



20 August 2015

NZX/ASX Market Release

Above expectation performance in Australia continues to provide a platform for the Company's strategic growth initiatives

Overview - financial results for the year ended 30 June 2015

- Total revenue of \$155.109 million, an increase of 40% over the prior corresponding period (pcp)
- Net loss after tax of \$2.091 million after absorbing costs associated with the ASX listing and employee share scheme expenses (non-cash), both non-deductible for tax
- Group operating EBITDA¹ of \$4.810 million before non-recurring costs, representing a 35% increase on pcp. Result reflects record operating performance in Australia and New Zealand (ANZ), complemented by investments in growth markets in the rest of the world and corporate costs to support the growth strategy
- Substantial growth in sales of a2 Platinum[®] infant formula across ANZ and China with total revenue of \$41.671 million, up 445% on pcp
- Increased liquid milk market share in Australia with fresh milk sales up 10% in AUD over the pcp
- International business growth continued with the launch of the a2 Milk[™] brand in the USA and successful repositioning into the specialty milk segment in the UK

The a2 Milk Company (a2MC) performed ahead of plan in FY15 with the Company's growth initiatives continuing to progress positively. The ANZ business continued to perform very strongly with growth in both revenue and operating earnings which was supported by a broader portfolio of products. The Company achieved exceptional growth in a2 Platinum[®] infant formula across both ANZ and China and, as a result, this product is emerging as a significant growth driver for the Company. Further highlights were the launch of a2 Milk[™] in the State of California, USA from April 2015 and the repositioning of fresh milk into the specialty milk segment in the UK.

Managing Director Geoffrey Babidge says, "The Company's growth initiatives continue to progress in a very positive manner and the results of this are now evident in the FY15 trading results. The Australian business continued to perform very strongly and returned a record result for the region. The growth in a2 Platinum[®] infant formula in ANZ and China was exceptional and provides a potentially significant earnings contributor for the future. We were also pleased with the commencement of sales activities in the USA milk market and repositioning our product offering in the UK market."

Chairman David Hearn says, "The Company has had another successful year with a strong underlying trading result and achievement of a dual listing on the ASX. The achievements in FY15 have laid the foundation for continued strong growth in both revenue and operating earnings in the year ahead."

¹ Earnings before interest, tax, depreciation and amortisation (EBITDA) is a non GAAP measure. However, the Company believes that it provides investors with a comprehensive understanding of the underlying performance of the business. A reconciliation of EBITDA to net profit after tax is shown at the end of this document



The full year result included:

- EBITDA before inter-company charges² for the ANZ operations of \$30.006 million, an increase of 60% on the pcp;
- EBITDA before inter-company charges for China and other Asia totalling (\$3.103) million;
- EBITDA before inter-company charges for UK and USA totalling (\$12.062) million;
- Employee share scheme expenses (non-cash) of \$1.083 million;
- Non-recurring ASX listing costs of \$1.681 million;
- Corporate and other costs before inter-company charges of \$10.032 million;
- Income tax charge of \$3.372 million³
- Basic earnings per share (EPS) of (0.33c); and diluted EPS of (0.32c)

Cash on hand at year end was \$6.092 million with cash outflow during the year primarily reflecting investment in working capital to fund growth in the ANZ business and infant formula.

As previously advised, the Board was at an advanced stage of planning an equity raising in June 2015, to maintain the conservative approach to managing the Company's capital position. In the context of receiving an Expression of Interest and consistent with ASX listing rules, the Company deferred its plans for raising additional equity. However, the Board continues to monitor market developments with a view to maintaining an appropriate and conservative capital structure. We have had no further communication with either Freedom Foods Group Limited or Dean Foods Company since we advised that the proposal in the Expression of Interest was not compelling.

During the year the Company continued the process of Board renewal. Mr Perry Gunner resigned as a director at the General Meeting in November, 2014. Mr Cliff Cook, Chairman and Director since 2004, retired after 11 years with the Company, and Mr David Mair, a Director since 2008, stepped down after 7 years. The Company has expressed its appreciation for the substantial contribution made by those now retired directors, in particular Mr Cook who was a driving force as Chairman from 2004. Mr David Hearn replaced Mr Cook as Chairman, and Ms Julia Hoare was appointed Deputy Chairman.

