



Market Announcement

30 September 2024

Fonterra's revised strategy to grow end-to-end value

Fonterra Co-operative Group Ltd has today released its revised strategy, which will see the Co-op deepen its focus on its high-performing Ingredients and Foodservice businesses to grow value for farmer shareholders and unit holders.

This follows a strategic review that confirmed the Co-op's strengths as a B2B dairy nutrition provider, resulting in Fonterra's decision to explore divestment options for its global Consumer businesses.

Chairman Peter McBride says the revised strategy creates a pathway to greater value creation, allowing the Co-op to announce enhanced financial targets and policy settings.

"The Co-op exists to provide stability and manage risk on farmers' behalf, while maximising the returns to farmers from their milk and the capital they have invested in Fonterra.

"Through implementation of our strategy, we can grow returns to our owners while continuing to invest in the Co-op, maintaining the financial discipline and strong balance sheet we've worked hard to build over recent years.

"We have increased our target average return on capital to 10-12%, up from 9-10%, and announced a new dividend policy of 60-80% of earnings, up from 40-60%. At all times, we remain committed to maintaining the maximum sustainable Farmgate Milk Price," says Mr McBride.

CEO Miles Hurrell says Fonterra is in a strong position, delivering results well above its five-year average, which puts it in a position to think about the next evolution of its strategic delivery.

"The foundations of our strategy – our focus on New Zealand milk, sustainability, and dairy innovation and science – remain unchanged. What's changed is how we play to these strengths.

"Following our recent strategic review, we are clear on the parts of the business that create the most value today and where there is further headroom for growth. These are our innovative Ingredients and Foodservice businesses, supported by efficient and flexible operations.

"By streamlining the Co-op to focus on these areas, we can grow greater value for farmer shareholders and unit holders, even if we divest our Consumer businesses," says Mr Hurrell.

Looking out to the next decade and beyond, Fonterra has made six strategic choices. These are:

1. **Deliver the strongest farmer offering** – work alongside farmers to enable on-farm profitability and productivity and support the strongest payout.

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2. **Unleash the Ingredients engine** – deepen Fonterra’s position as a world-leading provider of sophisticated dairy ingredients and build trading capability to grow both the Farmgate Milk Price and earnings.
3. **Keep up the momentum in Foodservice** – expand our successful Foodservice business in China and other key markets to grow earnings.
4. **Invest in operations for the future** – an efficient manufacturing and supply chain network that allows flexibility to allocate milk to the highest returning product and sales channel.
5. **Build on our sustainability position** – further improve the Co-op’s sustainability credentials and strengthen partnerships with customers who value this position.
6. **Innovate to drive an advantage** – use science and technology to solve the Co-op’s challenges and build on competitive advantages.

“As previously announced, we are exploring divestment options for our global Consumer businesses to free up capital and allow the Co-op to focus on what it does best.

“This process is ongoing and progressing well. It remains our intention to seek shareholder approval prior to divesting these businesses,” says Mr Hurrell.

Targets & policy settings

Alongside the highest sustainable Farmgate Milk Price, the performance measures Fonterra will track its progress against are:

Outcome	Targets and policy settings	FY18-23 average
Strong shareholder returns	Return on capital: 10-12% <i>Average ROC FY24-30</i>	8.6%
	Dividend policy: 60-80%	50%
	Capital distributions: guided by Resource Allocation Framework	
Stable balance sheet	Gearing Ratio: 30-40%	35%
	Debt to EBITDA: 2-3x	2.5x
Enduring Co-op	Capital investment requirements: ~\$1 billion per annum in essential, sustainability and growth capital	\$650 million
	Emissions reductions by 2030 (from an FY18 base year) <ul style="list-style-type: none"> • Absolute Scope 1&2 emissions: 50% • On-farm emissions intensity Scope 3: 30% 	

“The Co-op’s improved returns will primarily be driven by increased earnings in Ingredients and Foodservice along with operational efficiencies.

“We continue to have significant capital investment needs ahead of us to maintain fit for purpose assets and we can meet these investment requirements while maintaining our strong balance sheet. We also intend to make a significant capital return to shareholders if we divest our Consumer business,” says Mr Hurrell.

Fonterra will provide farmers and the market a rolling three-year forward-looking view of the financial assumptions underpinning its performance targets annually and will measure progress through its annual business updates.

