Dairy nutraceuticals to drive earnings

Beston Global Food's (BFC) strategy, since listing, has been to become a leading Australian based supplier of safe, clean and healthy dairy and meat-based protein to the world's growing consumer markets, particularly in Asia. Over the last 24 months BFC has sold or shut down a number of non-core businesses and will head into FY21 with the Group continuing to focus on its dairy and meat operations, while at the same time looking to crystallise value in its nutraceutical and technology platforms.

Forecasting EBITDA positive in FY21

Key to the earnings growth that we have forecast over the next three years is the continued roll-out of the dairy strategy. In our view the dairy and nutraceuticals strategies are now set to take off.

We are forecasting that BFC will be EBITDA positive in FY21 and NPAT positive in FY22. If we are correct, at the current spot price, BFC is trading on 7.0 times FY22 earnings per share and a FY22 EV/EBITDA multiple of 3.7 times. This would have it trading at a material discount to its closest local peers. Bega Cheese (BGA-AU) and Clover Corporation (CLV-AU) are trading on two year forward EV/EBITDA multiples of 10x and 24x respectively.

Farms sale and capital raise completed

BFC settled the sale of its dairy farms on 31 August for $40.4m. It has also just completed an issue of equity capital raising $11.2m to fund the lactoferrin expansion project.

Takeover target?

BFC announced at the time of the institutional equity placement completion that it had received an unsolicited expression of interest from a party to enter into discussions about a possible bid for the company. No updates have eventuated post.

Positive news flow forecast going forward

By the end of 2020 BFC will be well advanced in increasing its lactoferrin production capacity to ~12 tpa with a commissioning date forecast for early 2021. On an ongoing basis it will be targeting to increase milk supply over and above the current 138 Ml contracted in FY21 with a goal of reaching 180 Ml by FY23 to further utilise capacity at Jervois mozzarella facility

Valuation

Our base case 12 month forward discounted cash flow valuation is $0.21 (previous $0.20). This valuation does not include the potential uplift in production and sales from the proposed Stage 2 & 3 lactoferrin capacity expansions. Given the incremental sales from the capacity expansion is forecast to earn gross margins of 70%-80%, we expect BFC will progress with this opportunity If we assume lactoferrin production is lifted to >20 tpa by FY23 at a cost of $12m, our 12-month forward valuation lifts to $0.31.

Beston Global Food (BFC) owns and operates a portfolio of food and beverage businesses. Its primary operations are now focussed on dairy and meat. The dairy segment owns production plants and uses milk to produce mozzarella cheese, whey powder, lactoferrin and other dairy products. The meat segment is focused on production of meat and related products for domestic and export markets.
https://bestonglobalfoods.com.au/

Stock	BFC.ASX
Price	A$0.08
Market cap	A$51m

Next steps	
March 2021	Lactoferrin expansion completion
Ongoing	New milk supply agreements

BFC Share Price (A$)

Source: FactSet

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Beston Global Food Financial Forecasts

Beston Global Food — BFC-AU

Year end 30 June

MARKET DATA		
Price	**$**	**0.084**
52 week high / low	$	0.12 - 0.06
Valuation	**$**	**0.21**
Market capitalisation	**$m**	**50.6**
Shares on issue (basic)	m	602.5
Options / Performance shares	m	0.0
Other equity	m	0.0
Potential shares on issue (diluted)	m	602.5

INVESTMENT FUNDAMENTALS		FY19	FY20	FY21E	FY22E	FY23E
Reported NPAT	$m	(27.0)	(11.6)	(2.4)	7.3	9.6
Underlying NPAT	**$m**	**(17.3)**	**(12.4)**	**(2.4)**	**7.3**	**9.6**
EPS Reported (undiluted)	¢	(6.1)	(2.5)	(0.4)	1.2	1.6
EPS Underlying (undiluted)	**¢**	**(3.9)**	**(2.7)**	**(0.4)**	**1.2**	**1.6**
Underlying EPS growth	%	n/m	n/m	n/m	n/m	32%
P/E Reported (undiluted)	x	n/m	n/m	n/m	6.9	5.3
P/E Underlying (undiluted)	**x**	**n/m**	**n/m**	**n/m**	**6.9**	**5.3**
Dividend	**¢**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Payout ratio	%	0%	0%	0%	0%	0%
Yield (Y/E/ spot)	**%**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Franking	%	n/a	n/a	n/a	n/a	n/a
Gross Yield (Y/E/ spot)	**%**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Operating cash flow per share	¢	(2.1)	(3.0)	(0.2)	2.3	2.8
Price to operating cash flow	**x**	**n/m**	**n/m**	**n/m**	**3.7**	**3.0**
Free cash flow	**$m**	**(22.2)**	**(10.7)**	**18.9**	**12.1**	**15.3**
Free cash flow per share	¢	(5.0)	(2.3)	3.1	2.0	2.5
Price to free cash flow	**x**	**n/m**	**n/m**	**2.7**	**4.2**	**3.3**
Free cash flow yield	**%**	**n/m**	**n/m**	**37.4%**	**23.8%**	**30.3%**
Book value / share	¢	18	14	19	20	23
Price to book (NAV)	**x**	**0.7**	**0.6**	**0.5**	**0.4**	**0.4**
NTA / share	¢	14	12	17	19	22
Price to NTA	**x**	**0.9**	**0.7**	**0.5**	**0.4**	**0.4**
Year end shares	m	443.3	588.8	602.5	602.5	602.5
Market cap (Y/E / Spot)	**$m**	**53.2**	**50.1**	**50.6**	**50.6**	**50.6**
Net debt /(cash)	$m	39.4	39.0	19.0	7.0	(8.4)
Enterprise value	**$m**	**92.4**	**88.3**	**68.9**	**56.8**	**41.5**
EV/Sales	x	1.1	0.9	0.5	0.4	0.2
EV/EBITDA	**x**	**n/m**	**n/m**	**138.5**	**3.7**	**2.3**
EV/EBIT	x	n/m	n/m	n/m	5.2	2.9
Net debt / Enterpprise Value	x	43%	44%	28%	12%	-20%
Gearing (net debt / EBITDA)	**x**	**(2.1)**	**(3.5)**	**38.2**	**0.5**	**(0.5)**
ROE (Average Equity)	%	n/m	n/m	n/m	7%	9%
ROA (EBIT)	%	n/m	n/m	n/m	6%	7%
Interest cover (EBIT / net interest)	x	(16.2)	(8.9)	(5.0)	19.2	39.2

DIVISIONAL		FY19	FY20	FY21E	FY22E	FY23E
Milk supply (Ml)		103	111	138	154	171
Milk sold (Ml)		42	14	5	5	6
Mozzarella production (tpa)		**4,387**	**9,128**	**13,965**	**15,589**	**17,395**
Cheddar & other hard cheese (tpa)		1,634	1,221	650	650	650
Whey production (tpa)		2,635	3,962	6,617	7,386	8,242
Lactoferrin production (tpa)		**0.3**	**1.4**	**5.0**	**11.4**	**11.4**
Cream production (kl pa)		929	1,614	2,128	2,375	2,651
Mozzarella A$/t		**5,179**	**5,830**	**5,705**	**5,705**	**5,705**
Cheddar & other hard cheese A$/t		6,040	7,733	7,733	7,733	7,733
Whey A$/t		1,295	1,458	1,458	1,458	1,458
Lactoferrin A$/kg		**1,555**	**1,298**	**1,500**	**1,500**	**1,500**
Cream A$/kl		3,445	3,470	3,470	3,470	3,470
Dairy sales	$m	75.4	90.4	120.4	142.5	156.3
Meat sales	$m	6.5	12.4	15.5	18.0	19.9
Other sales	$m	2.9	0.2	0.2	0.2	0.2

12 month relative performance versus S&P/ASX Small Ordinaries

PROFIT AND LOSS		FY19	FY20	FY21E	FY22E	FY23E
Sales	**$m**	**84.8**	**103.0**	**136.1**	**160.7**	**176.4**
COGS	$m	(81.1)	(93.9)	(112.7)	(123.2)	(135.2)
Gross margin	**$m**	**3.7**	**9.2**	**23.4**	**37.5**	**41.2**
Gross margin	**%**	**4.4%**	**8.9%**	**17.2%**	**23.3%**	**23.3%**
Other income	$m	1.3	5.3	0.1	0.1	0.2
Other operating costs	$m	(24.0)	(25.4)	(23.0)	(22.4)	(23.0)
EBITDA	**$m**	**(19.0)**	**(11.0)**	**0.5**	**15.2**	**18.3**
Depreciation & amortisation	$m	(1.9)	(3.0)	(3.3)	(4.2)	(4.2)
EBIT	$m	(20.9)	(14.0)	(2.8)	11.0	14.1
Net interest	$m	(1.3)	(1.6)	(0.6)	(0.6)	(0.4)
Impairments / Associates	$m	(10.4)	(1.7)	0.0	0.0	0.0
Pretax Profit	$m	(32.5)	(17.3)	(3.4)	10.4	13.8
Tax expense	$m	5.2	5.1	1.0	(3.1)	(4.1)
Minorities	$m	(0.3)	(0.6)	0.0	0.0	0.0
NPAT	**$m**	**(27.0)**	**(11.6)**	**(2.4)**	**7.3**	**9.6**
Adjustments & Significant items	$m	(9.7)	0.8	0.0	0.0	0.0
Underlying NPAT	**$m**	**(17.3)**	**(12.4)**	**(2.4)**	**7.3**	**9.6**

