

Beston Foods... The story so far

Presentation to Rural Media Association

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1. What did we set out to achieve?

“To establish Beston Global Food Company (BFC) as a leading, Australian based, supplier of safe, clean, healthy food and beverage products to the world’s growing consumer markets.”

2. Why did we think we could achieve it?

- Short answer: we have done this before.
- Beston Pacific Asset Management (BPAM) was established in 1991 as a Boutique Investment Bank and Advisory House with offices in Adelaide, Melbourne and Sydney (following on from my career with Morgan Grenfell/Deutsche Bank).
- Beston name is base on family origins: **BESANKO + SEXTON = BESTON.**
- BPAM established a diversified client base across Australia with a strong presence in Asia and a well-known brand name (with clients in Singapore, Malaysia, Korea, China, Taiwan and the USA).
- The principals of BPAM (Roger Sexton and Stephen Gerlach) have played a strategic role in the growth of a number of other substantial Australian businesses, including IBISWorld, IOOF Holdings Ltd, Challenger Ltd, KeyInvest Ltd and Woolcock Property Group; Santos Ltd and Elders Ltd.
- Roger Sexton chaired the Asset Management Task Force (1994-97) with responsibility for managing the rehabilitation and sale of over \$5 billion of SA Government assets (including the State Bank, SGIC, Pipelines Authority of SA, Forwood Products, Central Linen and Adelaide Casino).

2. Why did we think we could achieve it? (cont.)

- From 1995, BPAM used its own balance sheet to securitise assets via private equity positions in businesses with long term annuity streams
- BPAM was approached in 1999 to sell its business into Challenger Limited; two divisions of BPAM (representing approximately 50% of the business) were subsequently acquired and merged into the Challenger Group. (The asset management divisions were retained.)
- BPAM has built a reputation and a track record for being a “**first mover**” in taking undervalued (and often “unloved”) assets and turning them around to create rapidly growing and highly profitable companies.
- BPAM’s approach as an industry **disruptor** has seen the transformation of a number of key industries in Australia:
 - Wine Industry (outsourcing of non core assets to create capital-lite wine companies via the Beston Wine Industry Trust, Vintage Wine Trust and McLaren Vintners).
 - Caravan Parks (acquisition and consolidation of caravan parks around Australia with centralisation of reservation systems, accounting and purchasing via Beston Parks Accommodation Trust/Discovery Holiday Parks).

3. Highly successful track record

Type	Description
Beston Wine Industry Trust	Purchase and Lease back of vineyards in Australia and New Zealand
Vintage Wine Trust	Purchase and Lease back of vineyards in Central Coast, Central Valley and Napa Valley, California, USA
Beston Parks Accommodation Trust (Discovery Holiday Parks)	Acquired and operated caravan parks across Australia (comprising tourist, residential and mining parks)
McLaren Vintners	Acquired winery and vineyard assets (Maglieri) from Fosters Ltd in 2004 and developed into a leading contract wine manufacture with its own on-site bottling hall
Wine Works Australia	Built largest wine logistics business in SA
Beston Global Food Company Limited	Globally focussed food and beverage business based principally around protein i.e. dairy and meat