“This is the right strategy for the Co-op. It has a clear-eyed view of where we best generate returns for farmer shareholders and unit holders and will see us unlock value at every point in our supply chain by focusing on our strengths.

“Together, Fonterra’s Board and Management are looking forward to working alongside our Co-op’s farmers and employees to deliver on our vision to be the source of the world’s most valued dairy,” says Mr Hurrell.

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About Fonterra

Fonterra is a co-operative owned and supplied by [thousands of farming families](#) across Aotearoa New Zealand. Through the spirit of co-operation and a can-do attitude, Fonterra’s farmers and employees share the goodness of [our milk](#) through innovative [consumer](#), [foodservice](#) and [ingredients](#) 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. We are passionate about supporting our communities by [Doing Good Together](#).

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Dairy for life

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Our strategy

A strategy fit for the future

Our context is changing so we're changing too

The world we've come from

Defining features of the past

- Global co-operation and trade
- Rise of Asia and China
- Energy abundance
- Cheap capital

Fonterra set up to benefit

- Co-op with scope and scale
- Trade agreements, Asia adjacent
- NZ dairy comparative advantage
- Consolidation and growth

Where we're heading

Defining features of the future

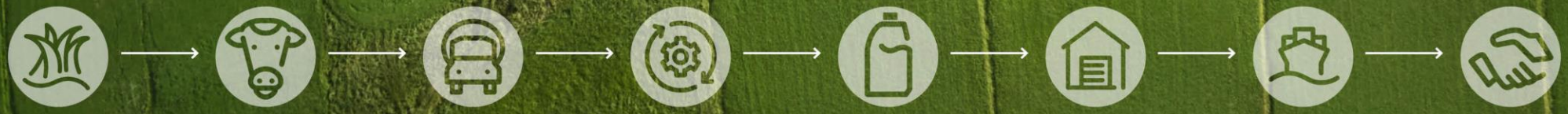
- Nationalism and protectionism
- Game-changing tech
- Asia and China at scale, aging populations
- Global climate commitments
- Capital costs high

Implications for NZ dairy

- Geopolitical instability, trade advantages
- Competition for milk higher
- Sustainability imperative
- Farming more expensive, capital costs high
- Opportunities from volatility

How we create end-to-end value for farmers

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The foundations of our strategy remain unchanged

We are clear on who we are and confident in our strengths

Focus on
New Zealand Milk



Be a leader in
sustainability



Be a leader in dairy
innovation and science



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OUR PURPOSE

Our Co-operative, empowering people, to create goodness for generations. You, me, us together. Tātou, tātou.

OUR VISION

The source of the world's most valued dairy

OUR CHOICES

Deliver strongest farmer offering

Unleash our Ingredients engine

Keep momentum in Foodservice

Invest in operations for the future

Build on our sustainability position

Innovate to drive our advantage

OUTCOMES

Strong Shareholder returns

Stable balance sheet

Enduring Co-op

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Deliver strongest farmer offering

Work alongside farmers to help drive on-farm productivity and profitability.

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Stronger payout

Continuous improvement across the Co-op to support the highest sustainable Farmgate Milk Price.

Improve on-farm cashflow

Optimise the Advance Rate Schedule to get cash to farmers sooner.

Increase farmer support

Deliver greater value in the way we support farmers to achieve their on-farm productivity and sustainability goals.

Next generation of farmers

Increase support for young and early-career farmers, and better connect them with those at the end of the farming lifecycle, to help keep land in dairy.

Unleash our Ingredients engine

Deepen our position as a world-leading provider of sophisticated dairy ingredients, to grow both the Farmgate Milk Price and earnings.

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Strategic customer relationships

Deeper partnerships with customers who value our unique offering.

Rewire processes

From manufacturing through to pricing and sales, optimising as one, to unlock value.

Build trading capability

Integrating physical and financial portfolios to unlock new sources of value.

Manufacturing capacity

Invest growth capital in new capacity to increase milk allocated to high-value ingredients.

Grow nutrition portfolio

Invest in innovation to develop advanced ingredient products and solutions.

Keep momentum in Foodservice

Expand our successful Foodservice business in and beyond China to grow earnings.

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China growth

Maintain our leadership position in China and expand our footprint into new cities.

Rest of world growth

Selectively accelerate Foodservice growth in markets outside China, with a capital-light approach.