BALANCE SHEET		FY19	FY20	FY21E	FY22E	FY23E
Cash	$m	1.9	10.6	4.4	3.5	8.4
Receivables	$m	15.7	13.3	14.5	15.6	16.8
Inventory	$m	14.2	12.6	13.7	14.8	15.9
Other	$m	0.0	38.5	38.5	38.5	38.5
Current assets	**$m**	**31.9**	**75.0**	**71.1**	**72.4**	**79.5**
PPE	$m	68.2	41.8	58.5	55.8	53.2
Intangibles	$m	19.4	8.6	8.6	8.6	8.6
Other	$m	21.1	19.9	19.8	19.8	19.8
Non current assets	**$m**	**108.7**	**70.3**	**86.9**	**84.2**	**81.6**
Total Assets	**$m**	**140.6**	**145.3**	**158.0**	**156.6**	**161.1**
Accounts Payable	$m	15.7	13.8	15.0	16.2	17.4
Borrowings	$m	5.5	26.1	0.0	0.0	0.0
Other	$m	0.5	0.7	0.7	0.7	0.7
Current liabilities	**$m**	**21.7**	**40.6**	**15.7**	**16.9**	**18.1**
Borrowings	$m	35.8	23.4	23.4	10.4	0.0
Deferred tax liabilities	$m	2.8	1.0	6.1	7.2	4.0
Other	$m	0.2	0.3	0.3	0.3	0.3
Non current liabilities	**$m**	**38.8**	**24.8**	**29.9**	**17.9**	**4.4**
Total Liabilities	**$m**	**60.4**	**65.4**	**45.6**	**34.8**	**22.5**
Equity	$m	147.5	159.3	160.5	160.5	160.5
Retained earnings	$m	(58.1)	(69.7)	(72.1)	(64.8)	(55.1)
Reserves / Other	$m	(9.3)	(9.6)	23.9	26.1	33.3
Shareholder's equity	**$m**	**80.1**	**80.0**	**112.4**	**121.8**	**138.7**

CASH FLOW		FY19	FY20	FY21E	FY22E	FY23E
EBITDA	$m	(19.0)	(11.0)	0.5	15.2	18.3
Change in working capital	$m	11.1	(1.1)	(1.0)	(1.0)	(1.0)
Net interest	$m	(1.3)	(1.6)	(0.5)	(0.6)	(0.3)
Tax paid / Refund	$m	0.0	0.0	0.0	0.0	0.0
Other	$m	0.0	0.0	0.0	0.0	0.0
Operating cash flow	**$m**	**(9.1)**	**(13.7)**	**(1.1)**	**13.6**	**16.9**
Stay in business capex	$m	(1.5)	(1.5)	(1.5)	(1.6)	(1.6)
Growth capex	$m	(10.9)	(4.2)	(18.5)	0.0	0.0
Asset sales (acquisitions)	$m	(0.7)	8.7	40.0	0.0	0.0
Net investment / Other	$m	0.0	0.0	0.0	0.0	0.0
Investing cash flow	**$m**	**(13.0)**	**3.0**	**20.0**	**(1.6)**	**(1.6)**
Change in Equity	$m	0.0	11.5	1.2	0.0	0.0
Increase/(decrease) in borrowings	$m	19.8	7.8	(26.1)	(13.0)	(10.4)
Dividend / other	$m	0.0	0.1	(0.1)	0.0	0.0
Financing cash flow	**$m**	**19.8**	**19.4**	**(25.0)**	**(13.0)**	**(10.4)**
FX	$m	(0.2)	(0.1)	0.0	0.0	0.0
Change in Cash / FX	$m	(2.5)	8.6	(6.1)	(0.9)	4.9

Investment Thesis

Beston Global Food's (BFC) strategy, since listing, has been to become a leading Australian based supplier of safe, clean and healthy dairy and meat-based protein to the world's growing consumer markets, particularly in Asia.

BFC owns and operates a portfolio of food and beverage businesses focussed on dairy and meat.

The dairy segment owns production plants and uses milk to produce mozzarella cheese, lactoferrin (a protein found in bovine milk) that has significant anti-viral and anti-bacterial functions and properties which are essential in both boosting and modulating the human immune system and other dairy products for domestic and export markets.

The meat segment is focused on production of meat and related products for domestic and export markets.

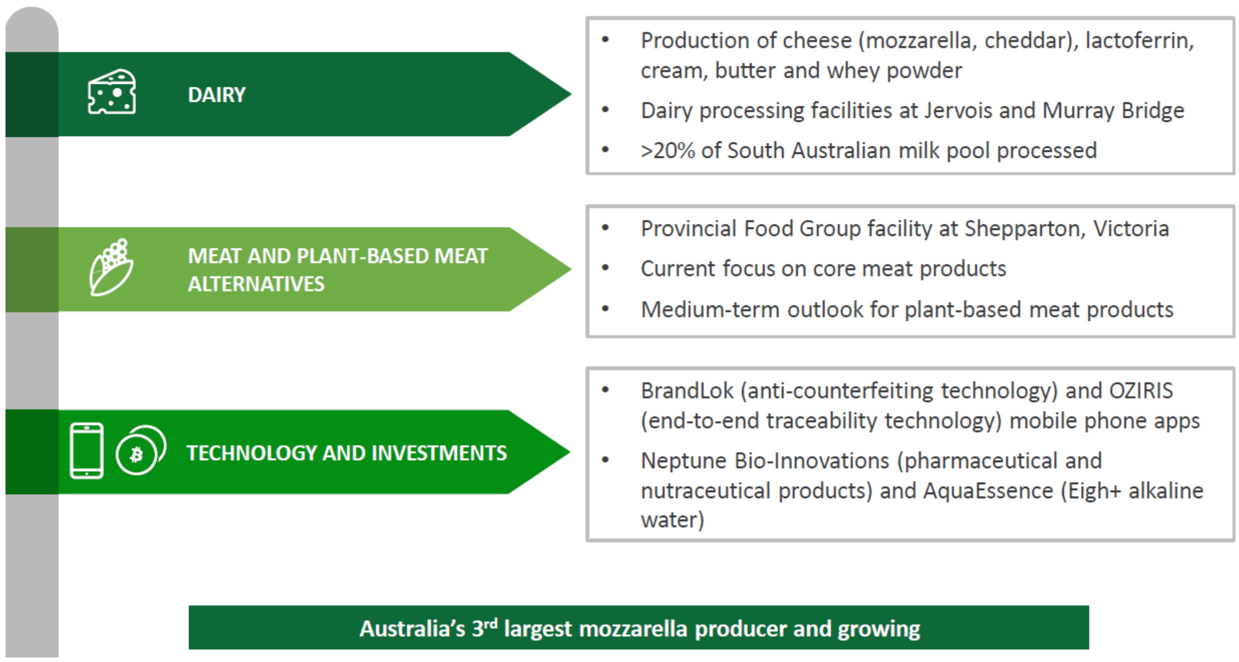
Other operations include businesses developing technological software for tracking the provenance and authenticity of goods, as well as the production of spring water and related products.

Over the last 24 months, under the direction of the Board and management team, BFC has sold or shut down a number of non-core businesses. It will head in to FY21 with the Group primarily focussed on its dairy and meat operations, while at the same time looking to crystallise value in its technology platforms.

Key to the earnings growth we have forecast over the next three years is the successful execution of the overall food strategy below (Figure 1).

The dairy and nutraceuticals (lactoferrin) strategy is now set to take off in our view.

Figure 1 – Beston Global Food Strategy



Source: Company

In FY21, the company has guided to 138 million litres (Ml) of milk supply which they forecast will grow further in FY22. FY21 mozzarella production is forecast to be up 50% to 12,600~14,700 tonnes (t) from 9,128 t in FY20. We are forecasting that BFC will be EBITDA positive in FY21 and NPAT positive in FY22.

If we are correct, at the current spot price, BFC is trading on sub 7.0 times FY22 earnings per share and a FY22 EV/EBITDA multiple of 3.7 times.

This would have it trading at a material discount to its closest local peers. Bega Cheese (BGA-AU) and Clover Corporation (CLV-AU) are trading on two year forward EV/EBITDA multiples of 10x and 24x respectively.

FY20 result

BFC has reported a FY20 result broadly in line with our forecasts.

The key positive was the stronger overall gross margin achieved in the dairy segment of 10.5% versus MSTe of 7.5%:

- Sales growth of 21% from $84.8m to $103m, MSTe $102.3m
- Mozzarella production up over 100% to 9,128 t.
- Lactoferrin production of 1.4 t.
- Dairy sales growth of 20% from $75.4m to 90.4m, MSTe $90m.
- Gross margin up from 4.4% to 8.9%, MSTe 6.4%.
- Dairy farms sold and settled for $40.4m on 31 August.
- Underlying loss of $12.4m, a reduced loss versus $17.3m, MSTe $10.6m loss.

FY21 Guidance

BFC has pleasingly provided guidance for some key operational metrics for FY21:

- Milk supply up from 111 Ml in FY20 to 131-145 Ml, MST at 138 Ml
- Mozzarella production up from 9.1kt in FY20 to 12.6-14.7 kt, MST at 13.9 kt
- Dairy sales revenue up from $90m to $115-$125m, MST at $120m
- Product sales revenue up from $103m to $130-$145m, MST at $136m
- Lactoferrin production up from 1.4t to 4.0-6.0t, MST at 5.0t
- Capex up from $6.0m to $17m-$22m, MST at $20m

Near-term catalysts

- Completion of lactoferrin production capacity increase to ~12 tpa in early CY2021
- Decide whether to further expand lactoferrin production capacity to > 20 tpa
- Increase milk supply from the current 138 Ml contracted in FY21 to 180 Ml by FY23 to further utilise capacity at Jervois mozzarella facility. Capacity utilisation in FY20 was 49%to 70% in FY21
- Review of the internalisation of Beston Pacific Asset Management (BPAM) investment management agreement (IMA) scheduled to be completed by February 2021
- Continue to grow order book for the Provincial Food Group (meat sales) from the $12m achieved in FY20

Valuation

- Our base case 12 month forward discounted cash flow valuation is $0.21. This valuation does not include any potential uplift in production and sales from the proposed Stage 2 & 3 lactoferrin expansions. If we assume lactoferrin production is lifted to >20 tpa by FY23 at a cost of $12m, our 12-month forward valuation lifts to $0.31.

