17 February 2025
NZX/ASX Market Release

1H25 Interim Results Commentary and Outlook

Group financial performance[1,2,3]

The a2 Milk Company ("the Company", "a2MC") announces its financial results for the 6 months ended 31 December 2024. Key results are as follows:

$NZ million	1H25	1H24	Variance (%)
Group Revenue	893.8	812.1	10.1%
EBITDA[4]	118.9	113.2	5.0%
Net profit after tax (Attributable to owners of the Company)	91.7	85.3	7.6%
Basic earnings per share (cents)	12.7	11.8	7.4%
Net cash[5]	1,014.0	792.1	28.0%
Interim dividend (NZ cents per share)	8.5	-	n/a

Revenue grew 10.1% to $893.8 million, driven by continued growth in the China & Other Asia segment up 11.8%, supported by the USA segment up 13.2% and Mataura Valley Milk (MVM) up 31.9%, partly offset by a 2.7% decrease in the ANZ segment due to a further decline in the Daigou channel.

Total IMF sales grew 7.2% led by English label which was up 13.0% driven by performance within the CBEC and O2O[6] channels supported by English label market growth, whilst China label sales were 2.0% higher, impacted by temporary supply constraints that were resolved during the half. Liquid milk sales grew 12.1%, with ANZ up 11.2% and USA up 13.4% driven by growth in the core portfolio and recent innovation. Other nutritional sales, which mainly consist of non-IMF powdered *a2 Milk®* products, continued to grow, up 17.3%, whilst Ingredients (MVM only) grew 31.9% mainly due to higher GDT[7] market pricing and increased milk supply.

Gross margin percentage[8] of 44.8% was 1.9ppts lower than 1H24, primarily due to the impact of airfreight used to expedite shipments in order to limit the impact of 1Q25 IMF supply constraints, plus the remaining $5.1 million of accelerated depreciation related to the MVM coal-fired boiler following the successful commissioning of a high pressure electrode boiler on site. Distribution costs were slightly higher, consistent with higher sales, however lower as a percentage of revenue reflecting continued improvement in USA distribution costs due to a sustained focus on reducing customer cost to serve.

Marketing investment increased 6.7% to $145.9 million, consistent with the Company's growth strategy to primarily support its China market ambitions. Spend as a percentage of net revenue was slightly lower for the period (16.3% versus 16.9% in prior year) which was in part due to timing with some investment deferred to 2H25 due to the impact of 1Q25 supply constraints, plus cycling of higher investment in 1H24 to support the launch and transition of the upgraded GB registered China label IMF product, *a2 至初®*.

[1] All references to full year (FY), halves (H) and quarters (Q) relate to the Company's financial year, ending 30 June.
[2] All figures are in New Zealand Dollars (NZ$), unless otherwise stated.
[3] All comparisons are with the 6 months ended 31 December 2023 (1H24), unless otherwise stated.
[4] EBITDA is a non-GAAP measure and does not have a standardised meaning prescribed by GAAP. However, the Company believes that in combination with GAAP measures, it assists in providing investors with a comprehensive understanding of the underlying operational performance of the business. A reconciliation of EBITDA to net profit after tax is shown in the Company's 2025 Interim Results Investor Presentation (slide 35) dated 17 February 2025.
[5] Including term deposits and borrowings, excluding subordinated non-current shareholder loans.
[6] Cross-border e-Commerce and Offline-to-Online channels.
[7] Global Dairy Trade.
[8] Gross margin percentage is calculated as sales less cost of goods sold, divided by sales.

Administrative and other expenses (SG&A) increased 9.8% to $124.2 million primarily attributable to foreign exchange (FX) losses largely impacted by NZD depreciation, particularly towards the end of the half. Excluding FX, SG&A was marginally higher, reflecting increased people costs associated with investment to further strengthen talent and capability, particularly in China and supply chain, partially offset by cost reduction initiatives.

EBITDA increased 5.0% to $118.9 million, however EBITDA % margin was lower at 13.3% (down 0.6ppts), which was consistent with the Company's previous guidance and reflects the impact of temporary supply constraints, mainly due to incremental airfreight costs of approximately $8 million.

Depreciation and amortisation increased to $15.0 million due to the remaining accelerated depreciation of the MVM coal-fired boiler. Net interest income increased to $23.3 million reflecting higher cash balances.

NPAT including amounts attributable to non-controlling interests was $84.0 million, an increase of 6.9%. Amounts attributable to non-controlling interests, a loss of $7.7m, represent China Animal Husbandry Group's 25% interest in MVM. Excluding this loss, NPAT attributable to owners of the Company was $91.7 million, up 7.6%.

The balance sheet further strengthened during the period with closing net cash of $1,014.0 million, up $45.1 million on 30 June 2024. Operating cash inflows (excluding interest and tax) were $126.3 million, representing operating cash conversion of 106.3%[9], up 19.5ppts on prior year, as 1H25 benefitted from favourable working capital timing benefits linked to the timing of inventory and marketing related payments.

