group EBITDA is $19.9 million down $31.6 million on the prior period.

We are pleased to announce an increase in our forecast Farmgate Milk Price for the season to $7.80 and on this basis we are forecasting our average total milk price to be $8.09, 29 cents above the market based milk price. Operating cashflow was a negative $98.1 million. This is an improvement on the prior period of $26.5 million. We improved capital expenditure by 48% and this sits at $17.5 million for the first half. Net debt, $559 million, total gross profit is $43.6 million down 47% on the prior period. Now like to hand over to Rob Stowell, our CFO to take you through financial performance.

Rob Stowell: Morning everyone, look, thanks Grant. Look, it's been a very challenging six months for the business. The result’s extremely disappointing for management and the board. I'll dig into some of the detail within the result. And the first slide I want to go to is really explaining some of the significant non-cash adjustments that have been made to the result. Which kind of takes us from the $96 million loss through to the 17 million adjusted. These items, some of them are taxable and some of them aren't, so I'll try to land it on a non-tax basis. The first adjustment is an impairment of $50.3 million before tax. This relates to the under utilisation of our North Island assets, specifically the Pokeno site where we have our dryer and also the Richard Pearse site where we have our canning line. We've invested significant sums in these facilities over the last five years and the assets need higher volumes to retain the valuations on the balance sheet.

Second is a $31.1 million write down of net assets value of the Dairyworks business. Due to Synlait holding this asset as held for sale, we are mandated under the accounting standards to value this asset at our best estimate of best fair value less disposal costs. The way we've done this is we've valued it at our latest non-binding indicative offers received. Essentially the net assets of the business are sitting around $150 million and we're valuing the business at around about $120 million roughly.

The third item is for the product costing method change. This is $11.6 million before tax or $8.4 million after tax and this occurs to some improvements that the finance team had made in our methodology of costing products. This change will allow us to do a much better job of understanding the site and product profitability across the business. We had agreed to treat this as an accounting policy change, which would appear minimal impact on the current year. The late change by our auditors after consulting with the global technical department has us putting through this change as an estimate, which has a non-cash change for this financial year. The adjusted NPAT loss of 17.4 million detailed on page eight, so next slide, includes the above, plus a small number of minor adjustments outlined.

We move to the next slide. This slide unpacks some of the key components of the result on an adjusted basis, and if you can cast your eyes across to the adjusted NPAT movement bridge on the right-hand side, it tracks what has changed from our adjusted NPAT of $14.3 million profit for half-year 23 to an adjusted NPAT loss of 17.4 million for half-year 24. Both half-year 23 and half-year 24 has been adjusted for the product costing change just mentioned.

To quickly summarise, Ingredients business delivered $20.8 million margin loss. This is half-year 23, with the volume impacts that were positive by 60%. Noting last year we had issues with our ERP system upgrade. This had a small positive impact of $5.7 million. Negative impacts on margin, and there's a number of them, offset this volume upside. Firstly, in product mix, this is to do with our skim milk powder, whole milk powder lead. We had very good returns last year and hence this year while we've got returns, they're outweighed by the fact that last year was so good. We've also seen the strength of butter prices improve quite dramatically and we don't have this in our product mix, we don't sell butter. And we've also seen a higher level of product discounting within the segment and a large FX impact as well. That all adds up to around $26.5 million downside on Ingredients.

This one is Advanced Nutrition, so this is delivered a $11 million margin loss change versus half-year 23. The negative impact mainly comes from volume, so it comes from roughly 1500 metric tonnes or less of infant formula volume and also sales of about four tonnes less lactoferrin compared to last year, that's around 9.4 million. And the other piece is really a softening in prices and within the lactoferrin area and also a little bit of FX. Consumer foods business delivered $0.8 million margin loss compared to HY 23. Look these businesses, this includes basically Dairyworks and the fresh milk and cream business, these businesses did pretty well last year and it's good to see some consistency come through also this half. Cream was up 2305 metric tonnes and this was mainly due to Dairyworks building market share and a small uptick on the fresh milk and cream business as well. Margins were slightly down due to the softening of retail prices of the fresh milk business due to the pricing model.

