Market Announcement

22 September 2022

Fonterra announces FY22 Annual Results

- Total Group Revenue: NZ$23.4 billion, up 11%
- Reported Profit After Tax: NZ$583 million, down 3%
- Normalised Profit After Tax: NZ$591 million, up 1%
- Total Group normalised EBIT: NZ$991 million, up 4%
- Net Debt: NZ$5.3 billion, up NZ$1 billion
- Normalised earnings per share: 35 cents per share, up 1 cent
- Final 2021/22 Farmgate Milk Price: NZ$9.30 per kgMS
- FY22 Total Dividend: 20 cents per share (interim: 5 cents; final: 15 cents)
- Milk collections: 1,478 million kgMS, down 4%
- NZ$13.7 billion delivered to the New Zealand economy through the Farmgate Milk Price pay-out to farmers
- FY23 Outlook: Forecast 2022/23 Farmgate Milk Price range of NZ$8.50–$10.00 per kgMS, with a midpoint of NZ$9.25 per kgMS. Forecast 2022/23 normalised earnings guidance range of 45-60 cents per share.

Fonterra today announced a strong set of results for the financial year ending 31 July 2022, reflecting a 2021/22 Farmgate Milk Price of NZ$9.30 per kgMS and normalised profit after tax of NZ$591 million.

With a total dividend of 20 cents per share to our fully shared-up farmers – comprising of an interim dividend of 5 cents per share and a final dividend of 15 cents per share – the final cash pay-out for farmers is $9.50.

Total Group normalised Earnings Before Interest and Taxes (EBIT) was NZ$991 million, up NZ$39 million or 4% on the prior year.

Chief Executive Miles Hurrell says despite the challenges including increased costs associated with supply chain volatility, 2021/22 was a good year for the Co-op.

“These results demonstrate that our decisions relating to product mix, market diversification, quality products and resilient supply chain, mean the Co-op is able to deliver both a strong milk price and robust financial performance in a tough global operating environment.

“The Co-op is pleased to be able to pay a total dividend of 20 cents per share for our farmer owners and unit holders. And this year’s higher Farmgate Milk Price is the strongest it has ever been, which is great news for our farmers. New Zealand also benefits from this, with $13.7 billion returned into the economy in milk price payments alone this year.

“Importantly, one year on, the Co-op is making tangible progress against our strategy – namely to focus on New Zealand milk, be a leader in sustainability and a leader in dairy innovation and science.

"As part of the strategic review of the ownership of our milk pools outside New Zealand, we continue to make progress, with the sales process for the Soprole business progressing. Meanwhile, we've looked at a number of options for our Australian business and have decided that it's in the Co-op's best interests to maintain full ownership.

"Australia plays an important role in our consumer strategy with a number of common and complementary brands and products and as a destination for our New Zealand milk solids. The business is going well, and it will play a key role in helping us get to our 2030 strategic targets.

"As part of our strategy to 2030, we set a goal of a return of about $1 billion to shareholders and unitholders which anticipated divestments including Soprole and a stake in our Australian business. Even though we have decided not to sell a stake in our Australian business, we are still committed to targeting a significant capital return to our shareholders and unitholders. The amount of any capital return will ultimately be determined on a number of factors including the successful completion of the divestment programme as well as our ongoing debt and earnings levels.

"Our positive performance in 2021/22 would not have been possible without the continuing hard work of employees and our farmer owners, and I want to thank every one of them for their commitment and support."

Performance

Mr Hurrell says despite tight supply there was robust demand from global customers for dairy, which has helped Fonterra deliver a strong milk price and financial performance.

"Total Group Revenue increased $2.3 billion to $23.4 billion due to higher product prices, but sales volumes decreased in FY22 due to short-term shifts in demand and ongoing shipping and supply disruptions.

"Strong margins in the Ingredients channel, particularly in the final quarter, resulted in an increase in our gross profit. However, total gross margin was down due to the higher cost of milk on our Foodservice and Consumer channels during the year.

"Our Total Group normalised EBIT of NZ$991 million, up 4%, reflects improved margins in our Ingredients channel but is partially offset by the higher milk price which placed pressure on margins in our Consumer and Foodservice channels.

"A series of geopolitical and economic events also impacted our performance – including a NZ$80 million adverse revaluation of the Co-op's Sri Lankan business payables, due to the devaluation of the rupee.

"Total Group operating expenses were up in FY22, by 7% to NZ$2.4 billion, with underlying operating expenses increasing due in part to inflationary pressures and supply costs.

"Our normalised profit after tax of NZ$591 million was up 1% on last year, due to higher earnings.

"We have higher inventory than usual at the end of the 2022 financial year due to stronger milk collections towards the end of the season coinciding with factory constraints, short-term impacts on demand and shipping disruptions. 88% of our year inventory is contracted, which means the sale price has been agreed and the product contracted, however the inventory had not been shipped at the balance date. The first six weeks of the new financial year have showed good progress with shipment of this inventory. We have flexibility in relation to inventory levels due to the strength of our balance sheet.

"The increased inventory, coupled with the higher milk price, has also increased our working capital throughout the year, and our net debt position at year end. Our net debt was NZ$5.3 billion, up NZ$1 billion, and as a result our Debt/EBITDA ratio increased to 3.2x from 2.7x and our gearing ratio increased from 38.5% to 42.4%. We expect these measures to improve as our working capital returns to normal levels. Even with the higher working capital, our return on capital has increased from 6.6% to 6.8%, as a result of the improvement in our EBIT.

Mr Hurrell says FY22 saw a mixed performance across Fonterra's three regional markets.