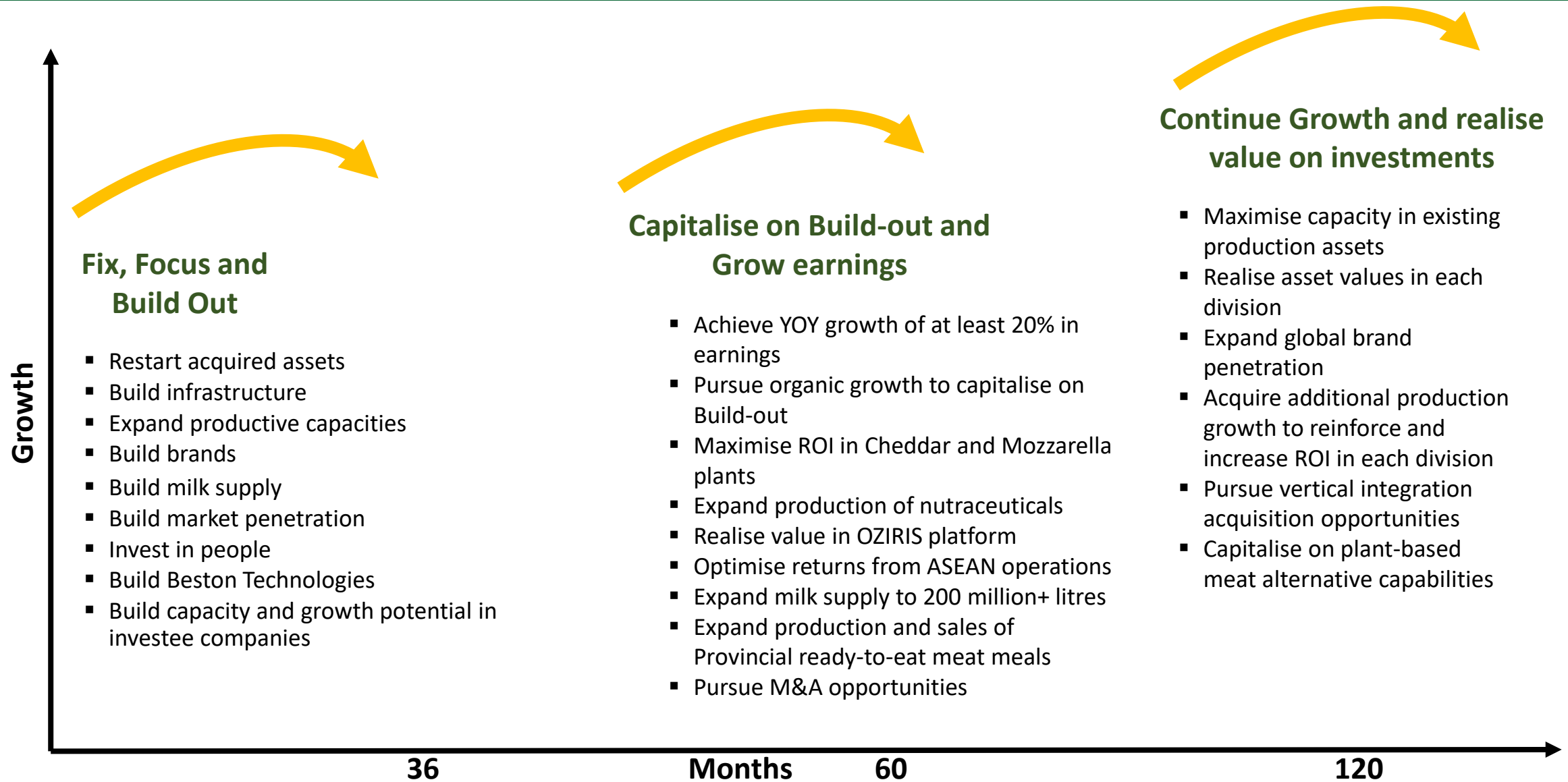
Note: excludes assets/securitisation projects less than \$35m at closing

4. How did we plan to achieve our objectives at BFC?

We set out to achieve our objectives via a business plan consisting of Three Phases:

- **Phase 1**
Fix, Focus and Build-out the assets acquired (by the end of year 3).
- **Phase 2**
Capitalise on the asset build-out in Phase 1 to grow earnings (by the end of Year 5).
- **Phase 3**
Accelerate the growth of earnings and realise the economic value of the investments made in Phase 1 and 2.

5. The Business Plan in perspective



6. Some of the lessons learned from previous transactions

1. Vision

- Establish the vision for a company based on detailed research of both historical and future trends
- Establish a unique organisational culture which energises staff and brings commitment to the vision (the “Beston” Family Culture).

2. Focus... and determination

- Allocate resources to strategic priorities which are capable of creating sustained long-term value.
- Stay the course: “You will never reach your destination if you throw stones at every dog that barks” (Winston Churchill)

3. Emulate World’s Best Practice

- Don’t take a company into overseas markets unless globally competitive (e.g. Vintage Wine Trust).

4. Innovate

- Use innovation to create a point of difference and secure a defensible market position. (e.g. Brandlok/OZIRIS)

5. Capital Efficiency

- Separate “Hard Assets” from “Soft Assets” to maximise the Return on Capital Employed (ROCE).

