

MEDIA RELEASE

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BESTON GLOBAL FOOD COMPANY HEADS TO \$100 MILLION TURNOVER NEW CEO 'CLEARS THE DECKS' FOR PROFIT GROWTH

- Beston Global Food Company Limited has recorded a 136% jump in revenues to 31 Dec. 2018, making it one of the fastest growing companies based in South Australia
- The start-up of commercial Mozzarella production at Jervois has substantially increased the range and quantity of dairy product available for sale and broadened the potential customer base
- Production of liquid Lactoferrin commenced at Jervois during the six months to 31 December (H1), with freeze drying and milling facilities being added in January 2019 to enable final form powdered product to be produced and sold in H2
- New CEO implements the next stage of the Company's transformation with a 'V3 Strategy', based around achieving *Volume, Value and Velocity*
- BFC's wholly owned subsidiary, Provincial Food Group (PFG) and has signed contracts with three new customers with orders amounting to total sales of close to \$10 million

Beston Global Food Company (ASX: BFC) is on track to achieve close to \$100 million in revenues for the 2018-19 financial year after posting a 136% increase in revenues to 31 December, 2018 to \$43.2 million. The growth in revenues represents an annualised growth rate of around 26% since the start-up of the Company (late in 2015), making it one of the fastest growing companies based in South Australia.

As at 31 December 2018, the Group recognised an impairment of its investment in Neptune Bio-Innovations Pty Ltd (NBI). An amount of \$5.9m was recognised in the reported result which became a loss after tax of \$11.5m for the period ended 31 December 2018. The financial result for the rest of the Group was a loss of \$5.6m for the period.

The financial results for the half year show a loss of \$1.5 million after normalising for a number of non-cash impairments, non-recurring restructuring costs and product write offs (and write downs)



associated with bringing the Company's new Jervois based Mozzarella plant into commercial production.

The Chairman, Dr Roger Sexton said that the normalised result for the period reflected a step change improvement in the underlying performance of the Company of the 2017-18 result. "It indicates that the work done over the last three years (and the investments which have been made in plant and equipment) have positioned the Company to achieve a meaningful uplift in earnings (and margins) going forward.

"The growth in the business from virtually zero sales at the time of start up (in 2015) to an expected \$100 million in revenues by this financial year end (based on current run rates) has been a huge achievement and is an extraordinary testament to the hard work of everyone employed at BFC. The rate and level of growth, while accompanied by a heavy investment in plant and equipment and a number of unexpected operational set backs and non-recurring costs, has been necessary in order to take the business to the point where it could achieve economies of scale to reduce unit costs and be able to compete competitively in the marketplace.

The new Chief Executive Officer Mr Jonathan Hicks focus for the business will be to build on the foundations established over the past three years and extract earnings from incremental sales revenues as we go forward."

After stepping in to take the role of Executive Chairman in August last year, Dr Sexton implemented a number of restructuring and transformational changes in the Company which, amongst other achievements, are expected to result in net savings in excess of \$1.0 million in a full year.

Mr Hicks is currently implementing the next stage of transformation with a **"V3 strategy", based around achieving Volume, Value and Velocity.**

"On commencement, I commissioned a full, 'top to bottom' **Commercial and HR Review** across BFC focusing on our major costs and value drivers within our business, with the purpose of identifying further costs savings and improved productivity and efficiencies.

"The intention of the Review has been to capitalise on the *Restructuring Changes* implemented over the previous six months to reduce operating costs and enhance profitability. The V3 strategy is designed to further reduce costs across the business and increase earnings by having everyone in the Company focused on underlying performance through their inputs and actions, based around a robust and reliable sales and operations planning process.

"The Company has previously reported that it expects to achieve cost savings of at least \$1.0 million in a full year from the *Restructuring Changes* implemented in the first half. I believe that the further operational improvements and commercial controls being introduced via the V3 strategy will achieve *as a minimum* the same amount of savings again in a full year. Other changes and activities to be delivered from the V3 strategy (such as improved commercial positioning, internal controls, reduction in double-handling and centralised purchasing) will assist in increasing our sales margins and overall profitability," Mr Hicks said.

Some of the key performance highlights for the period are:

- **Milk supply** contracted increased to an annualised level of 117 million litres on the back of achieving commercial production at the Jervois Mozzarella plant.

