

REFINITIV STREETEVENTS

EDITED TRANSCRIPT

ATM.NZ - A2 Milk Company Ltd 1H and FY21 Outlook

EVENT DATE/TIME: DECEMBER 17, 2020 / 10:00PM GMT

CORPORATE PARTICIPANTS

Geoffrey H. Babidge *The a2 Milk Company Limited - Interim CEO*

Peter Jerrold Nathan *The a2 Milk Company Limited - CEO of Asia Pacific*

Race Strauss *The a2 Milk Company Limited - CFO*

Rebecca Culbertson

CONFERENCE CALL PARTICIPANTS

Adrian Allbon *Jarden Limited, Research Division - Director of Equity Research*

Chelsea Arna Leadbetter *Forsyth Barr Group Ltd., Research Division - Senior Analyst of Equities*

Chris Wang

David Errington *BofA Merrill Lynch, Research Division - Head of Consumer Research for Australia and Asia*

Jonathan Snape *Bell Potter Securities Limited, Research Division - Senior Industrials Analyst*

Nick Mar *Macquarie Research - Analyst*

Peter J. Marks *Morgan Stanley, Research Division - Research Associate*

Phillip Kimber *Evans & Partners Pty. Ltd., Research Division - Executive Director of Consumer*

Richard Barwick *CLSA Limited, Research Division - Research Analyst*

Sam Teeger *Citigroup Inc., Research Division - Head of the Australian Small Caps Team & Director*

Shaun Robert Cousins *JPMorgan Chase & Co, Research Division - Senior Analyst*

Tama Willis *Devon Funds Management Limited - Portfolio Manager*

PRESENTATION

Rebecca Culbertson

Good afternoon, everyone. Thank you for joining this call at short notice. On the line today, we have our Chief Executive Officer, Geoffrey Babidge; Chief Financial Officer, Race Strauss; and Peter Nathan, our Chief Executive for Asia Pacific.

Geoff will make a few introductory remarks, and then we'll take questions. Let me hand over to Geoff.

Geoffrey H. Babidge - *The a2 Milk Company Limited - Interim CEO*

Well, thank you, Rebecca, and good afternoon to everyone, obviously, at short notice. Look, firstly, I hope you are keeping well, keeping safe wherever you are in any market. Look, as you're all aware, just recently, this afternoon, we released a statement providing an update to our outlook for the first half and for FY '21. I'm going to make a few comments relating to that. And as Rebecca said, happy to take some questions.

Look, as we've referenced on several occasions this year, we are living and working in unprecedented times due to COVID-19. We called out, in our original FY '21 outlook statement, that we thought COVID-19 could, amongst other things, impact our supply chains, and that several issues were being experienced relating to our infant nutrition business that we had not experienced before. We commented in August that we were seeing softness within retail daigou. And in September, we advised that we had started to observe additional disruption to the corporate daigou reseller channel, particularly in consequence of the Stage 4 lockdown in Victoria.

At that time, we believe this to be a single channel logistics issue. And we're of the view that the impact of the daigou channel would prove to be temporary, assuming stabilization of COVID-19-related issues in Australia. At our annual meeting in November, we noted the difficulties this presents to forecasting and most of you, no doubt, on the call attended that meeting, and you are, no doubt, mindful of the comments that I made.

There has been some improvement in our infant nutrition business in NZ and the second quarter, notwithstanding being below our expectation for December, has shown some improvement in infant nutrition generally. And the second quarter is expected to be higher than the first quarter, but the acceleration of the recovery in recent weeks has been slower than we previously expected. So the reality is that our trading performance, as we continue to very closely monitor that, up to and including the month of November year-to-date, was broadly consistent with our revised outlook position, and it was only when the Board came together this week, when we started to review the outlook for December, which was certainly a higher month expectation compared to earlier months, but we saw some softness that we did not previously expect. And obviously, therefore, as a result of that, we needed very quickly to do some work as to the impact of that flowing through into the second half and the outlook that we had.

As indicated in the announcement, with the recent sales performance on the daigou channel not being as strong as previously expected, we now consider that the recovery in this channel through the balance of the fiscal year will also be slower, and this disruption in the daigou channel is now having a more significant impact in CBEC. As a result, our internal sales forecast for both the daigou and CBEC channels for the remainder of FY '21 are now materially lower.

As we've commented on previously, the daigou channel plays an important role in stimulating demand across multiple sales channels, including CBEC. We intend to strengthen our focus on reactivating the daigou channel in the second half, and we have determined -- management has determined a number of initiatives that will be different in the second half compared to the first half. And that will have some impact on -- and has had some impact on our view of sales volumes in the second half.

Importantly, our performance in MBS remains very strong, and we anticipate revenue growth in the first half above 40%, which is very pleasing. We continue to record strong underlying brand health metrics. And the performance in our liquid milk business in Australia and the U.S. remains very strong. So if all of this gives confidence that we can deliver in the second half to the updated outlook that we have provided. Yes, we acknowledge that the number is certainly significantly lower than our expectation previously, and what we would obviously prefer to be seen in the second half, both ourselves and no doubt, you people, as shareholders and analysts.

So look, Rebecca, that's my introductory comments and happy to take some questions as you -- as has been noted, in particular, myself, Race and Peter are available to take some questions, which we will now do. Thank you.

Rebecca Culbertson

Thanks, Geoff. We'll open the call up for Q&A. (Operator Instructions) Operator, can you please assess facilitating the Q&A.

QUESTIONS AND ANSWERS

Shaun Robert Cousins - *JPMorgan Chase & Co, Research Division - Senior Analyst*

I've got 2 questions. First question is around distributor-level inventory in the channel. Can you confirm that, this is probably best for Peter Nathan, I think, you indicated that there was not an excess inventory issue problem in August. Can you talk about inventory levels for distributors of A2 product in China at the moment?

And my second question is just around the confidence about a daigou recovery. Given the short lifetime value of customers in the category, why is a too confident that the daigou channel will recover? And what would happen to volumes and particularly EBITDA margins given daigou's higher EBITDA margin if the daigou channel didn't recover?

Peter Jerrold Nathan - *The a2 Milk Company Limited - CEO of Asia Pacific*

Yes. Obviously, a number of questions there. Yes. Look, firstly, with respect to inventory, yes, we still continue to believe that inventory is not excessive. So that still continues to be the case across our channels. So that's certainly consistent. With respect to your question -- sorry, the second question, Shaun, again, was...