The other big down bar is sitting within our financing costs, a large increase in financing costs of $13 million due to interest rates being very high through our first half and obviously higher average debt balances is impacting there as well, despite the Ingredients system having less inventory. The number of slides following this one which go into a little bit more detail, so I'll just touch on them. Firstly, Ingredients. The margin on Ingredients was $1.4 million for the half compared to $22.2 million last half. Key thing to note on this slide is the dramatic reduction in inventory on hand and the increase in production achieved in half-year 24. The reduction in inventory and Ingredients has helped reduce our debt balances.

We move to the next slide, Advanced Nutrition. This area delivered a margin of $32.7 million was down from $43.8 million the last half. Key thing to note is the increase in base powder on hand in our half-year and this is due to change in approach across the two years. Firstly, last year you might remember we were building, running down base powders to allow for the new China formulations for the a2 Milk Company for the new SAMR registration, so that was the key reason we've got a difference in base powder.

Move to the next slide, same with foods. This area delivered $16.5 million margin. This is 17.2 million on the last half, so pretty consistent, and it's good to see the Dairyworks business continue to perform as we continue to hold this business up for sale. They're set for a strong second half after doing capital works to improve their efficiencies around the Christmas period.

The next slide is Food Service. This is essentially our UHT whipping cream business into China and this delivered a margin of a 100K versus a loss of a 100K last year. It's new business, sales have grown from 1.1 million last half to 9 million of this half. The business unit was impacted by a number of startup costs, but we see this area improving as volume goes up over the next 6 to 12 months.

Next slide is the SG&A and manufacturing cost slide. It's pleasing to see the results of our cost out program reduce SG&A cost by $5 million, 7.8%. Last year we had our ERP system challenges. However, this year we have again incurred costs in relation to customer contract disputes, deleveraging of the balance sheet and getting our sales organised around asset sales, and equity and debt options, and also implementing new warehousing in the North Island to assist with the new multinational customer there.

However, within manufacturing costs, there’s been more difficult problems attained. These costs rose $13.7 million or 9% and the key backdrop here was our strategic objective, to increase the production in our North Island operations. Costs had to be put in the head of volumes, which was slower to materialise due mainly to market entry issues. Areas where we saw costs increase were around milk supply costs. This was due to the incentives but also higher transport costs and inflation generally. Energy costs were also up, due to higher prices and clean energy initiatives. Depreciation was up due to the North Island plants upgrades and the depreciation of those coming through. Employee and contractor costs were up due to modest wage inflation and the ramp up of our North Island sites. Dairy costs were up 3.2 million due to the ramp up of sales and production volumes into new markets. However, these costs are more than offset by the higher margins within that business.

If we move to the next slide on cash flows and net debt. Debt ended as Graham mentioned, at 559 million. This was up from 519 at the same point last year, an increase of roughly $40 million. This is always at a peak at this point in the year due to the seasonality of the business. Lower profitability and high financing costs are also contributing to the higher debt level. Key points to note on this slide is that our operating cash flow’s actually improved by 26.6 million compared to last year. This is mainly due to the fact that we didn't have the ERP issues affecting volumes like they did last year. Capital expenditure is tracking down and with all major projects now complete came in at 49% within the previous year at $17 million.

We're not providing guidance on debt ratios at this point due to the uncertainty around the deleveraging items both in timing, amount and potentially EBITDA changes. The goal remains to get our debt ratios down between 2 times and 2.5 times debt to EBITDA as soon as possible.

Turning to the last slide on banking facilities and banking covenants. Our expanded banking syndicate now includes five banks and has continued to be hugely supportive over the last six months. I'd like to take this opportunity to thank the banks publicly for their unwavering support. It's obviously been a challenging period where we have, despite coming very close, yet to receive the binding offer on the Dairyworks business.

Board of management have extremely strong desire to reduce debt and associated high servicing costs that go with it. As mentioned earlier in the presentation, we have several parallel work streams to achieve in the next three or four months that centre around both equity raising and asset sales. We expect the level we need to deleverage is by roughly $300 million to enable us to refinance both our senior bank debt and the bond maturity in December. Where in the meantime, we need space and have negotiated an extension of the $130 million repayment to the 15th of July and have also completed amendments to several of our key banking covenants.