- **The Company's farms** performed strongly on the back of significant on-farm investment over the past three years, enabling the farms to more than double silage production and mitigate the effects of the crippling drought conditions in Australia.
- **Milk production** on BFC owned farms is up 17% on a year on year basis.
- **The start-up of commercial Mozzarella production** has substantially increased the range and quantity of dairy products available for sale and broadened the potential customer base.
- **Production of liquid lactoferrin** commenced at Jervois during H1 with freeze drying and milling facilities being added in January 2019 to enable final form powdered product to be produced and sold in H2.
- **Provincial Food Group (PFG)** BFC's wholly owned subsidiary, has signed contracts with three new customers for the supply of burgers, and other 'quick meal' (ready to heat) products for both domestic and international consumption. The orders amount to total sales of close to \$10million on an annualised basis and as such, represent a significant portion of the Company's forward sales budget.

Mr Hicks said that the securing of PFG's new contracts, as mentioned above, was a result of re-positioning the business of Scorpio Foods following the move to acquire 100% of the business in August 2018. "The change of name from 'Scorpio Foods' to 'Provincial Food Group' was part and parcel of this repositioning and was aligned with a focus on product which utilised the underlying strengths of the business."

The achievements showed the benefits of the transformative actions which had been taken by BFC to restructure and reposition the business, including by the sale of the Colac factory and the consolidation of operations in Shepparton, Victoria. These actions have enabled the PFG business to extract cost efficiencies and build a new customer base around its core strengths, particularly value-added cut portion control and cooked meats using sous vide cooking techniques. The business is now a lot more diversified than previously, both in terms of product range and customer base. The customer base includes Quick Service Restaurants (QSR), Fine Dining, Café's and wholesale food sector. PFG counts a number of major Australian and international retailers and supermarkets amongst its existing customers.

Capital Management

The Company announced on 11 January 2019 that it was giving consideration to capital management initiatives to assist the Company in improving its profitability in the near term. The Board of BFC believes that there are compelling opportunities to allocate capital to projects which can accelerate the profitability of the Company.

Dr Sexton said, as part of the process of implementing the restructuring changes, the Company has identified a number of areas in the factories and farms where investment in new technology and plant & equipment could result in significant cost savings and increases in profits from the existing revenue base (i.e. even without any further increases in revenues).

"The investment areas relate to in-house packaging, dairy protein expansion, storage and logistics, production line upgrades, ESG cost saving measures and dairy cow herd expansion.

"The areas identified are all 'low hanging fruit' in terms of providing relatively short pay-back periods (i.e. less than four years) and have now been developed into detailed costed 'priority projects'.

“As well as providing the opportunity to extract greater returns from the existing asset base at the dairy factories, the projects will also enable full oversight of the quality assurance processes and total control over the quality of the end products shipped to customers. Many of the projects will also generate significant environmental benefits.”

A number of high value-added ‘priority projects’ have been earmarked for investment. These include:

- The acquisition and installation of plant and equipment to bring the Company’s Cut, Pack and Shred requirements back in-house (these services are currently provided by interstate third party contractors at an annual cost of approximately \$3.1 million).
- Further expansion of the Company’s dairy nutraceutical capabilities and capacities to produce other high demand products in addition to the current production of Lactoferrin.
- The introduction of solar energy-based solutions to the Company’s power needs at the Company’s two dairy factories at Murray Bridge and Jervois in South Australia. (Electricity and gas are the largest operating costs in the conversion of milk into cheese).
- The introduction of trade waste recycling and treatment equipment at the Murray Bridge factory (to save the costs of waste cartage and dumping and enable the recapture of cheese fines and nutrients currently lost in the waste water).
- The acquisition of additional dairy cows to utilise the expanded productive capacity of the Company’s farms and increase on-farm milk production.

The Company is currently involved in discussing a range of options for funding these cost saving/profit enhancing projects and increasing the Company’s working capital to the level which Directors believe is appropriate to support the Company growing profitability (including by securing additional milk volume) whilst managing the ongoing volatility inherent in the dairy industry.

“The Board of BFC remains committed to the ‘Path Forward’ outlined in the 2018 Annual Report. Good progress continues to be made in fully realising the significant potential of the Company’s under-valued assets and in building a strong and resilient business for our shareholders now and into the future,” says the BFC Chairman, Dr Roger Sexton.

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ABOUT BESTON GLOBAL FOOD COMPANY LIMITED

Beston Global Food Company is a proud SA multi award-winning company taking the best of Australian produce to the world with fresh milk supplied by valued Farmers. The company provides direct and indirect employment for nearly 300 people. For more information please visit:

www.bestonglobalfoods.com.au