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HD **A2 Milk** to use Australian cash for global expansion

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A2 Milk, hit by strong kiwi, to use Australian cash for global expansion

By Jonathan Underhill

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Aug. 28 (BusinessDesk) - **A2 Milk** Co, which markets **milk** with a protein variant said to have health benefits, will ramp up its expansion in the US, the UK and Asia using cash generated in its biggest market of Australia after a year in which a strong kiwi slashed the value of sales and earnings.

Profit tumbled to \$10,000 in the 12 months ended June 30, from \$4.1 **million** a year earlier, the Auckland-based **company** said in a statement. Sales rose 17 percent to \$111 **million** and would have been some \$14 **million** higher if not for the strength of the New Zealand dollar against its Australian counterpart.

A2's cash flow comes from its success in Australia, where it now claims 9 percent of the fresh **milk** market **sold** through the grocery channel. Australian sales from continuing operations climbed 16 percent to \$106.9 **million** in the latest year, accounting for 96 percent of total revenue, while earnings rose 25 percent to \$4.5 **million**, helping make up for losses in **China** and the UK. Managing director Geoffrey Babidge calls the Australian market A2's "big cash generator", which will bankroll its push into new markets.

"Our strategy is about increasing Australian profits fully funding initiatives in other markets," Babidge told BusinessDesk. "That's our core proposition."

Growth in Australian market share gave A2 confidence to launch a thickened cream product, which is performing to expectations and the range could be widened to include ice cream, he said. The **company** has also trialled sales of fresh Australian **milk** into **China**, in reasonably small volumes, which the **company** sells the **milk** free on **board** to **Chinese** distributors, who can reap enough of the premium in the **Chinese** market to make up for the increased transport costs.

A bigger opportunity will be sales of UHT **milk** from Australia into **China**, Babidge said.

A2's sales push for its Platinum **brand** infant formula in **China** was thwarted this year by changes to **Chinese** registration rules. New Zealand New **Milk**, which has been packing the product for A2, did achieve registration in July but sales of A2's products won't ramp up until its main partner, Synlait **Milk**, gains registration, which Babidge hopes will be in September.

"We're very much joined at the hip with Synlait," he said. That relationship "provides more certainty and longevity going forward." A2 has made only two small shipments to **China** of A2 Platinum, the last in April. Once Synlait gains registration shipments would start in earnest, likely in the first half of the current year.

The **company** sees a "big revenue opportunity" in the US market, where it plans to invest \$20 **million** over three years. Its US push will be through a wholly owned subsidiary, with manufacture and packaging of A2 **milk** outsourced to contract packers. It has shortlisted two candidates.

The **company** has also identified sources of **milk** with the A2 protein variant though work still needed to be done to separate out those cows from local herds. A "very managed, regional launch" in the US is likely to be in the second half of 2015, Babidge said.

The **company** will also increase investment in the UK market, where it recorded a wider loss of \$2.2 **million** in the latest year, on sales of \$1.1 **million**. A2 had some \$16 **million** cash on hand at the end of the year, down from \$20 **million** at the start of the year.

The shares last traded at 65 cents and have declined 19 percent this year. The stock is rated a '**buy**', based on the consensus of four analysts polled by Reuters, with a median price target of 86 cents.

(BusinessDesk)

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