Customer partnership

Continue to invest in local application centres to tailor our products to customer needs.

Product innovation

Deliver new product innovations to maintain and grow market share.

Manufacturing capacity

Invest growth capital in new capacity to increase milk allocated to Foodservice.

Invest in operations for the future

An efficient manufacturing and supply chain network that allows us to flexibly allocate milk to the highest returning product and sales channel.



Efficiency gains

Optimise manufacturing costs through continued improvement in collection, processing and distribution.

Asset capacity shift

Towards higher value Foodservice and Ingredients products.

Technology enhancements

Increase uptake of robotics, automation, AI and other new technologies.

Asset flexibility

Enable flexible allocation of milk across product, channel and customer mix.

Enduring assets

Continued investment of capital in operating efficiencies, energy and wastewater.

Build on our sustainability position

Further improve the Co-op's sustainability credentials, as we work towards our ambition to be net zero by 2050.

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Sustainable value

Strengthen strategic partnerships with customers who value our sustainability position.

Climate targets

Support farmers to reduce on-farm emissions by deploying new tools, services and technologies. Invest capital to continue reduction of operational emissions.

Nature

Help support the health of waterways, soil and biodiversity.

Animal wellbeing

Work alongside farmers to maintain high standards of animal wellbeing.

Innovate to drive our advantage

Use science and technology to solve the Co-op's challenges and build on our competitive advantages.

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Product innovation

Invest in R&D and partner with customers to develop core dairy products and science-backed nutritional solutions.

Value chain improvements

From on-farm emissions reduction solutions through to manufacturing process improvements.

Innovation model

Work alongside customers through in-market application centres and R&D partnerships.

Ki Tua Fund

A standalone entity, investing in new businesses and technology.

Targeting a significant capital return if Consumer businesses divested

Currently exploring options for full or partial divestment of some or all of our global Consumer business, including Fonterra Oceania and Fonterra Sri Lanka.

Targeting a significant capital return, guided by Resource Allocation Framework.

If we proceed with a divestment of this size, we will seek shareholder support.



*Illustrative subset of our Consumer brands

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A strong Co-op, creating value

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OUTCOMES	TARGETS & POLICY SETTINGS	FY18-23 AVERAGE	
Strong Shareholder returns	Return on capital ¹	10-12%	
	Dividend policy	60-80%	
	Capital distributions	Guided by Resource Allocation Framework	
Stable balance sheet	Gearing ratio	30-40%	
	Debt to EBITDA	2-3X	
Enduring Co-op	Capital investment requirements	~\$1+ billion per annum in Essential, Sustainability, Growth	
	Emissions reduction by 2030 ²	Absolute Scope 1 & 2 emissions	50%
		On-farm emissions intensity Scope 3	30%