Shaun Robert Cousins - *JPMorgan Chase & Co, Research Division - Senior Analyst*

It was just around -- yes, yes, yes. I mean I'm just curious around the company has confidence that the daigou channel will recover. Your customer has a fairly short lifetime direction with your product. Why do you believe it will happen? And can you sort of confirm that daigou's higher EBITDA margin? So then what does that do to your business if the daigou channel doesn't recover, please?

Peter Jerrold Nathan - *The a2 Milk Company Limited - CEO of Asia Pacific*

Sure. Okay. So firstly, what we do know that is with the short -- relatively short lifespan as a consumer. In terms of the movement across the 3 stages or albeit 4 or 5 stages, if they went longer with the brand, that the role of daigou is critical. So therefore, what we believe more firmly than ever is this, in terms of new recruitment daigou in keeping with sort of the activation that we have at MBS, which includes PP or PG, depending on what you want to phrase it, is very critical in maintaining years of (inaudible) so ongoing relationship with our brand.

Therefore, that really leads us to further our focus on daigou, understanding that CBEC is less likely to play that role. Hence, the fact that -- we believe that CBEC may be able to take up more of the slack. We're now of the view that, that's not like the daigou is very much the lead channel. We believe the daigou can grow in keeping, at least, with our forecast position on the basis of getting daigou margin will need to be, which is a consequence of self-management and which is consistent with the forecast going forward.

With respect to margin, look, the key point we have made consistently is that we're agnostic in terms of gross margin which continues to be the case in terms of the overall investment in our business. We'll continue to invest heavily in the back half in margin. Certainly, a lot will -- the current numbers reflects a much stronger investment in marketing relative to second half versus first half, a lot of which is in further activating the MBS channel and also investing in brand, but certainly the focus being on consumer activation points within MBS, which has been very successful in driving our business to date. The restaurant is all, you see, we need that to continue against the uplift in investment expected in the numbers in the forecast.

Geoffrey H. Babidge - *The a2 Milk Company Limited - Interim CEO*

Shaun, if I could just add a couple of points also on what Peter said. Look, for all the reasons, everyone on the call is aware, this brand was developed through daigou. We believe we're committed to daigou. We're not naive to assume that there won't be changes and that, that channel won't change. And in fact, our business has been responding, for example, to the change that occurred, Peter, between retail daigou and the development of corporate daigou, how to manage corporate daigou, the most recent initiative the team has put in place in respect of how to further incentivize what's happening with the corporate daigou channel.

So all I'm saying is we are acknowledging that there will continue to be shifts and what's happening with daigou. There is an interplay between the daigou and the CBEC channel. We want to play in both. We want to succeed in both. It's fair to say we need to manage how we do that, acknowledging the interplay between those 2 channels. And by definition, if we aren't achieving our objectives in daigou, you would assume that Peter's team and Li Xiao's team will be thinking through the implications for CBEC as a result.

And in addition, let's be very clear, a very key initiative of the business, particularly the last couple of years, has been the substantial resources being thrown at growing our China label direct business. I mean that's an absolute key, and we all acknowledge that we've got a pretty modest chair,

and that's growing very strongly. We've got a strong team in place. We've got very strong brand metrics. So clearly, we're very focused on that proportion of our business also increasing as a component of our infant formula business over time.

So look, your point is absolutely valid. It's a very key question. It's one that we -- that I respect because, in fact, you're spot on, and it's something that we're working through on a continual basis. But the reality is we still see the prospect for a rejuvenation of daigou channel and a number of the steps we're going to put in place in the second half will be a little different to what we've done in the first half in consequence of that.

Chelsea Arna Leadbetter - Forsyth Barr Group Ltd., Research Division - Senior Analyst of Equities

I guess, Peter, if I can just come back to your comment around, you don't think there's excessive inventory in the channel. I guess what do you mean by the word excessive? And I mean, from your perspective, do you think anything has changed in terms of what that inventory looks like that the daigou holding at the moment versus when we spoke a couple of months ago?

Peter Jerrold Nathan - The a2 Milk Company Limited - CEO of Asia Pacific

No, no. As I said, there is not -- we're definitely not inventory -- I use the word excessive or inventory beyond what we would class to be at normal levels at this point. That's certainly the case. As we indicated, the reality is that there is a strong interplay between CBEC and daigou. And the fact of matter is that the price -- we haven't been able to get the pricing level to where we need to for daigou to drive incremental volume that we would have required to hit the forecast, and that's largely due to the fact that CBEC -- the ratios of CBEC and daigou are not where they need to be for us to deliver on that.

So therefore, as Geoff indicated, there's a very strong relationship, and we need to ensure that daigou remains, first and foremost, the lead channel. The middle as has been, but even we're starting keeping with past historic numbers in order -- that will enable us to bring the entire English label ecosystem up and CBEC will very much be the follower channel as opposed to the lead channel and daigou will be the lead channel. And that's really the key point, but again, as Race noted, there is not excess inventory in daigou.

Chelsea Arna Leadbetter - Forsyth Barr Group Ltd., Research Division - Senior Analyst of Equities

Okay. And I guess just maybe expanding a tiny bit. You commented in the release, obviously, on the market share in mother and baby. But in terms of daigou and CBEC channels, can you give us some indication of what you think your market share is doing in those channels? Is it down? Is it flat? How should we be thinking about that?

Peter Jerrold Nathan - The a2 Milk Company Limited - CEO of Asia Pacific

Within the -- I mean, the data points that we actually buy are Smartpath and Nelson. And it's fair to say that our Smartpath data, which we haven't given, all I can say is that it is strong. So it's certainly holding up. Now the difficulty with daigou, of course, is that there's no data point that can accurately measure what your guidance share is. But having said that, of the channel, the fact of the matter is that the channel we're probably holding up, the problem is the daigou has indeed contracted at this point in time for the reasons that Geoff articulated. So therefore, overall, we would expect some consumption loss, yes, across the business as a result of the daigou channel contraction.

Richard Barwick - CLSA Limited, Research Division - Research Analyst

Can I just -- I mean, more questions on the same topic, but can you talk about this -- the interplay between daigou and CBEC channels? Can you just explain exactly what you mean by that interplay or how that works? So I'd like to -- if you just give that description a little bit, I just want to try and paraphrase, make sure I'm understanding the sequence of events or the flow of product or how it's supposed to be working and perhaps not working?

