Market Announcement

21 September 2023

Fonterra announces FY23 Annual Results

- Full year reported earnings of 95 cents per share, up from 36 cents per share
- Reported profit after tax of $1.6 billion, up 170%
- Return on Capital of 12.4%, up from 6.8%
- Final 2022/23 season Farmgate Milk Price of $8.22 per kgMS
- Full year dividend of 50 cents per share, including interim dividend of 10 cents per share
- Additional tax free 50 cents per share capital return following divestment of Soprole
- Full year milk collections of 1,480 million kgMS
- Forecast 2023/34 season Farmgate Milk Price range of $6.00 - $7.50 per kgMS, with a midpoint of $6.75
- Forecast 2023/24 earnings guidance range of 45-60 cents per share

Fonterra today announced its results for the financial year ending 31 July 2023, with full year reported earnings of 95 cents per share, reported profit after tax of $1.6 billion and a final 2022/23 season Farmgate Milk Price of $8.22 per kgMS.

Fonterra CEO Miles Hurrell says the Co-op has delivered strong earnings and made progress against key strategic initiatives in FY23, however this has been against the backdrop of a Farmgate Milk Price that has dropped across the season.

“Our 2022/23 season Farmgate Milk Price was impacted by reduced demand for whole milk powder from key importing regions. As the financial year progressed, we saw Global Dairy Trade prices drop, with the average whole milk powder price down 16% compared to last season.

“We recognise the impact the reduced Farmgate Milk Price has on farmers’ businesses and have utilised our strong balance sheet to introduce a new Advance Rate Schedule guideline to assist on-farm cash flow.

“However, we’re pleased to be announcing a strong full year dividend of 50 cents per share - comprising an interim dividend of 10 cents per share and a final dividend of 40 cents per share.

“In addition, the Co-op returned tax free 50 cents per share to shareholders and unit holders in August, following the divestment of Soprole, giving a final cash pay-out to farmers of $9.22 per share backed kgMS.

“Our FY23 performance demonstrates that we are focusing on the right strategic priorities. This said, we are aware that there are challenging conditions on the ground for many of our farmers,” says Mr Hurrell.

Performance

Fonterra's reported profit after tax of $1,577 million was up $994 million. Excluding the net gain from divestments of $248 million, normalised profit after tax was $1,329 million, up $738 million compared to the same time last year. This includes the impact of impairments and is equivalent to 80 cents per share.

The Co-op also reported a Return on Capital for the last 12 months of 12.4%, up from 6.8% in the comparable period.

"There were a number of key drivers that helped us deliver this result, including favourable margins in our Ingredients channel, in particular the cheese and protein portfolios.

"We also saw improved performance in our Foodservice channel due to increased product pricing and higher demand as Greater China's lockdown restrictions started to ease from the start of calendar year 2023.

"Further, across the second half, the operating performance of our Consumer channel strengthened due to improved pricing. However, we adjusted the long-term outlook for our Asia Brands and Fonterra Brands New Zealand business, resulting in full year impairments of $101 million and $121 million respectively.

"We also recognised a gain on sale from our Chilean Soprole business of $260 million during the year.

"Looking at our reportable segments, Core Operations reported profit after tax increased $532 million to $572 million, due to higher Ingredient margins.

"Global Markets' reported profit after tax was up $77 million to $385 million, mainly due to higher sales volumes and improved pricing. This was partially offset by the impairments in its Consumer channel.

"Greater China's reported profit increased $11 million to $284 million, with the Foodservice channel showing improved margins and resilience to market disruption from COVID-19. However, this was offset by the Consumer channel, which included a proportion of the Asia brand impairment.

"On the supply side, full year milk collections ended the season at 1,480 million kgMS. This is in spite of significant challenges that many farmers faced across New Zealand including rising input costs and adverse weather events in the North Island early in calendar year 2023.

"In addition, Fonterra's balance sheet metrics are better than target levels, even after adjusting for the impact of providing for the payment of the Capital Return, with a gearing ratio of 28.8% and debt to EBITDA of 1.3x.

"Our Total Group reported operating expenses were $2,799 million up from $2,455 million due in large part to the impact of impairments, as well as increased costs from inflation and a one-off favourable item of $44 million in the previous year," says Mr Hurrell.

Strategy

Fonterra released its long-term strategy in September 2021 and since then has made good progress towards its 2030 goals.

"Across FY23, we completed the divestment of China Farms and Soprole as part of our strategic choice to focus on New Zealand milk.

“As we work towards our ambition to be a leader in sustainability, we have stepped up our emissions reduction goal for the operational side of our business, introducing a target of a 50% absolute reduction in Scope 1&2 emissions by 2030, from a 2018 baseline, an increase on our previous target of a 30% reduction by 2030. We have held discussions with our farmers on why we need to introduce a Scope 3, or on-farm emissions target, and plan to announce our target before the end of calendar year 2023.

“We’re also progressing work in our innovation portfolio, including establishing our joint venture with Royal DSM, Vivici, which is exploring commercial opportunities in fermentation derived ingredients, and launching our corporate ventures arm Nutrition Science Solution (NSS), which made its first strategic investment in the form of a minority stake in Pendulum Inc, a biotech company specialising in metabolic health.

“To assist us to hit our short and long-term goals, we are implementing a range of projects that will streamline how we operate. To track our progress, we have introduced two new metrics. These are:

- **Cash operating expenses per kgMS** – targeting a 4% cash operating cost improvement per year to support long-term discipline in our global overheads.
- **Gross profit from Core Operations per kgMS** – targeting a 2% New Zealand operational cash cost improvement every year to support efficient New Zealand operations while remaining laser focused on delivering value.

“We are also updating our long-term strategy and plan to share this early next year,” says Mr Hurrell.

FY24 Outlook

Looking ahead, our forecast 2023/24 Farmgate Milk Price range of $6.00 - $7.50 per kgMS, with a midpoint of $6.75, reflects reduced demand for whole milk powder from key importing regions.

“We are watching market dynamics closely and there are indications demand for New Zealand milk powders will start to return from early 2024. Demand for other products, including Foodservice and our value-added Ingredients, continues to be robust.

“Our FY24 forecast earnings range for continuing operations is 45-60 cents per share. While the favourable price relativities we’ve experienced across FY23 have reduced from their peaks, we are forecasting improved margins across our Consumer and Foodservice channels for FY24.

“We acknowledge that across the year, farmers will continue to feel the pressure from high input costs and a reduced Farmgate Milk Price. We'll continue to do all that we can to support farmers through this challenging period,” says Mr Hurrell.

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