

1 July 2020

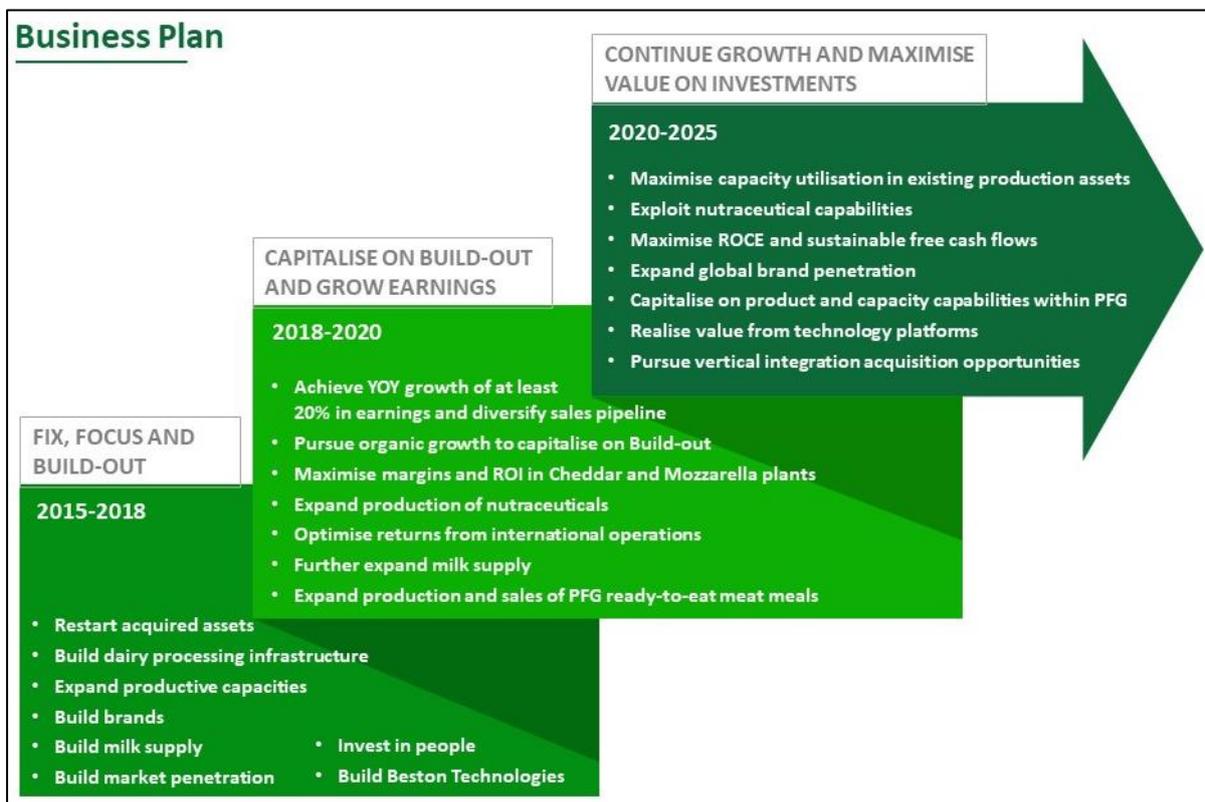
Dear Shareholder

## CHAIRMAN'S UPDATE

It has been a very busy conclusion to this financial year for Beston and as such I thought it an appropriate time to provide you with an update on our journey to date, the recent milestones we have achieved and the platform for forward growth which we are delivering.

Our corporate **mission** from the outset has been to establish Beston as a leading Australian based supplier of safe, clean, healthy food and beverage products to the world's growing consumer markets. We are achieving this mission through the steady implementation of the ten year Business Plan which we put in place at the start of our journey in 2015.

