

3 June 2024

Market update; deleveraging plan, banking covenants & guidance

Synlait Milk Limited (Synlait) is providing several updates to the market, as set out below.

1. Deleveraging plan

Synlait is providing an update on specific aspects of its balance sheet deleveraging plan announced in April 2024 at its half year, as set out below.

Bright Dairy to provide \$130 million facility – subject to shareholder approval.

Subject to a pending shareholder vote, Synlait has agreed on the terms of a \$130 million shareholder loan with Bright Dairy, which owns 39.01% of the shares on issue in the company.

Synlait expects to draw down the full \$130 million to meet its prepayment obligation to the company's senior lenders, due on 15 July 2024. The drawdown of the loan is conditional upon Bright Dairy securing all necessary corporate, shareholder, and external approvals, as well as meeting customary drawdown conditions and consent of Synlait's banking syndicate (including subordination terms).

The loan would be a related party transaction under the NZX Listing Rules, requiring approval of Synlait's shareholders (other than Bright) at a special meeting by way of an ordinary resolution. A notice of meeting will be issued and set out further details regarding the loan terms.

Synlait Chair George Adams commented: "We are grateful for the support from Bright Dairy. We are actively working with Bright Dairy on the remaining work relating to this shareholder loan and a future equity raise. The shareholder loan, and the future equity raise, will enable Synlait to reduce its debt to a sustainable level."

Dairyworks sale process update

Dairyworks is a high-value business, and the Board committed to ensuring the best possible return for shareholders. While the Board has received interest in the business from a number of parties, a binding offer has not materialised at a level that would be acceptable. Although the company would consider credible offers, the sale process no longer remains formally open. Dairyworks continues to make a meaningful contribution to Synlait's overall financial performance.

2. Banking covenants

Synlait is now forecasting it is unlikely to meet three of its current banking covenants as at 31 July 2024, the interest coverage ratio, leverage ratio, and senior leverage ratio. This reflects the timing of Synlait's deleveraging and further weakening in its financial performance.

The banking syndicate is currently reviewing a package of proposed waivers put forward by the company. The syndicate has continued to support Synlait and is actively engaging with the company on the requested waivers.

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Synlait

The Board and Management continue to prioritise the plan to deleverage Synlait's balance sheet. Synlait is engaging with its banking syndicate on the broader deleveraging plan, and reviews of the proposed waivers are happening in parallel with this.

3. Full year 2024 guidance update

Synlait still expects its FY24 EBITDA to be within the range of \$45 million to \$60 million, excluding a non-cash adjustment for the product costing method change of approximately \$17 million. Synlait is now forecasting the FY24 EBITDA result to be at the lower end of this range. The expected result has been further impacted by:

- Softening of Ingredients margins due to foreign exchange rates and pricing.
- Revised inventory provisioning and forecasted write-downs in the second half.
- Increased financing costs due to the extended timeframes to deleverage the business and operational costs.

4. Farmer suppliers

The dairy season ended on 31 May 2024, and Synlait acknowledges that it has been an especially difficult season for its farmer suppliers, given rising input costs on-farm. Synlait also notes a significant majority of the company's farmer supplier base have submitted cessation notices, which is expected given its current performance.

Retention of milk supply remains a critical priority. Farmer suppliers have signalled they want to see Synlait's balance sheet deleveraged, so advanced rates can be lifted further, and submitting a cessation notice provides an option, rather than a clear intention to sign with other processors.

Synlait is committed to working with its farmer suppliers to improve its offering. The company provided competitive forecast milk price updates for the 2023/2024 and 2024/2025 seasons, and a competitive advanced rate for the 2024/2025 season last week.

Synlait's current financial performance is not impacted as the cessation period is two years. This is because cessations received in the immediately preceding year up to the 31 May 2024 cut-off date would affect milk supply from FY26 onward if they are not withdrawn.

Synlait CEO Grant Watson commented: "We strongly believe that Synlait presents an excellent value proposition to farmers, with our best-in-class Lead with Pride™ programme and attractive speciality milk premiums, stand out features."

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