"Africa, Middle East, Europe, North Asia, Americas (AMENA) normalised EBIT was NZ$527 million, up 57%, due to the improved gross margin in its Ingredients channel. Asia Pacific (APAC) normalised EBIT was NZ$237 million, down 22%, with the improved performance in APAC's Ingredients channel more than offset by the somewhat weaker Consumer and Foodservice channels. Greater China normalised EBIT was NZ$432 million, up 7%, with an improved performance in its Ingredients channel partially offset by lower margins in the Foodservice and Consumer channels, as a result of the higher cost of milk.

Strategy

Mr Hurrell says it's been a year since the Co-op announced its long-term strategy.

"While it's still early days and the shift from reset to growth continues, I am pleased with the progress we are making driving greater customer value and meeting the increasing demand for sustainable dairy and innovative nutrition and science solutions.

"Over the past 12 months we have been working through how we adapt our organisational structure to accelerate progress against our strategy. To grow the value we derive from our New Zealand milk through our sustainability credentials, innovation, and nutrition science, we have established two new Fonterra Management Team (FMT) roles. These two roles and the subsequent structural realignment serve to increase visibility and focus on innovation and strategic implementation – and drive performance in these areas.

"We continue to believe that New Zealand milk is the highest quality and most sought-after milk in the world. Our milk has a carbon footprint, one third the global average for milk production due to our grass-fed farming model. Pleasingly, the Co-op has maintained its share of the New Zealand milk supply market in a very competitive market.

"We've also made progress with our capital restructure and will continue to engage with Government. We believe a globally competitive farmer owned Co-op is in the best interests of the dairy industry, rural communities and New Zealand.

"Equally in the 12 months to 31 July 2022, Fonterra has continued to strive for a better future for the environment upon which we depend and has made solid progress against some of our key sustainability targets. Water use by manufacturing sites in water-constrained regions reduced, now 6.6% below FY18 baseline, and around 71% of shareholder farms now have a Farm Environment Plan – a substantial undertaking by our Farmer Shareholders and the Farm Source team.

"To respond to the ongoing expectations of customers and communities for more sustainable products, we have continued to reduce our greenhouse gas emissions, and transition away from the use of coal. We continue to progress the decarbonisation of our light and heavy vehicle fleets, and we have progressed the on-farm trial of Asparagopsis seaweed as supplemental feed for dairy cows. We are also working in partnership with the New Zealand Government on an agricultural emissions partnership.

"The Co-op is absolutely committed to taking a leadership position in sustainability right across our value chain, investing significantly to provide leadership against global competitors and to build long-term resilience.

"In 2021/22 Fonterra continued its long and proud heritage of dairy innovation, to solve problems our customers face in their operations and to help people around the world live healthier and longer lives.

"We have continued to lead the way in dairy science and innovation, both in the products we're innovating and the way in which we innovate. Two examples of this innovation are the MinION genome sequencing device, which provides dairy DNA results at pace and at a quarter of the previous cost, and the launch of an exciting new Whey Protein Concentrate (WPC) which can be used to create different textures in high protein yoghurt.

"In summary, in 2021/22 we have made good progress in the implementation of our strategy to increase the value of every drop of milk and deliver higher returns. We look forward to reporting further progress updates in the future, and we remain committed to delivering our 10-year aspirations," says Mr Hurrell.

FY23 Outlook

Fonterra has announced a forecast 2022/23 Farmgate Milk Price range of NZ$8.50–$10.00 per kgMS, with a midpoint of NZ$9.25 per kgMS. The Co-op also forecasts 2023 normalised earnings guidance of 45-60 cents per share.

"The longer-term outlook for dairy remains positive. And in the medium-term, we expect to see an easing in some of the geopolitical events, namely the COVID-19 lockdowns in China and the economic challenges in Sri Lanka. This has been reflected in our earnings guidance and forecast Farmgate Milk Price for the 2022/23 season.

"We continue to monitor a number of risks. The strength of our balance sheet means we remain in a strong position to weather uncertainty and market volatility. Our ability to refocus our product mix through our diverse and flexible operations footprint, means the Co-op's milk will continue to be delivered to wherever the most value can be obtained for our farmer owners.

"The future for our Co-op is exciting," says Mr Hurrell.

ENDS

Non-GAAP financial information
Fonterra uses several non-GAAP measures when discussing financial performance. Non-GAAP measures are not defined or specified by NZ IFRS.

Management believes that these measures provide useful information as they provide valuable insight on the underlying performance of the business. They may be used internally to evaluate the underlying performance of business units and to analyse trends. These measures are not uniformly defined or utilised by all companies. Accordingly, these measures may not be comparable with similarly titled measures used by other companies. Non-GAAP financial measures should not be viewed in isolation nor considered as a substitute for measures reported in accordance with NZ IFRS. Non-GAAP measures are not subject to audit unless they are included in Fonterra's audited annual financial statements.

Please refer to the non-GAAP measures section in Fonterra's 2022 Annual Review for reconciliation of NZ IFRS to non-GAAP measures, and the Glossary for definitions of non-GAAP measures referred to by Fonterra.

For further information contact:

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About Fonterra

Fonterra is a co-operative owned and supplied by about 9,000 farming families in Aotearoa New Zealand. Through the spirit of co-operation and a can-do attitude, Fonterra's farmers and employees share the goodness of our milk through innovative consumer, foodservice and ingredients brands. Sustainability is at the heart of everything we do, and we're committed to leaving things in a better way than we found them. We are passionate about supporting our communities by Doing Good Together.