We completed Phase 1 of the Business Plan (Fix, Focus and Build-Out) in 2018 with the turn-around of the dairy assets acquired out of receivership at the time of the IPO. We also installed new state-of-the-art mozzarella plant and equipment and commissioned our dairy nutraceutical plant. Accordingly, we are now close to completing Phase 2 of the Business Plan (Capitalise on the Build-Out and Grow Earnings).



An essential part of implementing Phase 2 of our Business Plan has been a focus on five strategic imperatives, as outlined at the 2019 Annual General Meeting: milk supply, capacity utilisation, product mix, dairy nutraceuticals and the sales pipeline (as discussed below).

Over the past month we have announced two significant milestones which are fundamental to achieving the growth objectives in our Business Plan. **Firstly**, we announced the sale of our dairy farms and signing of a long-term milk supply agreement for the all the milk produced from these farms, (approximately 17 million litres (“ML”) per annum (“pa”)) along with an additional 23 MLpa which we have secured at arm’s length market prices. In addition to securing a long-term supply of milk, this farm sale transaction will provide over \$40 million in sale proceeds which will significantly reduce our debt and support further growth in mozzarella and lactoferrin production.

**Secondly**, we announced the successful completion of a \$10 million capital raising and the launch of a \$2 million Share Purchase Plan (“SPP”). These funds will be primarily used to expand our lactoferrin production capacity through the construction of a skim milk lactoferrin facility, which is expected to increase annual production capacity four-fold from 3 tonnes pa to 12 tonnes pa on completion of the new facility.

Before expanding further on these milestones, it is worth taking a moment to reflect on Beston’s journey to date and the progress we have made in the relatively short space of time since our IPO.

## **The journey to date**

When we started out as a public company in 2015 we had no milk supply, no operational dairy facilities, no brands and no market presence. We truly were a start-up business with much work to be done.

Since listing on the ASX in late 2015, Beston has successfully acquired two non-operational dairy facilities out of receivership, re-commissioned their operations, acquired and refurbished a lactoferrin production facility, restored export accreditation, improved operating standards at the factories to world-best practice levels, acquired four high quality farms (from the mortgagee-in-possession) and significantly lifted their productivity, as well as building strong relationships with key stakeholders and communities.

We have also successfully completed the installation of a state-of-the-art 20,000 tonnes per annum mozzarella plant at our Jervois facility. This has been transformative for Beston as it has enabled us to produce other dairy products in commercial quantities, such as cream and butter, and have adequate supply of liquid whey to economically produce high quality lactoferrin.

As well as restoring and building-out our production capabilities, Beston has very quickly built a reputation, both domestically and internationally, for producing premium quality dairy products around the Edwards Crossing brand, which previously did not exist. We have won more than 130 major industry awards to date for the quality of our cheese products.

In 2018, Beston moved to 100% ownership of Provincial Food Group (“PFG”), which greatly expanded our product offering into meat and vegetable-based protein products. The subsequent restructure of operations has significantly improved operations and profitability.

This included the consolidation of two locations into the one facility at Shepparton, building dedicated production rooms for specific product types to significantly improve efficiencies, and upgrading the quality of all production processes to globally recognised standards.

As we have steadily marked off these achievements, we have been able to simplify our business operations around a singular focus on the production and sale of **protein**: that is, with dairy, meat and plant-based meat alternative products.

## **Sale of dairy farms**

On 11 June 2020, we announced the sale of our dairy farms in Mount Gambier to Aurora Dairies, a well-established dairy farm owner and manager, which is backed by the Canadian Pension Fund. The sale of the farms included a supply agreement whereby Beston secured 100% of the milk produced from these farms for 10 years with an option to extend, and an additional 23 ML of milk produced by other dairy farms in the Aurora portfolio.

The transaction is expected to close by September 2020, subject to approval by the Foreign Investment Review Board and customary conditions precedent. Cash consideration of \$40.4 million will be received upon completion of the sale which is above book value and will significantly reduce Beston's gearing to around 10%.

