CHINA MENGNIU DAIRY COMPANY LIMITED
(2319.HK)

2018 INTERIM RESULTS

August 2018
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Management Team

- **Mengniu**
  - Lu Minfang, Chief Executive Officer & Executive Director
  - Zhang Ping, Chief Financial Officer
  - Liu Shengli, Vice President
  - Gao Fei, Vice President
  - Zhang Yong, Vice President of Strategic Management
  - Chris Kwok, Financial Controller & Company Secretary

- **Yashili**
  - Chopin Zhang, Chief Executive Officer & Executive Director
  - Wen Jieping, Chief Financial Officer
Financial Overview
## Financial Highlights

<table>
<thead>
<tr>
<th>Financial Category</th>
<th>1H 2017</th>
<th>1H 2018</th>
<th>+/-</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>29,465.8</td>
<td>34,474.3</td>
<td>+17.0%</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>10,502.6</td>
<td>13,522.3</td>
<td>+28.8%</td>
</tr>
<tr>
<td>Gross Margin</td>
<td>35.6%</td>
<td>39.2%</td>
<td>+3.6ppt</td>
</tr>
<tr>
<td>Operating Profit</td>
<td>1,805.6</td>
<td>1,945.6</td>
<td>+7.8%</td>
</tr>
<tr>
<td>Operating Margin</td>
<td>6.1%</td>
<td>5.6%</td>
<td>-0.5ppt</td>
</tr>
<tr>
<td>EBITDA</td>
<td>2,289.7</td>
<td>2,732.6</td>
<td>+19.3%</td>
</tr>
<tr>
<td>EBITDA Margin</td>
<td>7.8%</td>
<td>7.9%</td>
<td>+0.1ppt</td>
</tr>
<tr>
<td>Profit Attributable to Owners of the Company</td>
<td>1,127.9</td>
<td>1,562.0</td>
<td>+38.5%</td>
</tr>
<tr>
<td>Net Profit Margin</td>
<td>3.8%</td>
<td>4.5%</td>
<td>+0.7ppt</td>
</tr>
<tr>
<td>Basic EPS (RMB)</td>
<td>0.290</td>
<td>0.400</td>
<td>+37.9%</td>
</tr>
</tbody>
</table>
Revenue Breakdown by Segment

<table>
<thead>
<tr>
<th></th>
<th>1H 2017</th>
<th>1H 2018</th>
<th>+/- (%)</th>
<th>% of Revenue</th>
<th>+/- (ppt)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Liquid Milk</strong></td>
<td>25,372.1</td>
<td>28,931.6</td>
<td>+14.0%</td>
<td>83.9%</td>
<td>-2.2ppt</td>
</tr>
<tr>
<td><strong>Ice Cream</strong></td>
<td>1,985.3</td>
<td>2,239.8</td>
<td>+12.8%</td>
<td>6.5%</td>
<td>-0.2ppt</td>
</tr>
<tr>
<td><strong>Milk Formula</strong></td>
<td>1,786.4</td>
<td>2,946.5</td>
<td>+64.9%</td>
<td>8.5%</td>
<td>+2.4ppt</td>
</tr>
<tr>
<td><strong>Others (1)</strong></td>
<td>322.0</td>
<td>356.4</td>
<td>+10.7%</td>
<td>1.1%</td>
<td>+0.0ppt</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>29,465.8</td>
<td>34,474.3</td>
<td>+17.0%</td>
<td>100%</td>
<td>/</td>
</tr>
</tbody>
</table>

(1) Others refers to cheese, plant-based nutritional food business, etc.
Market Share Performance

**UHT Products**

<table>
<thead>
<tr>
<th></th>
<th>1H2017</th>
<th>1H2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mengniu</td>
<td>24.8%</td>
<td>22.6%</td>
</tr>
<tr>
<td>A</td>
<td>7.5%</td>
<td>7.1%</td>
</tr>
<tr>
<td>B</td>
<td>34.3%</td>
<td>36.7%</td>
</tr>
<tr>
<td>C</td>
<td>28.0%</td>
<td>28.2%</td>
</tr>
<tr>
<td>Others</td>
<td>5.4%</td>
<td>5.4%</td>
</tr>
</tbody>
</table>

**Chilled Yogurt**

<table>
<thead>
<tr>
<th></th>
<th>1H2017</th>
<th>1H2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mengniu</td>
<td>30.6%</td>
<td>30.1%</td>
</tr>
<tr>
<td>A</td>
<td>11.5%</td>
<td>10.5%</td>
</tr>
<tr>
<td>B</td>
<td>21.7%</td>
<td>22.5%</td>
</tr>
<tr>
<td>C</td>
<td>32.3%</td>
<td>32.5%</td>
</tr>
<tr>
<td>Others</td>
<td>3.9%</td>
<td>4.4%</td>
</tr>
</tbody>
</table>

