

# Annual General Meeting

28 November 2019

Dr Roger Sexton  
Chairman

# Disclaimer

This presentation includes both information that is historical in character and information that consists of forward looking statements. Forward looking statements are not based on historical facts, but are based on current expectations of future results or events. The forward looking statements are subject to risks, stakeholder engagement, uncertainties and assumptions which could cause actual results, timing, or events to differ materially from the expectations described in such forward looking statements. Those risks and uncertainties include factors and risks specific to the industry in which Beston Global Food Company operates, any applicable legal requirements, as well as matters such as general economic conditions.

While Beston Global Food Company believes that the expectations reflected in the forward looking statements in this presentation are reasonable, neither Beston Global Food Company nor its directors or any other person named in the presentation can assure you that such expectations will prove to be correct or that implied results will be achieved. These forward looking statements do not constitute any representation as to future performance and should not be relied upon as financial advice of any nature. Any forward looking statement contained in this document is qualified by this cautionary statement.

# 1. Key questions

1. What have we done in FY19 to re-set and re-focus the business after completing the build-out phase of the business plan?
2. What are we doing to capitalise on all the investment in the factories and farms to drive earnings (and generate dividends) going forward?

## 2. Our mission

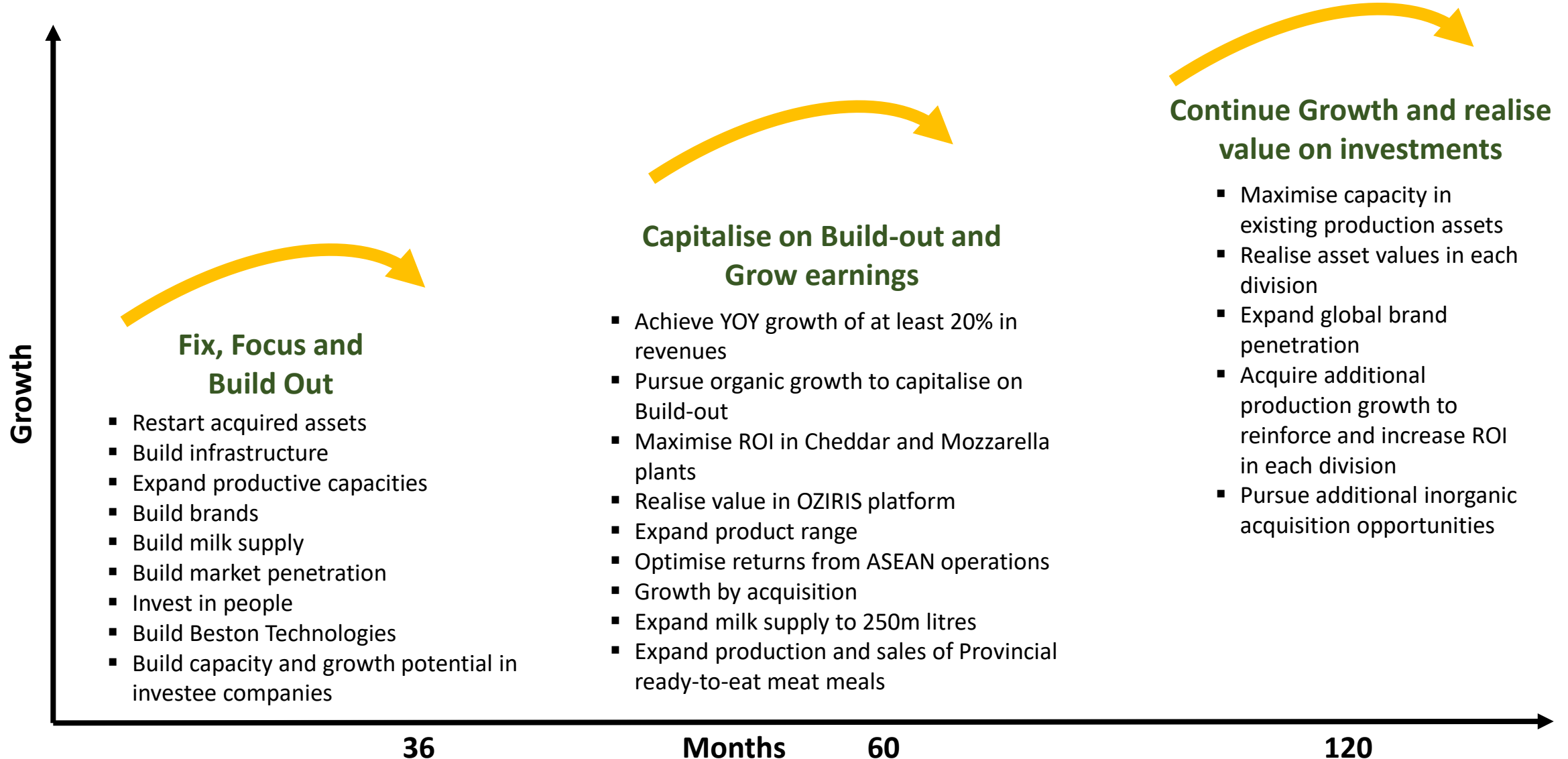
**“To establish Beston Global Food Company (BFC) as a leading, Australian based, supplier of safe, clean, healthy food and beverage products to the worlds growing consumer markets.”**