6. Persistence and Patience

- Keep looking ahead: i.e. through the windscreen, not the rear vision mirror.

7. The starting point

- A collection of moribund dairy production assets at Murray Bridge and Jervois which were in receivership.
- A group of dairy farms at Mt Gambier that had been taken under the control of bankers as mortgagee in possession.
- A poor history of making payments to contract dairy farmers by the previous owner.
 - UDP(United Dairy Power) became known as “U Don’t Pay”
- A Mozzarella factory that had been deliberately sabotaged by one of UDP’s major competitors:
 - plant and equipment cut up and turned into scrap metal
 - power and steam pipes in roof cut in half
- In summary, no milk (other than our own farms), no operational factories, no brands, no market presence, no export licences.

8. What we faced...



9. Headwinds along the way

- (1) Non-performance by Chinese corner-stone shareholder on Supply Agreement:
- Revenue and Profit in the initial 3 year build-out phase was to be underpinned by this China sales contract:

	Revenues (A\$m)
2015-16	42.0
2016-17	84.0
2017-18	125.0
2018-19	170.0

- (2) Delay in delivery/installation of Italian built state-of-the-art Mozzarella plant:
- A 2 year waiting list at the Italian plant and equipment manufacturer.
- (3) Drought in Australia in 2018 and 2019:
- Milk production on dairy farms fell by 4.8% in 2018 and another 4.3% in 2019.
- (4) Underperformance by our investee companies: B-d farms Paris Creek, Scorpio Meats, Ferguson Australia and Neptune Bio-Innovations (NBI).

10. The challenge: were we going to be “good” or “great”?

Good companies **cope** with change

Great companies **create** opportunities from change

Adapted from Jim Collins
“GOOD to GREAT” 2001

11. Responding to the headwinds

ISSUE	SOLUTION IMPLEMENTED
<p>(1) Non-Performance on Supply Agreement by Chinese shareholder</p>	<ul style="list-style-type: none">• Instead of relying on the China market, we took a 180 degree turn and built new brands for the Australian market(i.e., brought our plans forward to build a domestic revenue base).• Appointed our own domestic sales team, with sales representatives in each mainland state.• Over a period of 3 years, won 122 Awards (in Australia and overseas) for product quality including top 2 Australian Grand Dairy Awards on 6 Feb 2020.• Developed and integrated our own food assurance (anti-counterfeiting) and track-and-trace technology (Brandlok and OZIRIS). Hold 13 international patents in Beston Technologies Pty Ltd.
<p>(2) Delay in delivery of Mozzarella plant</p>	<ul style="list-style-type: none">• Sent our Chief Cheesemaker and COO to Italy to negotiate with equipment manufacturer.• Offered to provide Jervois as a Beta-test site for an advanced version of the equipment in exchange for a truncated delivery schedule.• Delivery was 6 month later than budgeted but saved 18 months and obtained a plant that has flexibility to produce many different types of Mozzarella.

11. Responding to the headwinds (cont.)

ISSUE	SOLUTION IMPLEMENTED
(3) Drought	<ul style="list-style-type: none"> • Introduced initiatives to “stretch” our milk (i.e. make more with less) by: <ul style="list-style-type: none"> ✓ Improving the yields(kg produced per litre of milk) in our Mozzarella plant. ✓ Producing different fat/moisture variants of Mozzarella (made possible by the technology embodied in the state-of-the-art plant purchased from Italy). ✓ Producing analog mozzarella (extracting butter fat and replacing with vegetable oil). ✓ Producing analog cheddar cheese. ✓ Focus on Lactoferrin production
(4) Underperformance by our Investee Companies (all initially minority ownership positions by BFC)	<ul style="list-style-type: none"> • Took milk throughput at B-d farms Paris Creek from 7 million litres pa to 9 million litres pa and built new bottling facility. Sold to Longtable Group. • Bought out 60% shareholder in Scorpio Meats, sold Colac factory, consolidated at Shepparton. • Sold Lobster Licences Quota (held separately in BFC) and sold equity interest in Ferguson Australia into an MBO in October 2019. • Wrote down securities held in NBI but retain an on-going commercial relationship.