Peter Jerrold Nathan - *The a2 Milk Company Limited - CEO of Asia Pacific*

Yes. Part of the problem, Rick, is that the CBEC channel is supposed to fulfill the consumer uptake. By morality, we believe that, that is not always the case, and there's some product indeed flows through to the trade. Now the extent to which that happens and it's harder to control, particularly with big events, then that can depress daigou pricing, which is required to drive the overall consumer engagement. So what we would say is that consumer engagement is driven by daigou and therefore, CBEC is more fulfillment channel in probably upper-tier cities. And daigou is certainly stronger in maintaining consumer engagement user recruitment in lower channels. And therefore, they do play a linked role but a different role, but we do believe the cross-border e-commerce and there's limitations in getting -- in driving the user recruitment and overall brand engagement.

Richard Barwick - *CLSA Limited, Research Division - Research Analyst*

Okay. So then if we put that together with the downgrade that you put through today, is it a case that you -- I mean, the intention was you knew that the daigou channel was depressed? So you're trying to transfer those volumes that would have been sold through daigou pushed that through CBEC, but you are getting some growth in CBEC, but it's not nearly enough to make up for the shortfall. Is that a fair way to sort of summarize the situation?

Peter Jerrold Nathan - *The a2 Milk Company Limited - CEO of Asia Pacific*

They're certainly correct and absolutely correct. And the other part to -- the other part of the puzzle is indeed that repeating myself is that we believe that in order to drive CBEC, you indeed need to first drive daigou. So therefore, because we've (inaudible) the daigou. And clearly, COVID, we addressed -- intending to address the shortfall via CBEC while also driving daigou, we believe that first and foremost daigou is a primary channel that we need to engage and CBEC will underneath follow along.

Richard Barwick - *CLSA Limited, Research Division - Research Analyst*

And just a quick one on MBS. So I think I don't have the number in front of me. But I think the growth rate you're tracking at through MBS across July and August was close enough to 70% growth. And here, you are saying you're expecting to finish the half more like 40%. So the implication is your second 4 months are growing a lot slower than your first 2 months. What's going on within MBS? Is there anything you can tell us around store numbers? But I guess even if -- regardless, it would suggest that your sort of the sales velocity through MBS must have fallen away from where you were tracking.

Peter Jerrold Nathan - *The a2 Milk Company Limited - CEO of Asia Pacific*

No, we don't share that analysis. So I'm not exactly sure we're extracting those numbers. But no, we don't associate the same here with the (inaudible). But yes, we are seeing consistent growth within MBS as we've indicated and across a reasonably consistent level. And again, we are driving both new store growth and also same-store sale growth and continue to invest very heavily behind the channel, as we indicated in the second half, I'll be at a stronger level than we did in half 1.

Geoffrey H. Babidge - *The a2 Milk Company Limited - Interim CEO*

If I just jump in there, Richard, I'm not sure where you're getting your 70% from, that's certainly not a number we've indicated. We have certainly -- we've had good growth year-to-date in China label, and that is continuing.

Richard Barwick - CLSA Limited, Research Division - Research Analyst

Maybe I'll double check the numbers. I thought you were talking back at the September update, you gave a number for MBS, which was -- maybe I'm not quite right on 70% bills, it was much stronger than 40%, I thought.

Race Strauss - The a2 Milk Company Limited - CFO

Well, the underlying volume growth is continuing. It has been strong and it is continuing.

David Errington - BofA Merrill Lynch, Research Division - Head of Consumer Research for Australia and Asia

Just I've got 2 questions. Race, you did say to Richard, it was 77% up to August. Now that flows on to my first question, Geoff. And I'm going to apologize upfront if I'm appearing rude, but we've had been blindsided now by 2 pretty sudden earnings downgrades, pretty sudden. Are you confident that the information flow -- the financial information flow is being fed through to management efficiently enough? So is that you're not blindsided to such a serious degree.

And I'm highlighting here that not only the information flows from China coming through the financials because you -- what you said in September was a pretty sudden and then what you're saying today is pretty sudden. You've got a Chairman who resides in London. The Board just met this week. Are you guys getting information on a timely basis so that you can be on top of dynamic change that's happening in these markets, so that you can be faster? Because you've got to admit, Geoff, these are 2 pretty big earnings downgrades that have blindsided, clearly, not only you, the Board, but us in the investment community.

So my first question is, is there the systems in place in A2 from a financial perspective that are satisfactory that will allow you to be on top of your numbers to avoid these really sudden shocks that we've had? And we've had 2 in the space of too much. And there aside, you only upgrade -- you basically gave guidance at the AGM. So you've really -- this is a huge change. So that's my first question, please.

Geoffrey H. Babidge - The a2 Milk Company Limited - Interim CEO

Look, thanks for that question. And look, it's a very valid question. I think it's absolutely valid that you asked that. What I can say to you with my knowledge of the business having been in for a long time, is that the financial information that is coming through is on an accurate and timely basis. Can we do better or we have to think about can we do better? But these issues that we are experiencing, primarily in respect of a channel that is such a critical channel to us, David.

Again, this is territory we haven't been in before. And the reality is that it is very difficult in a channel, which we all acknowledge, does not have the transparency through the various tiers, and we can go. And one of the things that we're talking about is how can we source additional information through the tiers and into the market to be more timely from that perspective. And that's certainly a key takeaway that I've gotten and that the management is discussing also with the Board. We prefer not to be, in any way, blindsiding ourselves and the market. You're absolutely right.

Conversely, we are relied on this important channel. It has these unusual factors in respect of transparency. It's a channel that others have determined that they don't wish to play in, but for the reasons I've mentioned, we've determined it's very important that we do. What I can say to you, again, as we discussed in the last call, is that we are working actively responding to any changes in our financial position as promptly as that information comes available and that was the situation in September. The position at the annual meeting was that we had no basis at that time on which to consider, within the bounds of materiality, that we should change our forecast for the full year. We did not have a basis on which to do it.

I certainly gave a qualification at the annual meeting, if you recall, in respect of uncertainty pertaining to it, and I'm as disappointed as you are, as disappointed as the Board is, as disappointed as management is, as disappointed as everyone on the call, we are where we are. But I'm saying to you that, that's a situation we obviously had to corcass and determine. Had we any additional information at the annual meeting, at the time of the annual meeting, to update in respect of that matter and we didn't. And I can say to you, I'm sitting here looking at our year-to-date position to

the end of November, in respect of revenue, very close to -- very close to the forecast that we did in September. And I can tell you that the EBITDA is not below that number.