### 3. Where are we now?

- Annual revenues of \$85 million, up by 77% on prior year.
- Cheese production capacity of 30,000MT per annum.
- World class Mozzarella plant with state-of-the-art Italian-made processing equipment.
- Five strategically located dairy farms in SE South Australia (Mt Gambier) with herd of 3,600 cows (up by 23% on prior year).
- 114 Australian and International Awards for Quality.
- Meat processing business (Provincial Food Group, Shepparton Victoria) now wholly owned and restructured, also has capacity and capability in the production of plant-based alternative meat products.
- Year-on-year growth in revenues of 65% per annum since IPO in 2015



## 4. Our Business Plan



## 5. Objectives in start up phase (Phase one) of Business Plan

**We set out to achieve three C's:**

- **CAPACITY**  
with ability to scale up and achieve production efficiencies as sales volumes increased
- **CAPABILITY**  
with high quality, premium, safe, healthy foods and beverages
- **CREDIBILITY (AND CLOUT)**  
with brands, reputation, quality and trust

## 6. Key Strategic Decisions

### 1. Restructuring changes

- Comprehensive Review of BFCs operations: factories, farms, warehouses, customers, systems, people and culture.

### 2. Leadership changes

- New CEO, Jonathan Hicks, appointed as from 7 January 2019.

### 3. Consolidation of Corporate Footprint

- Evaluation of investments, major assets and partnership against corporate and financial objectives.

### 4. Repositioning of Export Market Activities

- Strategic sales and distribution arrangements put in place with parties which are commercially and culturally aligned with BFC.



## 7. Putting the strategic decisions into perspective

- The strategic decisions taken have re-set the focus of BFC to enable us to leverage more effectively on the foundational building blocks put in place over the past 4 years.
- The re-set has included:
  - Bringing our sales team in-house
  - Reducing operating costs and cost exposures
  - Removal of non-core/non-value adding activities
  - Putting more milk into our own products
  - Capitalising on our new product developments
  - Restructuring and re-positioning our wholly-owned Provincial Food Group
- The business of BFC has been simplified around a singular focus on the production and sale of protein; dairy, meat and plant-based meat alternatives.

## 8. Strategic imperatives

### Capacity Utilisation

- Making greater use of our productive capacity (e.g. by “stretching” our milk).

### Sales Pipeline

- Broadening and deepening of the relationships established in our sales pipeline.

### Product Mix

- Increase the proportion of Mozzarella and other high value products in our product mix.

### Grow Milk Supply

- From 90 million litres in FY18 and 103 million litres in FY19 to 115-130 million litres in FY20.

