27 February 2013

A2 Corporation growth continues ahead of plan

Highlights

- Strong growth in sales, up 57% on the corresponding prior period
- Strategic review completed and implementation now in progress
- Increased market share in Australia to 6.9% by value in grocery
- UK fresh milk launch underway from October 2012
- Distribution agreement entered into for sale of infant formula into China
- Successful capital raising and move to the NZX main board
- On track to deliver the growth outlined as part of the equity raising

Revenues grew strongly over the corresponding half as a function of continuing growth in a2™ brand fresh milk in the Australian market. The a2™ brand remains the fastest growing dairy brand in grocery in Australia. Significant progress was also made in the priority strategic initiatives in expanding the a2™ brand into a new market in the United Kingdom and finalizing the platform for infant formula into China.

Managing Director Geoffrey Babidge said "the standout performance of the Australian business and its strong growth prospects provide the increasing momentum and earnings to support our current new market growth initiatives. The recently completed Strategic Review and equity raising provides a comprehensive roadmap and the capital to accelerate the implementation of the Company's strategic plan".

Financial performance

The unaudited group profit for the 6 months ended 31 December 2012 was $554,000 including EBITDA of $3,459,000, 54% over the corresponding prior period, in part offset by the Company's share of UK establishment costs and the final component of strategic review costs.

The result included the following key items:

- Sales of $44,281,000, representing an increase of 57% over the corresponding prior period;
- EBITDA before share of associate earnings and non- recurring items of $3,459,000 compared to the corresponding prior period of $2,241,000;
- Share of costs associated with A2 Milk (UK) Limited joint venture of $1,480,000;
- Non recurring costs associated with a Group Strategic Review of $755,000.

The strong momentum of the Australian business is ahead of the growth outlined as part of the recent equity raising and remains on track to achieve its full year 2013 EBITDA forecast of $11.2 million before intercompany charges.

Cash on hand at 31 December 2012 was $21,500,000. The movement over the period primarily reflected operating cash flows in Australia, proceeds from capital raisings and further investment in our UK joint venture.

Strategic Review

A comprehensive strategic review of the Company (commenced in April 2012) was completed and announced to the market in October 2012. The outcome of the review is that the Company will dedicate additional resources to initiatives previously announced and prioritise opportunities identified during the review including:

- Further developing the strong suite of IP and the uniqueness of a2™ brand dairy products;
- Further growing the Australian and New Zealand fresh milk businesses;
- Accelerating investment in the UK fresh milk market;
- Accelerating investment in the China infant formula market;
- Entering new international markets in particular in North America and markets in Europe;
- Entering new categories with UHT milk and Yogurt a priority.

Operational Review
Australasia

a2 ™ sales in Australia continued to show strong growth and represented an increase on the corresponding prior period of 57%. Ongoing investment in marketing and communication contributed to the growth of sales and increased brand recognition. In particular the "thank-you a2" media campaign is proving effective in creating awareness in the A2 proposition and together with PR, health care professional activities and social media engagement is driving new consumer trial. Further gains in distribution also aided sales. We estimate the market share of a2 ™ brand fresh milk by value in the grocery channel in December 2012 to approximate 6.9%.

The Company's new milk processing facility in south west Sydney performed well with volumes ahead of plan and improved efficiencies when compared to the second half of last year. We commenced a project to improve supply chain efficiencies in consequence of volumes continuing ahead of plan. The Company continues to work closely with its contract processors and negotiated extended arrangements with two contractors during the period.

The Company continued to assess options to further develop the a2 ™ brand fresh milk within New Zealand in conjunction with the existing licensee.

United Kingdom and Ireland

In November 2011, the Company established a sales and marketing joint venture in the UK and Ireland with the leading fresh milk dairy company, Robert Wiseman Dairies (RWD), now a wholly owned subsidiary of Unternehmensgruppe Theo Müller Group.

During the current half year the JV completed its establishment phase and launched a2™ brand fresh milk into the retail trade in Britain. The joint venture now comprises a dedicated sales and marketing management team near London, with procurement, processing, distribution and administration services provided by RWD. The business has recruited an enthusiastic dairy farmer supplier base with capability to build significant A2 milk volumes over time.

The product launch commenced with 3 retailer groups with distribution building across approximately 700 retail outlets from October 2012. The launch was initially supported by a public relations and print media campaign and is being followed by a television advertising campaign which commenced from end January 2013. The communication strategies have been tailored to meet the requirements of the various UK regulatory authorities. As part of the launch the business has engaged two profile celebrities with particular appeal to the target market: Dannii Minogue, herself a convert to the digestive benefits of a2™ brand milk and Dr Hilary Jones, a well-known and respected health care professional

As advised during the strategic review, the launch in the UK is expected to follow the approach in Australia – a slow build based on progressively raising consumer's awareness of the unique product attributes driven by PR, consumer marketing and engagement with health care professionals and through broadening distribution. Our sales are growing from a small base and the focus is on building rate of sale within existing distribution and achieving retailer support to further broaden distribution.

Infant formula into China

The Company continued to progress its strategy to introduce a2™ brand infant formula into China. In October 2012, the company announced the appointment of China State Farm (CSF) as the exclusive distributor of a2™ brand infant formula for Greater China. As part of the agreement, A2C and CSF established a joint marketing structure to support the development and implementation of marketing activities within the territory. Following the appointment of CSF and given the strategic supply agreement with Synlait Milk Limited, A2C now has a complete end-to-end New Zealand sourced supply chain for China.

To support this major growth initiative, a new business unit, A2 Infant Nutrition has been established with a dedicated management team focused on business development, supply chain and marketing functions together with an in-market manager based in Shanghai. This infrastructure will also support development of additional opportunities such as UHT milk into China and the launch of infant formula in other markets. Sales to CSF are planned to commence this financial year.

Equity raising and move to NZX main board

Following A2C's strategic review, in December 2012, the Company initiated an equity raising to increase liquidity and provide additional funding, applied to move from the NZX alternative market to the NZX main board and the Company's three largest shareholders partially sold down their shareholdings.

The company was very pleased with the outcome of this process with fresh equity of $20 million being raised at a price of $0.50 per share and approval obtained to move to the NZX main board. The number of shareholders increased to 2,151 at 31 December 2012. Receipts associated with the exercise of partly paid shares also contributed a further $693,000 to cash flow during the half year.

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