



Market Announcement

23 June 2022

Fonterra provides milk price, performance, strategy update

- 2022/23 forecast Farmgate Milk Price range lifted 50 cents to NZ\$8.75-\$10.25 per kgMS
- FY23 earnings guidance range of 30-45 cents per share announced
- Organisational structure changed to accelerate long-term strategy
 - Creation of two new Fonterra Management Team roles
 - Kelvin Wickham to step away from the Co-op after 34 years

Fonterra today lifted its 2022/23 forecast Farmgate Milk Price range to NZ\$8.75-\$10.25 per kgMS, up from NZ\$8.25-\$9.75 per kgMS. This increases the midpoint of the range, which farmers are paid off, by 50 cents to \$9.50 per kgMS.

Fonterra Chief Executive Miles Hurrell says the lift in the forecast milk price reflects the milk supply and demand picture and the current strong US Dollar.

The Co-op also announced a 2022/23 earnings guidance range of 30-45 cents per share and provided an update on the Co-op's progress towards its long-term aspirations.

Mr Hurrell said that the strong earnings guidance for next financial year reflects an expected recovery in some of the Co-op's key markets which have experienced margin pressures this financial year, coupled with ongoing favourable Ingredients margins.

"The wide earnings range for 2022/23 reflects the current high level of uncertainty that comes with operating in a globally-traded, volatile market.

"While the Co-op is in the position to be forecasting both solid earnings and a healthy milk price for the next year, significant volatility remains. These near-term headwinds have the potential to impact some of the Co-op's targets.

"When we released our 2030 long-term aspirations in September 2021, we committed to updating farmers and the market on our progress along the way.

"We're still on track for our 2030 financial targets, but the last few months have shown that there will be some bumps along the way.

"A series of global events have changed some of the assumptions the Co-op's aspirations were based on.

“In particular, interest rates and inflation have lifted well above our assumptions, as have commodity prices in response to the continued strong demand for dairy. This feeds into the Farmgate Milk Price expectations, which you can see in our updated forecast of the 2022/23 milk price range.

“These input cost increases are impacting the cost of our debt in the short term and have also pushed on-farm costs up. This in combination with ongoing regulatory changes, will potentially reduce milk supply volumes. As the higher milk prices lift working capital, our overall debt position has the potential to trend higher but still within our current debt parameters.

“What happens beyond next year is considerably less certain, with a wide range of possible outcomes. As a result, the indicative markers for future financial years which are set out in the Co-op’s long-term aspirations will be updated closer to the time,” says Mr Hurrell.

The Co-op will provide earnings guidance for 2023/24 at the end of the 2022/23 financial year and at the same point going forward in future financial years.

“As we look out to 2030, the fundamentals of dairy – in particular, New Zealand dairy – look strong and we continue to make good progress against our long-term aspirations.

“We are growing our high value, specialty ingredients business, with Active Living expected to deliver growth year-on-year.

“Work also continues on finding a solution to the methane challenge, with the recent expansion of a trial of methane-reducing seaweed as a supplementary feed for cows,” says Mr Hurrell.

The Co-op maintained its earnings guidance range of 25-35 cents per share for the current financial year.

Accelerating progress towards our long-term aspirations

Mr Hurrell says since announcing its refreshed strategy in September 2021, the Co-op has been working through how to adapt its organisational structure to accelerate progress towards its long-term aspirations.

“Our ambitions are to grow the value we derive from our New Zealand milk through our sustainability credentials, innovation, and nutrition science.

“To enable this, we have established two new Fonterra Management Team (FMT) roles to increase the Co-op’s focus on innovation and strategic implementation,” says Mr Hurrell.

- **Chief Innovation and Brand Officer – Komal Mistry-Mehta**

Commercialising our innovation and R&D expertise is integral to achieving our long-term aspirations, as is the need for these attributes to be imbedded into our brand. This role will bring a new level of focus, capability, and thinking to the FMT to help grow the premium value of our products.

Komal has been with the Co-op since April 2011 and currently leads our high-value ingredients business, Active Living.

- **Managing Director Strategy and Optimisation – to be appointed**

Delivering our long-term strategy requires choices to be made over where we put our New Zealand milk in order to best optimise value for the Co-op. This role will bring a new level of focus to the FMT on demand choices, and portfolio and asset management, using analytics to inform decision making.

“In addition, the shape of our AMENA business is changing with the planned divestments of our businesses in Chile and Brazil, our exit from Russia, and our Active Living business moving to the new Innovation and Brand business unit.

“With this in mind, we are grouping AMENA and APAC into a consolidated business unit to be led by Judith Swales.

“Kelvin Wickham, CEO of our AMENA business, has decided that this juncture is the right time for him to step away from Fonterra as the next generation of leadership takes forward the Co-op’s long-term aspirations.

“Kelvin and his wife are keen to stay in Europe and I wish them all the best for their next great adventure. We've worked closely together for a number of years and I will miss his friendship, guidance, and support.

“I thank Kelvin for his extensive contribution to the Co-op. He has been with Fonterra for over 34 years, holding multiple roles across many markets, and has been a tremendous advocate for Fonterra and New Zealand throughout this time,” says Mr Hurrell.

The two new FMT roles will be effective from 1 August, with the new business unit to be effective from 1 October.

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For further information contact:

Fonterra Communications
24-hour media line
Phone: +64 21 507 072
