

## ASX RELEASE

21 July 2020

Dear Valued Shareholder

As we close the books for the 2020 financial year, I sincerely hope that you and your families are staying safe and well. For those whose lives have been impacted by COVID-19, we hope that the current outbreaks can be brought under control quickly so we can all get back on the path to what I believe will be a 'new normal'.

Despite these trying times, we are pleased with the large strides we have taken in FY20 to position your Company for strong prospective earnings. The key points driving this next growth phase of BFC have been discussed in recent announcements. In summary they are:

- Increasing our customer base to enable production of **9,128 tonnes** ("T") of mozzarella in FY20;
- Increasing milk supply for FY21 to a contracted level of **138 million litres** ("ML"), which we expect to grow further in FY22;
- With increased milk supply, mozzarella production for FY21 is forecast to be c. **14,000T**;
- **Project Enable** successfully initiated to achieve:
  - Sale of the dairy farms, subject to FIRB approval, will deliver cash sale proceeds of c. \$40 million; and
  - Lactoferrin facility expansion, to quadruple existing capacity, is underway and expected to take six to eight months to complete ;
- \$10 million of equity raised to fund stage 1 of the lactoferrin facility expansion, with the Share Purchase Plan ("SPP") targeting a further \$2 million; and
- Debt to be largely eliminated as a result of the farms sale and equity raising.

These are substantial achievements, especially in light of COVID-19 and the impacts on both the domestic and global economies, of which we are very proud. Increasing the contracted milk supply for FY21, with such strong competition for milk, supports the continued growth of our sales pipeline.

The investment being made to expand lactoferrin production will increase the value extracted from every litre of milk received. This will add significantly to our profitability and cash flow generation. Importantly, the expansion of lactoferrin production will be made whilst maintaining a low debt