Risks

Key operational and project risks are:

- Completion and commissioning of lactoferrin expansion project
- Competition and adverse weather conditions impacting on milk supply
- Operational risk at dairy facilities including equipment failure, labour shortages and industrial disputes
- Cost control and achievement of gross margin expansion
- Regulatory risk in both home and export markets impacting production and or sales

Key pricing and valuation sensitivities are:

- Key commodity pricing including milk, mozzarella, whey and lactoferrin
- Australian dollar exchange rate against the US dollar
- Discount rate applied to forecast cash flows and terminal growth assumptions

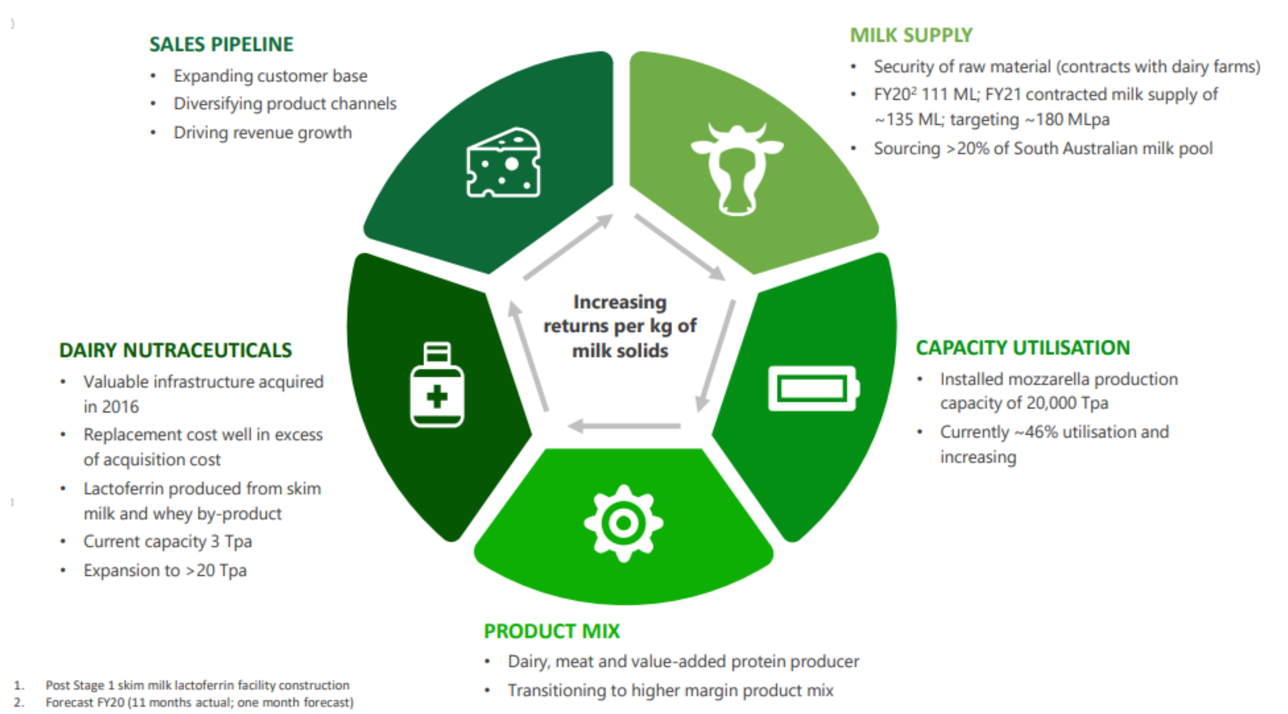
Beston Global Food Dairy Operations

The dairy operations are the core revenue provider to BFC and represents over 90% of BFC's gross margin in FY21. BFC owns two dairy processing factories located in Murray Bridge and Jervois, South Australia.

Products manufactured include soft cheese (primarily mozzarella cheese), hard cheese (cheddar cheese etc.), butter, cream, whey powder and lactoferrin. Approximately 26% of product is currently directly or indirectly exported (primarily to Asia but also small quantities into Europe).

BFC is currently the 8th largest dairy company in Australia and is the third largest producer of mozzarella in Australia. During the last 12 months the Company has been developing capabilities in the production of vegetable oil-based mozzarella which has a materially lower cost base.

Figure 2 – Beston Global Food Dairy Strategy



Source: Company data

Milk Supply

Key to any dairy operation is certainty of milk supply. BFC has built relationships with local farmers and has increased its milk supply from nil at its initial public offering (IPO) to a forecast 138 Ml of contracted supply in FY21.

Milk supply is integral to BFC's operations and we estimate it to be ~75% of the cost of goods sold for the dairy operations.

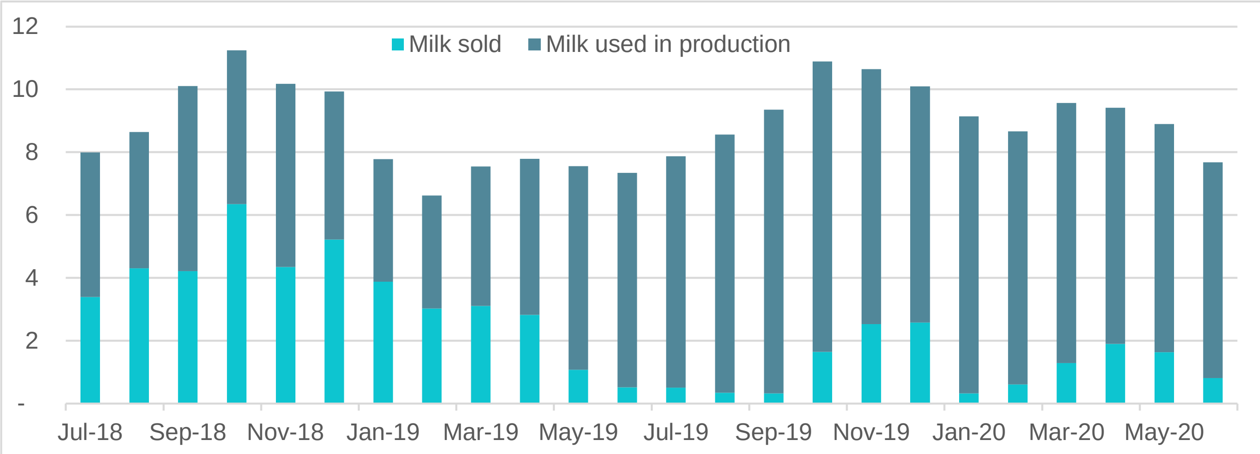
The company estimates that every additional 20 Ml of milk supply contributes $21m to sales and ~$5m to gross margin post completion of the lactoferrin plant expansion.

When BFC started its mozzarella project, it contracted ~90 Ml of milk with independent dairy farmers and BFC's own farms to support the investment in and subsequent sales growth, from the mozzarella factory.

This volume of milk was excess to immediate requirements which meant in FY19 a large percentage of milk (~41%) was on sold and not used in higher margin dairy production (Figure 3).

As BFC has ramped up production of mozzarella in FY20 more milk has been used in its own production (87%) and less sold as raw milk (Figure 3).

Figure 3 – BFC milk used in dairy production and sold (Ml) per month



Source: MST, Company data

The two cheese plants at Murray Bridge and Jervois have a combined capacity to take around 300 Ml of milk annually.

In the FY19 year, BFC contracted for the supply of 117 Ml of milk but given drought conditions in South Australia, BFC only received 103 Ml.

In FY20 milk supplied to the operations was 111 Ml. BFC has currently contracted supply of 138 Ml in FY21 with an opening milk price paid to farmers of $7.20/kg milk solids. In FY20 BFC paid an opening price of $6.80/kg and exited the year paying $7.05/kg.

Competitor pricing over Australia was reported to range from $6.00 to $6.90 with organic milk pricing up to $8.60. These prices are generally lower than last year's opening prices. Historically, opening prices generally increased as the season progressed.

We believe BFC can and will be prepared to pay a premium to average farmgate whole milk prices given its ability to produce higher margin products and will look to contract more supply as the year progresses.

The medium-term target is to increase milk supply to around 180 Ml p.a. by FY23. We have assumed this occurs by FY24.

Figure 4 – BFC milk used in dairy production and sold (Ml)

Milk supplied (Ml)	FY18	FY19	*1H20*	*2H20E*	FY20E	FY21E	FY22E	FY23E
Milk supplied (Ml)	**90.5**	**102.8**	*57*	*53*	**110.8**	**138.0**	**153.8**	**171.3**
Growth (Ml)		12.3			8.0	27.2	15.8	17.5
Growth		14%			8%	25%	11%	11%
Milk sent to factories for processing		**61**	*50*	*47*	**96**	**133**	**148**	**166**
Milk sold		**42**	*8*	*7*	**15**	**5**	**5**	**6**
ABARE Milk forecast (cents/litre)	45.8	49.7			52.4	52.0	51.9	51.6
S.A. Milk cost (cents/litre)	**49.9**	**50.2**			**52.9**	**52.5**	**52.4**	**52.1**
MST estimated milk cost ($m)	**45.2**	**51.6**			**58.6**	**72.5**	**80.6**	**89.3**
Percentage of Dairy COGS		73%			72%	80%	80%	81%

Source: MST, Company data

We note that the recent farm sale locked in the existing ~17 Ml p.a. of supply from the farms for 10 years.

The Company has stated that most of its milk supply is secured under multi-year contracts with three to five-year terms. This approach reduces annual recontracting risk. The FY21 forecast milk receivals of 138Ml is underpinned by contracts with an annual run rate of ~145 Ml, the difference being the timing of new suppliers coming across to Beston in 1Q21.

Dairy production

BFC has built significant capacity into its dairy business via works undertaken over the past five years. At IPO BFC acquired two dairy factories out of receivership for $4.5m at Murray Bridge (cheddar and other hard cheese production) and Jervois (mozzarella production) in South Australia (SA).