So I'm saying to you, however, December was always going to be a big month. And as soon as we became -- it became known to us, but that was not likely to be achieved through a discussion earlier this week. The Board determined -- we determined we must do some work. We put in place the trading halt, and we acted as promptly as we could in that regard. Now could we have known earlier about the potential trend occurring for the month of December. That's a valid question that we're asking ourselves. Could there be market data that started to emerge at the end of November, that would have assisted that? But it would have been a very limited time for the reasons I mentioned.

Look, it's a very, very valid question, and we're asking ourselves internally what more we could do, but I'm satisfied in respect of the financial information. It is more about what you're really asking, it is about the market dynamics and can we obtain further information more promptly that can inform us moving forward. And that is an issue that we are talking about internally.

David Errington - BofA Merrill Lynch, Research Division - Head of Consumer Research for Australia and Asia

Well, thank you for your answer, Geoff. And I really consider -- that was a good consider -- I really thank you for that respect that you gave that question because it is a serious issue.

My second question is on the margin drop. Now the question is, are you discounting prices to move volumes? And is that discounting damaging your underlying brand strength? That could cause -- because A2 is a premium brand. You've garnered it as a premium brand. But is there discounting going on? And given that the daigou channel and the CBEC channel is under stress, could that discounting damage the A2 brand premiumization, because that would be a serious concern as well?

Geoffrey H. Babidge - The a2 Milk Company Limited - Interim CEO

Look, I'll make a couple of comments, then I'd like Peter also to respond because, again, an extremely informed question. Look, the answer is that this brand, for the reasons you've mentioned, has been built on premium pricing. We're not going to move away from that. We are not discounting. The only thing that you're aware that we have discussed is that there has been a new form of incentive program put in place that is not about price discounting to further assist in the ongoing restoration of certain activity within corporate daigou. We are all about maintaining the premium pricing position. That's in the DNA of this company.

And by the way, in respect of -- in respect of our EBITD to the sales margin, the issue is the daigou business and sales obviously is profitable for us. That's having an impact on the gross margin line, but we are maintaining in our forecast and our outlook moving forward, a substantial continuing spend in marketing in support of the business. And you know, as everyone on the call would know that the easy way to address restoration of an EBITD to the sales would be to take the knot to certain expenses. And we've certainly done a complete review, obviously, of everything pertaining to corporate, as you would expect. But we are maintaining very strong marketing support in the business particularly in China moving forward. But Peter -- very valid question, David. Race, could you add to what I've just said?

Race Strauss - The a2 Milk Company Limited - CFO

Yes. Look, I think what we would say is the reason that we have largely -- or one of the reasons we've made announcement in the first place is to actually protect our brand position so therefore, what we need to do is to ensure that pricing drives upwards now in the daigou and CBEC market, that's very much a consequence of supply and demand. So therefore, we want to make sure that we bottom out the market to the extent that we need to do on what we needed in the past to start pricing moving upwards. And that also -- it pertains to events.

So for example, with the -- if you look at the double eleven pricing, yes, I think largely, the retailer discounts that themselves, and that's the extent to which that occurs is somewhat out of our control, but also can have a dislocating effect on overall market pricing. So therefore, the extent which

we can control in with inventory, it will help to -- help support that, but just to reiterate Geoff's comments, we are absolutely committed to maintaining our premium price positioning and that is consistent with what we have done any event in terms of any funding of promotion.

Geoffrey H. Babidge - *The a2 Milk Company Limited - Interim CEO*

Can I just jump in there and just to correct the comment before? Richard, the team just confirmed, you are correct, we did make the comment of 77% for China label. That is correct. That was based on value, which incorporated the exchange rate. The comment I said before is also correct that the underlying volume is still very strong. What you are seeing is a significant movement in exchange rates because we are quoting value on both these numbers. Sorry for that correction.

Peter J. Marks - *Morgan Stanley, Research Division - Research Associate*

Maybe I'll just clarify that one. Are you saying there that the underlying volume growth in the MBS channel has been relatively constant through the half and that initial 76% sales growth was largely driven by FX?

Geoffrey H. Babidge - *The a2 Milk Company Limited - Interim CEO*

Yes. We've had very strong underlying sales growth. We were getting the benefit back in whenever we talked earlier in the year, we were getting the benefit of the FX rates, but the underlying volume is -- was and continues to be strong.

Peter J. Marks - *Morgan Stanley, Research Division - Research Associate*

Yes. So there's no material slowdown in the volume growth.

Geoffrey H. Babidge - *The a2 Milk Company Limited - Interim CEO*

That is correct.

Peter J. Marks - *Morgan Stanley, Research Division - Research Associate*

Okay. And then I just wanted to talk about what might happen with the cash generation if the daigou doesn't return. So the first point on that is, my understanding is the daigou pays for the product, cash upfront. So obviously, that's good for working capital. But then you've also -- my understanding is you've got minimum annual volume commitments. So where are you with those if the daigou doesn't return, and should we expect to see a big inventory build on the balance sheet at the year-end? If you could just talk about the working capital and the risks around those commitments.

Geoffrey H. Babidge - *The a2 Milk Company Limited - Interim CEO*

So I'm trying to understand the comment on your minimum volume commitments. We don't have minimum volume commitments. The cash generation of the business continues to be strong. The working capital, you are exactly right, will change because of the payments. The terms of payments of the daigou are much more favorable. So the working capital will change. However, there will not be a significant reduction in the overall cash generation that doesn't line up to the reduction in revenue.

Peter J. Marks - Morgan Stanley, Research Division - Research Associate

Sorry, just to clarify, the minimum annual volume commitments that you are required to purchase from Synlait, you don't have a minimum?

Geoffrey H. Babidge - The a2 Milk Company Limited - Interim CEO

No. We have now taken take-or-pay arrangements in the contract with Synlait. We have an arrangement with Synlait, where we have some agreed exclusivity for them to supply up to certain volumes. But that does not convert to a commitment on our part to take minimum volumes. And look, the reality is I've commented before that we were building inventory in consequence of having appropriate cover, both in our own inventory and in conjunction with Synlait, we agreed we would build inventory in case of exposure to factory disruption March, April into May, and that resulted in our inventory building into June and into July.

And we are -- as I've commented recently and at the annual meeting, again, we are carrying inventory above what we would like, and we are on a program to reduce that progressively during the balance of fiscal '21. Clearly, obviously, our sales downgrade will mean that our purchases from Synlait will be lower in the second half than what they would otherwise have been prior to this announcement. And that's obviously something that we'll need to discuss with Synlait moving forward. They're obviously not aware prior to this afternoon of our market update.