Inventory of $192.6 million was up 7.2% on 30 June 2024, largely due to MVM milk production seasonality with 2Q being a peak period. While China label IMF trade inventory at distributors and retailers largely recovered to target levels by period end and ahead of Chinese New Year, China label IMF inventory on the Company's balance sheet remained below target levels and is expected to fully recover during 2H25.

Regional and product performance

1. China & Other Asia

There was some improvement in the total China IMF market in 1H25 with the rate of value decline improving to -6.1%[10] with the number of newborns increasing 5.8% to 9.54 million during CY24[11], the first year of growth since 2016. Whilst this increase was expected due to a catch-up in COVID related postponed pregnancies and 2024 being the Year of the Dragon (which has historically been a year with higher relative births), a longer-term modest decline is expected due to socio-demographic trends.

Despite the overall China IMF market decline, a2MC's China & Other Asia segment revenue grew by 11.8% to $614.2 million primarily driven by strong English label IMF performance in the CBEC and O2O channels, with lower China label IMF growth impacted by market decline and temporary supply constraints. Segment EBITDA of $148.0 million was up 8.9%. Improved strong brand health metrics, supported by marketing investment and sales execution underpinned a2MC maintaining its top-5 IMF brand position and being the third highest share gainer in the overall China IMF market in 1H25.

China label IMF

China label IMF sales increased to $305.0 million, up 2.0%. Performance during the half was impacted by the decline of the China label market (down 8.0%[12]), and to a lesser extent, temporary supply constraints which affected early-stage product availability in market, including smaller size 400g tins and new user trial packs. Supply was prioritised to key online platforms and offline key accounts to minimise the impact on sales and new user recruitment. Production returned to normal during 1Q25, with trade stock largely returning to target levels ahead of Chinese New Year supported by airfreight.

Notwithstanding the supply constraints, a2MC's upgraded China label IMF product, *a2 至初®* continued to perform well in market, achieving record market share of 5.3%[13]. The brand was supported by a further step up in marketing investment, with a focus on building brand superiority through always-on digital and integrated marketing campaigns across channels.

a2MC's market value share in the MBS channel was stable at 3.5%[14], with numeric distribution and weighted distribution increasing over the half with a strategic focus on building distribution in BCD cities. In line with the Company's strategy, a2MC has focused on accelerating growth through the DOL channel, where a2MC's market value share in DOL increased from 3.9% to 4.1%[15] over the half.

Pleasingly, a2MC's share of early stage product sales continued to increase, with share now over 5% for both Stages 1 and 2, as more users shift to online channels.

9 Operating cash conversion defined as net cash flow from operating activities before interest and tax divided by EBITDA.
10 Kantar Worldpanel 0-6 years old Baby & Kids panel: National IMF market tracking (Key&A + BCD cities). Value decline of -13.4% in 1H24 and -7.3% in 2H24.
11 China National Bureau of Statistics.
12 Kantar Worldpanel 0-6 years old Baby & Kids panel: National IMF market tracking (Key&A + BCD cities), 1H25 versus 1H24.
13 Kantar Worldpanel 0-6 years old Baby & Kids panel: National IMF market tracking (Key&A + BCD cities), MAT.
14 Nielsen MBS retail measurement service: mother and baby stores only retail value share. MAT.
15 Smart Path China IMF online market tracking: for DOL only retail value share. MAT, 1H25 versus FY24.

English label IMF[16]

English label IMF sales in the China & Other Asia segment of $258.4 million were up 22.7% due to positive English label market trends and a significant step up in a2MC demand post Double-11 driven by strong growth in O2O within lower-tier cities and in early-stage products overall.

English label IMF market value was up 7.1%[17] reflecting a further shift in the total China IMF market, from China label to English label, with English label now representing 18.3%[18] of total market value, up from 17.2%[18] in FY24. The increased switching to English label reflects the recovery of the market post COVID-19 when the English label market observed a low of 14%[18] market share. Whilst English label represents a smaller proportion of the IMF market, a2MC is well positioned to benefit in this segment given it is the second largest player in the market with just under 20% market share.

The rapid growth of HMO and specialty product segments also contributed to English label market growth with consumers adopting English label products due to ingredients and specialised formulations not widely available in China label (such as those including various HMOs[19]). To capitalise on this growing market opportunity, the Company has developed and commenced sell-in of its most premium English label IMF product, *a2 Genesis™* with a China focused launch planned for 2H25. The product contains HMOs and is positioned above *a2 Platinum®*.

The Company also expanded its reach of English label to build on a2MC's existing presence in emerging markets with sales commencing for *a2 Platinum®* IMF in Vietnam during the half alongside the Vietnam registration of *a2 Gentle Gold™* for launch in 2H25.