12. Where are we now? : The journey so far...

- Annual revenues of \$85 million, up by 77% on prior year.
- Built Cheese production capacity to 30,000 MT per annum.
- World class Mozzarella plant with state-of -the-art Italian-made processing equipment.
- Five strategically located dairy farms in SE South Australia (Mt Gambier) with herd of 3,600 cows (up by 23% on prior year).
- 122 Australian and international Awards for quality and innovation.
- Meat processing business (Provincial Food Group, Shepparton Victoria) now wholly owned and restructured, also has capacity and capability in the production of plant-based alternative meat products.
- Year-on-year growth in revenues of 65% per annum since IPO in 2015.

13. The journey from here

The focus going forward is around achieving the objectives in Phase 2 of BFC's Business Plan with 5 strategic imperatives:

1. Sales Pipeline

- Greater utilisation of the sales pipeline which has now been established
- Broadening and deepening of sales relationships

2. Product Mix

- Further increasing the proportion of mozzarella products in the sales/production mix (mozzarella provides 60% higher gross margins than hard cheeses)
- Providing mozzarella cheese with moisture/fat variants and vegetable based mozzarella (achieves higher gross margins and “stretching” of our milk supply)

13. The journey from here (cont.)

3. Dairy Nutraceuticals

- Increasing the production of high value lactoferrin and other dairy nutraceutical products.
- Lactoferrin is an iron-binding glycoprotein with significant anti-viral, anti-fungal and anti-bacterial properties (found naturally in milk). It is in high demand in the global pharmaceutical and nutraceutical market and commands high prices with high margins.
- Upgrading existing plant with addition of new resin is expected to take production to around 3MT per annum (to be completed by end February 2020).
- Installation of skim milk powder Lactoferrin plant (at a cost of c. \$10 million) is expected to add at least \$6 million pa to EBITDA, with a payback of <24 months.

4. Milk Supply

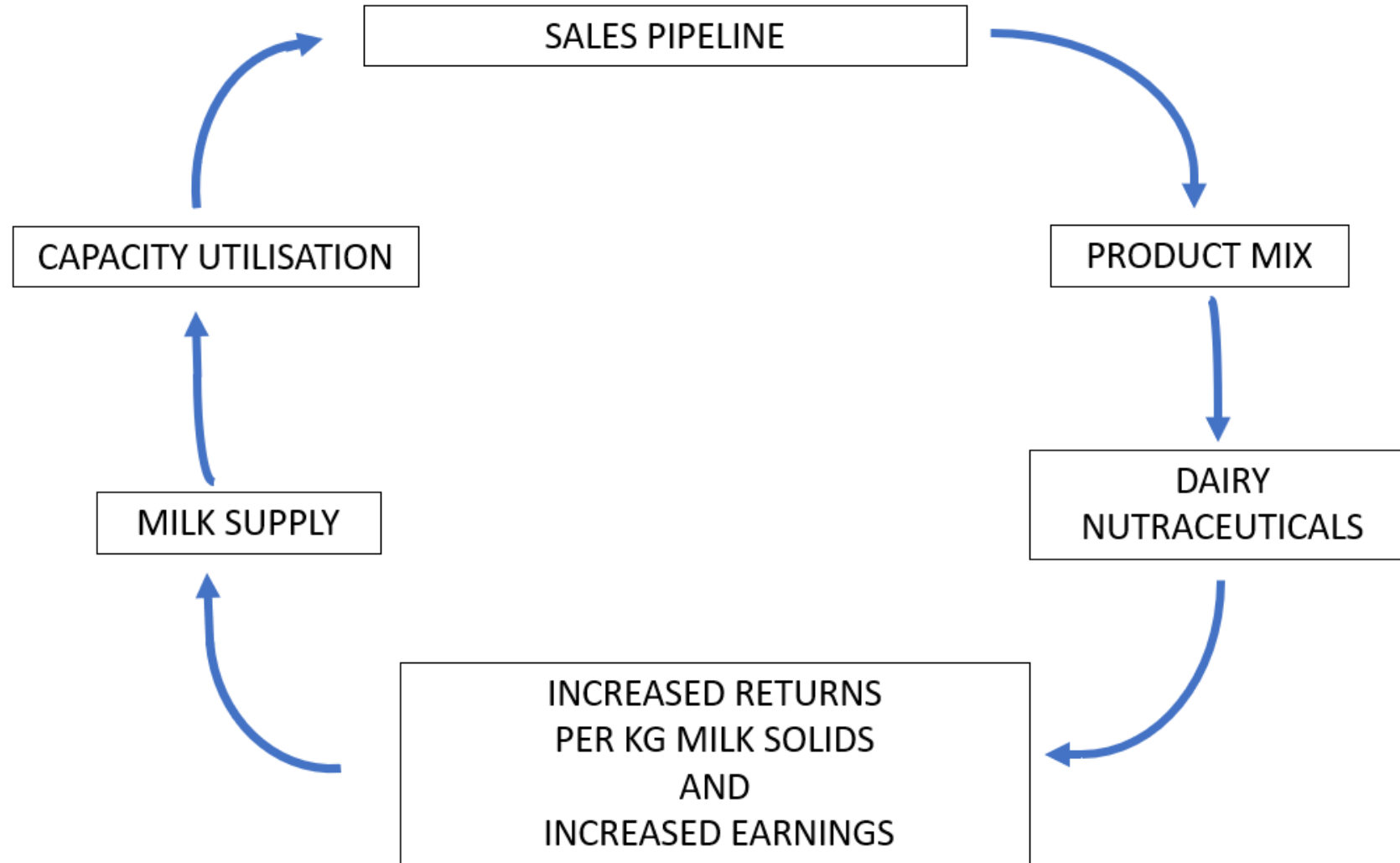
- Increasing milk supply from 103 million litres in FY19 to 110-130 million litres in the near term
- Every 20 million litres of additional milk intake can add approx. \$2.5 million pa to gross margins