Adrian Allbon - Jarden Limited, Research Division - Director of Equity Research

Geoff, and maybe, Peter, given you've obviously taken your time to assess, I guess, the downgrade that you've provided today, can you make some comment in particular within the daigou channel on the age of stock to the extent you have visibility? And whether you need to buy back stock or whether you can roll out buying back stock or inventory levels like at this point? That seems like you definitely commented on the sales part, but not necessarily if there's any investment required in the company to sort of restored the channels stuff.

Geoffrey H. Babidge - The a2 Milk Company Limited - Interim CEO

Look, there is no assumption nor need to be purchasing inventory back what I can say to you, as I've indicated, is we need to very carefully manage our own inventory during the next 6-month period. We need to be mindful of the aging of our inventory moving forward, and we'll take the appropriate steps to ensure that, that is appropriately managed during the next 6 months.

Peter Jerrold Nathan - The a2 Milk Company Limited - CEO of Asia Pacific

Yes. The only other point I'd make is just to (inaudible)

Geoffrey H. Babidge - The a2 Milk Company Limited - Interim CEO

Can't quite hear you, Peter.

Peter Jerrold Nathan - The a2 Milk Company Limited - CEO of Asia Pacific

Yes. The other point I'd like to make is just to potentially correct an assumption as long as the daigou sales are going backwards. They are recovering. It's just that they're not as recovering at faster rate as we had expected. So that will certainly also support the view. There is absolutely no need to -- or intention whatsoever to buy back any trade inventory.

Adrian Allbon - Jarden Limited, Research Division - Director of Equity Research

Just to clarify that, Peter. So you're comfortable that the inventory that's in the channel is of appropriate age. It's just not drawing down the A2 inventory as fast as you'd hoped, and that's the stuff you're watching in terms of the aging?

Peter Jerrold Nathan - The a2 Milk Company Limited - CEO of Asia Pacific

Exactly.

Adrian Allbon - Jarden Limited, Research Division - Director of Equity Research

Okay. And then the second question, just -- I mean, just sort of coming back, I know you sort of spent a lot of time at the start around the interplay between CBEC and the daigou channel. And it sort of feels a little bit like checking in terms of how you like effectively structure a margin for the daigou. But if you've got a CBEC channel, which I suppose, with some of the COVID stuff has been sort of matured faster than normal as an industry with the sort of move to online and stuff. And by deduction, it probably gets hap with more promotional type activity, and it's harder to move the price up as a category. How -- what sort of specific initiatives is the company undertaking to sort of rebuild the daigou margin under that sort of context?

Peter Jerrold Nathan - The a2 Milk Company Limited - CEO of Asia Pacific

Yes. That's really exactly where you're seeing the forecast that you're seeing in the second half because we want to further reduce inventory beyond levels, which we normally would in the trade.

Adrian Allbon - Jarden Limited, Research Division - Director of Equity Research

But I guess, just to ask that question more specifically, if we don't -- if the price doesn't go up in the CBEC channel because there's more promotional activities is just -- and you've noted yourselves a couple of times, the CBEC channel is more competitive. And I presume, over time, some of your smaller diver have been betting off anywhere in the background. Like how do you reboot that daigou trading margin? What are you doing specifically in the second half?

Peter Jerrold Nathan - The a2 Milk Company Limited - CEO of Asia Pacific

But what we have -- firstly, we'll continue the activities we run with corporate daigou to -- which is a direct margin systems. But secondly, it is absolutely a function of supply and demand. That's absolutely where it -- what interplay is required. Hence, again, the numbers you've seen for the second half, which indicate that's what we're going to do. So that's really the key issue.

Adrian Allbon - Jarden Limited, Research Division - Director of Equity Research

And then, sorry -- not to hog the question a bit longer, but like as you sort of look forward a little bit further in there, like should we kind of have some sort of structure to the daigou channel as a result of that natural maturing of CBEC? Like yes, assuming that the sort of the COVID environment normalizes into '22, would that be a reasonable assumption as you know things today and post your recent discussions with the Board and your investigations?

Peter Jerrold Nathan - The a2 Milk Company Limited - CEO of Asia Pacific

We don't -- as I've indicated probably earlier in the discussion, we do not see CBEC growing as a percentage of our business from a channel perspective. We see probably the reverse. So we see in the future, daigou becoming a larger share at the moment, returning to sort of the sort of

ratios that we've experienced in the past and then see they've been drawn upwards into that vortex as opposed to CBEC leading the the new recruitment function.

Phillip Kimber - *Evans & Partners Pty. Ltd., Research Division - Executive Director of Consumer*

Just following on with that interplay question. I mean is what you're really saying is that to maintain an adequate margin for your daigou channel and in particular, the corporate daigou channel because some knows when the retail will come back. You basically are going to have to restrict demand in the CBEC channel because otherwise, there just isn't enough margin in the chain for the daigous to keep growing and therefore, pushing your product. Is that essentially what you're saying?

Peter Jerrold Nathan - *The a2 Milk Company Limited - CEO of Asia Pacific*

Well, it's more about -- it's more about being even more aggressive with supply, is more probably the point. So -- which will, therefore, further reduce any capacity before CBEC to savagely discount pricing beyond what we would like. And therefore, that will have a consequent positive impact on daigou margin.

Phillip Kimber - *Evans & Partners Pty. Ltd., Research Division - Executive Director of Consumer*

Right. And just another one. And I know it's obviously topical here in Australia. Have you seen -- I'm fully understanding you're a New Zealand company. Have you seen any impacts or in the supply chain from any government interference slowdowns, more checks, anything like that in the last few months?

Geoffrey H. Babidge - *The a2 Milk Company Limited - Interim CEO*

Look, look, I'll answer that. And the answer for our business is no. And -- but clearly, we have a view that it would be much better. The current relationships, geopolitical relationship Australia, China is regrettable. I don't think we're alone in saying that. And that's not saying each country shouldn't have their own values and be respectful about that and so forth, but we've got an important range of people that we do business with in China. We've got very, very good, respectful and mutually advantageous relationships clearly, if things don't improve, that just puts pressure points on that. We're very mindful, in fact, of deepening our relationships with the parties that we do business with in China.

As you all know, we've got this long-term relationship with China State Farm. And we talk to them regularly. They have not been concerned about the issue in respect of geopolitics, but we'd all prefer there to be less noise, of course. And we continue to move down a path of wanting to do even more with relationships in China, and that's part of, obviously, the strategic rationale that sits behind the Mataura Valley acquisition or part of it, with China animal husbandry being involved and everything that we've been exposed to, the team has been exposed to over recent months in developing communication with them is that they look a very reputable and very good company that I think we can do good things with in the future.