While our dairy farms provided Beston with much needed milk supply during our early start-up phase, we have now grown and diversified our milk supply sources with numerous independent farmers (to take total milk supply, for FY21, to around 135 million litres) and are considered a buyer of choice in the South Australian market.

The sale of our dairy farms has been in the planning for some time as was mooted to shareholders in our 2017 Annual Report. It achieves many of our strategic imperatives by releasing capital for re-investment in higher returning dairy processing assets, securing long term milk supply from the farms and streamlining our overall business operations in-line with our five strategic imperatives, as discussed below.

## **Equity raising**

On 22 June 2020, we announced the successful completion of a \$10 million placement to new and existing shareholders, and the launch of a \$2 million Share Purchase Plan (SPP) to existing shareholders. Strong support was shown for the \$10 million placement, with the equity raising oversubscribed. The success of the placement is a strong endorsement of Beston's strategy and prospects. Proceeds raised will be primarily used to expand our lactoferrin production capacity, through the construction of a technologically advanced skim milk facility at a cost of \$12 million, which is expected to take total annual production capacity of lactoferrin to 12 tonnes per annum.

Construction of the skim milk lactoferrin facility will enable a significant increase in production for a given level of milk supply. By way of example, 100 ML of milk processed using our current technology, which uses whey by-product from the cheese making process, yields roughly 3 tonnes of lactoferrin. The new facility will use skim milk as the input for lactoferrin production prior to the milk being used in the cheese making process and will result in a four-fold increase in lactoferrin production to 12 tonnes from the same 100 ML of milk.

The actions being taken to expand our lactoferrin production highlight the value of the dairy nutraceutical “chassis”, which we acquired in 2016, and the capabilities which are in place to achieve higher margins as we expand the process of value-adding to our milk solids.

The equity raising via the institutional placement and the SPP will also provide Beston with the balance sheet strength to take advantage of opportunities as and when they arise in the future and ensure that we have appropriate cash reserves for organic growth as the economy recovers from the current COVID-19 pandemic environment.

Following the completion of the equity raising, the Company has entered into a contract for the plant and equipment and engineering works for the lactoferrin plant expansion project. This project is scheduled to commence on 1 July 2020 and is expected to be completed within 6 to 8 months. A key piece of plant which is at the core of the new build-out has been secured in the USA and is now in the process of being shipped to Australia.

### **Lactoferrin market update**

As we embark on the significant expansion of our lactoferrin production capacity, it is worth explaining why we see this market as being so attractive and why we are striving to achieve at least a 5% share of the global market with the expansion plans now underway.

Lactoferrin is an iron-binding glycoprotein which is known to be essential in boosting the immune system in the human body. It has anti-bacterial, anti-viral, anti-parasitic and anti-allergic functions and properties.

Importantly, particularly in the context of the current COVID-19 pandemic, it has been shown to suppress virus replication by affecting natural killer cells in the human body which play a crucial role in the early stages of viral infection.

A recent study (2020) taken by UBIC Consulting (“Strategic Insights into the Global Lactoferrin and Lactoperoxidase Market”) concluded that “the market for lactoferrin is just starting” because:

- China changed its quarantine rules in 2017 to prescribe that lactoferrin must be added, in certain minimum amounts, to infant formula;
- Infant milk formula which has lactoferrin added is seen as being a superior product and commands a premium price;
- Lactoferrin from Australia and NZ is preferred by Chinese buyers;
- Lactoferrin was only authorised as a novel food ingredient in the USA in 2012;
- There is increasing awareness of the benefits of lactoferrin in functional foods and cosmetic and oral hygiene products; and
- Lactoferrin is increasingly being used in pharmaceutical products for immune system stimulation, health of intestinal flora and as a carrying agent for cancer drugs.

The UBIC Report estimated that demand for lactoferrin was 352 tonnes in 2019 and would increase by around 60% over the next few years. The global price of lactoferrin has increased by around ten-fold since 2015. The report also predicts that the “flood gates will open up for

lactoferrin producers post COVID-19” and annual demand could jump by 200 tonnes per annum by 2023.