13. The journey from here (cont.)

5. Capacity Utilisation

- Making greater use of the productive capacity we have built over the past four years in our dairy and meat factories
- The dairy factories are currently running at around 40% capacity. Aim is to get them to 70%-80% capacity utilisation
- BFC owns Provincial Food Group, a value-added manufacturer of meat and other food products, based at Shepparton Victoria.
- Specialised plant and equipment for production of alternative meat products was installed at Shepparton during 2019.
- Alternative meat products are a rapidly growing food segment around the world.

14. BFC's Virtuous Circle to Profit Maximisation



15. ESG Initiatives

1. Solar Energy

- Consideration is being given to the installation of solar energy equipment on BFC's factories to reduce power costs (including via a solar farm at Jervois).
- Tenders have been called for equipment supply, including on a "take and pay" basis and via off-site Power Purchasing Agreements (PPA).
- Savings of around \$1.0 million per annum are expected to be achieved.

2. Farming the Sky

- In conjunction with the Solar Energy initiative above, a project has been developed to pass on the benefits of the renewable energy infrastructure to be installed on the BFC factories.
- Solar panels will be installed on contract dairy farms which supply BFC with milk, with the cost funded 50% by the farmers and 50% by a Government Grant.
- Savings to farmers will include savings from using off-peak saved power (via batteries) in peak time, micro-grid bulk buying savings and savings from the potential pass-through of benefits from the proposed solar farm at Jervois.

16. BFC's competitive position

- BFC is currently the 8th largest dairy company in Australia. As such, we have both critical mass and agility.
- If Lion Dairy and Drinks is acquired by Mengniu, BFC will be the 3rd largest Australian owned dairy company after Bega and Norco.
- BFC is the 3rd largest producer of Mozzarella in Australia.
- A recognised leading innovation in the dairy industry (Fancy Bites, Buddy Bites, Entertainer Pack).
- Capability developed in the production of analog Mozzarella.
- Growing market share in the food service industry.
- Capability developed in production of vegan cheeses
- Capability in the production of plant-based alternative meat products at Provincial Foods (a fast growing food segment, both in Australia and globally).

