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A2 Milk to add 1000 retail outlets in US expansion

Outgoing A2 Milk CEO Geoff Babidge with his replacement, Jane Hrdlicka. Picture: John Feder.

DAMON KITNEY THE AUSTRALIAN 12:00AM January 17, 2018

The A2 Milk Company is set to make one of the biggest strategic moves in its 18-year history, expanding into the most populous region of North America as the centrepiece of plans to double the size of its business in the US.

The company is today set to announce plans to move into the northeast region of America, adding more than 1000 retail outlets to its US network including through the Amazon-owned gourmet retailer Whole Foods.

The northeast of the US offers a potential market of 60 million consumers for A2, which was one of the best performers on the Australian sharemarket last year and in December lured former Qantas executive Jayne Hrdlicka to be its next chief executive, replacing Geoff Babidge.

“The northeast is the market in America that makes the most sense as the next step for A2,” the company’s US chief executive, Blake Waltrip, said in an interview with *The Australian* in Los Angeles.

“We will target every major retailer in the northeast. We have a lot of interest from retailers already so we are confident in our ability to build broadbased distribution.”

Mr Waltrip said the expansion could “easily double the business (in America) in the short term”.

A2 sells milk and infant formula that only contains the A2 protein. It claims the milk can be consumed by those who struggle to digest normal milk.

It has consistently upgraded its revenue and earnings forecasts, underpinned by booming demand for its milk and infant formula products, especially in China and from Chinese shoppers in Australia known as *daigou*.

Now the group is eyeing North America as its next growth engine, as analysts question whether the company can continue to justify the high trading multiple on its share price. A2 shares are trading at over the \$7 mark, after a year ago trading below \$2.20.

At the group’s annual meeting late last year, the company revealed it had a presence in 3600 stores in the US after adding 600 stores in the four months to October. It is now in 3800 stores, including in seven of Whole Foods’ 11 regions nationally. It also has a strong presence in fellow national retailer Sprouts.

“I am quite confident we will be in every region of Whole Foods in the next year,” Mr Waltrip said.

“There is tons of white space in America to build this business and we have lots of retailers asking for the product.”

He said following Amazon’s acquisition of Whole Foods last year, there were broader opportunities for A2 to be involved with the internet retailing behemoth in the US.

“Right now we are sold on Amazon, they just pull it from distributors. Amazon pricing is actually more expensive than in store when you add in shipping,” Mr Waltrip said. “There will be a point in time where it makes sense to have more of a conversation with them about national distribution.”

He said the company had achieved its KPIs on sales velocity and brand awareness in California and the southeast of the US during 2017, underpinned by its move into retailer Publix in March and an associated “Love Milk Again” advertising campaign.

Sales velocity is a measure of how quickly a firm converts new leads and sells a product.

The move into the northeast will involve further marketing expenditure, including on national broadcast media.

Conventional milk sales in the US have been declining for a number of years and the dairy sector has been under pressure, especially as the Trump administration renegotiates trade deals such as NAFTA.

“I think one of the major reasons could very well be that 25 per cent of the US population have self-diagnosed themselves as lactose intolerant,” Mr Waltrip said.

A2 is supplied by four family-owned dairy farms and a dairy processor in the US northeast at Syracuse near New York.

It also has farms and a processor in Nebraska and in California.

“We have established a supply chain which allows us to grow in the US,” Mr Waltrip said.

“And we pay a premium at the farm gate to help comply with the protocols for farmers to be part of A2.

“We have got significant upside potential in terms of our current supply chain to drive our expansion. And on top of that we have significant opportunity to increase by adding new cows into our supply chain.”

He said the group was also looking at other product innovations similar to what it has introduced into the Australian and Chinese markets.

The group’s Platinum infant formula product has been a big hit with customers in Australia and China and especially with the *daigou* trade.

Damon Kitney travelled to the US courtesy of A2 Milk.