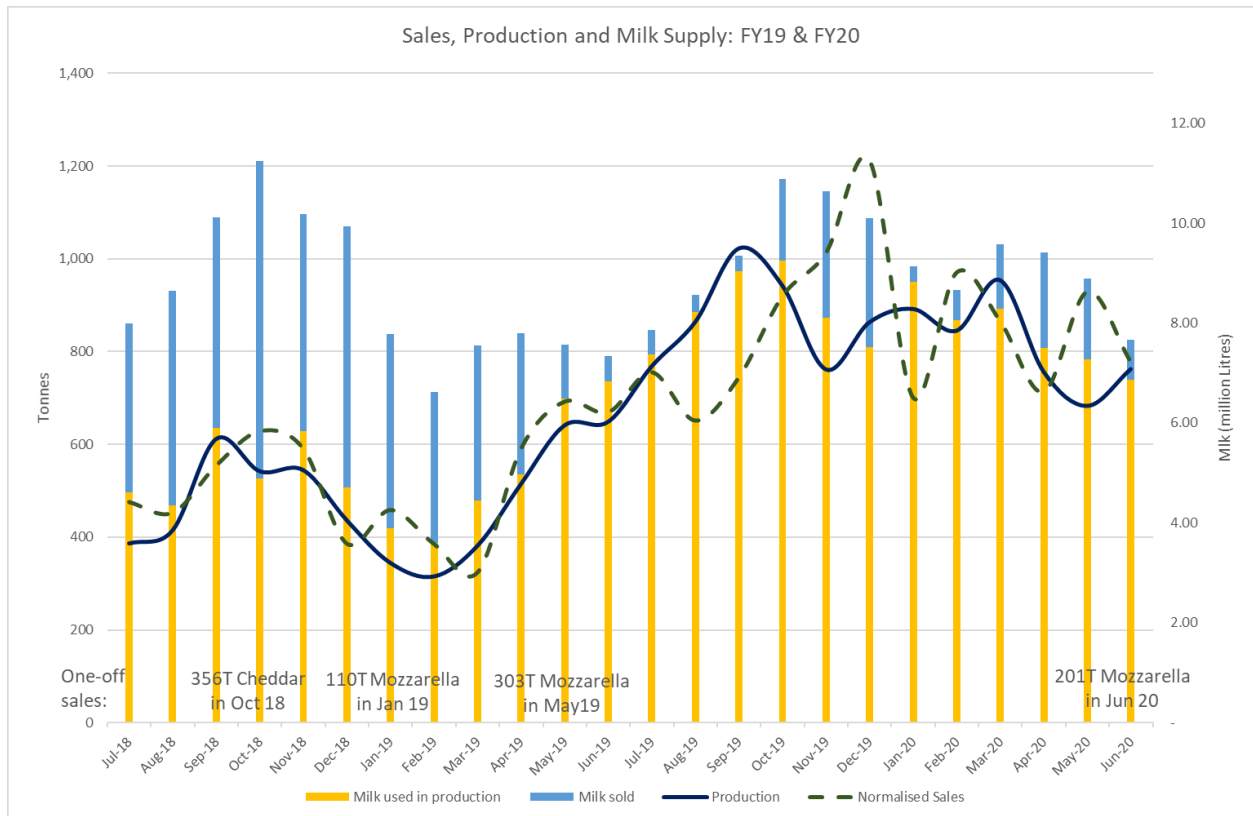


position. This is very important in the current environment to protect against the downside risks of the current economic outlook.

### Dairy Business

The following chart is an update of the chart I included in my previous letter, showing mozzarella and cheddar production and sales for the financial year.

Milk supplied, split between milk used in production and milk sold, has been added to this chart.



Highlights from FY20 include:

**Total cheese production of 10,118T: Mozzarella 9,128T; Cheddar 990T**

- **75% higher than FY19 (5,790T)**

**Mozzarella sales of 8,902T**

- **104% higher than FY19 (4,364T)**

**Total dairy revenue of \$90 million: \$82 million of produced goods and \$8 million of milk sales**

- **20% higher than FY19 (\$52 million of produced goods and \$23 million of milk sales)**

The seasonal impacts on our dairy business are evident from the chart. Milk supplied is the total of the yellow and blue columns shown in the chart and follows a seasonal pattern, with the highest supply in the spring calving period and a second smaller peak in the autumn calving period. The impact of the drought was experienced in both FY18 and FY19 and was particularly marked in 2H19, with autumn volumes well down compared to FY20 autumn receivals.

Milk committed to production is the yellow part of the column and milk sold out is the blue part of the column. The chart clearly shows that as we have built up the sales pipeline, much more milk has been processed in FY20, mainly to produce mozzarella and its associated products.

We did see in late March the first signs of a dip in sales caused by COVID-19. From the second week in April there was a significant decrease in sales and forward orders from our food service channel customers. This channel accounts for approximately 30% of our mozzarella sales which fell by around 70% over that period. That would be a c. 20% reduction in ongoing product sales volumes without the benefit of some stronger retail demand and increased export sales. However, the industry wide demand reduction led to downward price pressure on all dairy products as all processors strove to maximise the processing of milk through their plants.

We have taken a cautious approach to managing our path through this period. We have sold some milk above previous planned levels in the fourth quarter of FY20 to balance production and demand and maintain appropriate cash flow through this period. A planned 5-day major maintenance shutdown at Jervois occurred in May, with milk supply on those days on-sold, assisted in balancing short-term production and demand during this period but lower mozzarella production also impacted by-product production. However, we did accumulate around 210T of surplus mozzarella in inventory over the fourth quarter which was produced for cancelled orders and was subsequently sold in June at discounted prices.

Food service customers began placing additional orders in June ahead of the most recent COVID-19 outbreaks in Victoria and to a lesser extent NSW. The situation in this segment of the market remains uncertain week-to-week.

