**BFF5956 CORPORATE FINANCING DECISIONS INDIVIDUAL ASSIGNMENT**

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**1.1 Composition of company’s board of directors**

The a2 Milk Company currently operates with a six-member board of directors, composed of five independent non-executive directors and one executive director, the Managing Director and CEO. The board is chaired by Philippa Greenwood, an experienced corporate lawyer and independent director who took on the Chair role in November 2023 following the retirement of former Chair David Hearn. Greenwood brings extensive governance expertise, having previously chaired the board of Russell McVeagh and currently holding board positions with Westpac New Zealand and Fisher & Paykel Healthcare.

The company’s CEO is David Bortolussi, an executive director who joined a2 Milk in 2021. Bortolussi brings significant leadership experience from the consumer goods industry, having previously served as CEO of Pacific Brands and as a consultant with McKinsey. His expertise spans strategic management, finance, and international retail operations, which is particularly valuable given a2 Milk’s focus on Asia-Pacific markets.

Independent non-executive director Kate Mitchell, appointed in 2023, chairs the Audit and Risk Committee. Mitchell’s background includes over 20 years of senior roles in investment banking at Deutsche Bank, Goldman Sachs, and Merrill Lynch. She currently chairs The NZ Merino Company and Link Engine Management and holds directorships with Heartland Group and Christchurch Airport, providing the board with strong financial oversight and risk management expertise.

Sandra Yu, appointed in March 2022, brings deep knowledge of the infant nutrition sector, having led Mead Johnson Nutrition’s Greater China business and served as its Global Marketing Vice President. Yu’s expertise in marketing and consumer nutrition, particularly in China, aligns closely with a2 Milk’s key market focus.

Antonio Rivera joined the board in November 2024 as part of a planned board renewal. Rivera has over 35 years of global supply chain experience, including 17 years with Mead Johnson Nutrition, where he served as Senior Vice President of Global Supply Chain. His background strengthens the board’s oversight of manufacturing and distribution operations.

Lastly, Lain Jager, appointed in December 2024, contributes extensive agribusiness leadership experience. He served as CEO of Zespri International between 2008 and 2017, successfully guiding the company’s global expansion. His expertise in supply chains and Asia-Pacific markets further complements the board’s strategic focus.

The company’s constitution allows for four to eight directors, with at least two New Zealand residents. The current board composition reflects a deliberate renewal strategy in late 2024, where long-serving directors such as Warwick Every-Burns and David Wang retired, making way for Rivera and Jager. The six-member board is balanced and well aligned with the company’s industry and strategic priorities, particularly in premium dairy nutrition and international growth.

**1.2 Effectiveness of board of directors**

The a2 Milk Company’s board of directors is highly effective across key governance measures, including board independence, size, workload, expertise, and diversity. In comparison with sector peers such as Bega Cheese, Nestlé, and Danone, a2 Milk’s governance practices are strong and, in certain areas, best-in-class.

Independence is a clear strength. Five of six directors are independent, with only the CEO serving in an executive capacity. Importantly, the Chair is also an independent non-executive director, which aligns with ASX and NZX best practice and provides strong oversight of management. By comparison, Bega Cheese’s board, while composed of mostly non-executive directors, is chaired by an Executive Chairman, which reduces independent leadership. Nestlé also has a non-independent Chair, with a Lead Independent Director appointed to balance governance. Danone’s board, following recent reforms, now features an independent Chair and a high degree of board independence. In this context, a2 Milk’s board structure is highly robust and arguably stronger than that of several peers.

Board size is well-suited to a2 Milk’s current scale and strategic needs. The six-member board is comparable to Bega’s seven-person board and naturally smaller than those of global companies like Nestlé (14–15 members) and Danone (11 members). While larger boards support the breadth of global operations, for a mid-sized company like a2 Milk, a smaller, more agile board offers advantages in terms of efficient decision-making and focused discussions. The current size covers all key governance and operational areas without unnecessary complexity.

Board workload, or busyness, is balanced. Directors such as Greenwood, Mitchell, and Yu hold multiple board positions, but their external commitments are relevant and complementary to their roles at a2 Milk. Rivera and Jager, recently retired executives, currently focus primarily on their a2 Milk responsibilities, ensuring they can dedicate ample time to board matters. The board demonstrates strong engagement, with full attendance at all scheduled meetings in FY2024. Compared with larger peers where directors often have extensive commitments, a2 Milk’s directors appear well positioned to maintain a high level of involvement and focus.

In terms of expertise, the board is particularly well aligned with the company’s strategic direction. It brings deep knowledge in corporate governance, finance, risk management, infant nutrition, consumer goods, agribusiness, and Asia-Pacific markets. Given a2 Milk’s core focus on premium dairy products and infant nutrition, particularly in China, the presence of directors like Sandra Yu and Antonio Rivera provides a distinct advantage. This targeted expertise is a differentiator when compared to Bega Cheese, whose board is more focused on domestic dairy industry experience, with less international market depth. While Nestlé and Danone boast larger and more globally diversified boards, a2 Milk’s smaller board is highly effective for its specific market niche.

Diversity is another standout strength. The board currently has gender parity, with three male and three female directors. This exceeds ASX300 averages and outperforms peers. Bega’s board has approximately 29% female representation and aims to reach 30% by 2027. Nestlé’s board currently stands at about 36% female, while Danone’s is approximately 44%. Achieving gender parity places a2 Milk ahead of both domestic and global peers in terms of board diversity, which contributes positively to broader governance quality and decision-making.

