Fonterra reports its Interim Results

- Total Group Revenue: NZ$10,797 million, up 9%
- Reported Profit After Tax NZ$364 million, down 7%
- Normalised Profit After Tax: NZ$364 million, down 13%
- Total Group normalised EBIT: NZ$607 million, down 11%
- Net Debt: NZ$5.6 billion, down 8%
- Total Group normalised Gross Profit: NZ$1,607 million, down 7%
- Total Group normalised Gross Margin: 14.9% down from 17.4%
- Total Group Operating Expenditure: NZ$1,062 million, up 1%
- Normalised Africa, Middle East, Europe, North Asia, Americas (AMENA) EBIT: NZ $250 million, up 25%
- Normalised Greater China EBIT: NZ$236 million, down 20%
- Normalised Asia Pacific (APAC) EBIT: NZ$158 million, down 33%
- Full year forecast normalised earnings per share: 25 - 35 cents per share
- Interim Dividend: 5 cents per share
- Forecast Farmgate Milk Price range: NZ$9.30 - $9.90 per kgMS
- Forecast milk collections: 1,480 million kgMS, down 3.8%

Fonterra Co-operative Group Limited today announced its 2022 Interim Results which show the Co-op has delivered a half year Profit After Tax of NZ$364 million, a Total Group normalised EBIT of NZ$607 million, and a decision to pay an interim dividend of 5 cents alongside a record high forecast Farmgate Milk Price.

Fonterra CEO Miles Hurrell says the Co-op’s results for the first half of the financial year show it is performing well, while creating the momentum needed to achieve its 2030 targets.

“The world wants nutritious, sustainably produced dairy and that’s what we do well. We have continued to see strong demand for our products across multiple markets at a time of constrained supply.

“Our earnings have been achieved at a time when our input costs have been significantly higher with the average cost of milk up almost 30% on the same time last year. This shows we’re performing well even with a high Farmgate Milk Price.

“The Board’s decision to pay an interim dividend will be welcome news for our unit holders and farmer owners.

“The milk price is also good news for our farmer owners and the New Zealand economy - a midpoint of NZ$9.60 would see the Co-op inject over $14 billion into our local communities through milk price payments alone.
“COVID-19 continues to be a challenge in our markets and here at home. We’re seeing more of our employees having to isolate and continued disruptions in our supply chain.

“However, by caring for our people and good management and planning, our manufacturing plants have continued to operate and we are getting products to our customers.”

Commenting on the Co-op’s long-term strategy, Mr Hurrell says it’s been six months since the Co-op announced it and while it’s early days, the shift from reset to growth is well underway.

“This would not be possible without the hard work of our farmer owners and employees, and I want to thank them for their commitment and support.”

Performance
From a performance perspective, Mr Hurrell says the Co-op delivered a Profit After Tax of NZ$364 million, down $27 million on the same time last year, and a Total Group normalised EBIT of NZ$607 million, down $77 million, reflecting the significantly higher milk price.

“Margins in our Ingredients channel improved in the first half. However, the higher milk price put pressure on our margins in Foodservice and Consumer, and we also felt the impact of COVID-19 in many of our markets. Lower New Zealand milk collections reduced our total production and this impacted our overall sales volumes.

“Despite these challenges, AMENA had a stronger start to the year. Our teams across AMENA delivered a 25% increase in normalised EBIT to $250 million. This was driven by improved performance in our Chile business and increased sales of higher value ingredients, used in products such as high protein snack bars and ready-to-drink medical nutrition beverages.

“In Greater China, we have continued to see firm demand for dairy as our team finds new ways to drive demand. Ingredients benefited from strong demand and good margins. However, normalised EBIT is down 20% to $236 million, particularly in Foodservice where, despite steady volumes, the higher milk price impacted gross margins.

“APAC’s normalised EBIT decreased by 33% to $158 million. While gross margins in our Ingredients channel improved, this was more than offset by the higher cost of milk which impacted gross margins in both Consumer and Foodservice, particularly in our South East Asia and New Zealand businesses.”

Mr Hurrell says the Co-op has continued its focus on financial discipline and reducing debt.

“Our net debt is down 8% on the same period to $5.6 billion and our Gearing Ratio is now 44.1% versus 47.3% last year. As is usual at this time of the year, these figures reflect the seasonal peak. We expect further reductions in debt and gearing by the end of the financial year.

“At $1,062 million, our Total Group Operating Expenses are tracking more or less in line with last year, despite inflationary pressures and on-going disruption from COVID-19.”

The record date for the payment of the 5 cent dividend is 24 March 2022, and the payment date is 14 April 2022.

Strategy
Commenting on the Co-op’s strategy, Mr Hurrell says it’s early days, but through the Co-op’s strategic choices to focus on New Zealand milk, be a leader in sustainability and be a leader in dairy innovation and science, it is putting in place the necessary building blocks to grow Foodservice, strengthen its Consumer channel and move towards higher value products in Ingredients.

Focus on New Zealand milk
“Our new ‘Flexible Shareholding’ capital structure will be critical in helping us maintain a sustainable New Zealand milk supply in an increasingly competitive environment.