Bright Dairy providing binding support through this time has also been critical to allow us time to execute in this tough M&A environment. I would also like to thank Bright Dairy Group for the binding letter of support. Over to you Grant.

Grant Watson: Thanks Rob. I'll now take you through a business update. We move firstly to Advanced Nutrition. In terms of leadership, new Chief Revenue Officer role has been established. Naiche Nogueira, previously the director of Advanced Nutrition has been appointed to this role. Chief Revenue Officer role will reduce complexity through a single point of customer contact across the Advanced Nutrition and Ingredients business units. A bit of business development: dairy/non-dairy hybrid nutrition products now being exported to a range of Asia Pacific markets in various can and flexible packaging formats. Trials and audits are underway to produce infant formula base powder in Southeast Asian markets following the signing of a memorandum of understanding with a new prospective customer.

Strategic priorities for Advanced Nutrition are to deliver compelling value to our two corner strategic customers. Grow Early Lives and Adult Nutrition business in China and Southeast Asia, diversified specialty ingredients across categories and customers. Moving on to Food Service Development, we harness sales volumes delivering against growth expectations. The partnership with Sinodis has achieved strong market recognition in China. The food company Uhrenholt confirmed the first UHT cream order for April, 2024 production through its Emborg brand. Uhrenholt launches into Southeast Asia in May, 2024. Innovation pipeline is underway to bring the second generation of Joyhana Cream to market in December, 2024. Strategic produce to Food Service are; grow market share and distribution in China and Southeast Asia, expand innovation pipeline and this includes beverage cream and other functional creams. Category expansion is appropriate involving a partnering approach in the medium to long term.

Onto Ingredients. From a business development perspective, we have a new five-year investment partnership with Nestle announced through our Lead With Pride program to support Synlait farmer suppliers and on-farm sustainability. We have increased the number of high margin multi-contract and multinational customers. Strategic priorities for Ingredients are, optimising product mix, delivering premiums above GDT, appropriate sales phasing, growing our value added portfolio through reducing operational complexity and continuing to optimise our cost base and commercialising Synlait's strong sustainability credentials.

Moving on to consumer, which is primarily Dairyworks. Dairyworks’ EBITDA performance continues to track positively towards budget expectations. This will be materially higher than FY 23. Capital improvements have been made, and enabled greater labour efficiencies and safety improvements and product quality. Rolling Meadow brand positioning and visual identity has been refreshed for the first time in 15 years. Southeast Asia and Australia continue to be the significant growth engines for Dairyworks.

Moving on to on-farm excellence and sustainability. Tension of our high quality milk supply remains a critical priority. The balance sheet has come under continued pressure, cessation notices from farmer supplies have increased compared to previous years. Cessation notice period is two years, which means Synlait's current financial performance is not impacted. We're confident given the progression of the reset plan there is currently limited material risk to future financial performance. Strong competitive farmer supplier offering remains in place. We have also made a number of enhancements to our Lead With Pride program. Synlait achieved B Corp Recertification, global gold standard accreditation in sustainability.

Moving on to our forward-looking business recovery plan. Our plan is well progressed. As mentioned, this is broken into three pillars. The first pillar is deleveraging and cashflow improvements. We are targeting net debt to be below $200 million by the end of FY 25. Total debt reduction target for us, circa $300 million. The second pillar, accelerating volume growth. Targeting over 20,000 metric tonnes of volume growth, Synlait value add products by the end of FY 26. The third pillar is optimising performance. They're targeting an EBITDA improvement from both volume and performance initiatives of $45 million per annum on the end of FY 26. Specifically, the first pillar deleveraging and cashflow improvements. We have a clear deleveraging plan in place. We are focusing on further working capital and CapEx improvements.

Moving on to the next slide to accelerating volume growth. This broken into growing Advanced Nutrition volumes, and we're speaking here specifically to Early Life and Adult Nutrition in China and Southeast Asia. Second part is growing Food Service volumes in China, Southeast Asia, and also exploring the Middle East. The third part is accelerating growth in China. Leveraging our strong and committed partnership with Bright Dairy in China, accelerating volume and value growth opportunities for Advanced Nutrition, Food Service, and Ingredients. We are underweighted in this highly profitable market. The third pillar, specifically around optimising performance, is around improving manufacturing performance, improving quality performance, optimising our supply chain, and executing our cost reduction initiatives.