Underscoring the expected increase in the global demand for lactoferrin as a result of the COVID-19 pandemic is the biology of lactoferrin. The immune boosting properties of lactoferrin have been established in many scientific and clinical trials over the past forty years and as a result lactoferrin is a key component part of many health and pharmaceutical products.

As a consequence of the pandemic, the Australian Government has now placed biosecurity and the manufacture of pharmaceuticals within Australia at the forefront of its policy agenda. Lactoferrin is likely to play a major role in Australia’s ability to become more self-reliant on local pharmaceutical production.

Further details on our lactoferrin plant at Jerois are appended to this letter.

## **Operational update**

While there has been much activity on the corporate front at Beston, our operational performance over the past 6 to 9 months has surpassed our expectations, particularly against the backdrop of drought, bushfires, and more recently, the global COVID-19 pandemic. This has truly been an unprecedented time for all Australians.

I would like to thank all our employees, farmers and other partners who have been extremely dedicated to meeting the strictest of hygiene standards across our operations. Pleasingly, we have recorded no cases of COVID-19 and our production and supply of high-quality produce has continued unabated, despite the extra health and safety practices which have now been adopted in our factories in addition to our normal, very high health and safety standards.

On the demand side, our retail segment has remained strong during the period of the pandemic with supermarket customers taking their full contracted volumes. It is no surprise that demand from our food services segment has unfortunately decreased during this same time, with so many restaurants and food service outlets hit hard during the pandemic. Notwithstanding, the overall demand for our mozzarella cheese products has increased in FY20. We also continue to receive great recognition for our products, having recently won the coveted Canstar Blue Award (best consumer product) for the mozzarella cheese category.

The total tonnage of mozzarella produced in FY20 is likely to be around 9,100 tonnes, that is, approximately double the production in the previous fiscal year. Pleasingly, this has been achieved with only a modest 8% increase in milk supply to 111 ML. This outcome demonstrates the inherent operating leverage in our dairy facilities to increasing milk supply. By way of example, following completion of our lactoferrin production expansion, each additional 20 ML of milk processed is expected to yield:

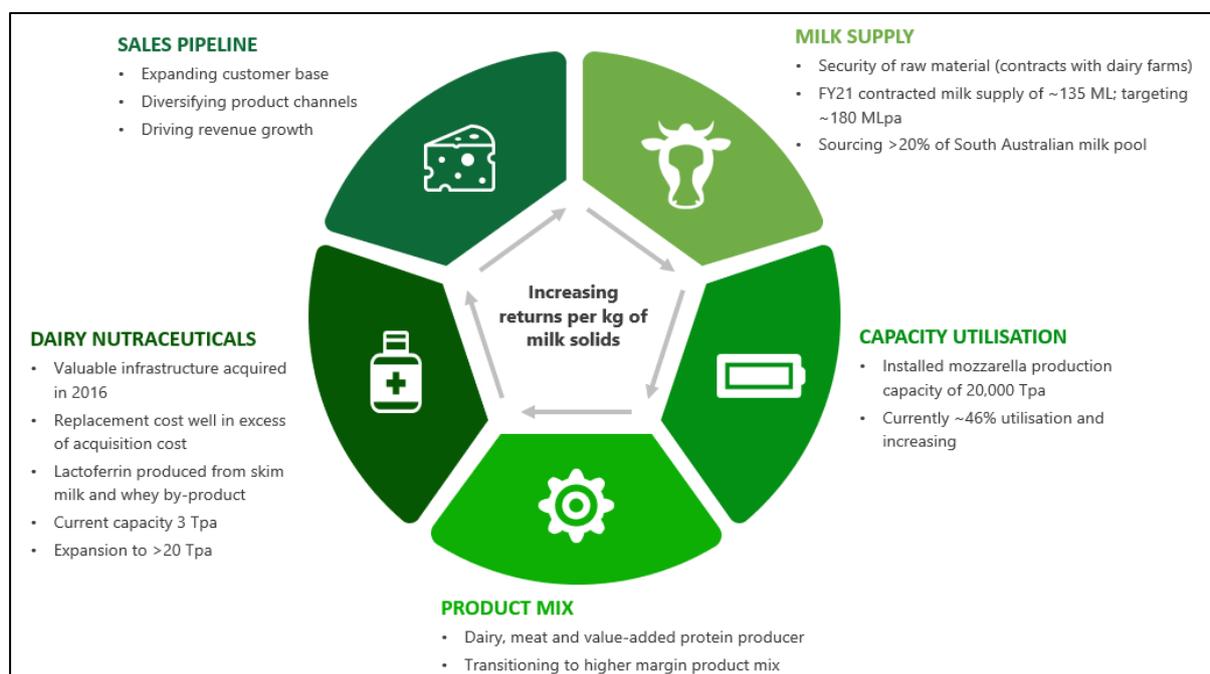
- **Additional production** of 1,980 tonnes of mozzarella, 260 thousand (“K”) litres (“L”) of cream, 995 tonnes of whey powder and 2.4 tonnes of lactoferrin; and
- **Additional earnings** of ~\$21 million in revenue and ~\$5 million in gross margin.

