

ASX RELEASE

26th October 2020

Dear Valued Shareholder,

Although we are clearly making progress dealing with COVID-19 in Australia, Victoria continues to struggle with its specific issues while the rest of the country is moving slowly towards a more normal way of life.

At Beston we have been fortunate enough not to have had our employees, nor their immediate families significantly impacted by COVID-19. We sincerely hope that for those of you those who have been impacted by COVID-19, your situation will improve shortly.

As we have noted previously, being a food company has put us in a good position to manage the COVID-19 risks in the workplace and we continue to work hard to ensure the direct impacts on our people and operations can be minimized. We were very pleased with a recent inspection of our Shepparton operations by Victorian Health authorities, who were very complimentary of the steps the management team had taken to prevent the risk of infection and took away some ideas they intended to use as examples for other workplaces.

Whilst we seek to control what we can, the general business environment continues to be held back by the slower pace of business activity in Australia and around the world. We have felt this in our business through softer demand and therefore slightly lower prices for short term spot sales of some products. Customers buying volumes on this basis remain hesitant to over-commit their positions. Customers buying under long term contracts have occasionally called off volumes at the lower end of their forecasts.

Despite these pressures, we are pleased with the rate of sales in the first quarter of the year. The sales team continues to engage new customers and opportunities both in Australia and for export sales, the latter being a significantly growing aspect of the business, with dairy consumption in Southeast Asia set to surge over the coming decade.

Agribusiness specialist Rabobank says in newly-released global research that a Dairy export boom beckons in ASEAN-6 – with a push and a pull, the Bank says the combined dairy import deficit of the ASEAN-6 nations (Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam) is one of the largest in the world, and growing, potentially to eclipse demand from China.

Overall, I am pleased to be able to advise that the first quarter represents a solid start to the financial year with key operational milestones for the quarter met – primarily: growing milk supply, increased production and commencement of the lactoferrin expansion project.



The key outcomes for the quarter are summarised in the table below -

	September 20 YTD	September 19 YTD
Milk Supply - ML	31.6	25.8
Mozzarella Production - KT	2.69	2.25
Lactoferrin Production - T	0.51	0.26
Revenue - \$m	23.40	23.23
Gearing %	15	59
Capital Expenditure - \$m	4.60	1.70

Your company remains on track to deliver FY21 outcomes consistent with the guidance previously released. Whilst gearing will increase to around 30% in the short term as we complete the lactoferrin expansion project, it will reduce after the project is online as operating cash flows will then exceed the more routine levels of capital expenditure.

Dairy Business

The dairy business now comprises the dairy factories at Jervois and Murray Bridge in South Australia, following the sale of the dairy farms which settled on 31 August 2020. The farms sale completed in line with expectations and Aurora Dairies commenced supply of milk to the dairy factories on 1st September 2020 as planned.

Milk Supply

Total milk supplied for the first quarter was 31.6ML, up 22% on a year on year basis.

In particular, milk supply was 9.1ML in July, 9.7ML in August and then increased to 12.9ML in September. The 33% increase in milk supply in September compared to August reflected both new milk supply commencing 1 September as well as the commencement of the peak “spring flush” milk supply season.

Given the strong start to the season and current good indications for the remainder of the year, our guidance for milk supply for FY20, although unchanged, is more likely to be in the middle to upper-end of the guidance range provided.

Production

Mozzarella production at 2,693T was 20% higher than for the first quarter of FY20, as a result of the increase in milk supply over the corresponding period.

Although we are very pleased with the increased production, the 33% ramp up in milk supply to the factories from August to September did expose some areas of the factory operations to a level of activity they had not previously experienced. As a consequence, we did incur some unexpected factory down-time during September.

As the factory operations team adjusts to the new levels of activity, we have implemented changes to improve operating practices. This work is being led by Frank Baldi, our newly recruited General Manager Operations and Supply Chain, whose leadership and depth of experience is evident, and already benefitting the business.

Our guidance for mozzarella production remains unchanged.

Revenue

Revenue of \$21.0m averaged just over \$7m per month for the quarter. With the significant increase in milk supply commencing in September, monthly sales from October onwards will see an uplift in line with the higher production that will result from higher milk supply.

Given milk supply and mozzarella production remain within guidance, which have the largest bearing on sales revenue, our total revenue guidance remains unchanged.

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, remains on cost and schedule. The project will cost c. \$12.6 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 investment in new technology.

While the immune boosting properties of Lactoferrin in the human body have been well known for over 40 years, pleasingly the level of medical and clinical interest in the innate and adaptive immunity provided by Lactoferrin has increased since the on-set of COVID-19.

BFC continues to work on the finalisation and launch of the LifeX10, and Immune+ brands, targeting the emerging “anti-viral” supplements category.

As the expansion project remains on schedule, our lactoferrin production guidance for FY21 is unchanged.

Strategic Imperatives

The following table shows our progress against achieving our five strategic imperatives:

		Status
Grow Milk Supply	138ML milk supply contracted for FY21 likely to be exceeded 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 will add to margins	Good
Dairy Nutraceuticals	Current production capability and quality levels acceptable. Lactoferrin from skim milk will expand capacity and increase earnings	Good

Meat Business: Provincial Food Group

PFG has performed in line with our expectations, despite operating under the more stringent COVID-19 restrictions in place throughout Victoria during the period. As I referred to in my opening comments, the PFG management team, supported by the factory personnel, has done a commendable job to maintain operations through the period. The stricter operating protocols in place has added slightly to costs but we have been able to maintain our activities and, importantly, jobs which in the Victorian community context is significant.

Sales to date total \$2.1m, which were restricted in September by industrial action at one of our major customers. That situation appears now to be resolved.

Closing Comments

Beston is a producer of high-quality dairy and meat products. We provide an essential service to the community, employment for our staff and contractors in regional areas, and support a large and growing number of South Australia's dairy farmers. COVID-19 continues to place pressure on all communities in which we operate and on our customers. To date, I consider that we have dealt well with the challenges of growing our business in the current economic environment. Our workforce remains in place and committed to processing milk and producing high quality dairy and meat products for Australian and international consumers. I would again like to acknowledge the effort and contribution that all of our employees have made over this challenging period.

Our executive team, along with myself are maintaining a strict focus on delivering on our strategic imperatives to ensure we safely and efficiently execute the lactoferrin capacity expansion project, and continue to build the sales pipeline to support ongoing growth into FY22. We are supporting the delivery of these by ensuring we increase organisational technical and operational capability and experience to match the growth in the business.

Our dairy business is now very well positioned as a result of the increased milk supply and growing sales pipeline and has a clear runway to increased profitability through a higher margin product mix. Increasing the production of Lactoferrin and a continued focus on mozzarella production will deliver increased returns for every litre of milk processed. The performance of our meat business also continues to improve as it pursues its own growth plan towards profitability.

With the sale of the dairy farms completed on 31 August 2020 our balance sheet will allow us to continue to pursue our growth trajectory and weather any further shorter-term challenges that will undoubtedly arise.

I sincerely thank you for your support to date, and look forward with great anticipation to the continuation of our exciting journey.

Kind regards



Jonathan Hicks
Chief Executive Officer