On 31 March 2015 the Company was admitted to the Official List of the Australian Securities Exchange (ASX), which allowed for broader investor participation alongside the existing NZX Main Board listing. The Company has been pleased to see an additional ~1,800⁴ Australian investors added since admission to the ASX, representing ~38% of shares on issue.

On the basis of the FY15 performance, and assuming current trading conditions and trends in infant formula are sustained, the Company is forecasting strong growth in both revenue and operating earnings in FY16. Group revenue is forecast to increase to \$267 million in FY16 (a 72% increase over the pcp) and Group operating EBITDA to \$12 million (a ~150% increase over the pcp before non-recurring items).

Preliminary audit clearance has been obtained for these full year results pending finalisation of the 2015 annual report.

² Inter-company charges include royalties, licence fees and management fees payable to the Parent, and marketing and herd testing costs payable by the Parent

³ The high income tax charge represents non-deductible expenses largely related to the ASX listing and the Company's employee share scheme; and international losses not fully tax effected

⁴ As at 18 August 2015



Strategic Agenda

The Company continues to execute on its strategy of growing and broadening the ANZ business and developing international growth opportunities in the rest of the world. This strategy is resulting in an expansion of the product portfolio across an increasingly global distribution framework.

Infant formula is emerging as a significant and meaningful growth driver for the Company. This was demonstrated in the current year with revenue of NZ\$41.7 million across ANZ and China, now accounting for 27% of total business turnover within 2 years of launch. The majority of sales occurred within the Australian grocery and pharmacy channels, although the Company believes a proportion may relate to products which were on-sold into China, as is the case with other premium infant formula brands sold in domestic markets. To foster further growth in infant formula, the Company is broadening the portfolio and distribution of the a2 Platinum® brand. This includes launching new infant formula based products and expanding distribution routes into China by combining cross border and e-commerce platforms with the existing Mother Baby channel to maximise consumer accessibility in the region. Furthermore, the Company is considering a product launch in the UK in the short to medium term.

The Company has commented previously on its intention to broaden the product portfolio in Australia. New offerings are underway, with the introduction of a2 Milk™ whole milk powder in June 2015. This is expected to have a broader distribution rollout throughout FY16. In addition the Australian business recently launched a2 Ice Cream™ in early August 2015. The Company is optimistic about the growth prospects for these new products in Australia and potentially in other markets over time.

The Company also expanded the a2 Milk™ brand into new markets during FY15. The China business began selling a2 Milk™ fresh milk sourced from Australia in August 2014 and will launch a2 Milk™ whole milk powder through e-commerce and cross border distribution channels during FY16.

With the initial launch of a2 Milk™ into the California market in the USA underway, the Company is looking to extend distribution into additional states over the next 12 months.

Having successfully repositioned the UK a2 Milk™ brand within the premium specialty milk segment, the Company is focussed on broadening the product portfolio with the potential introduction of UHT milk and a2 Platinum® infant formula.

Furthermore, the Company is investigating further opportunities in relation to dairy and infant formula products, including the sale of liquid milk in New Zealand.

ANZ

The ANZ business continued to deliver very strong revenue and earnings growth on the prior year, with FY15 returning a record result for the region. Total gross revenue in AUD across all product categories increased by 45% on the pcp to \$148.4 million, and Operating EBITDA before intercompany charges totalled NZ\$30.0 million. This result reflects the continued strong performance of fresh milk combined with the exceptional growth of a2 Platinum® infant formula.

Australian fresh milk sales continued to achieve solid growth of 10% in AUD on the pcp, notwithstanding increased competitor activity. This is a pleasing growth rate driven by growing consumer awareness of the benefits of the product, and the breadth of distribution in the retail trade. Importantly, during FY15, gross sales for Australian fresh milk exceeded AU\$100 million for the first time - a significant achievement for the business. Grocery channel market share now approximates 9.3% (Australian Grocery Weighted Scan MAT as at 30 June 2015) for fresh milk in Australia.



The Company experienced a marginal decline in fresh milk gross margin, driven by increased farm-gate raw milk prices. However, the majority of cost increases were offset by efficiency gains at its Smeaton Grange processing facility. The Company continues to focus on achieving processing efficiencies with the objective of maintaining attractive gross margins.

