Fonterra
Dairy for life

Market Announcement

16 NOVEMBER 2015

Fonterra increases forecast earnings per share range

Fonterra Co-operative Group Limited is increasing its forecast earnings per share range for the current financial year to 45-55 cents. With a forecast Farmgate Milk Price of $4.60 this lifts the total available for payout to $5.05-5.15 per kgMS and would currently equate to a total forecast cash payout of $4.95-5.00 per kgMS after retentions.

Fonterra is also increasing the rate at which farmers are paid the Co-operative Support of 50 cents per kgMS, with the total amount paid up to December going from 18 cents to 25 cents.

Chairman John Wilson said performance in the period 1 August – 31 October 2015 built on the strong second half of the 2015 financial year.

“While it is tough on farm due to low global milk prices, farmers will welcome the ongoing improvement in Fonterra’s performance delivering increased returns.

“Performance is well ahead of last year and we are hitting our targets on gross margins and operating and capital expenses.

“At the same time, the acceleration of business transformation initiatives is generating significant cash savings. We are on track, and therefore able to lift our forecast earnings per share range.”

At this stage of the season based on the dividend policy, management would recommend at the end of the financial year an annual dividend of 35-40 cents per share, which would then be subject to Board approval. This would equate to a total forecast cash payout of $4.95 -5.00 per kgMS.

“The performance and business transformation savings mean we are also able to increase the December Co-operative Support payment and payments will now be completed by April which means that farmers have access to more of that support earlier,” said Mr Wilson.

Chief Executive Theo Spierings said: “Fonterra Co-operative Support – equalling 50 cents per kgMS on share-backed production from June to December through a loan that is interest-free until 31 May 2017 – is supporting our farmers in a low milk price environment.”

Milk volumes and inventory

The Co-operative is continuing to forecast a reduction in milk collections in New Zealand for the current season of at least 5 per cent, which is equivalent to around 150,000 MT of Whole Milk Powder.

Mr Spierings said since August Fonterra had reduced the amount of product it expects to offer on the GlobalDairyTrade (GDT) platform over the year by 146,000 MT.

“In addition, an increased portion of product is being sold through bilateral customer agreements for a premium on prices achieved on GDT. Ingredients inventory levels for the first quarter are in line with the same period last year.

“We are benefiting from the investment in new plants in New Zealand, which is improving our manufacturing options and reducing peak costs. Our strategy is moving greater volumes of milk into higher-returning products to take advantage of improved prices relative to Whole Milk Powder," said Mr Spierings.

Business performance

Mr Spierings said performance in the first quarter of 2016 built on the strong finish to 2015 with margins increasing across the group from 14 per cent to 23 per cent compared to the same period last year.

"Our first quarter ingredients performance reflects improved product stream returns and margins are tracking well. With less milk this season, and additional capacity, we have taken the opportunity to optimise our product mix.

"We are delivering continuing growth in consumer and foodservice sales volumes and value, particularly in Greater China, Asia and Latin America," said Mr Spierings.

Capital expenditure of $258 million is down 37 per cent, in line with the target. Operating expenses are also down by 4 per cent to $628 million, reflecting the continuing focus on cost control.

Mr Spierings said Fonterra has solid credit ratings which demonstrate the Co-operative's fundamental financial strength.

"Following the completion of our accelerated investment cycle and with our ongoing financial discipline, we are on track to reduce our leverage, with the gearing ratio expected to return to the 40-45 per cent range at the end of the current financial year," said Mr Spierings.

Business transformation

Fonterra's business transformation is aimed at achieving a significant and lasting performance improvement through new ways of working across the Co-operative's global network.

"The initiatives generating recurring benefits implemented in the first quarter are expected to deliver a cash benefit of $170 million in the current financial year.

"Further initiatives in the second quarter are expected to increase recurring cash benefits to $340 million and contribute to both earnings before interest and tax (EBIT), and the Farmgate Milk Price in the current financial year.

"In addition, first quarter initiatives are expected to generate a one-time cash benefit of $110 million this financial year increasing to $440 million based on initiatives being introduced in the second quarter, and will contribute to working capital and our balance sheet," said Mr Spierings.

Fonterra will provide an update on the business transformation and on the earnings range forecast at the completion of the first half of the financial year.

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