Synlait

NZX: SML
ASX: SM1

22 December 2022

Half Year 2023 Guidance Update

Synlait Milk Limited (Synlait) feels it prudent to update shareholders on its expected half year 2023 (HY23) performance.[1]

While Synlait's overall Full Year 2023 (FY23) guidance is unchanged due to an increase in Advanced Nutrition, Consumer, and Foodservice volumes, the following factors will result in Synlait's HY23 Net Profit After Tax (NPAT) being down on HY22:

- Delayed shipments of Ingredient products, resulting in lower sales volumes (down approximately 45%) due to Synlait's SAP implementation and lower milk supply in the first four months of FY23. In December 2022, after significant SAP stabilisation efforts, the monthly ingredient export run rate is back to near-normal levels and is expected to be entirely caught up at the start of Q4 FY23.
- Reduced lactoferrin volumes (down approximately 40%) due to sales phasing. Lactoferrin margins are expected to be equal or better for FY23.
- A significant one-off FX benefit in the corresponding period, which the benefit of ingredient product mix optimisation has only partially offset during HY23.
- Increased costs due to SAP stabilisation activities, supply chain challenges and inflation.

The above factors will result in net debt and related interest costs being higher than forecast at HY23 due to the impact of delayed sales on cash flows. Synlait's targeted FY23 debt to EBITDA ratio of 2.0x to 2.5x remains unchanged.

The Board and Management confirm that Synlait's FY23 guidance remains unchanged. Synlait intends to release an FY23 NPAT guidance range at the company's HY23 result on Monday 27 March 2023.

Synlait's FY23 guidance statement (previously released in September 2022):

- Disciplined management of the Ingredients business will continue without some of the one-off foreign exchange gains experienced in FY22. Milk will be diverted to produce higher-margin products in the Advanced Nutrition and Foodservice businesses.
- The performance of the Advanced Nutrition business will continue to build.
- Synlait's new multinational customers will start to lift margins and improve asset utilisation at Pokeno and Dunsandel (Liquids facility).
- The Consumer business will deliver a steady contribution as it maintains growth but navigates high cheese commodity prices and continues to expand into overseas markets.
- Operational cash flows will continue to be robust but softer than FY22 due to the rebalancing of opening and closing finished and raw material inventory levels.
- Costs will increase modestly due to higher sales volumes, SAP stabilisation activities, inflation and supply chain pressures, and key enabler activities within the refreshed strategy.
- A debt to EBITDA ratio of 2.0x to 2.5x is being targeted.
- At the end of FY23, Synlait will have completed its two-year recovery plan. As previously indicated, Synlait intends to exit FY23 and enter FY24 with a similar level of profitability experienced before FY21. However, Synlait is managing several risks, including, but not limited to, the SAMR registration timeline, a tight labour market, high inflation, and supply chain pressures. All of which could materially impact the company's current FY23 guidance.

[1] HY23 is the six months ended 31 January 2023. Comparisons are to the six months ended 31 January 2022 unless stated otherwise.

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