Other nutritional products

Sales of other nutritional products in the China & Other Asia segment were up 27.3% to $50.8 million, benefitting from the Group's innovation programme and improved organisational focus with growth driven by both English label and China label product.

During the period, three new China label fortified milk powder products were launched targeting the seniors segment addressing the top senior health needs: immunity, bone, gut and heart health. The Company's other nutritionals range will be further expanded in 3Q25 with the launch of a new kids fortified milk powder designed for kids 3+ supporting immunity, eye health and brain development with innovative packaging.

2. Australia and New Zealand

Australia and New Zealand (ANZ) segment reported revenue of $157.7 million and EBITDA of $29.5 million, down 2.7% and 15.1% respectively. The result was driven by a further decline in the Daigou channel, partly offset by strong growth within the Australian liquid milk business.

English label IMF and other nutritionals products

a2MC IMF reseller and retail sales decreased 24.9% to $40.5 million versus 1H24, consistent with wider channel declines. English label IMF focus remains on the CBEC and O2O channels, however the Company continues to support the Daigou channel through marketing support and trade activations.

a2 Gentle Gold™, which launched during FY24 with a new manufacturing partner (Yashili NZ, a subsidiary of Mengniu), has continued to perform in line with plan in the Australian retail market, providing an entry point for consumers at a price below *a2 Platinum®* supporting improved market share in retail.

Consistent with Daigou channel declines, revenue for other nutritional products was down 11.0% to $12.6 million, with growth realised through channels in the China & Other Asia segment.

Liquid milk

Australian liquid milk sales were up 11.2% to $103.8 million, led by *a2 Milk® Lactose Free* and growth in the core *a2 Milk®* range, plus favourable currency translation.

Revenue growth was achieved in a challenging market, with the liquid milk category declining 0.6%[20] and increased competitor promotional activity, consistent with the wider macroeconomic environment.

a2MC's liquid milk market value share grew 0.4ppts to 10.8%, primarily driven by *a2 Milk® Lactose Free* which increased share of the Australian lactose free market from 12.7% to 15.8%[21]. Growth in the period was supported by brand investment to drive awareness and conversion through continued execution of the new *"Only a2™ will do"* campaign. *a2 Milk®* (including *Lactose Free*) remains the number one dairy milk brand nationally[22].

Market share growth was supported by household brand penetration gains and increased distribution for *Lactose Free*, particularly in QLD and SA.

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[16] English label IMF includes sales via CBEC, O2O, Emerging Markets and Hong Kong Resellers.
[17] Kantar Worldpanel 0-6 years old Baby & Kids panel: National IMF market tracking (Key&A + BCD cities). 1H25 versus 1H24.
[18] Kantar Worldpanel 0-6 years old Baby & Kids panel: National IMF market tracking (Key&A + BCD cities), MAT.
[19] Human milk oligosaccharides.
[20] IRI Australian Grocery Weighted Scan, 1H25 versus 1H24.
[21] IRI Australian Grocery Weighted Scan, MAT, 1H25 versus FY24.
[22] IRI Australian Grocery Weighted Scan, dollar share, as at 1H25.

An upgrade of the Kyabram milk processing facility with Kyvalley Dairy Group remains on track for completion during FY25.

3. USA

USA grew revenue by 13.2% to $64.5 million and improved profitability, with EBITDA losses reduced to $4.9 million (1H24: $8.3 million).

Revenue growth was driven by core *a2 Milk®*, *a2 Milk® Grassfed* and growth in the Club channel. a2MC's market value share in the premium milk category for the Grocery channel increased to 2.4% (up from 2.2%)[23]. *a2 Platinum®* IMF sales recognised during the half were not material. The improved EBITDA loss was due to higher revenue, improved input costs and distribution rates and reduced SG&A costs. Accelerating the path to profitability in the USA remains a key focus.

Having received short-term Enforcement Discretion approval from the US Food and Drug Administration's (FDA) during FY24 to import and sell *a2 Platinum®*, a2MC is now pursuing longer term FDA approval. The Company's New Infant Formula Notification was submitted on time in 2Q25 and is currently under FDA review, with long term approval targeted to be achieved during CY25 (subject to FDA approval). In the meantime, the Company continued to trial alternative sales and marketing approaches under Enforcement Discretion.

4. Mataura Valley Milk

The first half of FY25 was characterised by higher GDT market pricing, plus higher milk volumes processed through the MVM site. As a result, revenue of $57.4 million was $13.9 million higher than prior year, with EBITDA losses improving to $11.9 million, (1H24: $15.3 million). Internal sales growth was mainly due to growth in Other nutritional products, plus timing of sales in FY24 which were second half weighted. The improved EBITDA loss position reflects the ongoing cost and productivity focus across the site, plus an improved sales product mix. The Company continues to work on a range of initiatives to accelerate MVM's path to profitability, which remains a key priority.