Moving on to strengthened leadership structure. The search for a new independent director is complete with the appointment of George Adams to the board in March, 2024. In terms of our executive leadership team, direct reports to myself reduced by three and this will increase business unit alignment, accelerate growth, reduce costs. Naiche Nogueira, as mentioned, now has Advanced Nutrition and Ingredients along with a number of other customer supporting options. Paul Mallard now takes ownership for the end to end supply chain from planning, manufacturing, quality, and supply chain. And Charles Fergusson takes on the additional responsibilities of corporate affairs strategy. It is worth noting that Tim Carter still reports through to me as the CEO of Dairyworks until such time as this business is sold. Now hand you back to Rob Stowell to take you through the full year 2024 guidance statement.

Rob Stowell: Grant, look, our guidance statement previously pointed towards an EBITDA of $90 million, flat or down. Synlait now expects our FY 24 EBITDA result to be significantly down. We're putting out a range of between 45 million and $60 million excluding any non-cash adjustments for product costing method. That change will grow through to the end of the year to roughly 17 million. But that's an estimate at this stage. The key areas that we're seeing being impacted is softening demand and also margins right across all the business units. We're also seeing adverse foreign exchange affecting our results and also ongoing product mix headwinds. And the final bullet point there, and we've given some examples, is operating expenses continue to be challenging, legal costs, a number of costs coming through on our inventory management, and other costs.

Look, it is noted throughout our materials and financial statements, we do face material uncertainties around the timing and amounts of the deleveraging options. They're all currently progressing. We would hope to keep you updated on how that is progressing over the next couple of months. And look, the final point there is the board and management remain fully committed to the deleveraging. That's number one priority and we'll continue to focus on improving the profitability for the balance of 2024.

Grant Watson: The final slide before we open up to questions, here's what you can expect from Synlait in the second half of FY 24. We will deleverage our balance sheet and improve cashflow. We will accelerate volume growth, and if necessary, reduce capacity. We'll optimise our operational and trading performance across manufacturing, quality, supply chain, and our cost base more generally. Now I’ll hand back to Hannah Lynch.

Hannah Lynch: Thanks Grant and Rob, we'll now hand through to Ashleigh at Chorus Call to start the Q and A process for us. Reminder, if you could just keep your questions to two per person, I'm happy to take follow up with the team as always later today. Ashleigh, over to you.

Operator: Thank you. If you wish to ask a question, please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star two. If you're on a speakerphone, please pick up the handset to ask your question. Your first question comes from Matt Montgomerie with Forsyth Barr. Please go ahead.

Matt Montgomerie: Hi guys. Good morning. I might just start with your outlook commentary. I'd just be keen to understand, I guess, what's changed in the last six weeks or so, so dramatically. I mean if I look at the factors you've called out in terms of margins and costs, it's consistent with what was articulated in February. I'd just be keen to understand within each segment with some detail what's driven the big step change.

Grant Watson: Matt, I'll try and give a little bit more colour to what's going on. First of all, I'll touch on the Advanced Nutritional kind of segment. What we're seeing within there is impacts across lactoferrin, so we've got uncertainty around - the market has really softened uncertainty around value and also prices. As you know, the lactoferrin segment has been quite profitable for us in the past and we are seeing some volatility in that space. The other factor hitting FX and also the other segments is foreign exchange. Fonterra released a FX assessment in late January, early February, which basically kind of crystallised the fact that actually we were behind on foreign exchange. We'd had a number of tailwinds for foreign exchange the previous two years but were actually behind and that's affecting the Ingredients business recently significantly and also in other segments as well.

Some of the other information that's come through over the last six weeks is really around inventory and discounting of inventory. And so, we’ve still got a number of issues, particularly within our logistics and our rehousing around inventory and products that are not valued at what we think they're valued at. And so, we're working our way through that at the moment. And then I guess the overlay is still not quite knowing exactly how we're going to go across the next few months around expenses, costs, supply chain disruption through the Red Sea shipping kind of play there. To the other things we're concerned about, look, I would hope that that range is a conservative range and that we'll be targeting to be towards the upper end of that range.