**Infant Milk Formula**

<table>
<thead>
<tr>
<th></th>
<th>1H2017</th>
<th>1H2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mengniu</td>
<td>60.6%</td>
<td>61.4%</td>
</tr>
<tr>
<td>A</td>
<td>11.9%</td>
<td>11.7%</td>
</tr>
<tr>
<td>B</td>
<td>13.9%</td>
<td>13.4%</td>
</tr>
<tr>
<td>C</td>
<td>9.5%</td>
<td>9.2%</td>
</tr>
<tr>
<td>Others</td>
<td>4.1%</td>
<td>4.3%</td>
</tr>
</tbody>
</table>

**E-commerce (Liquid Milk)**

<table>
<thead>
<tr>
<th></th>
<th>1H2017</th>
<th>1H2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mengniu</td>
<td>47.2%</td>
<td>44.0%</td>
</tr>
<tr>
<td>A</td>
<td>10.1%</td>
<td>6.3%</td>
</tr>
<tr>
<td>B</td>
<td>17.0%</td>
<td>21.4%</td>
</tr>
<tr>
<td>C</td>
<td>20.6%</td>
<td>24.0%</td>
</tr>
<tr>
<td>Others</td>
<td>5.1%</td>
<td>4.3%</td>
</tr>
</tbody>
</table>

Source: (1) Nielsen offline retail research; (2) Nielsen offline retail research + smartpath online data; (3) Nielsen online retail research
Cash Flow and CAPEX

Net Cash Inflows from Operating Activities

(RMB Million)

1H2017: 3,434.1
1H2018: 3,400.3

Capital Expenditure - Property, Plant & Equipment

(RMB Million)

1H2017: 1,015.0
1H2018: 1,325.8
SG&A Expenses

**S&D**

<table>
<thead>
<tr>
<th>Year</th>
<th>Expense (RMB Million)</th>
<th>% of Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>1H2017</td>
<td>7,143.8</td>
<td>24.2%</td>
</tr>
<tr>
<td>1H2018</td>
<td>9,975.1</td>
<td>28.9%</td>
</tr>
</tbody>
</table>

**G&A**

<table>
<thead>
<tr>
<th>Year</th>
<th>Expense (RMB Million)</th>
<th>% of Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>1H2017</td>
<td>1,087.5</td>
<td>3.7%</td>
</tr>
<tr>
<td>1H2018</td>
<td>1,360.4</td>
<td>3.9%</td>
</tr>
</tbody>
</table>
Operating Efficiency Index

Inventory Turnover
(Days)

1H2017: 31.5
1H2018: 31.6

Receivables Turnover (1)
(Days)

1H2017: 15.5
1H2018: 15.5

Payables Turnover (2)
(Days)

1H2017: 57.0
1H2018: 58.2

(1) Receivables Turnover = (Average Balance of Trade and Bills Receivables / Revenue) x Number of Days
(2) Payables Turnover = (Average Balance of Trade and Bills Payables / Cost of Sales) x Number of Days
Business Review and Prospects
Market is Changing

- Rising labor cost, while raw material cost was well controlled in 1H
- Competition remains fierce

- Diversifying consumer preferences
- Noticeable consumption upgrade and volume growth driven by innovation
- Consumer demands for dairy products remain strong

- Sales channels becoming more fragmented: Traditional (supermarket, CVS, grocery store) VS. Emerging (e-commerce, O2O, unmanned store, smart vending machine)
Our Priorities in 2018

1. Focus on nutrition and health and build world-leading R&D capabilities

2. All in World Cup themed marketing effort entailing parent brand and sub-brands

3. Build a sales team with omnichannel management capabilities and industry-leading efficiency

4. Continuously enhance quality and efficiency across the entire supply chain

5. Aim for breakthroughs in new businesses to build new growth drivers

6. Align culture of the organization with our 2020 strategic target
1 Focus on Nutrition and Health, Develop Long-term R&D Capabilities

- **Technology development platform**
  - To realize application of new global technologies leading to the introduction of new products with high technology entry barrier

- **Precise nutrition planning**
  - To provide personalized diet and healthcare services based on analysis of consumer health so as to complement existing business

- **Informationalized product lifecycle data**
  - To build a unified application platform in order to execute product development strategies through a shared medium

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- **“Mengniu Package” platform**
  - Bolster the “Mengniu Package” communication platform to share innovative packaging technologies and trends
  - Formulate a packaging innovation strategic map based on business divisions

- **Key technology buildup**
  - To develop key dairy specific technologies and apply them to the Group’s products, e.g. probiotic function development and improvement, new pasteurization technology, cow dairy deep processing technology, etc.

- **Sustainable packaging plan**
  - Formulate short-, medium- and long-term sustainable packaging plan
  - Increase application of recyclable and renewable materials and packaging
1. Focus on Nutrition and Health, Expedite New Product Launch

- UHT Milk
- RT Yogurt
- Chilled Yogurt
- Plant-based
- Fresh Milk
- Ice Cream
- Cheese, Butter
All in World Cup Themed Campaign: Enhance Brand Power

Our brands work together to speak in one voice

Declare FIFA sponsorship via standardized VI; integrate the Group’s resources to enhance brand exposure

Applied Mengniu & FIFA joint logo on all products’ packages, POS, advertisements, billboard