Supply chain transformation and sustainability

Supply chain transformation

Key highlights included the development and sell-in of the Company's first HMO containing formulation, *a2 Genesis™*, in partnership with Yashili NZ; entry into China based manufacturing in partnership with Shanghai Howell Nutrition Dairy Co., Ltd for a new fortified seniors nutrition range of three products using *a2 Milk®* powder produced at MVM; the transition of *a2 Milk®* powder pouch products to NZ Nutritional Wellness to improve efficiency and traceability; and continued significant site and capacity upgrades of the Kyabram fresh milk processing facility in Australia.

As announced on 16 August 2024, the Company resolved the various disputes subject to arbitration with Synlait Milk Limited and in October supported Synlait by participating in its equity raise. As part of the settlement, the cancellation of Synlait's manufacturing and supply exclusivity rights[24] from 1 January 2025 provides additional flexibility to a2MC to further enable its supply chain transformation strategy.

The Company continues to progress opportunities to gain access to additional controlled China label IMF registrations to achieve greater China market access and to develop its own nutritional manufacturing capability consistent with its growth strategy.

Sustainability

The Company continued to invest in its *a2™ Farm Sustainability Fund* in ANZ with applications recently opened for a new round of grants to support sustainability projects that demonstrate an integrated approach to deliver a meaningful impact across the community and environment. In 1H25 the Company incorporated 20% recycled content into its fresh milk HDPE bottles across its 2L, 3L and 3.5L formats from its Smeaton Grange liquid milk facility. Lastly, following the successful commissioning of a high pressure electrode boiler at MVM during FY24, the site's core activities were powered by certified renewable energy[25], further reducing emissions.

Capital management

In November 2024, the Company announced the establishment of a dividend policy for the first time in company history. The dividend policy targets a payout ratio range of between 60% and 80% of net profit after tax excluding non-recurring and other items (normalised NPAT).

The a2MC Board has declared an interim dividend for 1H25 amounting to approximately $62 million or 8.5 cents per share being a payout of 67% of NPAT. The dividend will be paid on 4 April 2025 and will be fully imputed and fully franked. Subsequent dividends are expected to be declared on a semi-annual basis in February and August each year at a level consistent with the Company's target payout ratio range. It is the Company's intention to impute and frank dividends to the maximum extent possible subject to available credits, noting that imputation credits are limited.

[23] SPINS data for the Grocery channel, MAT, 1H25 versus FY24.

[24] In respect of S1-S3 of a2MC's current IMF products (being *a2 Platinum®* and *a2 至初®*) for sale by a2MC in the markets of China, Australia and New Zealand.

[25] MVM purchases Meridian's Certified Renewable Energy product to enable it to match the amount of electricity it uses on an annual basis with an equivalent amount of electricity put into the national grid from one of Meridian's hydro stations or wind farms (which have been independently verified as producing 100% renewable electricity).

The Board remains conscious of the significant amount of net cash held on the balance sheet at period end. Consistent with the Company's capital allocation framework, priority is being given to transforming and de-risking a2MC's supply chain to enable future growth focused on investment in New Zealand and China, alongside other growth opportunities and risk mitigation. As a2MC executes its strategy and risk evolves, the Board will continue to review capital management options which may result in further capital returns to shareholders, likely in the form of special dividends over time.

The declaration and payment of all dividends will be subject to Board approval.

FY25 Outlook

Revenue and earnings guidance has improved from the Company's prior outlook statement (22 November 2024) mainly due to:

- Stronger than expected demand for English label IMF in CBEC and O2O channels
- Increased Liquid Milk sales, particularly in the USA club channel
- Movements in actual and forecast currency rates reflecting NZD depreciation, which are expected to inflate both revenue and costs (including hedge losses)
- Higher GDT pricing increasing MVM external ingredients sales

For FY25, the Company is now expecting the following relative to FY24:

- Revenue growth of low to mid double-digit[26] percent (previously mid to high single-digit percent)
- Gross margin (% of sales) to be similar to up
- Marketing expenses (% of sales) to be similar to up
- Administrative & Other expenses (% of sales) to be down
- EBITDA margin (% of revenue) to be slightly up (previously broadly in line)
- Operational cash conversion to be approximately 90%
- Capital expenditure to be approximately $20 million

Key risks

A range of risks could materially impact expected revenue and earnings outcomes including, but are not limited to, trading upside and downside, challenging macroeconomic conditions, China IMF category dynamics and competitive intensity, product and supply related risks, cross border trade, foreign exchange movements, changes in interest rates, farmgate milk pricing and other commodity prices, and changes in the regulatory environment.

Authorised for release by the Board of Directors

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[26] Double-digit refers to the range 10%-20%.