Overall, the a2 Milk Company has an effective board of directors. It combines strong independence, an appropriately sized and engaged membership, highly relevant sector expertise, and exemplary gender diversity. When benchmarked against sector peers, the board compares favourably and, in key areas such as independence and diversity, leads the field. These strengths position the board well to provide sound strategic guidance and governance, supporting a2 Milk’s ongoing growth and market leadership.

**2.1 Exchange Rate Risk Exposure**

The a2 Milk Company is significantly exposed to exchange rate risk due to its international operations. While its costs are largely denominated in New Zealand and Australian dollars, a major portion of its revenue comes from offshore markets, particularly China and the United States. Sales of infant formula into China are typically priced in Chinese yuan (CNY), while US operations generate US dollar (USD) revenue. Since a2 Milk reports in New Zealand dollars (NZD), movements in NZD/CNY and NZD/USD exchange rates can directly impact reported earnings. In addition, the company is exposed to AUD/NZD movements due to its manufacturing in Australia. Adverse currency fluctuations can affect both margins and competitiveness, particularly in sensitive markets like China where pricing is a key consumer consideration.

**2.2 Example of Hedging Using Forwards and Options**

Suppose a2 Milk enters into a sales agreement to deliver $50 million NZD-equivalent of infant formula to China over the next six months. To hedge the risk of an appreciating NZD (which would reduce the CNY value of sales when converted), a2 Milk could enter a six-month forward contract locking in the current NZD/CNY rate for those future payments. Alternatively, it could buy currency options giving the right to exchange CNY at a minimum favourable rate, while allowing upside if the NZD weakens. Options provide flexibility but involve a premium cost, while forwards offer certainty without flexibility. Such hedging tools help the company smooth revenue forecasts, manage cash flow volatility, and protect margins amid currency fluctuations.

**3.1 NPV Analysis of the Japan Expansion Project**

The a2 Milk Company is considering an expansion into Japan, with an initial investment of 1 billion JPY in fixed assets. The investment will be fully depreciated over six years using the provided accelerated depreciation schedule. The corporate tax rate is assumed to be the same as in Australia, and the weighted average cost of capital and risk-free rates used are based on the group’s earlier established values.

The project’s revenue is forecasted to start at 1.2 billion JPY in year one and grow by 10 percent annually. Cost of goods sold is estimated at 30 percent of revenue, and operating expenses, excluding depreciation, at 15 percent of revenue. Net working capital is set at 8 percent of revenue, with the full amount recovered at the end of year six. There is no salvage value for the fixed assets at project end.

The NPV of the project was evaluated using two methods -

In Method 1, the JPY net cash flows were discounted using the JPY cost of capital and then converted into AUD at the spot exchange rate. The JPY WACC was calculated at 4.21 percent, derived from adjusting the AUD WACC of 7.06 percent using interest rate parity, with the Japanese 10-year bond yield at 1.49 percent and the Australian 10-year bond yield at 4.27 percent. The spot AUD-JPY exchange rate used was 92.423.

The cash flow calculation in Method 1 followed a clear structure. Depreciation was applied to the full 1 billion JPY investment each year as per the depreciation schedule. Taxable EBIT was calculated after subtracting depreciation, cost of goods sold, and operating expenses from revenues. Taxes were applied to EBIT, and net profit was derived. Depreciation was then added back to calculate operating cash flow. Changes in net working capital were incorporated, leading to the final free cash flow figures each year. Discounting these JPY free cash flows at the JPY WACC yielded a present value of 2,315.01 million JPY. When converted to AUD at the spot exchange rate, this equated to an NPV of 25.05 AUD million.

In Method 2, JPY net cash flows were first converted into AUD using forward exchange rates for each year, then discounted using the AUD WACC of 7.06 percent. The forward rates were calculated consistently using interest rate parity, starting from an initial forward rate of 94.95 and declining across the project horizon to 78.61 by year six. The forward rates used were year one 89.96, year two 87.57, year three 85.24, year four 82.97, year five 80.76, and year six 78.61.

JPY free cash flows were multiplied by these forward rates to obtain AUD-denominated cash flows for each year. These cash flows were then discounted using the AUD WACC. The result was again an NPV of 25.05 AUD million.

Both methods therefore yielded an identical NPV in AUD of 25.05 million.

**3.2.1 Justification for Identical NPVs**

The NPVs from Method 1 and Method 2 are identical due to consistent application of the interest rate parity principle and internally coherent assumptions. The forward rates used in Method 2 were derived using the same interest rate differentials between the AUD and JPY risk-free rates that were used to translate the AUD WACC into a JPY WACC for Method 1. In effect, both methods reflect the same underlying economic relationship between currencies and discount rates.

In Method 1, JPY cash flows were discounted at a JPY WACC that fully adjusted for relative interest rates. Conversion to AUD was then performed at the spot rate. In Method 2, the forward rates inherently embed the interest rate differential between the two currencies, while the discounting was done at the AUD WACC. Provided that both the forward rates and the JPY WACC are derived from consistent and accurate application of interest rate parity, the two methods should theoretically yield the same result when no arbitrage opportunities exist.

In this case, all inputs were sourced and calculated consistently. The spot rate was correctly applied. The forward rates declined appropriately over the project life, reflecting the interest differential. The risk-free rates for AUD and JPY were used accurately to compute both the forward rates and the translated JPY WACC. As such, both methods effectively capture the same present value of the project’s future cash flows, expressed in AUD.

Thus, the identical NPVs are entirely logical and expected under these assumptions. The result also validates that both approaches, when implemented correctly, provide reliable and equivalent valuation outcomes in international project finance.

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