Major Dairy Companies operating in Australia

1. Saputo Dairy (Canada)
2. Fonterra Coop (NZ)
3. Lactalis (French)
4. Lion (China bid)
5. Bega Foods
6. Burra Foods (China)
7. Norco
8. BFC

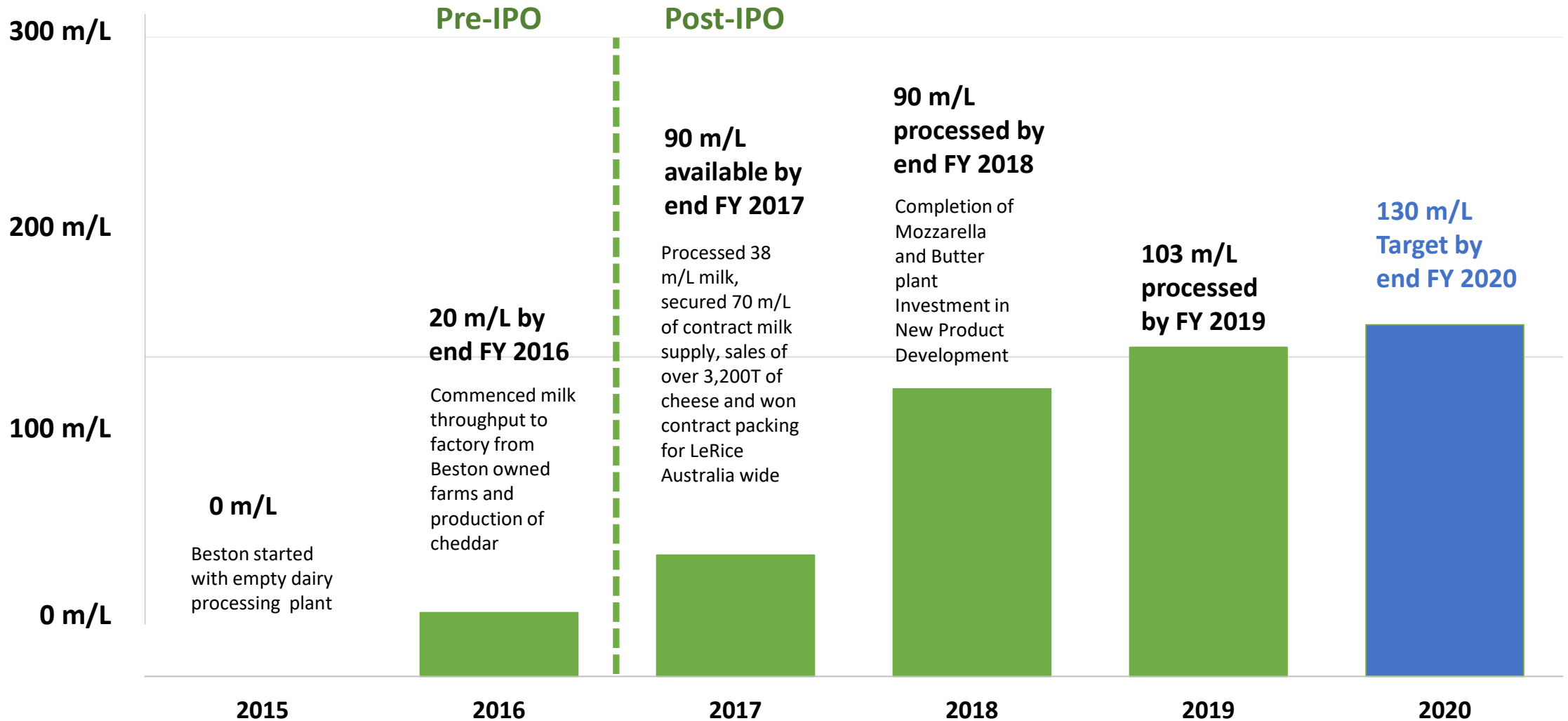
17. A Helicopter View of BFC

- BFC has transformed and consolidated over the past 12 months into a **protein business**: dairy protein, meat protein and plant protein products.
- We have invested in capability to drive the business now, and into the future.
- We are gradually and methodically increasing the milk supply to our factories to achieve our 130+ million litres short-term target... and our 200+ million litres medium term target.
- We are putting more of our milk into our own products and particularly higher value products.
- We are making our milk go further (i.e. “stretching” our milk with new products) and have expanded our product offerings around Mozzarella to provide a range of different qualities and price points (e.g. high fat/low moisture; low fat/high moisture etc.) using the technology we acquired as part of our state-of-the-art Italian made Mozzarella Plant.