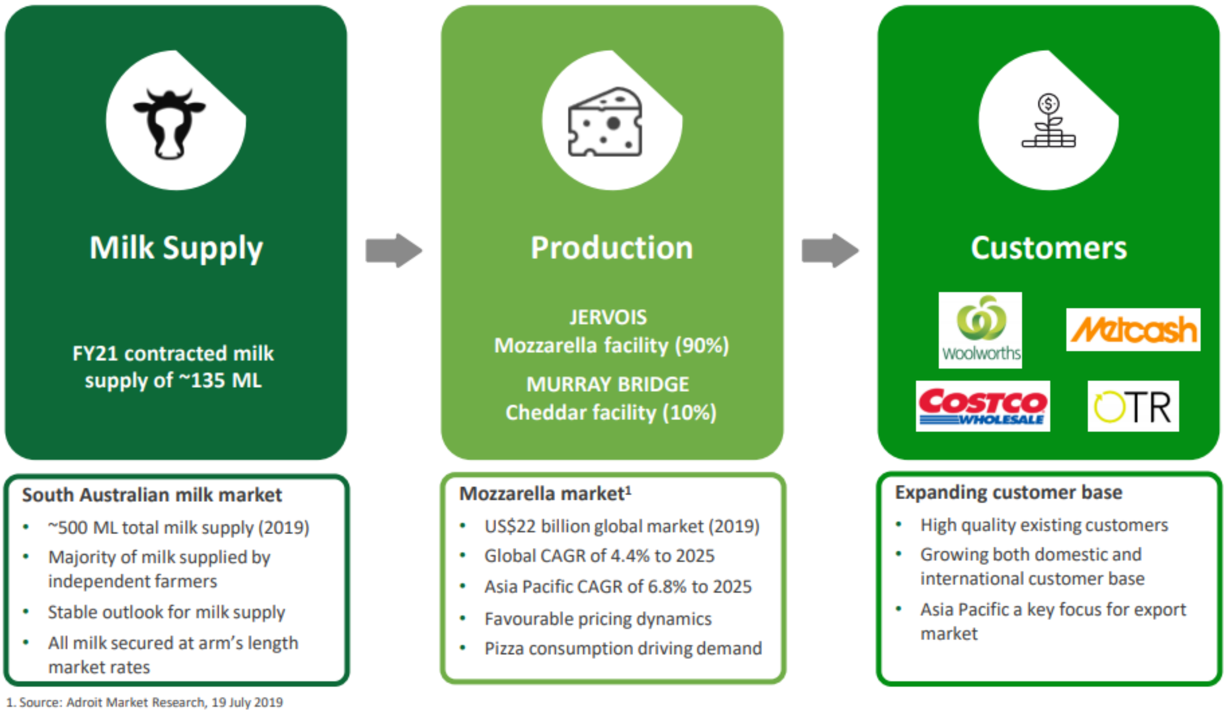
The Murray Bridge operation is where the Edwards Crossing cheddar production occurs, along with cream cheese, gruyere and parmesan. It is also BFC's principal storage facility. In FY20 Murray Bridge produced 990 t of cheddar.

A new mozzarella plant was installed at Jervois with milk processing capacity of 200 Ml p.a. and ~20,000 tpa of mozzarella production in FY18. The Jervois facility is one of only three major mozzarella factories of scale in Australia.

The plant has the flexibility to manufacture different types of mozzarella cheese products (i.e. with different variants of moisture and fat) as well as the capacity to significantly expand production over time.

Jervois produces BFC's Edward's Crossing premium mozzarella, whey powder, cream and butter, along with a series of long-term private label contracts for the domestic and international markets.

Figure 5 – Established supply and distribution channels



Source: Company

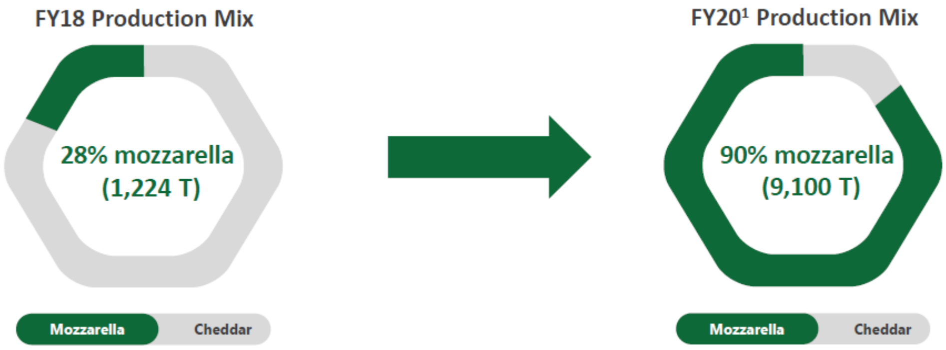
Mozzarella production due to its higher yields in production and generation of high value by-products, provides a 60% better margin than cheddar production per litre of milk used.

One tonne of cheddar production generates no cream, 480 kilograms of whey powder and 200 grams of Lactoferrin.

Whereas, one tonne of mozzarella production generates 175 litres of cream, 480 kilograms of whey powder and 350 grams of Lactoferrin from the current whey-based extraction process.

Figure 6 – From FY18 to FY21 operations have transitioned from cheddar to higher margin mozzarella

By products:	1 tonne of cheddar →	1 tonne of mozzarella →
Cream	• No production	• 175 litres (+175 litres)
Whey powder	• 480 kg	• 480 kg (n/c)
Lactoferrin	• 200 grams	• 350 grams (+75%)

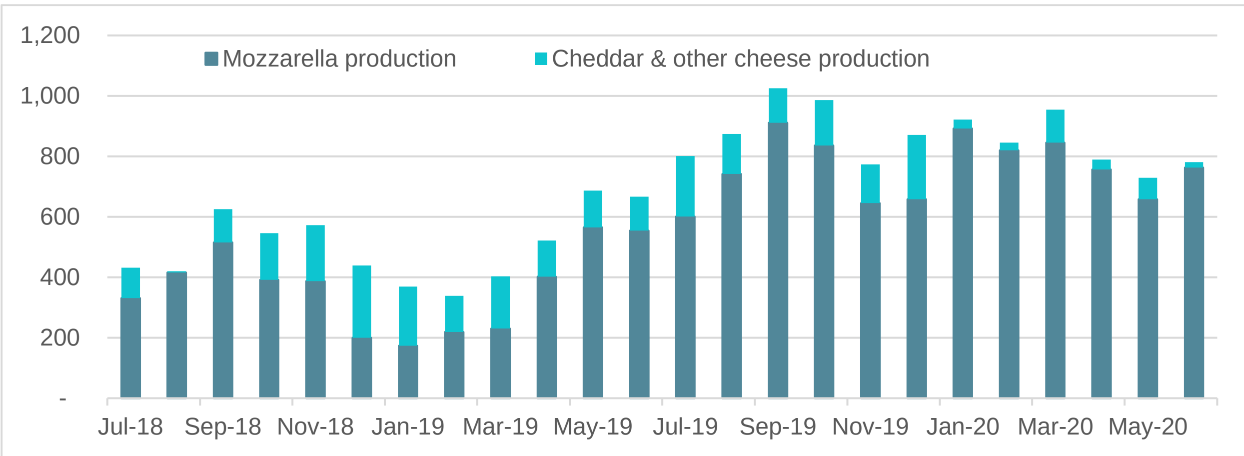


Source: Company

When BFC restored the Murray Bridge and Jervois factories to commercial use and commenced selling cheese products in FY16, around 75% of the sales consisted of cheddar and other hard cheeses with the balance in raw milk sales.

Following on from the commissioning of the mozzarella plant, BFC has been able to diversify its product mix, lift gross margins achieved, and lift the dollar value of mozzarella, whey powder, butter, cream and lactoferrin sales.

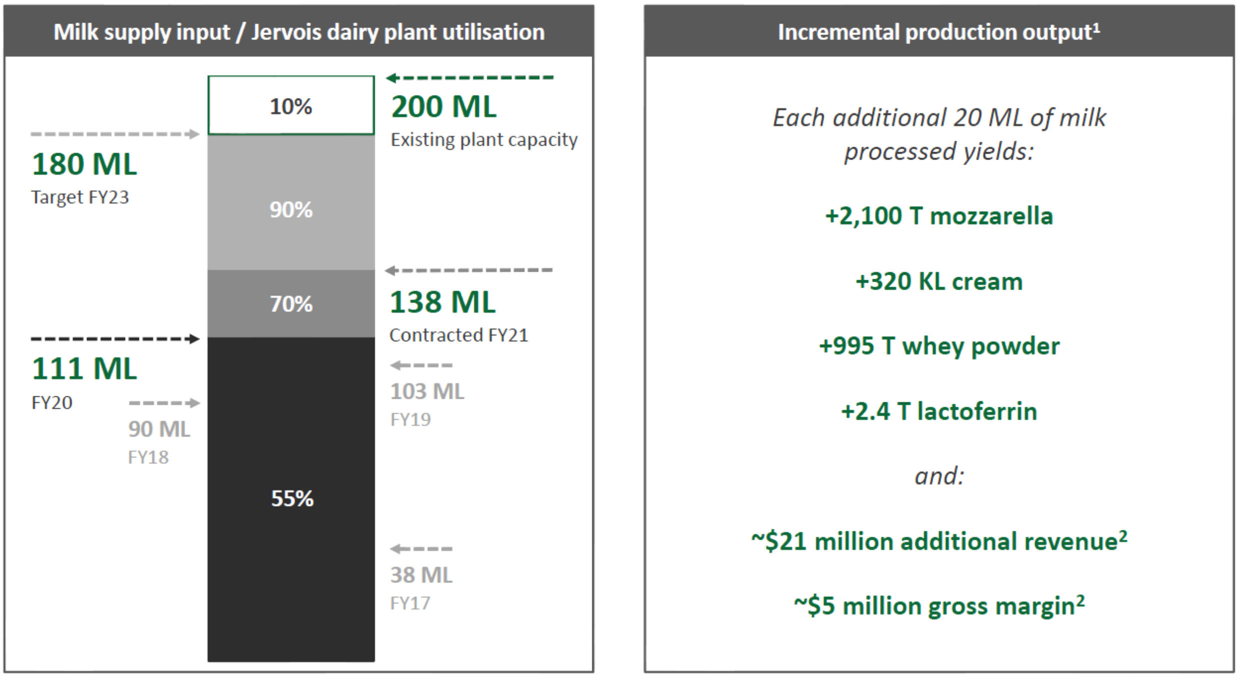
Figure 7 – Post commissioning of the new mozzarella plant, production has grown from 1,200 t in FY18 to 9,100 t in FY20 with a forecast 14,000 t o be produced in FY21



Source: Company

BFC has been transitioning the dairy production from a lower margin product mix to a higher margin product mix, including mozzarella. In FY18 BFC made 1,224 t of mozzarella (~28% of cheese production) whereas in FY20 mozzarella production is forecast to be ~90% of cheese production at 9,128t lifting to 14,000 t in FY21.

