



NZX: SML
ASX: SM1

20 August 2024

Synlait announces recapitalisation, Special Shareholders' Meeting and FY24 results date

Synlait Milk Limited (Synlait) advises that it has agreed terms of a recapitalisation, including aggregate new equity of \$217.8 million, with its two largest shareholders, and that it is in the final stages of a refinancing of its bank facilities.

The recapitalisation will require a Special Shareholders' Meeting which will be held on Wednesday 18 September 2024 at 9.00 am, both in person at Synlait's Dunsandel facility (1028 Heselerton Road, RD13 Rakaia, Canterbury, New Zealand) and online at: www.meetnow.global/nz.

The meeting is a critical step for shareholders to determine the future of Synlait. To reduce Synlait's debt, shareholders are being asked to approve by way of ordinary resolutions the issuance of approximately \$217.8 million of new equity capital by way of:

- a \$185 million issue of shares to Bright Dairy Holding Limited (Bright Dairy) at an issue price of \$0.60 (a 100% premium to the closing price of Synlait's shares on the NZX Main Board on 15 August 2024 (which was the last undisturbed share price prior to announcement of the settlement with The a2 Milk Company and its support of Synlait's equity raise, and a 40% premium to the issue price of \$0.43 for the a2MC placement)), which will increase its shareholding in Synlait from 39.01% to 65.25% (Bright Dairy placement); and
- a \$32.8 million issue of shares to The a2 Milk Company (a2MC) at an issue price of \$0.43 (a 43% premium to the closing price of Synlait's shares on the NZX Main Board on 15 August 2024 (which was the last undisturbed share price prior to announcement of the settlement with a2MC and its support of Synlait's equity raise), which will result in its holding of 19.83% being retained (a2MC placement). The settlement with a2MC and A2 Infant Nutrition Limited announced on 16 August 2024 is conditional on a number of matters including the Bright placement and a2MC placement and accordingly has been included in the resolution to approve the a2MC placement.

Synlait Chair George Adams commented: "This equity raise is critical for Synlait's future. We followed a rigorous process, which included taking independent expert advice, to consider a range of options under the circumstances Synlait is facing."

"If the resolutions are not passed, it's likely Synlait would need to cease trading and initiate a formal insolvency process. We are particularly grateful for the continued support of our two major shareholders, Bright Dairy and The a2 Milk Company. Their investment demonstrates their deep commitment to Synlait's future," said George.

The equity raise will only complete if it does so concurrently with the refinancing of Synlait's bank facilities. The equity raise, the settlement with a2MC, and the bank refinancing are inter-conditional and therefore must all be approved and occur contemporaneously (or substantially contemporaneously) with each other, or not at all. Completion of all three components is expected on 1 October 2024.



Importance of the resolution to Synlait's future

If either resolution for the respective placements does not pass, the placements, the settlement with a2MC and the bank refinancing would not complete and Synlait would be unable to repay debt and reset its balance sheet.

In this situation, Synlait would likely need to cease trading and initiate a formal insolvency process unless it were to become clear that further support would be forthcoming from its existing banks. Further, even if the Board were to form the view in these circumstances that Synlait could continue trading, the existing banks may seek to initiate a formal insolvency process, such as appointing a receiver, were Synlait to default on its obligations to those banks. All tranches of the existing bank facilities (other than tranches with a combined limit of approximately \$62 million) are due to mature on 1 October 2024 and all amounts outstanding under those tranches must be repaid by Synlait on or before that date if not refinanced.

Support of Synlait's two major shareholders

The size of the required recapitalisation is significant, with the proposed proceeds to be raised under the equity raise representing around three times Synlait's current market capitalisation. Raising that amount of new equity capital is highly challenging in any circumstance but is particularly so for Synlait given its current over-gearred financial position and recent financial underperformance.

Accordingly, after taking external financial advice, the Independent Directors formed the view that the optimal offer structure for the company and its shareholders is via the placements to its two major shareholders, Bright Dairy and a2MC.