17. A Helicopter View of BFC (cont.)

- We are expanding our production capacity in dairy nutraceuticals, especially Lactoferrin, where we can earn high margins on the by-products from our Mozzarella production line.
- We have developed, and are developing, further capacity in the contract manufacture of plant-based foods (a rapidly growing global food segment).
- We are re-deploying capital within the business to achieve greater returns on capital employed (ROCE) with the Sale and Leaseback of our farms.
- We are maturing our sales pipelines and bringing on new customers with well-established markets who are more concerned with quality and consistency of quality than price.
- We are focused on margin enhancement led by premiumization (of both products and customers) and cost optimization
- We have adopted a “be ready” position for strategic vertically integrating expansion opportunities and have formulated capital management options around this position.

18. Milestones achieved



19. In Summary...

- BFC has made solid, scalable investments and taken a number of strategic decisions to secure profitable growth into the future.
- BFC is moving into the next phase of its business plan (i.e. consolidation around the core profit focus) with a clear strategy (and roadmap) in place and a clear set of drivers to achieve the strategy.
- BFC will continue to face some short-term challenges in the business environment (especially around the flow-on effects of the drought). However, we have put risk mitigation measures in place (such as “stretching our milk” initiatives) to offset any such challenges.
- BFC is well positioned in terms of the secular investment themes around “feeding the world”; i.e. trends in demographics, rising incomes, emerging market demands from the rapidly expanding global middle income class and food security.

Frequently asked questions

20. Why bother?

- South Australia needs vibrant, world competitive businesses to **create** and **grow** jobs. (BFC has created 300 jobs, directly and indirectly).
- To ensure our future prosperity, we need a thriving rural economy (where SA has a long history of comparative advantage).
- We are located at the base of the world's fastest growing region:
 - Asia has a population of 3.7 billion people, more than half of the world's population.
 - SA has a unique opportunity to capitalise on the growth in purchasing power of this region over the next 100 years.
- Emerging shortage of food, worldwide, with increasing global population
“...while the world's population will increase by an estimated 34% by 2050, world food production will need to increase at double that rate to feed the population”
- Rising disposable incomes in Asia Pacific
“...roughly two-thirds of the increase in food demand is likely to come from increasing wealth and richer diets”
- Increasing demand for safe, healthy premium food products
“..in many countries, and particularly in China, there is a widely held, and increasing, mistrust and uncertainty about what goes into processed food”

21. Why did BFC go public?

1. Credibility and Clout in overseas markets, especially in China:
 - It is very difficult to gain traction quickly as a new company in China, as in other countries also.
 - Getting paid can be a tortuous process, without the clout of being a public company.
2. Transparency for stakeholders:
 - Contracted dairy farmers had no understanding of what was happening in UDP. In BFC, they can easily track our performance (and feel as if they are a part of us).
3. Ease of raising capital for expansion:
 - E.g. the recent Share Purchase Plan (SPP) raised \$2.5 million in four weeks.
4. Facilitate share ownership by BFC staff:
 - Staff can also be rewarded with share allocations
5. SA needs more public companies with their Head Office based in Adelaide.

22. What are the lessons learned for the future of agribusiness in Australia? (and South Australia)?

- South Australia has enormous potential for increasing the production of value-added foods (the gross value of food production in SA is currently around \$10 Billion pa, i.e. 10% of the States GDP).
- Australia will never be the “food bowl” for Asia but we can be the high value “delicatessen”.
- Future growth may require alternative business models and ownership structures (e.g. sale and leaseback as per BWIT model; leasing as an alternative to moving off the farm and achieving a “capital lite” operating business).
- Agriculture is a long duration game:
 - Agricultural land is an attractive investment class for overseas investors. Australian Institutional Investors are only now realising its benefits, as low interest rate regime persists.
 - Capital appreciation of farm land has been strong and steady over a long period (i.e., not as volatile as many other asset classes).
 - Need to educate urban based journalists on the nature of agribusiness... and its potential.
- Tremendous opportunities for innovation (and disruption), especially around plant based meat alternatives. (UBS Research: a USD 50 Billion industry by 2025).

Thank you

Beston Global Food won 122 Australian and International Dairy Awards between 2015 and 2020



Including “People’s Choice” Grand Dairy Award on 6 February 2020