Market Announcement

21 March 2024

Strong profit and dividend for FY24 interim results

- Reported profit after tax: NZ $674 million, up 23%
- Continuing operations EBIT: NZ $986 million, up 14%
- Earnings per share: 40 cents per share
- Return on capital: 13.4%, up from 8.6%
- Interim dividend: 15 cents per share, up from 10 cents per share
- Maintained forecast FY24 continuing operations earnings range of 50-65 cents per share
- Forecast Farmgate Milk Price range narrows: NZ$7.50 - $8.10 per kgMS
- Forecast milk collections: 1,465 million kgMS, down 1%

Fonterra Co-operative Group Ltd today released its FY24 interim results which show a continuation of strong earnings performance.

CEO Miles Hurrell says the Co-op's performance has been driven by higher margins and sales volumes across Fonterra's diversified product and category mix.

"I'm pleased to report we've continued the positive momentum seen in our earnings performance and delivered an interim dividend of 15 cents for our Co-op's farmer shareholders and unit holders, up from 10 cents this time last year.

"The forecast Farmgate Milk Price has also lifted recently, with a current midpoint of $7.80 per kgMS, following volatility earlier in the season.

"While supply and demand dynamics remain finely balanced, with continuing global uncertainty, we are now well progressed through the season. This gives us the confidence to narrow our forecast Farmgate Milk Price range to $7.50 - $8.10 per kgMS.

"We have also maintained our forecast earnings guidance for the year of 50-65 cents per share," says Mr Hurrell.

Business performance

Fonterra's reported profit after tax of $674 million is up $128 million on this time last year, with EBIT from continuing operations up 14% to $986 million over the same period.

The Co-op has reported a return on capital for the last 12 months of 13.4%, up from 8.6% on this time last year, and earnings per share of 40 cents, up from 33 cents.

“Our FY24 earnings have been driven by higher margins and sales volumes in our Foodservice and Consumer channels, which have helped to offset lower returns in the Ingredients channel following historically high price relativities last year,” says Mr Hurrell.

“Sales volumes from continuing operations are up 22kMT or 1.3% to 1,721kMT and gross margins are up from 16.6% to 18.4%.

“At the same time, our balance sheet position remains resilient, with our strong underlying performance and low debt position helping to further lower our financing costs this year.

“Operating expenses for continuing operations are up $52 million on last year after removing the impact of FY23 impairments, due to increased labour costs, professional fees and investment in IT infrastructure. The Co-op remains focused on reducing costs across the business.

“Looking at our channels and regions, our Consumer and Foodservice earnings are up year on year, due to improved pricing and higher sales volumes.

“Ingredients channel earnings are down year on year off the back of historically high price relativities in FY23 and lower margins in Australia Ingredients during FY24.

“Global Markets’ reported profit after tax is up $230 million to $380 million, due to lower input costs in Southeast Asia, Sri Lanka and Fonterra Brands New Zealand. Fonterra Australia’s performance has been impacted by the higher Australian milk price.

“In February, we announced plans to merge our Australia and Fonterra Brands New Zealand businesses from 1 May. These two units share many similarities, and we expect the integration to create scale efficiencies.

“Greater China reported profit after tax is up $94 million to $232 million, primarily due to strong performance in the Foodservice channel.

“Core Operations’ reported profit is down $154 million to $102 million due to lower price relativities compared to last year, which have been partially offset by New Zealand manufacturing efficiencies.

Progress on strategy

“Across FY24, the Co-op has continued to make progress on its strategy with new initiatives in place to create value for farmers, commercialise our sustainability position and unlock capacity through innovation.

“Our new capital structure has been in place for a year and encouragingly, we’re seeing new Co-op farmers citing it as a reason for returning to the Co-op. Some are wanting to take advantage of the flexible shareholding options now available to them and this, coupled with the Co-op’s stability, means we have a strong pipeline of farmers wanting to join the Co-op.

“We have also been utilising our scale, optionality, and strong balance sheet to deliver benefits to farmers. This includes getting cash to farmers sooner through our revised Advance Rate guideline.

“Earlier this financial year, we returned $800 million to farmer shareholders and unit holders following the divestment of Soprole. We also completed the sale of our DPA Brazil JV with Nestlé to Lactalis.

“Since announcing our on-farm emissions target, we have been working with customers to commercialise our farmers’ sustainability credentials. This includes introducing to customers our regenerative agriculture position, which recognises our farmers’ pastural farming system.

“We’ve continued to decarbonise our New Zealand operations as we progress toward the Co-op’s scope 1 and 2 emissions reductions target, including commissioning our wood biomass boiler at Waitoa and announcing plans to electrify our Edendale site.

"We've also deployed a new technology within our manufacturing base which has unlocked 8000 MT additional production capacity for our high-value UHT cream," says Mr Hurrell.

Outlook

"Looking out to the remainder of the year, while global inflationary pressures are easing, we are monitoring the potential for volatility as a result of geopolitical instability.

"Our partnership with Kotahi and diversification across markets means we're well prepared for disruption in global supply chains or changes in demand from key importing regions.

"We're pleased with our first half performance for FY24 and look forward to the second half as we continue to deliver for our farmer shareholders and unit holders," 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.

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