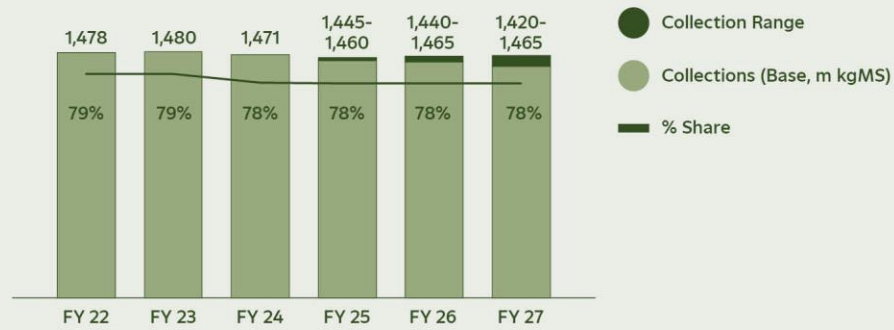
¹ Average Return on Capital FY24-30

² From an FY18 base year

Key financial drivers to FY27

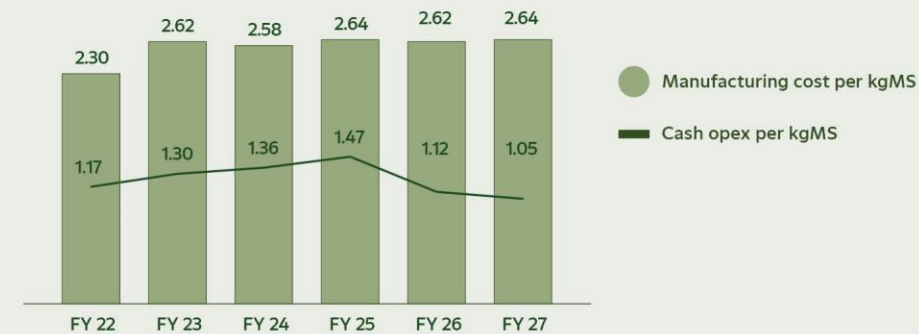
A stable milk supply¹

Strong farmer offering stabilises milk supply



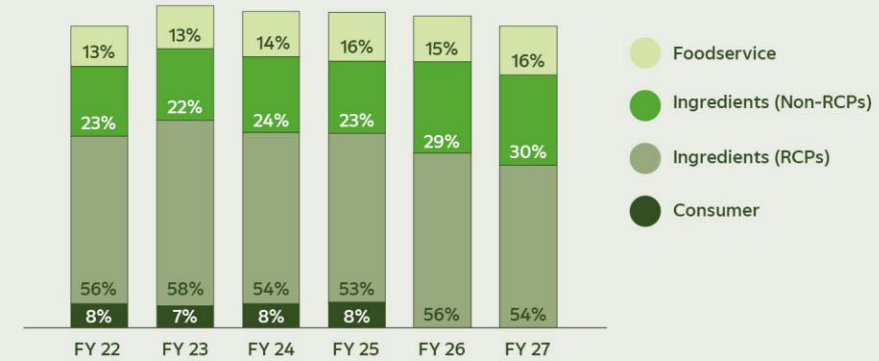
Efficient operations²

Efficiency improvements in NZ manufacturing offset cost inflation



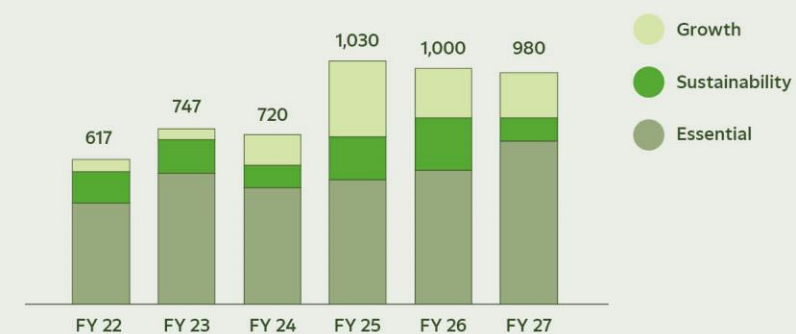
Improved product mix²

Underlying growth in Foodservice of ~5% per year



A clear capital plan

Increase in spend to support resilience and growth



¹ New Zealand milk solids ² Indicative of post-divestment levels

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How we'll track progress

Progress will be reported through our annual business updates.

We will continue to issue a forecast Farmgate Milk Price and give earnings guidance for the current season.

This will be accompanied by a forward-looking view of the key business drivers, making performance against them visible.

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Strategic choices

Deliver strongest farmer offering

Unleash our Ingredients engine

Keep momentum in Foodservice

Invest in operations for the future

Build on our sustainability position

Innovate to drive our advantage

Key business drivers

A stable milk supply

Improved product margins & mix

Efficient processing

A clear capital plan

Targets & Policy Settings

Strong shareholder returns

Return on capital¹

10-12%

Dividend policy

60-80%

Stable balance sheet

Gearing ratio

30-40%

Debt to EBITDA

2-3X

Enduring Co-op

Capital investment requirements

~\$1+ billion per annum in Essential, Sustainability, Growth

Emissions reduction by 2030²

50% Absolute Scope 1&2 emissions

30% On-farm emissions intensity Scope 3

¹ Average Return on Capital FY24-30

² From an FY18 base year

Our values shape how we deliver our strategy

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Good Together

We work collaboratively.
This is our foundation.

We know we're good together
when we prioritise:

Safety
Collaboration
Empathy

Better Every Day

We embrace transformation.
This is what drives us forward.

We know we're better every
day when we prioritise:

Curiosity
Innovation
Boldness

Every Drop Counts

We're focused on performance.
This is how we maximise value.

We know every drop counts
when we prioritise:

Integrity
Focus
Impact



Dairy for life



Thank You

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