Figure 8 – Jervois plant capacity can handle 200 Ml of milk supply p.a.



Source: Company

Notes.

1.Expected incremental production post completion of lactoferrin plant construction and expansions

2. Based on average FY20 product prices and lactoferrin estimated at $1,500/kg

Over the last 9 months, BFC has also been successful in producing and selling a number of mozzarella variants. The state-of-the-art mozzarella has some advanced technologies embedded in the equipment (which came at an additional cost of around $2m) which enables mozzarella cheese to be differentiated to suit individual customer and market requirements and at different price points.

Because mozzarella is a higher margin product than cheddar, BFC has been putting much of its sales effort into securing long term contracts for mozzarella since the mozzarella plant came on stream.

BFC has also been successful in developing a mozzarella product which involves extracting some of the butter fat out of the cheese and replacing it with vegetable oil.

The resulting product has the same taste and functional performance as "normal" mozzarella but can be sold at a lower price point as vegetable oil is cheaper than butter fat (typically around half the price). The butter fat extracted from the milk is sold separately, thereby increasing the overall margins earned from vegetable mozzarella versus "normal" mozzarella.

BFC is the first cheese company in Australia to have developed the product and has successfully completed in-market trials with several large food service customers prior to the arrival of COVID-19.

BFC expects to commence sales to contracted customers as soon as the food service business returns to normal in Australia.

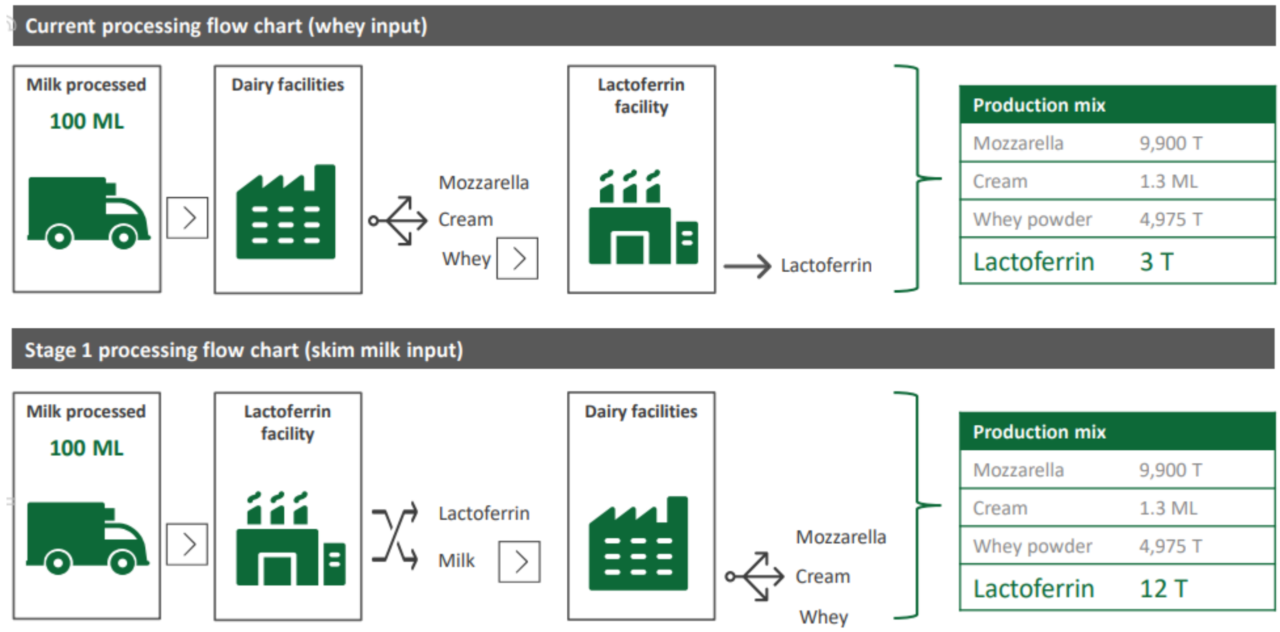
Lactoferrin – The Earnings Growth driver

BFC made a decision in 2016 to acquire a dairy nutraceutical plant which had been built by an Australian public company (Australian Probiotics Ltd) adjacent to BFC's dairy factory at Jervois, South Australia.

BFC acquired the plant at a fraction of its original cost. 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 re-started the dairy nutraceutical plant in 2019 following the commissioning of the mozzarella plant and commenced the production of high value Lactoferrin. In order to rectify some operational issues apparent when operating the plant in the early months of 2020, BFC upgraded the plant and installed new resin so as to take the production of Lactoferrin to circa 3 tpa, with consistently higher levels of purity and quality.

Figure 9 – Current Lactoferrin expansion project has production lifting from 3 tpa to 12 tpa



Source: Company data

Lactoferrin has significant immune boosting and immune modulating properties, including anti-bacterial, anti-viral, anti-parasitic, and anti-allergic functions. The clinical significance of Lactoferrin has been established in numerous medical and scientific studies over the past 40 years (since it was first extracted from milk in 1961).

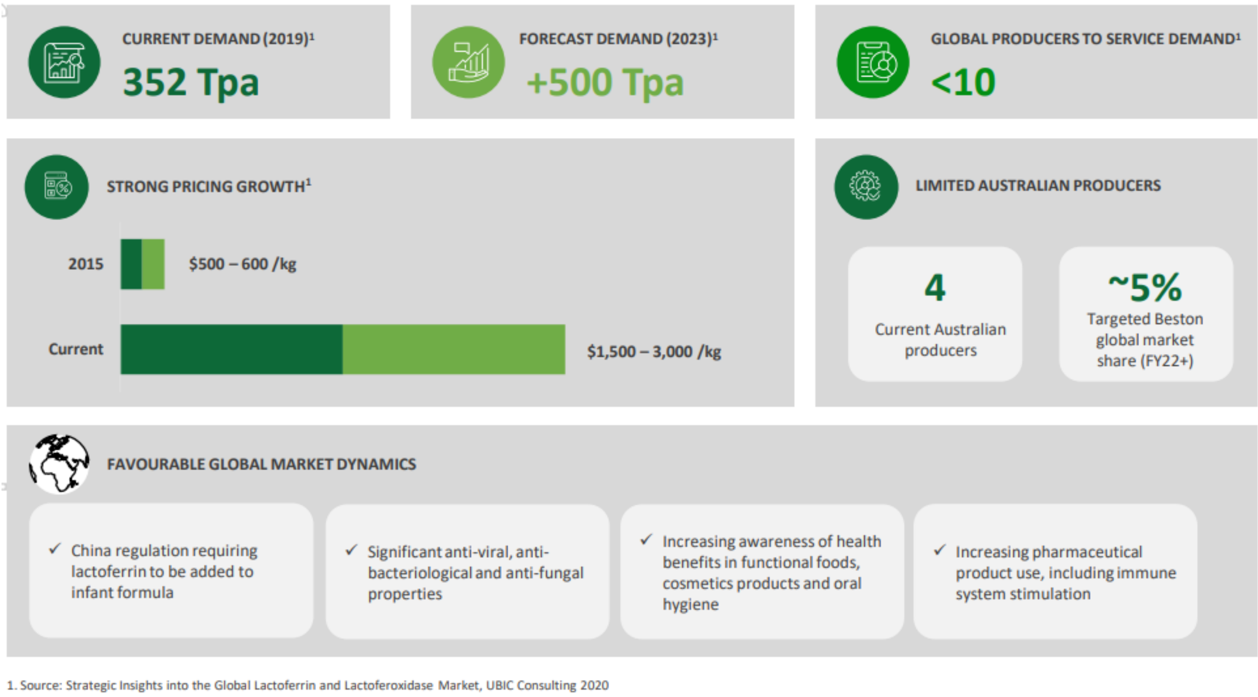
Since commissioning, BFC has added a freeze drying and milling facility (which was not part of the original plant acquired), thereby enabling Lactoferrin to be delivered to customers in final product, powder form.

The dairy protein market is one of the most valuable markets in the dairy industry with naturally based dairy proteins (e.g. Lactoferrin, immunoglobulins, galacto-oligosaccharides etc) used in a range of applications in the health, nutrition and pharmaceutical industries including infant formula, adult formula (e.g. Sustagen), dietary supplements and a wide range of medicines.

Lactoferrin has a high global demand and commands high prices with high margins. It is one of some 20 proteins known to exist in milk along with many vitamins and minerals including calcium, potassium, phosphorus, iodine, and Vitamin B2 and Vitamin B12.

The global demand for (consumption of) Lactoferrin was 351.5 MT in 2019, around 50% of which was from Japan. The global price of Lactoferrin has increased by around ten-fold since 2015.