Matt Montgomerie: And just within the Advanced Nutritional’s business, I think prior commentary was volumes to be up 11 to 12% in FY 24. What would that number be now, presumably it's lower, and I guess where's the differential coming from? Is it the Abbott volume’s slower or is it a2 moving volumes away from your facilities quicker than expected or in demand from them?

Grant Watson: Look, this is commercially sensitive information, but I'll try and give you a little bit of colour here. We are actually expecting our infant formula volumes to be a little bit better than what we anticipated previously. That and our volumes produced up in our Pokeno site to be a little bit down on what we initially we are projecting six months ago.

Matt Montgomerie: So net debt, no change?

Grant Watson: Fair to say net debt would be down at what we are originally anticipating six months ago.

Operator: Thank you. Your next question comes from Nick Mar with Macquarie, please go ahead.

Nick Mar: Morning guys. Just in terms of the strategy from here, it sounds like you're going to be a single site kind of one customer business really again, is that something that you guys are able to manage the risks appropriately of going forward? Sort of what Synlait has been working to get away from for the last five years?

Grant Watson: Yeah, Nick, clearly we haven't made any decisions on the complete sale of North Island assets or potentially selling half of that asset base. And there's still a possibility that we might retain those assets. Regardless, it doesn't take us away from our focus on Advanced Nutrition and Food Service. Food Service creams come out of the Dunsandel site and any future category growth Food Service would also come most likely out of the Dunsandel site. Clearly on the Dunsandel site, we've got capability for the a2 milk company business for other customers that we're in the process of acquiring. And there are other potential opportunities that we could develop in the Dunsandel side if in the event we did exit our North Island position. Strategy focus around Advanced Nutrition, Infant and Adult remains and focus on Food Service remains.

Nick Mar: That's helpful. And then in terms of some of the longer term goals you put out in the last year or two, are those parse now, are they unachievable in terms of the 15% return on capital target? Just some flavour around that and how much of, I guess the challenges are still in your view, short term one-off things versus rebate in the returns for this business?

Rob Stowell: Yeah, Nick, it’s Rob here. Look, obviously we're going through this strategic review in the North Island, so there's a fair few moving parts and obviously the Dairyworks process is still in play. And saying that, I mean I think the 15% function of both profitability and assets and so I think we would continue to revisit that we've still got ambitions to be a high returning business in the future, but I think it'll become clearer over the next three to six months on exactly what that return in the long term looks like.

Nick Mar: Okay, thanks guys.

Operator: Your next question comes from Marcus Curley with UBS. Please go ahead.

Marcus Curley: Good morning gents. Could we just extend on the asset sale program? Could you just give a little bit more of an update in terms of where Dairyworks sits? You've had indicative offers at 120, you're still working on those or are those offers gone and you're restarting?

Grant Watson: Yeah, look, we've had a lot of offers, non-binding, but we came very close last week to getting a binding offer. I can't say who the party was, but it did not occur and it wasn't because of the business and it was a very much a party that really liked the business, but for regulatory reasons it just wasn't the right time for them to bite down on it. I think going forward that was a setback, but we've still got at least two parties who are interested and we continue to work with them over the next couple of months to see if we can build them into a credible offer.

Marcus Curley: Okay. And then the other option clearly is in North Island. Could you give a little bit of colour about the value there? You've written down Pokeno, but to what level? I can't see anything in the accounts that sort of stipulate the North Island values.

Grant Watson: Look, yeah, I don't want to give away too much information here, but essentially it depends what assets you include in the North Island, but if you include Pokeno, we've basically got Pokeno, we've got the Richard Pearse Drive canning line and we do have associated warehousing for those assets under lease. Those assets, the net value of those assets are low 400 million. The impairment, which is kind of accounting treatment goes across all our milk assets including the North Island site but I wouldn't too much reference from that. Obviously, we need to go through a process over the next couple of months around really exploring the strategic value of those assets in the North Island.

Marcus Curley: And at the moment, is it fair enough to say that the Pokeno and related assets are EBITDA loss making?