So by definition, we all -- we prefer things to be better. You said correctly that we are a New Zealand company. And that's important, obviously, all of the key products going for China label and CBEC goes obviously direct from New Zealand into China. So look, the direct business that we have going from Australia to China, realistically is our pretty small fresh milk business coming out of New South Wales, which is not a material part of our business. Peter, I'd like it to be a material part of our business, but you've got to do a bit more work to make it bigger. But realistically, that's not what's impacting our business. At this point of time, we don't see that changing. It is all about the impact of COVID that we've been talking about for some time and the knock-on effect of that, but we're work trying to work through.

Tama Willis - *Devon Funds Management Limited - Portfolio Manager*

Most of my questions have actually been answered, but specifically just on the -- there was recovery of the daigou channel. I'm just interested in obviously, pivoting back more aggressively, but during the last 6 months, with Melbourne closed, domestic brands in China have to go to a real lease-up. I mean how confident are you can actually -- given that resurgence and domestic brands, you can get the daigou channel back to where you want it? And add just a bit more color on exactly how you're going to do that, given (inaudible) for the 6, 9 months of softness.

Peter Jerrold Nathan - *The a2 Milk Company Limited - CEO of Asia Pacific*

Yes. Look, very good questions. Look, the key thing, I think, to appreciate is that, yes, domestic brands have undoubtedly grown. Having said that, in MBS, we have grown very strongly as well. So we're growing within that -- within the context of domestic growth. We'd also say that part of the issue for us has been the fact that where we do -- we're in that ratio, I mean basically channels with our daigou business because of the channel contraction, that's also enabled domestic brands to grow otherwise where they probably wouldn't have.

So therefore, we are very confident that we are very attractive offering from a value proposition perspective, also from a brand aspiration perspective with our English label daigou offering into particularly BCD cities, we just need to reactivate their channel by making sure the margin is such that we can actually penetrate consumers within those regions. So in that context, yes, we believe that we would be fair very well against domestics in those channels where -- or should I say in the city tiers once the channel is reboot.

Geoffrey H. Babidge - *The a2 Milk Company Limited - Interim CEO*

And the only thing I'd add to what Peter said is, yes, we've been acknowledging in -- certainly in the last 6 months, but a number of domestic brands are performing well, and we're trying to learn as much as we can from that. There's no question about that. I think it's acknowledged that generally international brands into China are under pressure. We are coming from a very small base in respect of MBS. But I'll repeat again, we don't -- yes, we are an international brand, but we're an international brand that is partnering and deepening our relationships with parties in China.

So we're not just we've got a China team. We've got China partners who are helping to take our product in. So I'm just saying, we just don't land the product and hope people will take it. We're very much integrating our business within the within the China market and with the partners that we have been doing business with and want to continue to build new relationships with. And I think that's an important element just to remember in respect of our business model.

Sam Teeger - *Citigroup Inc., Research Division - Head of the Australian Small Caps Team & Director*

Geoff, Peter and Race. First one, the new FY '21 sales guidance is implying a better second half compared to the first half. So I was hoping if you can just talk to us about where you're getting the confidence that things will be improving in the second half. Because I'm just conscious that a couple of times over this half, it's been indicated by A2 that there's been some green shoots, but from the look of today's announcement, it doesn't look like any of these green shoots have been sustained. And then if you can, it'd be helpful, to get the first quarter and second quarter sales split, so we can get a sense of the exit run rate to form our own view as to how achievable your new FY '21 guidance is.

Geoffrey H. Babidge - *The a2 Milk Company Limited - Interim CEO*

Look, thanks, Sam. Look, obviously, with the range that we've given in the outlook, at the lower end of the range, it's a pretty modest uplift in the second half than the first half, very modest on what is clearly a very subdued first half performance. So that's the first point.

I think the second thing I'd say, and Peter would add, is that we've given an indication that we are taking a somewhat different approach in certain elements of the business into the second half relative to the first half that as a consequence, will mean our volume in it because of those decisions is going to be lower than, in fact, our previous forecast at. That is all about continuing to put in place mechanisms that continue to assist the restoration of the daigou channel.

We have made now much more conservative assumptions in respect of restoration of daigou in the second half compared to the first half. And you could assume, whilst we're not obviously, Sam, is going to give a breakdown of third and fourth quarter, you can assume that we will be conservative with how that program runs out into the second half. I don't know what you'd like to add to that, Peter.

Peter Jerrold Nathan - *The a2 Milk Company Limited - CEO of Asia Pacific*

Yes. So consistent with Geoff's comment, I mean, as you said, Sam, that yes, there is a growth in the second quarter of first. As I said, we're not giving the detail that, but there is growth on that basis. We're also, as I indicated, investing more in marketing in China in the second half and the first half particularly in activation points with MBS, which gives us a lot of confidence. And then furthermore, as indicated with our new channel reboot strategy and reset strategy in terms of the mix of volume to daigou and CBEC. That also gives us confidence that, that will return as to the sort of ratios that we experienced -- when we're at our zenith, so our hottest then that sort of ratio can reoccur, which will give us the right shape to build -- to continue an upward trajectory.

Geoffrey H. Babidge - *The a2 Milk Company Limited - Interim CEO*

And Sam -- and sorry, Sam, what I can add is just to remind you that, obviously, as we've called out second quarter -- our second quarter revenue is higher than our first quarter revenue. And what I can say to you is, as I said earlier, what I can say to you is that the December month was going to be a big month and is still a big month relative to the half. So if I can indicate to you that there is a growth coming through albeit lower than our previous expectations that is indicating the green shoots. Albeit, they're not -- that growth is slower or where we expected things to be earlier in the year.

Sam Teeger - *Citigroup Inc., Research Division - Head of the Australian Small Caps Team & Director*

Got it. And then with the benefit of hindsight, do you think that if A2 had been more innovative when it comes to traditional infant formula as opposed to just contesting the market with one product? Do you think the result here might be different?

Geoffrey H. Babidge - *The a2 Milk Company Limited - Interim CEO*

Well, that's an interesting question. Look, obviously, when a company goes through the challenges that we're going through, of course, you would expect -- everyone on the call would expect rightly so that we are reviewing every part of the business in respect of positioning and brands, SKUs, go-to-market strategy. And as I mentioned, we're determined to make some changes in respect to how we manage certain things in the second half compared to the first half. That will be different. But at this stage, there is nothing that the marketing team and Peter's team and Li Xiao's team would say that if we had a different, for example, a broader range of SKUs, but the world would have been different for us. That's my understanding. Peter, have you got anything different to say on that?

