

A2 Milk

Investment case: category trend → market share gain → execution in MBS & CBEC

What matters: China IMF demand, MBS rebuild, brand premium, margin discipline

1) Core business:

- a) Infant formula (MBS + CBEC in China): high margin, core profit driver
- b) Liquid milk (ANZ): low margin, stable
- c) Operational moat: A2 protein proposition, digestibility positioning, premium pricing

2) Drivers

- a) Volume & ASP/mix
- b) Channel Performance
 - MBS (offline): distribution, sales advisory, trust-based conversion
 - CBEC (T-mall, JD): platform ranking, marketing intensity, traffic & conversion, promotion sensitivity
- c) Market Share: category contracting → share gains needed
- d) Margins:
 - Gross margin = ASP + raw milk premiums + product mix
 - Cost control: If cost discipline slips even slightly, the margin gets eaten away very quickly

3) Risk

- a) Demand volatility in China market: macro trend + birthrate decline + E-commerce regulatory
- b) Competitive in channels: intensifying offline competition (Danone, Feihe, Junlebao)
- c) A&P discipline: may not be sustainable (high expenditure in KOL + search bidding to gain share)
- d) Branding weakening: loss of premium positioning → negative margin risk
- e) Channel execution gaps: volume miss → earnings downgrade risk
- f) High dependency on China market: concentration risk

4) long-term opportunities

- a) Market share in China back to mid-single digits
- b) Category expansion (toddler, adult nutrition)
- c) Market expansion (East Asia, North America)
- d) Coverage of sales channels/Distribution density

5) Monitoring

- a) MBS recovery (distribution, velocity): most sensitive to earnings revision
- b) Category market shares weekly/monthly data: leading indicator of top-line
- c) E-commerce platform ranking & traffic: early sign of brand health
- d) ASP & discounting levels: predictor of margin pressure

6) Valuation considerations

- a) Re-rating depends on sustainable pricing power + channel execution recovery
- b) Margin stability is key for DCF sensitivity
- c) Category outlook drives terminal value assumptions
- d) A2 trades at a premium → recovery must be credible