Grant Watson: Yeah, correct.

Marcus Curley: Okay. And depending on how you account it, the blending and canning would be relatively profitable.

Grant Watson: Look, we've got capacity in the South Island for plenty of canning still. We've got headroom and capacity down here and obviously we have a lot of headroom up in the North Island. There's only a small volumes going through the North Island canning line.

Marcus Curley: All right. Okay. Yeah, there's not a lot of revenue or EBITDA with the North Island blending, canning, so the value there would depend on the acquirer bringing their volumes into it?

Grant Watson: I think the way to think about it is essentially if you can increase the nutritional volumes through the Pokeno site, we've got a sachet line at that site as well and then we've got canning at Richard Pearse Drive, then all those assets start to work together, but you need to increase that base load of nutritional volumes within Pokeno first.

Marcus Curley: Okay. And then, sorry, that was a longwinded first question. The second question was, you mentioned in the strategic component an uplift in EBITDA of 45 million by end of 26... What base is that using? Is that using the new revised guidance for 24?

Grant Watson: Yeah, no, no, correct, using FY 24 as a base. Those targets basically include, it's mainly driven by value, but also there's other stuff I talked about a lot in the past around leakage in the business where we've got improvements around costs and yields and inventory management. All those sorts of initiatives have been worked into those numbers as well. Marcus, it's worth mentioning that the North Island asset base has high fixed costs attached to it. A high contribution margin volume flows through those assets. It improves the profitability in a reasonably rapid fashion.

Marcus Curley: And then, sorry, just extending on that, so what assumption, if any, have you made around a2 volumes? Obviously, they've announced that they're planning on moving the stage four away. Outside of that, is there anything else assumed within the 45 for them?

Grant Watson: Where we have certainty around their forecasting, we've allowed for that. Where we have uncertainty around future volume. For example, dependent on the outcomes of say arbitration, we've taken a risk weighted view and we can't specifically talk to that at this point.

Marcus Curley: Okay. But broadly speaking, it assumes that their China label and their English label stage one through to three broadly remains in the business.

Grant Watson: A simple way of looking at it for the time being is that we hold the same licence for the a2 product. Depending on the outcome of arbitration, it may or may not impact English label volumes. Again, we've taken a risk weighted view of that.

Marcus Curley: Okay. All right, thank you.

Operator: The next question comes from Sean Xu with CLSA. Please go ahead.

Sean Xu: Morning team. Thank you for taking my question. My first one is around the capital raise, so it's great to see the support from your largest shareholder on its commitment to a potential capital raise and the bridging loan if needed. Given we haven't heard anything from a2 Milk being seen like second largest shareholder on these. Does that mean you haven't got support from your second largest shareholder on the capital raise? I know it's probably a difficult question to answer, but any information you can share on this will be helpful. Thank you.

Grant Watson: We haven't directly engaged with the a2 Milk Company on the capital raise. If we get to the position where a capital raise is concerned, clearly we would engage with our second largest shareholder and largest customer on that point. But at this stage we have not engaged with them.

Sean Xu: No problem. Thank you. My second question is around the interest costs doubled in the first half compared with PCP. How can we think about the full year interest expenses in the context of this 130 million debt extension, also potential intercompany bridging loan from Bright, assuming that bridge loan will be charged at the market rate, if that's correct?

Grant Watson: Yeah, look, it's a good question. I think, obviously, we are expecting funds to come into the business in February and March, and that's kind of been pushed out for a period of time, but it really is more likely that EDD leveraging funds that come in will be closer to July for instance, as opposed to around April. Interest costs will continue to increase on our original forecast. Any kind of loan that comes through from a related party such as Bright would have to be at market value.

Sean Xu: Cool. Thank you. Thanks.

Operator: Once again, if you wish to ask a question, please press star one on your telephone. Your next question comes from Stephen Ridgewell with Craig's Investment Partners. Please go ahead.

Stephen Ridgewell: Yes, good morning. Just picking up on Bright Dairy's letter of support for equity raising, are you able to elaborate a little bit more on the extent of the commitment they've provided to Synlait? I mean, have they committed only to take up their rights on a pro rata basis in the event of an equity raising? Is there scope for them to take up more than a pro rata, please?