Integrated all spokespersons to conduct brand messaging

Leverage World Cup in building up new brand proposition

All-round integrated advertising

#Power of Nature

Born for Greatness #

New proposition

- Exposure via all media channels
- Prime time TVCs
- PR/ social media
- Event marketing

✓ CCTV/PSTV/ OTV exposure across the country
✓ Netease/Headline/Weibo/ WeChat/Screen open content
✓ OOH/ Cinema screens
✓ Airport/Metro
✓ Onsite campaign in Russia
2 All in World Cup Themed Campaign: Focus on Consumer Engagement

- Covered all room temperature, chilled and ice cream products
- Developed a Mengniu FIFA mini program to engage consumers via WeChat
- Program spanned four and a half months: March 15 – July 31

- Total participants: 74.4 mn+
- # of WeChat Red Packets taken: 187 mn+
- Times of scans: 237 mn+
January 10: Midnight Action

CNY holiday delivers strong sales

World Cup campaign reaches retail end

“FIFA World Cup Fun, Scan the Code for Red Packet 100%” promotion

Emphasize in-store promotion

Expand POS and improve POS coverage
Enhance Sales Force: Reinforce Channel Penetration

**Breakthrough in Direct Sales Model**
- Added sales staff
- Added regions and routes visited by sales staff
- Branch companies and subsidiaries under the direct sales model improved POS coverage by 5%

**Focus on Towns and Counties**
- Added township-based sales staff
- Enhanced management via SFA system and addition of 95,000 stores in counties or villages
- Sales grew faster than the Group average

**Leverage Campus Channel**
- Focused on back-to-school season and conducted campus store campaign
- Campus store coverage reached 69%, up significantly yoy

**Competition and Incentives**
- Focused on KPIs linked with market development, incentivizing top performing sales team and individual staff on a quarterly basis
3 Enhance Sales Force: Emphasize Development of New Retail Channels

- Contributed 3%+ of total sales in 1H18; No. 1 online seller on June 18
- Online category expanded from room temperature to chilled yogurt and ice cream
- Continued to strengthen strategic cooperation with Alibaba and JD.com

- Sales momentum strong with single month sales revenue reaching a high of over RMB 100mn in 1H18
- Conducted World Cup campaign targeting traditional stores and online ordering
- Will expand B2B partnership model to empower distributors

- Signed strategic cooperation agreement with Hema and Super Species
- Conducted World Cup joint campaign with new retail channels

- Developed unmanned CVS channel
- Signed exclusive dairy agreement with Bingo Box, a leading unmanned CVS brand
Continuous Upgrade of Supply Chain

**Upstream Resources**
- Optimize layout
  - Sharing information on raw milk resources

**Production and Operation**
- Cost out and value in
  - Change from planned ordering to automatic replenishment
  - Synergistic management over production and sales
  - Synergistic layout of raw milk sourcing - production capacity - logistics

**Marketing and Sales**
- Respond promptly to market demand based on precise insight analysis
  - Demand forecast
  - Smart order

Diagram:
- Third-party farm
- Controlled farm
- Logistics provider
- Smart factory
- Factory warehouse
- Distribution center
- Distributor
- Logistics provider
- Retailer
- Consumer
Develop New Businesses to Build New Growth Drivers

- **Fresh Milk**
  - Launched SHINY MEADOW and GREEN HOUSE, targeting mid-to high-end markets
  - Already achieved coverage of key cities in north, south, east, and central China

- **Cheese**
  - Employed local production and launched mozzarella cheese
  - Expansion of retail and catering channels is on track

- **Plant-based**
  - Booked double-digit growth
  - Leveraged Mengniu’s existing distribution system

- **Overseas Business**
  - Already established distribution partnerships in Malaysia and the Philippines
  - Construction of a factory in Indonesia is on track, and is expected to commence operation in Q4
  - Local distribution channel is under development
Focus on improving sales volume and profitability in 2018

- Top line growth of 55.6% and turnaround in profits in 1H2018
- Optimize product portfolio and focus on high-margin products
- Increase brand investment by leveraging World Cup and CCTV Craftsmanship Brand ("匠心品牌")
- Increase proportion of MBS: emphasize store coverage and sales output per store
- Bolster BU operation by taking independent P&L assessment and offering relevant incentives

Drive improvements in 2018; build on positive momentum gained in 2H2017

- Operational profit up and net loss cut significantly in 1H2018
- Increase milk yield and sales volume of raw milk
- Provide more value-added products/services to Mengniu’s A2 milk, premium white milk and fresh milk businesses
- Create synergies with Mengniu in branded business
- Reduce cost and financial gearing, improve cash flow and margin
Aligning Our Culture with 2020 Target

- Reduce management layers
- Streamline headquarters
- A lean, efficient headquarters to deliver improved level of service support

- “Captain Plan” to nurture the heads of business divisions
- “Succession Plan” for key marketing roles
- Market-based remuneration system
- Increase incentives for exceeding performance targets

Define basis of Mengniu’s corporate culture

Vision
Core Values
The Mengniu Spirit
Mission
Operational philosophy
Management philosophy
Development philosophy
Innovation philosophy
Quality philosophy
Talent philosophy
Q&A
2018 FIFA 世界杯全球官方赞助商