As indicated, sales of a2 Platinum® infant formula in Australia exceeded expectations in the current year. a2 Platinum® has recently been the fastest growing infant formula brand in the Australian market with an estimated 12% grocery market share for the 13 weeks ending 11 August 2015 by value, notwithstanding only achieving ranking in a second major retailer from November 2014. This rapid growth in demand led to stock shortages, which impacted total sales and market share for the year. In addition, and in response to the growing demand for a2 Platinum® infant formula, the Company extended the existing range of three variants to include a fourth product in July 2015.

Further revenue growth was achieved from new products including a full year's revenue from a2 Cream™ and the launch of a2 Milk™ whole milk powder in limited release within one major retailer in June 2015. The Company experienced a positive initial consumer response to the launch of whole milk powder, and is optimistic about future growth prospects for this product.

In response to the increasing demand for infant formula and whole milk powder products, the Company has been active in securing new long term milk supply contracts in New Zealand, with annual milk supply doubling to over 100 million litres.

On the basis of the strong performance in the current year, and assuming current trading conditions and trends in infant formula are sustained, the Company is forecasting further significant growth in revenue and EBITDA for FY16.

China

As previously advised, the growth of a2 Platinum® infant formula within China was impacted by changes in access arrangements for manufacturers and brand owners from ANZ into China during calendar 2014. The Company's manufacturing partner Synlait Milk achieved the new form of registration in late September 2014 and shipments of a2 Platinum® infant formula to China recommenced from December. The Company continued to invest in marketing activity and sales support for distributors during the FY15 year in order to build a solid foundation for future growth.

In November 2014, the Company announced changes to its supply and distribution arrangements with China State Farm Holding Shanghai Company (CSF). Under the revised arrangements, CSF has become the exclusive import agent and government relations partner for a2 Platinum®. The Company has now assumed direct responsibility for distribution of a2 Platinum® in China with an experienced local team of eight, based in Shanghai. a2 Platinum® was showcased at the annual Children Baby Mother Expo (CBME) in Shanghai in July 2015, attracting significant interest from local distributors. The network of local distributors has grown to 25 as at August 2015 with strength emerging across East and West China. As a direct result of these changes and the increased exposure of the a2 Platinum® brand on digital platforms in China, the Company remains very positive regarding the growth prospects in this market.

a2 Milk™ fresh milk sourced from Australia was launched in China in August 2014 in premium supermarkets, through consumer subscriptions and also with JD.com, China's largest online direct sales platform. Whilst the immediate direct sales impact of fresh milk and also UHT milk is modest, these initiatives will help establish the a2 Milk™ brand in China and broaden the trial base.



To take further advantage of the growing e-commerce and cross-border platforms, the Company also recently launched “The a2 Milk Company” store on T-mall Global during July selling Australasian label a2 Platinum® infant formula direct to Chinese consumers. Within its first 4 weeks of operation there were approximately 60,000 unique visitors to the online store. It is anticipated that further e-commerce initiatives will follow.

UK

During the financial year, the Company repositioned the a2 Milk™ brand in the UK into the premium specialty milk segment away from mainstream dairy. The strategy draws on the experiences in Australia and focuses on three key elements – building distribution in existing accounts; increasing awareness of the unique attributes of the product in a targeted manner; and enhancing price positioning through new packaging formats to improve margins.

The Company has been pleased with the acceptance across the retail trade for the new one litre pack format, with the product now represented in the majority of supermarket accounts in the UK. The pack transition and the associated pricing realignment have significantly improved unit gross margins. The introduction of the new format and shift in shelf location was dependent on the timing of retailer reviews and was completed during March 2015. New ranging in J Sainsbury stores commenced from November 2014 and Harrods from May 2015. In addition, the Company’s existing retail partners Tesco, Waitrose, Ocado and Morrisons all progressively transitioned to the new pack format.

The phased execution timings resulted in second half sales momentum below expectation. Notwithstanding this, the Company is confident of achieving positive growth in FY16 in fresh milk. Importantly, the Company has now established a more solid brand platform for further product extensions.

The Company continues to be well supported by its supply partner Müller Wiseman Dairy, with packaged product consistently supplied to a high quality standard.

USA

The a2 Milk™ brand launched into the Southern California region during April 2015 and will commence its roll-out into Northern California from September. The Company has made solid progress in building retailer distribution and is on target to achieve approximately 65% of retail weighted distribution in Southern California by late August. Overall initial retailer acceptance has been high, with only one major retailer group presented to being yet to place an order. The focus has now turned to achieving similar distribution in Northern California.