Grant Watson: Look, it's very, very premature, Stephen. At this stage they've committed to anticipating in an equity raise if we went down that track, whether they would want to increase their position through that process or normal trading at the market. That is a question for them and it's certainly well premature given that we haven't decided on a capital raise at this point.

Stephen Ridgewell: Okay. I guess, but at the least if they committed to pro rata, taking up their right to pro rata and equity raising, so I don't think that's premature given that's obviously been tabled as a consideration for the company next few months.

Grant Watson: That's correct, Stephen.

Stephen Ridgewell: Okay, thank you. Second question also on the recapitalization plan. There's a comment on, I think it was that plan B is to actually the preferred equity for 100 to 150 million and then consider divestment of the other North Island assets including Pokeno. Can we just be a little bit clearer about what plan A is? Because, Grant, I think you've alluded to on the call, the company's plan is to deleverage by 300 million. You've obviously got a carrying value of 120 million for Dairyworks, but there is another 180 million. If you're not selling Pokeno, if you're not issuing the 150 million of equity is the extra 180 million from an equity raise. I'm just curious how you deliver by that amount with plan A if you like.

Grant Watson: Yeah, the three big buckets here, Stephen, one is to potentially sell part or all of our North Island assets. Secondly, to sell Dairyworks and thirdly is an equity raise.

Stephen Ridgewell: Okay. All right. Plan A would probably include some asset sales. Okay, no, that makes sense. And then if I'm allowed just one more, just one for you, Rob. Just the 17 million adjustments, and sorry if I missed this before, but can you just give us a little bit more comfort? It's a genuinely non-cash item. The new interpretation from your auditors, is it just an inter period accrual adjustment or is it genuinely a non-cash one-off kind of factor to consider?

Rob Stowell: Yeah, I mean basically no extra cash is going out of the business. All we're doing is we're allocating our manufacturing overheads more to the Ingredients business and less to the Advanced Nutritional business. And so, what creates the adjustment period is the fact that we hold reasonable levels of inventory of nutritional products at each year end, so all the base powder that we need for the next season. That's what moves around the numbers. It's just a way of allocating our manufacturing costs into product costs essentially, which is throwing around the numbers.

Stephen Ridgewell: Okay, cool. We might discuss this more offline, but appreciate the answers. Thank you.

Operator: Your next question comes from Marcus Curley with UBS. Please go ahead.

Marcus Curley: Sorry, just a follow-up. When you mentioned that first bucket around the potential North Island asset sales, is that one group of assets you're looking to market or are you looking to market them separately as well as together?

Grant Watson: Our initial thinking, Marcus, is that it's a group of assets in the North Island. There may be interest as we get into the strategic review for them to be viewed separately. I think that's unlikely. I suspect they would be viewed together.

Marcus Curley: Okay. And is there a logical type of bias or investor for that collective group of assets? Do you see it as somebody who already operates dairy in New Zealand or how do you think about the appetite there?

Grant Watson: Yeah, look, I think given the very high quality of assets, particularly at the Pokeno site, it's likely to be a buyer that has an interest in Advanced Nutrition and potentially an investor that has an interest in both plant-based and dairy given the segregation that we've got on that site with the two wet mix operations that exist. Look, I think it would be unlikely to be in the event we sold it for it to be picked up by a pure commodity player. Again, the whole point of getting into a strategic review is to really understand whether we are the highest value owner of those assets.

Marcus Curley: And has Abbott shown any interest in acquiring those assets or had any discussions with them?

Grant Watson: We haven't commenced any formal discussions with Abbott at this point.

Marcus Curley: Okay. Thank you.

Operator: There are no further questions at this time. I'll now hand back to Mr. Grant Watson for closing remarks.

Grant Watson: Again, a very, very challenging first half for Synlait. Today we're very pleased with the ongoing support that we have from Bright Dairy, from our banking syndicates. We are 110% committed to deleveraging the balance sheet. And it's important today that we signal to our farmer suppliers that we remain very committed to paying a market Farmgate Milk Price. Thank you again for your time.

Operator: That does conclude our conference for today. Thank you for participating. You may now disconnect.

**[END OF TRANSCRIPT]**