None-the-less, our total forward order book continues to grow and additional sales opportunities continue to be pursued. Retail demand has remained stronger than expected and customers continue to take their contracted volumes. Export sales inquiries have increased with a new contract for 1,000T pa to a large customer in China executed, and we continue to look at taking new products to market, such as a recently launched Mozzarella Twin Pack product.

Whilst we have not been immune to the impacts of COVID-19, we have maintained our focus on growing mozzarella sales for FY21 to ensure we can operate as close to the highest level of production capacity as milk supply allows, thereby ensuring we can extract the best outcome from our core assets.

### **Milk Supply**

Total milk supplied for FY20 was 111ML, up 7% on FY19 (103ML).

As noted earlier, milk receivals for FY21 are presently forecast to be 138ML, an increase of 24%. The growth in milk supply supports the continued growth of the sales pipeline and the continued transition to higher margin products.

### **Lactoferrin from Skim Milk**

Work on stage 1 of the lactoferrin expansion project, which will see lactoferrin produced from skim milk rather than from liquid whey, is now underway. The project will cost c. \$12.5 million and is expected to be completed and commissioned in early 2021.

Lactoferrin production will increase from its current capacity of 3MT pa to c. 12MT pa as a result of this new extraction process.

### **Strategic Imperatives**

The following table shows our progress against achieving the five strategic imperatives outlined at the 2109 Annual General Meeting:

		<b>Status</b>
Grow Milk Supply	138ML milk supply contracted for FY21 with expected growth in FY22	Good
Capacity Utilisation	Nearly all milk received being processed to cheese. Mozzarella plant capacity utilization increases from 49% in FY20 to 70% in FY21.	Good
Sales Pipeline	Strong demand for mozzarella domestically and internationally. COVID-19 continues to impact domestic food services customers	Good
Product Mix	Mozzarella sales expected to be >95% of total FY21 cheese volumes. Lactoferrin upgrade project commenced. New product development to add to margins	Good
Dairy Nutraceuticals	Current production capability and quality levels restored. Lactoferrin from skim milk will expand capacity and add to earnings	Good

### **Provincial Food Group**

PFG has benefitted from stronger retail demand for meat-based products caused by COVID-19. This stronger demand, along with more streamlined production processes has seen PFG now operating at more acceptable levels, which is a significant improvement from the first half of FY20. Sales for FY20 were \$12 million, with a solid order book underpinning sales in FY21.

### **Closing Comments**

Beston is a food producer providing an essential service to the community while supporting a large number of South Australia's dairy farmers. COVID-19 has created great uncertainty throughout our community and especially in the workplace. Our workforce remains in place and committed to processing milk and producing dairy and meat products for Australian and international consumers. As always, I would like to acknowledge the work and effort put in by our employees over this challenging period. They have maintained a strong and unrelenting focus on delivering products of the highest quality to our customers and consumers.

Our dairy business is now very well positioned as a result of our increased milk supply, strong sales pipeline and clear pathway to increased profitability through a higher margin product mix. The increased production of Lactoferrin and continued focus on mozzarella production will deliver increased returns for every litre of milk processed. The performance of our meat business has also been improved and it has developed its own pathway to profitability.

Once the farms sale proceeds are received, Beston will be nearly debt free, an enviable position for any company in these challenging times.

Our focus will continue to be on our strategic imperatives as above, the most important of these right now being: complete the farms sale once FIRB approval is received (this is expected shortly); ensure project execution of the lactoferrin capacity expansion is seamless; continue to build the sales pipeline to support ongoing growth into FY22; and increase organisational technical and operational capability.

Your Company has a strong forward earnings outlook and will be in a sound financial position with the completion of the sale of the dairy farms. Our balance sheet will allow us to continue on our growth trajectory and weather any shorter-term challenges that lie ahead.

I really do thank you, our shareholder, for your support to date and look forward with great anticipation to the exciting journey ahead.

Kind regards

A handwritten signature in blue ink, appearing to read 'Jonathan Hicks', is centered within a light blue rectangular box.

Jonathan Hicks  
Chief Executive Officer