Beston Global Food Company Limited

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MEDIA RELEASE

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SIGNIFICANT EARNINGS IMPROVEMENTS ON THE BACK OF HIGHER REVENUES, GREATER PRODUCT YIELDS AND FACTORY EFFICIENCIES AS BFC ANNOUNCES MAJOR EXPANSION OF DAIRY PROTEIN PRODUCTION

- **BFC has recorded Group Revenues of $51.2 million for 1H20, up by 23% from $41.5 million in 2H19**
- **Mozzarella sales increase by 59% to 4,290 tonnes (up from previous half of 2,690 tonnes)**
- **Mozzarella accounted for 81% of total cheese sales volumes for the period**
- **Net loss of $3.1 million represents a $12.4 million improvement on 2H19**
- **Sale and leaseback of dairy farms progressing towards conclusion to deploy capital from lower returning farms to higher returning projects while maintaining security of supply of milk**
- **Decision made to invest $10 million to facilitate major expansion of high value Lactoferrin production**

Beston Global Food Company Limited (ASX: BFC) has recorded a 23% increase in revenues to 31 December 2019 over the previous half. Total Group revenue was $52.1 million in 1H20 compared with $41.5 million 2H19.

Dairy sales revenues totalled $45.5 million for the 1H20 period (87% of total sales) of which Mozzarella comprised some 54%. Mozzarella cheese sales increased 83% to 4,290 tonnes, up from the previous half of 2,690 tonnes. The growing product sales pipeline within the Dairy segment has led to increased utilisation of available milk into the Company's cheese factories (and hence dramatically reduced sales of raw milk), in response to the continuing strong demand for BFC's Mozzarella products.

The Company incurred a loss of $3.1 million (NPAT) for the period, representing an improvement of $12.4 million on the previous half year (2H19). The result reflects the significant progress made in 1H20 towards increasing earnings through the implementation of the 5 strategic imperatives outlined at the AGM in November 2019, that is:

1. Sales Pipeline: Broadening and deepening of the relationships in our sales pipeline.
2. Product Mix: Increasing the proportion of Mozzarella cheese and other high value products in our product mix.
3. Dairy Nutraceuticals: Increasing the production of high value lactoferrin and extending the portfolio of dairy nutraceutical products.
4. Milk Supply: Increasing milk supply (and factory throughput) from 90 million litres in FY18 and 103 million litres in FY19 to 115 - 130 million litres in FY20.
5. Capacity Utilisation: Making greater use of our productive capacity (e.g. by "stretching" our milk).

The continuing focus during 1H20 on the quality of our sales pipeline, product mix and Lactoferrin production is helping to drive capacity utilisation and generate higher factory margins (with reduced costs from increased yields, cost efficiencies and unit cost reductions). The resulting increase in earnings, in turn, ensures that we can fund growth in milk supply.

BFC's milk supply of 57.4 million litres for the half year period was 28% higher than 2H19. The higher milk supply supported increased product sales, improved product yields and the extraction of enhanced factory efficiency gains. BFC will be seeking to increase milk supply to at least 130 million litres for FY21 in order to meet customer demands.

The overall result for the Group was negatively impacted by the following factors:

- **Lactoferrin Plant performance:** Resin used for extracting Lactoferrin from the liquid whey stream deteriorated much more quickly than expected. Replacement resin was purchased prior to Christmas 2019 and installed in late February. However, production of Lactoferrin was curtailed during the period. The lost margin attributed to the lower production was circa $1.9m. Full production is expected to be restored from March.
- **Milk costs:** Milk costs continued to trend upwards during this half, sales margins were reduced due to a lag in being able to achieve price rises from customers. Price rises have been negotiated with all major customers and will take effect through 3Q20 to restore budgeted margins. The impact of higher milk prices reduced 1H20 margins in the period by circa $3.7m.
- **Plant-based products:** The Company incurred significant losses on a contract to manufacture plant-based products at its Provincial Foods Group ("PFG") factory in Shepparton, Victoria. Unexpected yield and efficiency issues were experienced in moving the customer's kitchen recipes into full-scale production and dealing with variations in the characteristics of raw materials delivered to the PFG factory. The contract was terminated after the customer declined to accept the price rises needed to cover PFG's production costs and margins. The loss incurred by Provincial Food Group in the period as a consequence of the commercially unviable contract totalled $1.9m.

The Company has pushed ahead with its plans, as advised to shareholders at the AGM on 28 November, to sell and leaseback its dairy farms at Mount Gambier, South Australia in order to:

- Redeploy the capital currently tied up in our dairy farms providing relatively low Return on Capital Employed (ROCE) to invest in assets which are higher revenue and profit generating (particularly Lactoferrin production).
- Free up capital to provide funds for securing additional milk to utilise the excess capacity in our dairy factories.
- Reduce gearing levels.

Increased Lactoferrin production is a key priority for BFC. Lactoferrin is an iron-binding glycoprotein with significant, proven anti-viral, anti-fungal and anti-bacterial properties. It is in high demand in the global pharmaceutical and nutraceutical markets and commands high prices with high margins. The refurbishment of the existing whey based Lactoferrin extraction plant at Jervois, and installation of new resin, was completed during this month of February. This work is expected to take Lactoferrin production to around 2.5 to 3.0MT per annum and add up to $4 million to EBITDA in a full year (based on production of 2.5 tonnes per annum).

In parallel with the restoration work on our whey based Lactoferrin plant, a study was conducted into the feasibility of increasing Lactoferrin production even further by extracting it from skim milk rather than from whey liquid. The study, undertaken by Australian based specialist firm HPS Engineering, has shown that the production of Lactoferrin can be increased from around 3MT per annum currently, to around 10MT to 12 MT per annum through the installation of new protein extraction equipment. The production estimates are based on the existing milk supply (of circa. 100 million litres per annum) and will increase further as additional milk supply is introduced into the Jervois factory.

Following on from the findings of the HPS study, the Board of BFC has resolved to proceed with the installation of the new Lactoferrin extraction plant.

The increased Lactoferrin production from skim milk will achieve a step change in profitability for BFC. Extracting Lactoferrin from skim milk provides approximately 4 times the yield compared to the current whey-based extraction process and is expected to add around $20 million pa to revenues with high margins. (Lactoferrin currently has a selling price of more than $1,500 per kilogram).

The project will involve an investment of approximately $10 million and take 9 to 12 months for completion. Production of Lactoferrin from whey liquid will continue in the meantime.

The capital cost of this dairy protein plant expansion will be met from the proceeds of the farm sale and leaseback transaction.

The proceeds from the sale of the farms are expected to exceed $30m - of which, $10m will be allocated to fund the lactoferrin-from-skim project over the next 9-12 months. The balance of funds received from the Farm Sale and Leaseback will assist in reducing current debt levels and allow the Company to adopt a “be ready” stance for further investment opportunities, through organic growth or by acquisition opportunities that complement the current strategy.

The Chief Executive of BFC, Mr Jonathan Hicks said “The greatly improved results achieved by the Company in this first half shows that BFC is firmly on the path to profitability. The steady and resolute implementation of the Company’s strategic imperatives has moved the business closer towards its goals of achieving higher capacity utilisation in our factories and improved returns on capital employed,” he said.

“Whilst there were some misses in the first half, each of these have been appropriately addressed and we look forward to continuing to grow the business to deliver value to shareholders,” Mr Hicks said.

BFC has also announced that it has appointed Moelis Australia as Corporate Advisers to the Company, with effect from 3 February 2020.

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