Synlait

NZX: SML
ASX: SM1

27 September 2022

Synlait Publishes Full Year 2022 Result and Refreshed Strategy

Synlait Milk Limited (Synlait) today announced its financial result for the 12 months ended 31 July 2022 and published its refreshed strategy, which has a greater focus on the company's core business opportunities: Advanced Nutrition, Ingredients, Consumer and Foodservice.

KEY TAKEAWAYS FROM TODAY

- Return to robust profitability on track – EBITDA up $91.8m to $129.1m.
- Balance sheet returned to normal metrics (net debt to EBITDA ratio of 2.6x) enabled by strong operating cashflows and inventory reduction.
- Review of Synlait strategy and Executive Leadership Team structure completed.
- SAP successfully implemented in August.
- Commercial production to start in early 2023 for Synlait Pokeno's multinational customer.
- Launch of Foodservice cream in China under JOYHANA brand in partnership with SAVENCIA Group.

Synlait Chair Dr John Penno commented: "The past year has been an important period of refocusing. We have ensured Synlait has the right team, is focused on the right opportunities, and has the right resources to succeed."

"While rebuilding revenue, reducing unnecessary costs, releasing working capital, and decreasing capital expenditure, we have focused on building scale and capability in the highest returning segments available to the New Zealand dairy industry. Our Ingredients business returned to its historical profitability, and our Nutritionals business returned to growth, while we continued to invest in customer development across all business units."

Synlait CEO Grant Watson commented: "Synlait is well positioned as we enter the second year of our recovery. We have progressed our strategy, structure, capability, and culture and lifted our execution, but there is much more to do."

"Seeing the outcomes of our financial and strategic reviews come to fruition sooner than expected in the face of a challenging trading environment has been pleasing. Continuing to strengthen our foundations over the next year will ensure we keep improving our financial performance for shareholders and continue making Synlait a great place to work for our team."

KEY FINANCIAL HIGHLIGHTS[1]

- Revenue up 21% to $1.66 billion.
- Net Profit After Tax (NPAT) up $67.0 million to $38.5 million.
- Adjusted NPAT up $62.4 million to $34.0 million.
- Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA) up $91.8 million to $129.1 million.
- Adjusted EBITDA up $79.8 million to $117.2 million
- Net debt down 29% to $341.9 million.

[1] Comparisons are to the 12 months ended 31 July 2021 unless stated otherwise.

- Operating cash flows up $214.5 million to $232.9 million.
- Impairment charge of $12.2 million due to continued idling of Temuka cheese plant.
- Gain on sale and lease back of Auckland land and building of $11.9 million.

A summary of Synlait's financial performance can be found in the Investor Presentation and Annual Report released with this announcement.

FINAL 2021 / 2022 MILK PRICE

The final average base milk price is $9.30 per kgMS for the 2021 / 2022 season – the highest base milk price Synlait has paid. In addition, an average of $0.29 per kgMS was paid for incentives, taking the total average milk payment to $9.59 per kgMS for the 2021 / 2022 season. The record milk price resulted from constrained global milk supplies and consistent global demand for dairy products, along with strength in the US dollar against the New Zealand dollar.

Tight global milk production and solid demand for dairy have resulted in Synlait's forecast average base milk price remaining at $9.50 per kgMS for the current 2022 / 2023 season.

REFRESHED STRATEGY

The refreshed strategy process ran from March to June and included a bottom-up review of Synlait's four business units. The refreshed strategy delivers a greater focus against Synlait's core business opportunities: Advanced Nutrition, Ingredients, Consumer (including Dairyworks), and Foodservice. The business unit strategies formed our consolidated Synlait strategy, summarised on page 19 of the Annual Report and page 23 of the Investor Presentation.

The refreshed strategy articulates what success looks like in FY27 for Synlait, the company's right-to-play, how it will gain a competitive advantage (customer and farmer supplier right-to-win models), and most importantly how Synlait will deliver executional excellence across its entire business (six key enablers). The refreshed strategy's focus across channels, categories and geographies also reduces Synlait's concentration risk and delivers diversified growth. In addition, the strategic focus on Milk Supply, Foodservice, and the China market has increased.

In line with the refreshed strategy, an updated Executive Leadership Team structure was announced in July.

Grant Watson commented: "Our refreshed strategy is key to creating greater focus and accountability across Synlait. Now that we have a clear strategy and the right leadership structure to enable our strategy, our focus turns to delivering a far greater level of execution in FY23 and beyond."

FULL YEAR 2023 GUIDANCE

- 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.

For more information contact:
Hannah Lynch
Head of Corporate Affairs and Brand
P: +64 21 252 8990
E: hannah.lynch@synlait.com