Peter Jerrold Nathan - *The a2 Milk Company Limited - CEO of Asia Pacific*

Yes. Look, I'd certainly support that. We don't believe that the issue that we faced is anything to do with lack of innovation. As I said, we do believe it's genuinely the channel issue as a consequence of COVID. And as I said, we have a plan to sort that through.

Geoffrey H. Babidge - *The a2 Milk Company Limited - Interim CEO*

I repeat again, Sam. It's a very good question. And as I said, it goes to the nab, that all of you guys, ladies, everyone on the call would expect. We need, really, to continue to assess our business model, the appropriateness of it, notwithstanding, as we've discussed, the great success we've had in it, what needs to change be it in consequence of COVID, in respect of other changes in competitive activity, you would expect we should be

doing that. We are doing that. We are not rooted in the fact that just because we've been successful in the past we can't do things differently, although we don't need to do things differently. And that's certainly something that we are very much exercising timeline as we speak.

Sam Teeger - Citigroup Inc., Research Division - Head of the Australian Small Caps Team & Director

Great. And Geoff, can you just confirm when you'll stay and will David be presenting the February result?

Geoffrey H. Babidge - The a2 Milk Company Limited - Interim CEO

Well, I can say that David is joining, we're looking forward to David joining. And David's been kept informed for the extent he can. By the way, we've been starting to induct him over the last month in particular, when he's had some availability. He was able to visit the Sydney office for the first time, in fact, earlier this week which was great. And look, I'm talking with David about what he would like me to do to help him as he comes into the business. Clearly, none of us were quite expecting the headwinds. Certainly, he wasn't, we weren't, you weren't. So look, we're working through that. I'm happy to assess whatever is required. I would expect I'll certainly, hopefully, be asked to assist in how the February pack has pulled together. I'm certainly happy to be involved. That's just something we're going to work through with David. And I'm having to help post that, of course, because I'm as committed as everyone for this company to restore its performance, to restore its credibility as we move forward. So I'm here to help as required.

Operator

Your next question comes from Jonathan Snape from Bell Potter.

Jonathan Snape - Bell Potter Securities Limited, Research Division - Senior Industrials Analyst

Just 2 questions, if I can. Look, just first one for Race. Looking at your guidance for the second half and also I guess, some of the delta. Can you just talk to the ended U.S. dollar and Aussie, New Zealand dollar? How much of an influence that's had in terms of your margin expectations and the movement? And kind of, I guess, what you're assuming in the second half. Is it somewhere near where we're at at the moment or have you got your own forecast running in?

Race Strauss - The a2 Milk Company Limited - CFO

Yes. Thanks, Jonathan. Look, the FX has had a bit of an impact for us, of course. The strengthening of the New Zealand dollar has not been kind for us, considering that we have such a large business, even with this decline in Australian dollars. So as part of this forecast, we have increased our New Zealand, Aussie dollar rates, which has had an impact into these numbers. So we are more confident now in light of negative conditions. We are more confident now that the cost is built in, and we don't expect -- not that, of course, we can't control this because, as you know, we do not hedge, but we expect that we are more aligned now with where the market has actually landed on our exchange rates, which to remind you, is all about New Zealand and Australia, New Zealand and U.S. and of course, the New Zealand and renminbi, which we're selling across all channels.

Jonathan Snape - Bell Potter Securities Limited, Research Division - Senior Industrials Analyst

Yes. So is it fair to say you're using kind of a spot level for the second half or something different to that?

Race Strauss - The a2 Milk Company Limited - CFO

Yes. We're fair -- if I look at November spots, we are fairly close to that.

Jonathan Snape - *Bell Potter Securities Limited, Research Division - Senior Industrials Analyst*

Great. And look, just a follow-up question on -- some might be a bit fancy, so I apologize in advance. I'm just trying to understand the timeline here in terms of how things have played out because if I go back and look at yourselves and Synlait's guidance statements, for example, I think back at the end of September, you're both simultaneously downgraded your expectations around volumes. On the 11th of November, Synlait obviously downgraded their expectations for finished in volumes, and you're the only customer of theirs. So one would assume that they saw something into a 12-month forecast that made them think that they had to correct their expectations for their business.

Then on the 18 of the 11th, you've reconfirmed your guidance and then (inaudible), you've come out and downgraded it. So I guess what I'm trying to understand is how does Synlait see something a month ago that you didn't when they're working off your forecast?

Geoffrey H. Babidge - *The a2 Milk Company Limited - Interim CEO*

I think I'd simply comment on the fact, but the thing to bear in mind is also the issue of inventory. Synlait has been progressively been put on notice, as I've been -- as we've been stating that our inventory peaked in July, and we've been on a program of reducing that inventory. And they have to obviously take that into account. I'm not privy to exactly obviously their numbers in respect of what they do. So all I can say to you is, but I would be expecting that, that's the issue that they've been responding -- they would previously be responding to. No doubt they will need to -- they've gone into a trailing hole that we need to review it in respect of their go forward, but they obviously haven't got any more information about us pertaining to this outlook change than, of course, other than what's now been advised to the market.

Jonathan Snape - *Bell Potter Securities Limited, Research Division - Senior Industrials Analyst*

But as far as I understand, do you give the monthly 12-month forecast, and the third month becomes kind of firm in the order scheduling. So at some point between the 28 of the 9th and the 11th of November, there's been a change in those monthly ordering rates which cause them to change their guidance statement. So I'm trying to understand how monthly sales order that goes out 12 months forward can be reflecting one company but not in another because it would seem that they would -- should be working almost side-by-side, given you are the ones giving it to.

Geoffrey H. Babidge - *The a2 Milk Company Limited - Interim CEO*

Well, we don't work side-by-side directly. We have our own forecasting activity. But -- and obviously, we communicate, obviously very regularly with Synlait, but I do say to you that there is definitely an issue of how -- certainly for us, how we're managing our inventory that no doubt is impacting on whatever they're saying to the market in respect of their expectations, which obviously, I can't comment on.

Jonathan Snape - *Bell Potter Securities Limited, Research Division - Senior Industrials Analyst*

But you do give them a month, 3-, 12-month forecast?