Figure 10 – Lactoferrin demand forecast to grow supporting strong pricing



Source: Company data

A recent study (2020) undertaken by UBIC Consulting concluded that "the market for Lactoferrin is just starting". This is because:

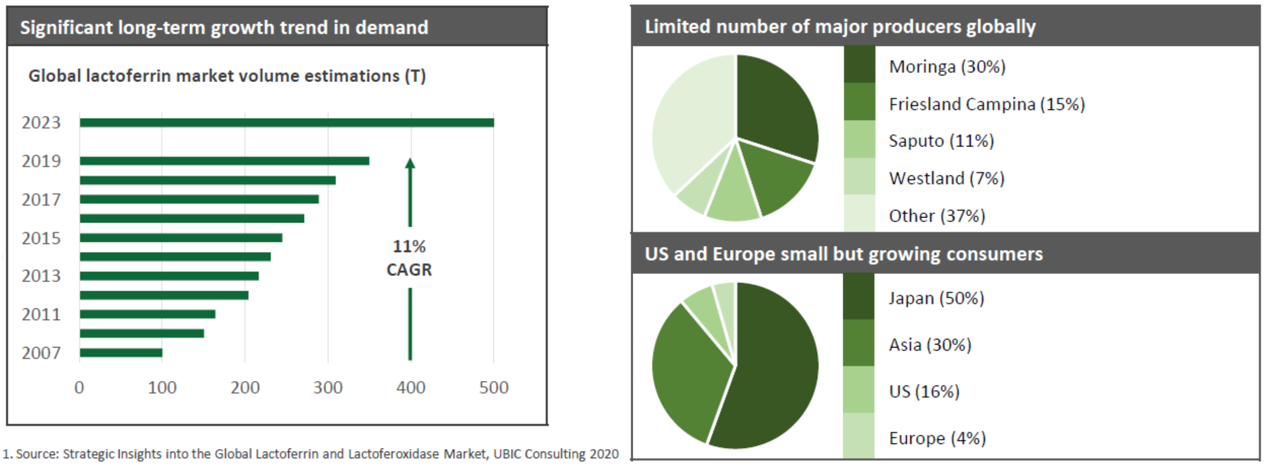
- China changed its quarantine rules in 2017 to allow Lactoferrin to be added to infant formula. As a result, Infant Milk Formula (IMF) which has Lactoferrin added is seen as being a superior product and commands a premium price. The study found that Lactoferrin from Australia and NZ is preferred by Chinese buyers, followed by Europe and then the US.
- While Lactoferrin has been authorized as a novel food ingredient in Europe for some time, it was only authorized as such in the USA in 2012.
- There is increasing awareness of the benefits of Lactoferrin in cosmetic and oral hygiene products, as well as in functional foods on the back of demographic and health care trends.
- Lactoferrin is increasingly being used in pharmaceutical products, especially in drugs used for immune system stimulation, health intestinal flora and as a carrying agent for some new cancer drugs (i.e. immuno-oncology drugs which enlist a patient's immune system in the fight against cancer cells).

The UBIC study concludes that the demand for Lactoferrin post COVID-19 could jump by greater than 50% or 200 tpa by 2023.

The increasing interest of China in Lactoferrin in recent years may well explain much of the activity by Chinese companies in this space in Australia and NZ. For example, the largest Chinese Dairy company, Yili Group acquired the loss-making Westland Cooperative Dairy Co Ltd in August last year. Westland produces 10 t of Lactoferrin p.a.

BFC has determined that demand for lactoferrin is growing at a CAGR of 11% p.a. and demand may hit 500 t by 2023.

Figure 11 – Lactoferrin demand forecast to hit 500 tpa by 2023



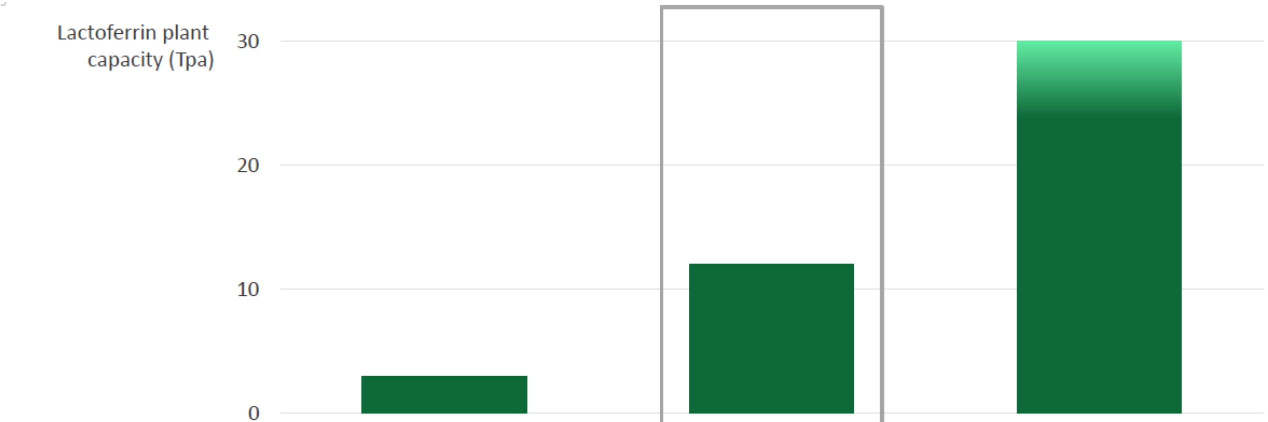
1. Source: Strategic Insights into the Global Lactoferrin and Lactoferoxidase Market, UBIC Consulting 2020

Source: Company data

BFC management believes the contribution from the Lactoferrin expansion to gross margins is significant (around 70% to 80%). Increasing the production of Lactoferrin will therefore add significantly to the overall profitability of the dairy factory and the bottom-line results of BFC.

The Company has stated they will consider expanding the dairy protein fractionation plant over time with the potential to lift from 12tp a to >20 tpa in the medium term.

Figure 12 – BFC could expand lactoferrin production to greater than 20 tpa for $9m



Production metrics	Current	Stage 1	Stage 2 and 3
Production capacity	3 Tpa	12 Tpa	>20 Tpa
Production input	Whey	Skim milk	Skim milk
Milk supply	100 ML	100 ML	180 ML
Expansion cost	$3 million	$12 million	$9 million
Revenue[1]	$4.5 million	$18 million	>$30 million

1. Assumes full production capacity and lactoferrin price of $1,500/kg

Source: Company data

Beston Global Food Meat Operations

The Meat Division of BFC is contained within the Provincial Food Group (PFG) located in Shepparton, Victoria. Since acquisition of the business in 2018 (previously known as Scorpio Foods in which BFC held a 40% beneficial interest), BFC has completed an extensive transformation of the business.

In conjunction with the consolidation of operations in Shepparton, all of the cold storage rooms at Shepparton were completely re-fitted and safe quality food (SQF) food processing accreditation was obtained. Much of the processing equipment was also replaced and upgraded with the latest technology. New wastewater treatment facilities are also being installed.

PFG purchases wholesale beef and lamb which is then further processed, packaged and sold into the food service, retail and export industries. Products include burgers, sausages and meatballs, primarily for high end customers (e.g. gourmet burger outlets, restaurants, supermarkets etc.). PFG also provides tailored solutions for customers (such as with pre-cooked meals and portion control meats).

BFC has reported sales of $12m in FY20 with a solid order book underpinning growth into FY21. Following the conclusion of a loss-making contract BFC expect margins to recover in this segment over the next two years.

Figure 13 – BFC Meat operations sales and gross margin

Meat	FY18	FY19	*1H20*	*2H20*	FY20	FY21E	FY22E	FY23E
Sales		**6**	*5*	*7*	**12**	**15**	**18**	**20**
Growth			*312%*	*35%*	91%	25.0%	16.3%	10.6%
COGS		(6.1)	*(5)*	*(7)*	(12.5)	(13.2)	(14.4)	(15.9)
Margin		6.2%	*1.3%*	*(3.1%)*	(1.2%)	15.0%	20.0%	20.0%
Gross profit		**0.4**	*0.1*	*(0.2)*	**(0.1)**	**2.3**	**3.6**	**4.0**

Source: Company data

PFG has developed capability in the manufacture of plant-based protein food products. Through the expertise developed in-house, and the purchase of specialised equipment from overseas, PFG has developed both the capacity and capability for the contract manufacturing of meat-alternative products for the vegetarian and vegan markets in Australia and overseas. PFG is currently in discussions with several large potential customers who market similar products in Australia, which is a fast-growing market segment.

Beston Global Food Technology

BrandLok (anti-counterfeiting technology) and OZIRIS (end-to-end traceability technology) mobile phone apps

One of the objectives of BFC in supplying premium, healthy food and beverage products to consumers was to be able to ensure consumers that they were "safe" and be able to verify the provenance of the products. In order to achieve this objective, BFC has developed a technology platform (Beston Technologies) which is 100% owned by BFC and has been awarded 13 patents including a block chain patent from the USA.

The technology platform (eco-system) comprises two separate technologies:

- BRANDLOK: an anti-counterfeiting technology, and
- OZIRIS: on end-to-end traceability technology

which can be delivered on a mobile phone application and provide consumers with the ability to verify the source and ingredients in food products and obtain assurance that the product is safe and authentic.

Consumer assurance can be provided by affixing a BRANDLOK seal to a product which contains data trace indicators that can be identified at point of consumption to verify that the product is authentic. OZIRIS is an application which scans the product trace indicators to provide details to consumers on the origin of the product (provenance) and the ingredients and processes used in the manufacture of the product. https://www.oziris.com.au/about-oziris/

BFC commissioned an independent review of its technology in 2019 by the technology consulting firm Readify Pty (subsidiary of Telstra Corporation).

The review concluded that the Beston Technology Platform (combining OZIRIS and BRANDLOK)

- utilises fit-for-purpose technologies and presents functionality via easy to use interfaces on appropriate devices,
- solves verification and authenticity of the ‘actual food product’ whilst in the hands of the consumer rather than relying on traditional manual capture Enterprise Resource Planning (ERP) techniques and
- provides a model to market based on its ability to enable food trust in existing systems such as ERP systems and established E-commerce platforms.

The review identified a number of areas for enhancements particularly in relation to cyber security protections, which Readify are being implemented.

BFC has recently signed an MOU with a US technology company Digimarc Corporation as a precursor to entering into an OEM Agreement to offer an integrated e-commerce traceability and anti-counterfeiting software-as-a-service (SaaS) solution to customers across a range of industries. The aim of the OEM Agreement is to establish Beston Technologies as a value-added re-seller of solutions comprising both Beston Technologies and Digimarc software to serve potential customers in Australia.

The Digimarc technology platform provides objects with an indelible, imperceptible data carrier enabling products to be uniquely verified and to have quality control, management and tracking functions added to products with data retrieval at point of sale.

The technology embodied in the Digimarc platform is highly complementary to the BT technology eco-system and when combined will provide a comprehensive solution to customers seeking anti-counterfeiting and provenance verification protocols for their products. The objective is to achieve commercialisation of the resulting SaaS offering to customers, so that the value of the intellectual property and related assets in Beston Technologies can be realised.

Portfolio Investments

BFC holds investments in two operating businesses: AquaEssence and Neptune Bio-Innovations (NBI). BFC reported an associate earnings loss of ~$0.8m in FY19. We have not forecast any material contribution from Associate earnings going forward.