“Following the successful farmer vote, we are continuing to work with the Government on a regulatory framework which supports the structure. These discussions are progressing well.
“While we don’t have a firm date for when regulatory changes will be made, we expect to be able to provide a timeline for farmers in the next couple of months.

“We are also continuing to make progress on the divestment of our Chilean business and the ownership review of our Australian business.

“Both Soprole and Fonterra Australia are performing well and our priority is to maximise the value of both businesses to the Co-op.

“We will take our time to ensure the best outcomes from these processes and remain confident on delivering on our intention to return around $1 billion of capital to our shareholders and unit holders by FY24.

“Our teams are always looking to drive demand for New Zealand milk by developing new ways of using our products in local cuisine to find the next big food trend.

“In Greater China, using the power of social media, the team promoted the idea of mozzarella on dumplings. The dish gained huge attention and sparked a new trend in the lead up to the Lunar New Year.

“In the Middle East, our team launched Red Cow - a more affordable range of products we sell direct to customers, such as bakeries, to help us capture a greater share of the foodservice market.

Be a leader in dairy innovation and science
“We continue to develop new dairy innovations to help customers as they look to nutrition solutions to help them live longer and healthier lives.

“Through our transformative dairy science collaboration with VitaKey we are aiming to further unlock the benefits of our probiotic strains.

“VitaKey specialises in precision delivery of nutrition which would allow us to design dairy products that incorporate targeted and time-controlled release of specific dairy nutrients in a way that allows the nutrients to be more beneficial in our bodies.

“The project is ahead of schedule and we’ve expanded the scope to include several micronutrients, such as Vitamin D.

“Meanwhile, in the area of nutrition science solutions, we are continuing our work to understand this health and wellness trend and where we can build a competitive advantage.”

Be a leader in sustainability
Mr Hurrell says by continuing to invest in sustainability, the Co-op will ensure its milk is backed by the sustainability credentials consumers want and it will be better able to support its customers in their sustainability journey.

“This is why we have an aspiration to be net zero by 2050, and over the next decade we intend to invest around $1 billion in sustainability initiatives to support that.

“Finding a solution to the methane challenge will be a gamechanger. That’s why the results of the next phase in the Kowbucha™ trials - a probiotic which could switch off the bugs that create methane in cows - are so exciting. After moving from the lab to farm, initial results have shown a reduction in methane of up to 20% when fed to calves. The trial is now continuing to the next phase.”

Mr Hurrell says the Co-op’s focus on sustainability is gaining recognition and helping to maintain and win business.

“Our NZMP Organic Butter – carbonzero™ certified, developed to help our customers achieve their own sustainability goals, has been recognised internationally, winning two innovation awards.
“Our low carbon milk and sustainability credentials have recently helped us retain business in our Foodservice channel. Like us, one of our Quick Service Restaurant customers has a goal to be net zero by 2050. By simply using our products over a competitor’s, they’ve been able to reduce their carbon emissions by the equivalent of taking 1,760 cars off the road.”

FY22 Outlook
Commenting on the second half of the year, Mr Hurrell says the forecast Farmgate Milk Price range of $9.30 - $9.90 per kgMS and forecast normalised earnings guidance of 25 – 35 cents per share remain unchanged.

“While the milk price is at a record high, pricing in our Ingredients business, for both reference and non-reference products, has been supportive of both milk price and earnings and we expect this to continue in the second half.

“In the medium term, we expect the supply and demand outlook to go some way towards underpinning a strong milk price next season.

“There are a number of risks we are continuing to watch closely. The conflict in Ukraine has added to an already complex COVID-19 operating environment, impacting global supply chains, oil prices and the global supply of grain.

“However, our lower debt levels mean we are in a stronger position to weather the heightened levels of uncertainty and market volatility the world faces right now.

“We will also continue to use our Co-op’s scale to ensure we are putting our Co-op’s milk into the products and places where we can deliver the most value under the circumstances.”

ENDS

Non-GAAP financial information
Fonterra uses several non-GAAP measures when discussing financial performance. Non-GAAP measures are not defined or specified by NZ IFRS. Management believes that these measures provide useful information as they provide valuable insight on the underlying performance of the business. They may be used internally to evaluate the underlying performance of business units and to analyse trends. These measures are not uniformly defined or utilised by all companies. Accordingly, these measures may not be comparable with similarly titled measures used by other companies. Non-GAAP financial measures should not be viewed in isolation nor considered as a substitute for measures reported in accordance with NZ IFRS. Non-GAAP measures are not subject to audit unless they are included in Fonterra’s audited annual financial statements.

Please refer to the non-GAAP measures section in Fonterra’s 2022 Interim Report for reconciliation of NZ IFRS to non-GAAP measures, and the Glossary for definitions of non-GAAP measures referred to by Fonterra.

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About Fonterra

We’re an Aotearoa, New Zealand dairy co-operative owned by 10,000 farming whānau (families). Through the spirit of co-operation and a can-do attitude, Fonterra’s farmers, along with 20,000 employees around the world, share the goodness of our milk through innovative consumer, foodservice and ingredient brands. Sustainability is at the heart of everything we do, and we’re committed to leaving things in a better way than we found them. Everyday people working hard to be Good Together in the community.

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