These metrics again reinforce our strategic imperatives and the importance of our focus on growth through increasing milk supply and increasing plant utilisation for our higher margin products.

At PFG, stronger retail demand for our meat-based products has been seen during the COVID-19 pandemic. The team at PFG has a solid sales pipeline in place and are working hard to drive further improvements in the production processes to deliver cost reductions, which support ongoing growth in margins and cash flows.

## Beston’s strategic imperatives

At our AGM in November 2019, we outlined the five strategic imperatives which underpin our growth objectives. As depicted below, our strategic imperatives represent a virtuous circle for increasing the returns per kilogram of milk supply.



In short, milk supply drives capacity utilisation of our dairy facilities, which are geared towards higher margin protein and nutraceutical products that are supplied to a growing and diversified customer base here and overseas. Ongoing successful execution of these strategic imperatives drives free cash flow generation, enabling greater milk supply to be secured and continuing the cycle of increasing returns per kilogram of milk supply.

As explained above, we are now well advanced with the implementation of Phase 2 of our ten year Business Plan. We have progressed from a situation of no production and no milk supply when Beston was formed, to a situation now whereby we have:

- FY21 milk supply of 135 ML (targeting 180 ML from FY22);
- Mozzarella production capacity of 20,000 tonnes pa (9,100 tonnes produced in FY21 and targeting 90% utilisation from FY22);
- Lactoferrin production capacity of 12 tonnes pa post construction of the skim milk facility (targeting >20 tonnes pa from FY22 post further expansions);

- Production of meat and non-meat protein products through PFG; and
- A diverse and growing customer base, both locally and overseas.

## Looking forward

As FY20 comes to a close, with the sale of our dairy farms announced and a successful equity raising completed, we take much momentum into the new financial year. FY21 will be a significant year for Beston as we move into Phase 3 of our Business Plan (“Continue Growth and Maximise Value from Investments”) and further establish ourselves as a leading Australian based supplier of safe, clean, healthy food and beverage products to the world’s growing consumer markets. In FY21 we will:

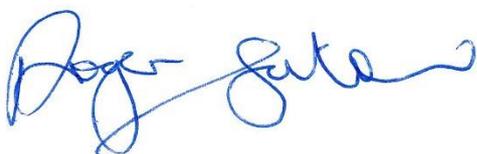
- Complete the sale of our dairy farms, delivering \$40.4 million of capital for debt reduction and facility expansions;
- Increase milk supply to ~135 ML, up from 111 ML in FY20;
- Increase lactoferrin production capacity from 3 tonnes pa to 12 tonnes pa;
- Continue our transition to higher margin products with increased production of mozzarella and lactoferrin; and
- Achieve free operating cash flow for reinvestment into the business.