AquaEssence

AquaEssence is a Mount Gambier (SA) based beverage business which sources, produces and distributes high alkaline water products. BFC holds a 51% interest in AquaEssence. AquaEssence holds water licences enabling it to source water from the underground limestone cave aquifers adjacent to the Blue Lake at Mount Gambier. Because of its origin, the water produced by AquaEssence has a high alkaline content and is unique from competitor products. AquaEssence markets its range of packaged water products targeting both the wholesale and retail sector and holds supply contracts with a number of its customers, including OTR, Flinders Private Hospital, Metcash and BHP.

Neptune Bio-Innovations

NBI is a NSW based health and nutrition product manufacturing and distribution business which offers a range of proprietary pharmaceutical and nutraceutical products to pharmacies and health stores domestically and internationally. BFC holds a 20% beneficial interest in NBI via equity and unsecured convertible notes.

NBI’s core products include BioLyte (Oral Rehydration), Heart Sale (60% reduced sodium salt), Sweetin (natural sugar replacer) and URICIL (urinary tract infection medication) NBI’s products are currently stocked in over 1,500 Australian pharmacy outlets through national chains including Chemist Warehouse, Priceline Pharmacies, Chemsave and Pharmacy Choice.

Management Agreement

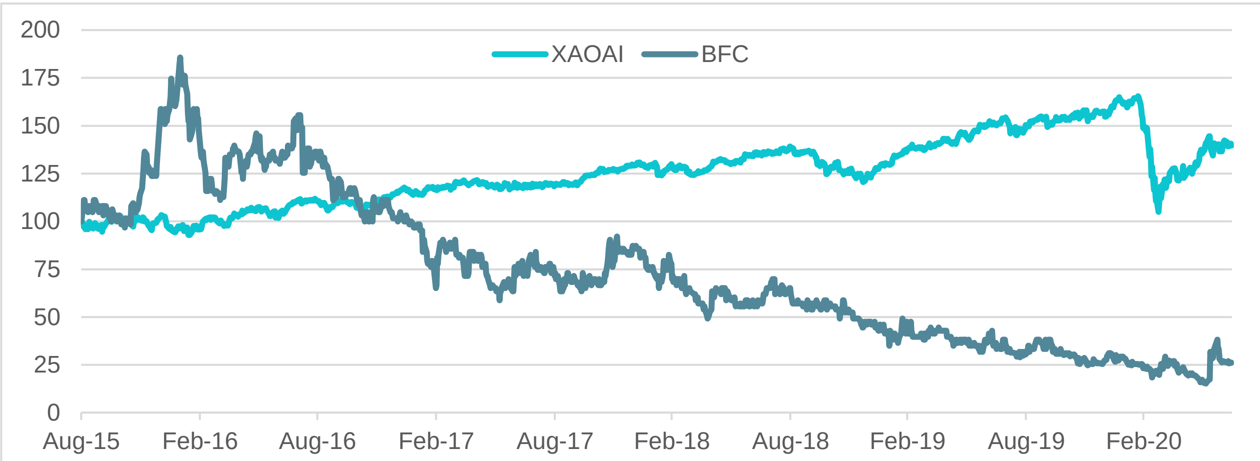
BFC is currently managed through an Investment Management Agreement (IMA) with Beston Pacific Asset Management (BPAM). The management fee is based on a fixed fee of 1.2% pa of the gross portfolio value (GPV) of BFC. In FY19 BFC reported a management expense of $2.4m implying a GPV of ~$200m. We note that the Group's annual impairment tests in the annual accounts for FY19 valued the recovery amount for the dairy cash generating unit (CGU) at $151m and the meat CGU at $14m.

The fee was intended to meet the costs of the BFC senior management team and allow BFC to establish itself over the initial five-year period of the business plan.

Under the terms of the IMA, BPAM is also entitled to a performance fee based on the market capitalisation of BFC and the performance of the BFC share price relative to the ASX All Ordinaries Accumulation Index (XAOAI), noting under performance has to be recovered before a fee is paid. The performance fee is calculated - Market capitalisation BFC * Outperformance * 17.5%, where "out performance" is BFC total stock return less XAOAI return.

We note BPAM earned a performance fee in FY16; but decided to waive the fee. Since then BPAM has not outperformed the ASXAI in FY17, FY18 and FY19. For the year to 30 June 2020 BFC has underperformed the XAOAI by ~22% so no performance expense was reported.

Figure 14 – Beston Global Food share price performance versus ASX All Ordinaries Accumulation Index



Source: MST Access, Bloomberg

BFC and BPAM have made it known to shareholders at successive AGM's that the IMA would be terminated at an appropriate time when in the interests of shareholders to do so. BPAM and BFC are currently reviewing the possible internalisation of the IMA.

Beston Global Food Group Financial Forecasts

We table below our Group forecasts for BFC.

Now that the dairy farms have been sold, BFC is in a position to focus on growing production and sales at its dairy operations through increasing milk supply to ~138 Ml in FY21, while continuing to transition to a higher margin product mix. Further out BFC will look to grow milk supply to 180 Ml and ultimately 200 Ml given the plant capacity at Jervois.

We have tabled below our key pricing, production and sales assumptions for the Dairy segment. At this stage we have not factored in an increase in lactoferrin production from 12 tpa to 20 tpa.

The two key pricing assumptions are:

- Lactoferrin sale price of A$1,500/kg which is in line with BFC's guidance of A$1,500/kg.
- Mozzarella sale price of A$5,705/t which is in line with FY20 pricing.

We note that given most of BFC's sales are into the domestic market (~75%) and are done on the basis of one on one negotiation global pricing and the AUDUSD has little impact at this stage.

Figure 15 – Beston Global Food Dairy Forecasts

	1H19	*2H19*	**FY19**	*1H20*	*2H20*	**FY20**	**FY21E**	**FY22E**	**FY23E**
Milk acquired (ML)	*58*	*45*	**103**	*57*	*53*	**111**	**138**	**154**	**171**
Milk on sold (ML)	*28*	*14*	42	*8*	*7*	14	5	5	6
Milk used in production (ML)	*30*	*30*	61	*50*	*47*	96	133	148	166
Milk Sales (A$m)	*14*	*9*	**23**	*4*	*4*	**8**	**3**	**3**	**3**
Mozzarella produced (t)	*2,242*	*2,145*	4,387	*4,393*	*4,735*	9,128	13,965	15,589	17,395
Mozzarella sold (t)	*1,674*	*2,690*	4,364	*4,290*	*4,612*	8,902	13,965	15,589	17,395
Mozzarella A$/t	*5,317*	*5,093*	5,179	*5,711*	*5,941*	5,830	5,705	5,705	5,705
Mozzarella sales ($m)	*9*	*14*	**23**	*25*	*27*	**52**	**80**	**89**	**99**
Cheddar produced (t)	*698*	*936*	1,634	*831*	*390*	1,221	650	650	650
Cheddar sold (t)	*1,771*	*845*	2,616	*1,007*	*547*	1,554	650	650	650
Cheddar A$/t	*5,816*	*6,509*	6,040	*6,872*	*7,733*	7,733	7,733	7,733	7,733
Cheddar sales $m	*10*	*6*	**16**	*7*	*4*	**11**	**5**	**5**	**5**
Lactoferrin produced (t)	-	*0.3*	0.3	*0.6*	*0.8*	1.4	5.0	11.4	11.4
Lactoferrin A$/t	-	*1,555*	1,555	*1,362*	*1,068*	1,298	1,500	1,500	1,500
Lactoferrin sales ($m)	-	*0*	**0**	*1*	*0*	**1**	**8**	**17**	**17**
Whey produced (t)	*1,352*	*1,283*	2,635	*2,278*	*1,684*	3,962	6,617	7,386	8,242
Whey sold (t)	*1,877*	*1,135*	3,012	*2,278*	*1,925*	4,203	6,617	7,386	8,242
Whey A$/t	*1,225*	*1,410*	1,295	*1,431*	*1,491*	1,458	1,458	1,458	1,458
Whey sales ($m)	*2*	*2*	**4**	*3*	*3*	**6**	**10**	**11**	**12**
Cream Produced (kl)	*420*	*509*	929	*782*	*832*	1,614	2,128	2,375	2,651
Cream ($/kl)	*3,333*	*3,536*	3,445	*3,517*	*3,425*	3,470	3,470	3,470	3,470
Cream Sales ($m)	*1*	*2*	**3**	*3*	*3*	**6**	**7**	**8**	**9**
Other Dairy Sales	*4*	*3*	**7**	*3*	*3*	**7**	**8**	**9**	**10**
Total Dairy Sales ($m)	*41*	*35*	**75**	*45*	*45*	**90**	**120**	**142**	**156**
Gross margin	*9%*	*5%*	7%	*13%*	*8%*	10%	18%	24%	24%
Gross margin ($m)	*4*	*2*	**5**	*6*	*4*	**9**	**21**	**34**	**37**

Source: MST Access, Company data

We have used BFC's guidance that for every 20 Ml of milk supplied to the facility, 2,100 t of mozzarella, 2.4 t of lactoferrin, 995 t of whey and 320,000 l of cream is produced.

We note that our assumed mozzarella production assumption per Ml of milk supplied is higher than presented in the equity raise presentation. At the FY20 result BFC revised its mozzarella production from ~20 Ml of milk supplied up to 2,100 t of mozzarella.

BFC have guided to dairy gross margins of 24% (i.e for every $21m of sales, $5m of gross margin) once the lactoferrin expansion is fully ramped up. We use this as our base case margin in FY24.

Incorporating the dairy segment with the other smaller segments we table below or forecast profit and loss for BFC.

