

## **NZAX Release – A2C FY2011 Preliminary Results**

**23 August 2011**

### [A2C FY2011 Preliminary Results NZX Release](#)

A2 Corporation Limited (“a2C” or “the Company”) (NZAX: ATM) is pleased to report a Group Profit after Tax of \$2,115,567 for the twelve (12) months ended 30 June 2011. This compared to a Loss of \$2,193,973 for the twelve (12) months ended 30 June 2010. Preliminary audit clearance has been obtained for these financials pending finalisation of the full Annual Report.

The result represents a significant milestone for a2C and is a consequence of its repositioning to a differentiated, branded, consumer goods and ingredients company and a new agenda for growth.

The trading result comprised of the following key items:

- Group EBITDA of \$2,816,167.
- An operational profit from the Australian business well ahead of budget and the prior year. This profit was for the period from 22 July 2010 being the date of full acquisition of the Australian joint venture by a2C.
- Non Cash Expenses of \$271,037 relating to share based incentive schemes for management & executive directors.
- Income tax expense of \$742,681.

A Foreign Currency Translation Gain of \$421,228 was recorded for the year.

The balance sheet at 30 June 2011 reflects a strong net cash position of \$7.5m further enhanced by a capital raising of \$2.6m in July 2011 as detailed below. We anticipate the June 2011 cash position to be broadly maintained next year in the absence of new strategic initiatives.

### **Strategic Agenda**

The Company announced at the 2010 AGM that a new strategic agenda had been endorsed by the Board and incorporated 3 key elements:

- continue to support the growth of the Australian dairy products business,
- identify opportunities to launch a2 Milk™ in at least one new global white milk market with suitable market characteristics in the short term, and
- develop a strategy to introduce A2 infant formula sourced from Australia or New Zealand into prospective Asian markets.

The Company's activities were progressed consistent with this strategy during the year.

## **Australia**

a2 Milk™ sales volume in Australia continued to grow strongly and totalled 21.6 million litres for the year, an increase on the prior year of 32%. We estimate the market share of a2 Milk™ fresh milk by value in the grocery channel at year end approximated 4.2%. This growth is pleasing and is consistent with increasing awareness of the positive benefits of a2 Milk™ and the increasing loyalty of consumers. The company continued to increase its investment in marketing and communication activities and introduced packaging improvements to increase shelf presence.

The retail price of a2 Milk™ has remained broadly unchanged for a period of more than 2 years. A decision to lower the retail prices of house brand dairy milk by the major grocery chains from January had a significantly negative impact on most competitive brands of dairy milk, which contrasted with a2 Milk™ which recorded growth in sales over subsequent months.

In December, the Company announced the plan to construct its own fresh milk processing facility for a capital cost of AUD7.5 million to support the continued growth of the business. The project is being financed from an asset finance facility of AUD4.5m and a prior equity raising as detailed below.

The new plant will comprise a medium-sized processing facility located in a purpose built factory in south western Sydney. The plant will incorporate the most advanced proven dairy processing technologies to achieve the highest quality standard of fresh milk and competitive operating costs. The facility will operate in conjunction with existing contract manufacturers and initially process approximately 10 million litres of milk per annum, with capacity to grow over time. The project is well advanced with committed expenditure currently representing 75% of the capital cost on budget. Given a delay in building construction due to prior regulatory issues, production is planned to commence in February 2012.

## **New Zealand**

Fresha Valley is the sole licensee for a2 Milk™ in New Zealand. a2C and Fresha Valley have been working together to enhance the business model to build awareness and sales of a2 Milk™ fresh milk. To assist this process, management of the a2C Australian and New Zealand businesses have recently been merged.

## **Korea**

The company has continued to pursue its legal rights for compensation under a former license repudiated by Purmil Co., Ltd of Korea. This included the Company engaging in a mediation process earlier in the year and subsequently in December initiating proceedings against Purmil in the High Court of New Zealand. Legal expenses for this matter totalled \$138,331 in the year.

Whilst the legal costs are not inconsequential, the Directors and our legal counsel consider our claim for losses is robust and we will continue to seek a positive outcome in this matter.

### **International Business Development**

In October the Company announced it had agreed to acquire the 50% interest of its partner in the United States based joint venture entity, A2 Milk Company LLC, such that this entity is now wholly owned by a2C. The consideration for the transaction was in the form of an issue of 4 million fully paid shares valued at \$350,800 at the time. This transaction was consistent with the Company's strategy for growth.

In February, the Company established an International Business Development structure to support the development of a2 Milk™ white milk and infant formula in global markets consistent with the strategic agenda. Good progress has been made in identifying and developing a number of new growth initiatives.

### **Equity raisings**

In addition to the issue of shares relating to A2 Milk Company LLC, the Company undertook an equity raising by way of placement of ordinary shares to two major shareholders in December to raise a total of \$3.9m to support the funding of the milk processing project in Australia.

Pursuant to the sale and purchase agreement for A2 Dairy Products Australia Pty Ltd, Freedom Foods Group Limited (FFG) was issued ordinary and partly paid shares in June for total cash consideration of \$167,543. Subsequent to year end in July 2011, FFG exercised a further option for the issue of additional ordinary shares in the Company for total cash consideration of \$2,599,094.

**Geoffrey Babidge**

**Managing Director**