Beston has achieved an enormous number of milestones in its growth and development over the past four years and, we believe, is poised to achieve significant wealth creation for its shareholders over the next few years as it realises value from its investments, and its achievements.

In closing, I would like to acknowledge the hard work of all Beston staff and our stakeholders in achieving our recent results and milestones during what has been an extremely challenging period for the food and dairy industry in Australia.

I would also like to thank you, our shareholders, for your continuing support as we embark on this next important and exciting, period of Beston’s journey.

Yours sincerely,



Roger Sexton AM  
**Chairman**  
**Beston Global Food Company Ltd**

## **About the lactoferrin facility**

BFC made a long-term investment decision in 2016 to acquire a dairy nutraceutical plant which had been built by an Australian public company adjacent to BFC's dairy factory at Jervois, South Australia. It was then effectively "moth balled" after acquisition until such time as the new mozzarella plant was installed and sufficient whey liquid feedstock was being produced (as a by-product of cheese production) to operate the plant efficiently.

BFC "switched" on the dairy nutraceutical plant in 2018 following the commissioning of the mozzarella plant and commenced the production of high value lactoferrin.

The lactoferrin facility at Jervois produces lactoferrin of very high grade from the whey by-product for mozzarella and cheddar production. In November 2018, a freeze drying and milling facility was added to the plant to enable lactoferrin to be delivered to customers in final product, powder form (thereby avoiding the need, and high cost, of shipping liquid lactoferrin to interstate third party contractors for further processing).

The facility received Australian Government accreditation on 30 January 2019, enabling powder form lactoferrin to be exported to fulfil signed contracts for the product. The facility was further upgraded in early 2020 using the proceeds of a SPP put in place in February 2020 enabling production capacity to be expanded to 3 tonnes per annum.

Demand currently exceeds the capacity of Beston to produce and is expected to remain substantially so, well into the future with major customers in both Australia and overseas.

The returns from increased production of lactoferrin will effectively underwrite much of the costs of producing mozzarella in future periods and therefore enable Beston to be more competitive with its milk purchase pricing relative to the market. In other words, the step change in profitability from the lactoferrin plant expansion will also increase capacity utilisation in Beston's dairy platform (with more cheese being produced) and provide Beston with the capacity to pay a leading rate for milk solids from independent dairy farmers and thereby acquire additional milk.

The significant increase in volume and quality of the lactoferrin produced can be leveraged to develop new products for health and nutrition based on lactoferrin. Beston is currently undertaking work on two lactoferrin drinks (LifeX10 and ImmuneMe) which are expected to be released to market in the coming months. Beston has also trademarked BIOLACTIVE as a potential brand carrier for nutritional products based around lactoferrin. These new product development activities will enable Beston to extract further value from its milk solids and also access new markets and trading partners.

The lactoferrin production expansion project will increase production of lactoferrin by extracting the lactoferrin from skim milk rather than from whey liquid. Under this process, the lactoferrin is extracted at the start of the cheese making process before the milk goes into the production of mozzarella, rather than being extracted from the whey by-product which comes at the end of the cheese making process.

The yield of lactoferrin per litre of milk is higher as a result because much of the lactoferrin remains in the cheese under the current production process.

The project involves the installation of plant and equipment to rework the milk handling and processing system to firstly produce skim milk which is processed through a dedicated lactoferrin column and then repleting the skim milk for use in manufacturing mozzarella. The project has been designed and costed by a specialist engineering firm which has extensive global experience in building facilities of this nature.

Beston's lactoferrin facility has the capabilities to extend the fractionation of protein streams into other products such as alpha lactalbumin, immunoglobulin and beta lactoglobulin, all of which have important applications in pharmaceutical products. These capabilities will be exploited as milk supply and mozzarella production increases going forward.

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