Figure 16 – Beston Global Food Forecast Profit and Loss

A$m	FY18	FY19	FY20	FY21E	FY22E	FY23E
Dairy	41.6	75.4	90.4	120.4	142.5	156.3
Meat	0.0	6.5	12.4	15.5	18.0	19.9
Other revenue	6.3	2.9	0.2	0.2	0.2	0.2
Sales revenue	**47.9**	**84.8**	**103.0**	**136.1**	**160.7**	**176.4**
Other income	3.2	1.3	5.3	0.1	0.1	0.2
Total Income	**51.1**	**86.1**	**108.3**	**136.3**	**160.8**	**176.6**
COGS	**(42.5)**	**(81.1)**	**(93.9)**	**(112.7)**	**(123.2)**	**(135.2)**
Dairy gross margin	7.4	5.2	9.5	21.1	33.9	37.2
Meat gross margin	0.0	0.4	(0.1)	2.3	3.6	4.0
Other gross margin	(2.0)	(1.9)	(0.2)	0.0	0.0	0.0
Gross Margin	**5.3**	**3.7**	**9.2**	**23.4**	**37.5**	**41.2**
Dairy gross margin (%)	17.7%	6.9%	10.5%	17.5%	23.8%	23.8%
Meat gross margin (%)	n/m	6.2%	(1.2%)	15.0%	20.0%	20.0%
Other gross margin (%)	n/m	n/m	n/m	1.0%	1.0%	1.0%
Gross Margin (%)	**11.1%**	**4.4%**	**8.9%**	**17.2%**	**23.3%**	**23.3%**
Other operating expenditure	**(23.9)**	**(24.0)**	**(25.4)**	**(22.9)**	**(22.3)**	**(22.9)**
EBITDA	**(15.4)**	**(19.0)**	**(11.0)**	**0.5**	**15.2**	**18.3**
D&A	(2.1)	(1.9)	(3.0)	(3.3)	(4.2)	(4.2)
EBIT	**(17.5)**	**(20.9)**	**(14.0)**	**(2.8)**	**11.0**	**14.1**
Net interest	1.0	(1.3)	(1.6)	(0.6)	(0.6)	(0.4)
Impairments	0.0	(9.6)	(1.7)			
Associates	(0.0)	(0.8)	0.0			
PBT	**(16.5)**	**(32.5)**	**(17.3)**	**(3.4)**	**10.4**	**13.8**
Accounting tax	3.4	5.2	5.1	1.0	(3.1)	(4.1)
NPAT	**(13.1)**	**(27.3)**	**(12.2)**	**(2.4)**	**7.3**	**9.6**
Minority interests	(0.5)	(0.3)	(0.6)	0.0	0.0	0.0
Profit to owners of BFC	**(12.6)**	**(27.0)**	**(11.6)**	**(2.4)**	**7.3**	**9.6**
EPS (¢)	(2.8)	(6.1)	(2.5)	(0.4)	1.2	1.6
DPS (¢)	0.0	0.0	0.0	0.0	0.0	0.0

Source: MST Access, Company data

We note if we assume lactoferrin production lifts from 12 tpa to 20 tpa by FY23, our forecast EBITDA in FY22 and FY23 lifts from $15.2m and $18.3m to $15.5m and $22.1m respectively.

Noting, that an incremental 8 tpa production would add ~$12m p.a. of sales (at $1,500/kg), or an additional $8.4m -$9.6m of EBITDA (at 70%-80% gross margins) , once the expanded production is fully ramped up.

Cash flow forecasts

Aside from the $12.5m to spent on the lactoferrin expansion, we understand that BFC has a number of other smaller projects to be completed in FY21 which lifts forecast capex to ~$20m.

Based on our forecasts we see BFC moving to a net cash position in FY23.

However, before then we may see a decision to expand the lactoferrin production capacity to >20 tpa at a cost of $9m (we have assumed $12m in our valuation sensitivity analysis).

Additionally, there may be a cash component to pay for internalising the investment management agreement. We have not included that in our forecasts.

Figure 17 – Beston Global Food Forecast Cash Flow Statement

A$m	FY18	FY19	FY20	FY21E	FY22E	FY23E
EBITDA	(15)	(19)	(11)	0	15	18
Change in working capital / Other	(15)	11	(1)	(1)	(1)	(1)
OCF - pre interest & tax	**(30)**	**(8)**	**(12)**	**(1)**	**14**	**17**
Cash interest earned	0	0	0	0	0	0
Cash interest paid	(0)	(2)	(2)	(1)	(1)	(0)
Tax Paid	0	0	0	0	0	0
Operating cash flow (OCF)	**(30)**	**(9)**	**(14)**	**(1)**	**14**	**17**
Maintenance capex	(1)	(1)	(1)	(2)	(2)	(2)
Capital expenditure	(12)	(11)	(4)	(19)	0	0
Acquisitions / Investments	(1)	(1)	(1)	0	0	0
Divestments	2	1	9	40	0	0
Other investing cash flow	(4)	0	0	0	0	0
Net investing	**(17)**	**(13)**	**3**	**20**	**(2)**	**(2)**
Net movement in equity	0	0	12	1	0	0
Cash dividends paid	0	0	0	0	0	0
Debt draw down	21	20	12	0	0	0
Debt repayments	0	0	(5)	(26)	(13)	(10)
Other financing cash flow	1	0	0	(0)	0	0
Net financing	**22**	**20**	**19**	**(25)**	**(13)**	**(10)**
Change in cash	(25)	(2)	9	(6)	(1)	5
Cash beginning	**29**	**4**	**2**	**11**	**4**	**3**
FX Impact	0	(0)	(0)	0	0	0
Cash end	**4**	**2**	**11**	**4**	**3**	**8**
Net Debt / (Cash)	**17**	**39**	**39**	**19**	**7**	**(8)**

Source: MST Access, Company data

Beston Global Food Valuation

We have derived a FY21 discounted cash flow valuation for BFC of $0.20.

Figure 18 – Beston Global Food Discounted Cash Flow Valuation

Sum of discounted forecast cash flows	56.1	Target Debt / Enterprise Value Ratio	20.0%
Nominal long run growth rate	2.5%	Statutory Tax Rate	30.0%
Discounted terminal value	87.2	Risk Free Rate	4.0%
Enterprise Value	**143.3**	**Equity Beta**	**0.70**
Less: Net debt	(19.0)	Expected Market Return	10.0%
Assumed option exercise at valuation price	0.0	Cost of Equity	8.2%
Total Equity value	**124.3**	Debt Premium	3.0%
FY21 diluted shares on issue	602.5	Cost of Debt	7.0%
FY21 Value per share	**0.21**	**WACC**	**7.5%**

Source: MST Access

Rolling forward 12 months we get a 12-month forward valuation of $0.22 in August 2021.

Figure 19 – Beston Global Food Discounted Cash Flow Valuation

$	Jun-21	Sep-21	Jun-22	Sep-22	Jun-23	Sep-23
Value per share	0.21	**0.21**	0.22	**0.23**	0.24	**0.25**

Source: MST Access

BFC currently has a FactSet two-year equity beta of 0.04.

We have chosen a two-year equity beta of 0.70 being the average of what we believe are the most comparable companies on the ASX being Clover corporation (0.94), A2 Milk (0.44) and Bega Cheese (0.71).

Sensitivity

We table below our valuation sensitivity to different equity betas and assumed terminal rate assumptions.

Figure 20 – Beston Global Food Discounted Cash Flow Valuation Sensitivity

		Equity beta				
		0.60	0.65	0.70	0.75	0.80
Terminal growth	1.0%	$0.19	$0.18	$0.17	$0.17	$0.16
	1.5%	$0.20	$0.19	$0.18	$0.17	$0.17
	2.0%	$0.22	$0.20	$0.19	$0.18	$0.17
	2.5%	$0.23	$0.22	**$0.21**	$0.20	$0.18
	3.0%	$0.25	$0.24	$0.22	$0.21	$0.20
	3.5%	$0.28	$0.26	$0.24	$0.23	$0.21

Source: MST Access

We have run our model assuming BFC proceed with a lactoferrin production expansion in FY22 (additional 4.0 tpa) and FY23 (additional 4.0 tpa) to lift lactoferrin production capacity to ~20 tpa by FY25.

We have assumed the capital cost of the expansion is $12m versus management guidance of $9m.

This lifts our 12-month forward valuation from $0.21 to $0.31.

We have also run a valuation sensitivity for different gross margins assumed in FY22 for the dairy segment. As can be noted the valuation is very sensitive to the gross margin achieved in the dairy segment.

We note BFC is confident it can achieve gross margins of 70% - 80% in its lactoferrin production, so every incremental tonne of lactoferrin produced and sold for A$1,500 kg adds over $1.05m – $1.2m to gross margin.

We also remind readers that for every incremental 20 Ml of milk processed BFC forecasts sales of $21m and $5m of gross margin.

Figure 21 – Beston Global Food Valuation Sensitivity to Dairy gross margin

		Dairy gross margin				
		22%	23%	24%	25%	27%
Terminal growth	1.0%	$0.12	$0.15	$0.17	$0.21	$0.25
	1.5%	$0.13	$0.16	$0.18	$0.22	$0.26
	2.0%	$0.14	$0.17	$0.19	$0.23	$0.27
	2.5%	$0.15	$0.18	**$0.21**	$0.25	$0.29
	3.0%	$0.16	$0.19	$0.22	$0.27	$0.31
	3.5%	$0.18	$0.21	$0.24	$0.29	$0.34

Source: MST Access

Comparable company multiples

We believe Clover Corporation and Bega Cheese are the most comparable listed companies listed in Australia.

As can be noted below if BFC reports in line with our forecasts it is trading sub 7.0 times FY22 earnings per share and a FY22 EV/EBITDA multiple of 3.7 times. This would have it trading at a material discount to its closest local peers being Bega Cheese (BGA-AU) and Clover Corporation (CLV-AU) (see Figure 22).

Figure 22 – Beston Global Food Comparative company multiples

Company	Ticker	Price (LC)	Mkt Cap (A$M)	PE FY1	PE FY2	EV/EBITDA (FY0)	EV/EBITDA (FY1)	EV/EBITDA (FY2)
a2 Milk Company Ltd.	A2M	16.84	12,456	29.9x	25.9x	19.3x	19.8x	17.1x
Bega Cheese Limited	BGA	5.55	1,190	26.9x	20.7x	19.3x	11.7x	10.1x
Clover Corporation Limited	CLV	2.21	368	39.5x	33.5x	27.5x	28.4x	24.3x
Average				**32.1x**	**26.7x**	**22.0x**	**20.0x**	**17.2x**
Bega / Clover				**33.2x**	**27.1x**	**23.4x**	**20.0x**	**17.2x**
Minimum				**26.9x**	**20.7x**	**19.3x**	**11.7x**	**10.1x**

Source: FactSet (2 September 2020), MST Access

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