George Adams commented: "The Board acknowledges the strong support retail shareholders have provided to Synlait, especially with the recent approval of the \$130 million shareholder loan. We are extremely grateful for this. However, the selected equity raise structure provides the greatest certainty of reducing Synlait's debt in the shortest timeframe and at a more favourable price than alternative structures. This is critical to resetting our balance sheet and will hopefully reward all shareholders for their long-term and loyal support as we work to restore confidence in our company."

The Independent Directors unanimously recommend shareholders vote in favour of the ordinary resolutions relating to each of Bright Dairy and a2MC.

Bright Dairy appointed Director to the Synlait Board, Julia Zhu added: "We remain confident about the long-term prospects for Synlait in the global nutrition market. We first invested in Synlait almost 15 years ago and our decision to invest at this critical juncture reflects our long-term commitment to Synlait, its shareholders, employees, customers and suppliers."

Voting intentions of major shareholders

Bright Dairy has confirmed that it intends to vote in favour of the resolution relating to the a2MC placement and a2MC settlement. a2MC has confirmed that it intends to vote in favour of the resolution relating to the Bright Dairy placement, subject to the Independent Directors not changing or withdrawing their recommendation. Bright Dairy and a2MC are unable to vote on the ordinary resolutions relating to their own respective placements.



Independent report

In accordance with the NZX Listing Rules and the Takeovers Code, the Board commissioned an independent report for shareholders to support their consideration of the resolutions. Shareholders should read the report prepared by Northington Partners in full alongside the notice of meeting.

Overall, Northington Partners concluded that:

- on balance and having regard to all relevant factors, the merits of the Bright Dairy placement, a2MC placement and a2MC settlement outweigh the negative aspects and are in the best interests of existing Synlait shareholders; and
- in its opinion, the terms and conditions of both the Bright Dairy placement and the a2MC placement and the settlement collectively are fair to Synlait shareholders not associated with Bright Dairy or a2MC.

Synlait bonds – potential change of control giving right to early redemption

If the equity raise completes, a change of control event will occur regarding the SML010 bonds and holders will have the right to redeem their bonds early at: www.synlaitbond.co.nz.

A separate announcement is being made today about the potential early redemption of the bonds, and further information is set out on pages 15 and 16 of the notice of meeting.

Synlait constitution

Shareholders are also being asked to approve certain administrative changes to the constitution of Synlait, which would become effective on completion of the Bright Dairy placement. The changes are to remove provisions which will become redundant under the existing constitution once Bright Dairy increases its shareholding above 50%. The changes to the constitution require approval by way of a special resolution (75% or more of shareholders entitled to vote). All directors unanimously recommend that shareholders vote in favour of this special resolution.

Supply chain constraint

Synlait notes there has been an operational and temporary supply chain constraint affecting Synlait primarily in July 2024, which contributed to the withdrawal of FY24 guidance at that time and extended into August. The impact on Synlait's FY24 results is still being considered. Shipping and manufacturing are returning to normal and Synlait does not currently expect material supply chain disruptions to flow into FY25.

FY24 results

Synlait will announce its full year results for the 12 months ending 31 July 2024 on Monday 30 September 2024. Further details will be released closer to the time.

On 17 July 2024, Synlait withdrew its FY24 guidance of \$45 million to \$60 million, excluding a non-cash adjustment for the product costing method change of approximately \$17 million, advising that its final EBITDA result will be below the bottom of that range.

Synlait remains unable to provide an update on its expected FY24 results at this time. It continues to work through its year end processes including audit and impairment testing, but is not yet in a position to know



the impacts of certain one-off events that occurred late in FY24, including as noted above. Synlait remains on track to meet its minimum adjusted EBITDA for FY24 for bank covenant purposes.

Important information

George Adams commented: “Important information about the matters to be voted on is set out in detail within the notice of meeting along with the independent report. We strongly encourage all shareholders to read both documents in their entirety ahead of the September 18 shareholders' meeting.”

A copy of the notice of meeting, the independent report prepared by Northington Partners and a copy of Synlait's constitution showing the proposed amendments may be reviewed on Synlait's website at: www.synlait.com/investors.

The deadline for returning proxy votes is 9.00 am on Monday, 16 September 2024.

For more information contact:

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