Geoffrey H. Babidge - *The a2 Milk Company Limited - Interim CEO*

We give them -- I mean, we work to a (inaudible) -- we're working to, obviously, an ongoing rolling changing forecast, but I'll repeat again, what we are particularly doing is managing our inventory position and they've been on notice for some time that we are in a situation of pulling back our inventory as how they respond to that in their forecast, I can't further comment on.

Operator

Your next question comes from Nick Mar from Macquarie.

Nick Mar - *Macquarie Research - Analyst*

Guys, just a quick one. Within the forecast, has your outlook for China label changed at all?

Geoffrey H. Babidge - *The a2 Milk Company Limited - Interim CEO*

Our outlook for China label has actually minor increased. Not significant, but it has slightly increased.

Nick Mar - *Macquarie Research - Analyst*

Okay. And what's driven the confidence and that kind of holding to increasing for that product line?

Geoffrey H. Babidge - *The a2 Milk Company Limited - Interim CEO*

I would say 2 things, and Peter may want to contribute, but we have obviously continually invested heavily in the brand, particularly last year, we remember we stepped up quite a bit. We continue the investment, and we continue to have good distribution expansion in MBS. Peter, you may want to add anything to that?

Peter Jerrold Nathan - *The a2 Milk Company Limited - CEO of Asia Pacific*

Yes. Look, and further raises comments. And one thing we haven't talked a lot about is still -- all the brand health metrics are still in a very, very good shape indeed. So we've had just an update this week on core brand health metrics, brand awareness, purchase intention, loyalty scores, all of them are still very, very strong. So that further sort of supports the daigou channel theory around why the announcement is being made, which further answers your question that the China business is in good shape and is very solid, and we're continuing our program of investing in stores have indicated, invested very heavily in marketing activation, which includes, obviously, PGs, [Momca], et cetera. And that is driving some some nice strong momentum.

Operator

Your next question comes from Adrian Allbon from Jarden.

Adrian Allbon - *Jarden Limited, Research Division - Director of Equity Research*

Just a follow-up question. Like, I mean, you've sort of spoken about a lot of sort of internal review of various features and stuff and particularly at the Board level, but as this does prove to be mostly a single channel sort of daigou issue, there is an interplay with the CBEC, and you do start to get some recovery. I mean did the Board give any consideration to -- like changing the stance on the capital management in terms of the buyback because obviously, like if you are confident that the brand health is still strong, you've got significant cash resource. You're not necessarily disputing the cash out of the company, but obviously would seem quite a strong segment as well.

Geoffrey H. Babidge - *The a2 Milk Company Limited - Interim CEO*

Yes, Adrian. So the short answer to that is we do have a capital management framework, and we've talked about that before, that ensuring we have flexibility, and we invest behind our growth. As you would expect, there has been a number of discussions with the Board about potential buybacks. So the Board is taking that under advisement. It is under discussion, but no decisions, of course, are made.

Operator

Your next question is from Chris Wang from Yunqi Capital.

Chris Wang

Management, thank you for spending the time on the call. I just want to have a couple of questions are kind of related. One is that daigou, in your press release, you talked about COVID impact and lockdown effects and things like that, but over the -- between the last 2 guidance is a matter of 2 to 3 months, that hasn't really changed that a lot in terms of how travel restrictions, how COVID situations happen in China. Can you give us a bit more granularity on how does that impact this further guidance check?

Second question is that the lower of the revenue guidance seems coincidentally to the amount of business you cop by gold corporate aka Andy that does with you guys? And is there any truth that Andy has walked or he's no longer doing business with you guys? Can you talk about that as well?

Geoffrey H. Babidge - *The a2 Milk Company Limited - Interim CEO*

Thanks. Peter?

Peter Jerrold Nathan - *The a2 Milk Company Limited - CEO of Asia Pacific*

Yes. We'll, just firstly, respond to the second question. Yes. I mean, quite clearly, that is absolutely not the case. So I can give you 100% assurance on that, but Andy and his business is still very much aligned with the line. And he's part of our key strategic platform and business partner moving forward, so yes, that there is no 0 truth in that rumor, but it does underscore the the fact that this industry is full rumors, I think.

And look, to answer your first -- your first question and obviously then throw it to Geoff. Look, the COVID issue, what we are saying is that, yes, the -- it's not as though the COVID has changed in and on itself. What we are saying is that the business hasn't grown to the extent that we thought it would post the COVID and also the COVID issue, what it has done has demonstrated the fact that the CBEC channel couldn't deliver us the upside that we thought it could. And therefore, as I said, we're returning to the channel reset and rebalance with daigou behind the role that it's always done very well for us in years of recruitment and household penetration. And therefore, that will require some rebalancing, but COVID certainly highlighted that fact as being -- or that dynamic as being indeed the case, which was otherwise untested. Geoff, any other comments on that?

Geoffrey H. Babidge - *The a2 Milk Company Limited - Interim CEO*

No, I think that's good. Thank you, Peter.

Operator

There are no further questions at this time. I'll now hand back for closing remarks.

Geoffrey H. Babidge - *The a2 Milk Company Limited - Interim CEO*

Look, thank you. Look, thank you, everyone. Obviously, we would have preferred all of us to be having a slightly different day than the one we've had today. And obviously, the disappointment that our performance is not building as we would have liked in the second half is obviously a concern to everyone. I think, however, I do want to say that management, as I said earlier, continues to reassess what other things we should do. We have made a change, as we indicated, in respect of a number of things we're doing. In respect to the business in the second half, and we are optimistic

and believe that the range that we've put in place in the new outlook provides the appropriate bookends for how we're going to take the business forward during this next half with the intention of continuing, if you like, to rebuild the foundation, and how we take it forward.

I would like to thank you all again for your continued interest in the company. And the questions that -- that you've been raising are very valid, everyone that's been on the call. Can I also say just for general information, as you're aware, we've also been working on a number of other things in addition to this, and you are aware that our process in undertaking due diligence and negotiating on Mataura Valley Milk has been continuing during recent times and obviously continuing into December, and we're obviously optimistic of being able to provide a further update on that. We continue to believe that, that's an important strategic opportunity, should it be able to come together. And notwithstanding the pressure points that we currently have, we, in fact, think that a number of aspects pertaining to that potential acquisition are even more valid from a strategic viewpoint moving forward. So look, again, thank you all for your time today, and we, obviously, will be communicating further with you at the time of the first half release. And I look forward to potentially being involved somehow in that process. So thanks, keep well, and we'll talk again.

Operator

Thank you. That does conclude the conference for today. Thank you for participating. You may now disconnect.

DISCLAIMER

Refinitiv reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2020, Refinitiv. All Rights Reserved.