After evaluating the early positive trends, the roll-out plans beyond California are now focussed on building distribution across a number of select national customers, which best align with the a2 Milk™ brand’s healthy and natural positioning. Already the brand is being distributed on a nationwide basis by two of the largest natural food specialty chains in the USA, Sprouts Farmers Market and The Fresh Market. Discussions with additional national retailers are progressing.

In addition to expanding retail distribution with key customers, the Company has been building internal capabilities and infrastructure to support the roll-out plans. The Company is in the final stages of establishing national broker relationships with an emphasis on key customer representation, along with retail activation of the a2 Milk™ brand. The Company is also focussed on building awareness and educating consumers about the digestive benefits of a2 Milk™.



Pleasing progress has been made in establishing the product supply chain, including engagement with a growing group of local farmers that fit well with the Company's expansion plans. The Company has also established a strong local management team based in Boulder, Colorado.

While it is early in the launch, feedback from retailers and consumers is consistently favourable. Call centre and on-line interest continues to grow weekly, reflecting growing consumer awareness for, and interest in, the a2 Milk™ brand in the USA.

Intellectual property (IP) and other matters

The Company continues to enhance and extend the scope of its comprehensive IP portfolio and provide support for targeted research and development associated with the benefits of the A2 protein and the absence of A1 protein.

During the final quarter of FY15, the Company filed four new provisional patent applications relating to health benefits, physical properties and testing methodologies for A1 protein free products. These have relevance for both liquid and powder products.

During the year, the Company initiated a Federal court action against the Australian Broadcasting Corporation for misleading and deceptive conduct in relation to The Checkout program. A first directions hearing took place in the Federal Court in mid July 2015 and the matter is proceeding according to a Court ordered timetable.

In addition to the publication of the first human digestion trial conducted by Curtin University (published in the European Journal of Clinical Nutrition in August 2014), further scientific progress has been made. A US based study published in Nutritional Biochemistry in October 2014 reports a parallel in the intolerance effects of the A1 protein and gluten within the human gut. Given the higher levels of dairy intolerance in China, the Company sponsored a human clinical study in this market during the year. The results lend further support around the digestive benefits of milk free of the A1 protein and has been submitted for publication.

The Company continues to make progress in developing and applying its brands consistently around the world across packaging, communication and digital assets. Further, a number of trade mark applications achieved registration during FY15 with a number of new filings being made across all markets.

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Reconciliation of EBITDA to Net Profit After Tax (NPAT)

	Year ended 30-Jun-15 NZ \$000's	Year ended 30-Jun-14 NZ \$000's	Movement %
EBITDA	3,129	3,566	(12%)
EBITDA before non-recurring items	4,810	3,566	35%
Depreciation/amortisation	(1,949)	(1,900)	3%
EBIT before non-recurring items	2,861	1,666	72%
Share of associate/joint venture losses	-	(1,361)	(100%)
Non-recurring items ⁵	(1,681)	-	
Net interest income	101	415	(76%)
Income tax/(expense)	(3,372)	(710)	(375%)
Net Profit After Tax (NPAT)	(2,091)	10	

Forward Looking Information

Certain statements in this release constitute forward looking statements and comments about future events, including the Company's expectations about the performance of its businesses as at the date of this release. By their nature, forward-looking statements involve known and unknown risks, uncertainties, assumptions and other important factors, many of which are beyond the control of the Company and which may cause actual results, performance or achievements to differ materially from those expressed or implied by such statements. Forward looking statements are provided as a general guide only, and should not be relied on as an indication or guarantee of future performance. No assurances can be given that any forward looking statements referred to in this release will be realised. Any forward looking information speaks only as of the date of this release. Past performance is not indicative of future performance and no guarantee of future returns is implied or given. Nothing contained in this release is a promise, representation, warranty or guarantee as to the past, present or the future performance of the Company. The Company makes no representation, and gives no assurance or guarantee that the occurrence of the events expressed or implied in any forward looking statements in this release will occur or that any assumption that underpins any forward looking information is reasonable.

Nothing in this release is a solicitation, invitation, advice or encouragement to buy, sell or hold shares in the Company.

⁵ Non-recurring items in 2015 relate to costs associated with the Company's listing on the ASX