### Dairy Nutraceuticals

- Increase the production of high value lactoferrin and extend the portfolio of dairy nutraceutical products.

*Taking healthy eating to the worlds  
communities with Australia's best foods*

**Australian Dairy and Meat**

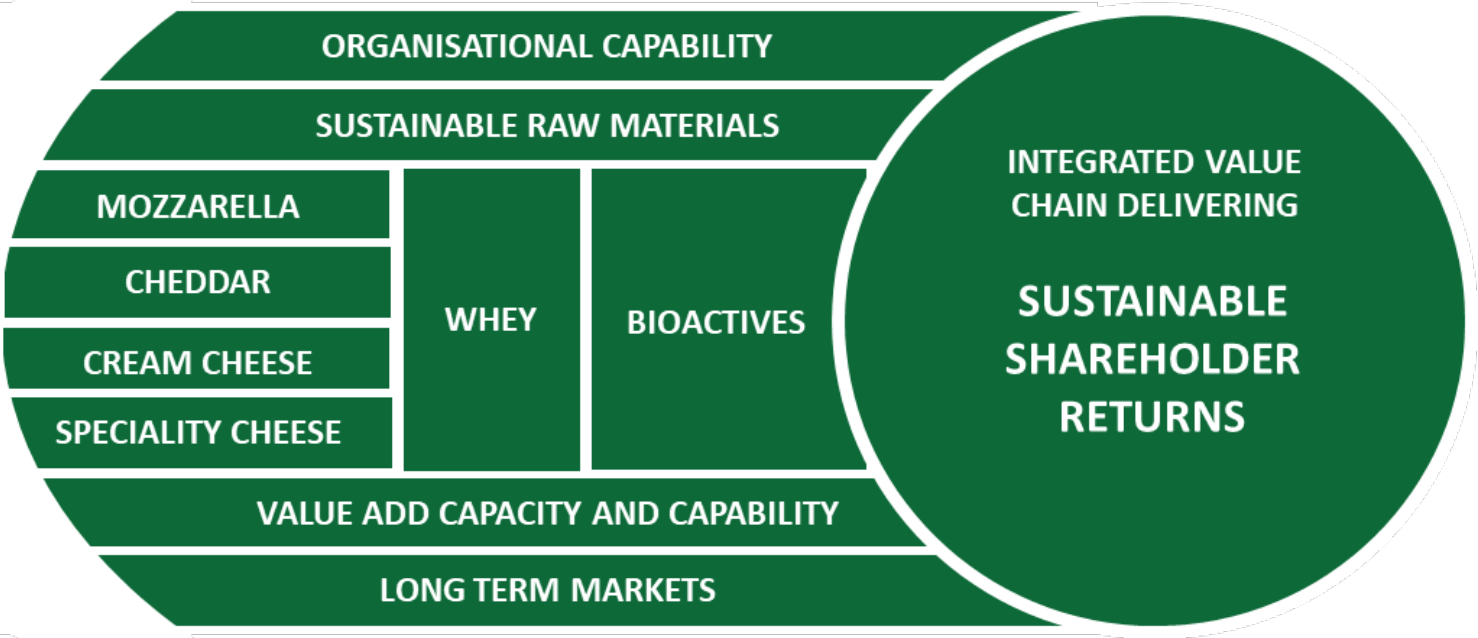
**John Hicks, CEO**

# 10. Five Strategic imperatives: Dairy

**Capacity Utilisation:** Make greater use of our productive capacity.

**Product Mix:** Increase the proportion of Mozzarella and other high value products in our product mix.

**Grow Milk Supply:**  
From 103 million litres in FY19 and 90 million litres in FY18 to 115-130 million litres in FY20.



**Sales Pipeline:** Broadening and deepening of the relationships established in our sales pipeline.

**Dairy Nutraceuticals:** Increase the production of high value lactoferrin and extend the portfolio of dairy nutraceutical products.

# 11. Dairy Factories: Mozzarella v Cheddar

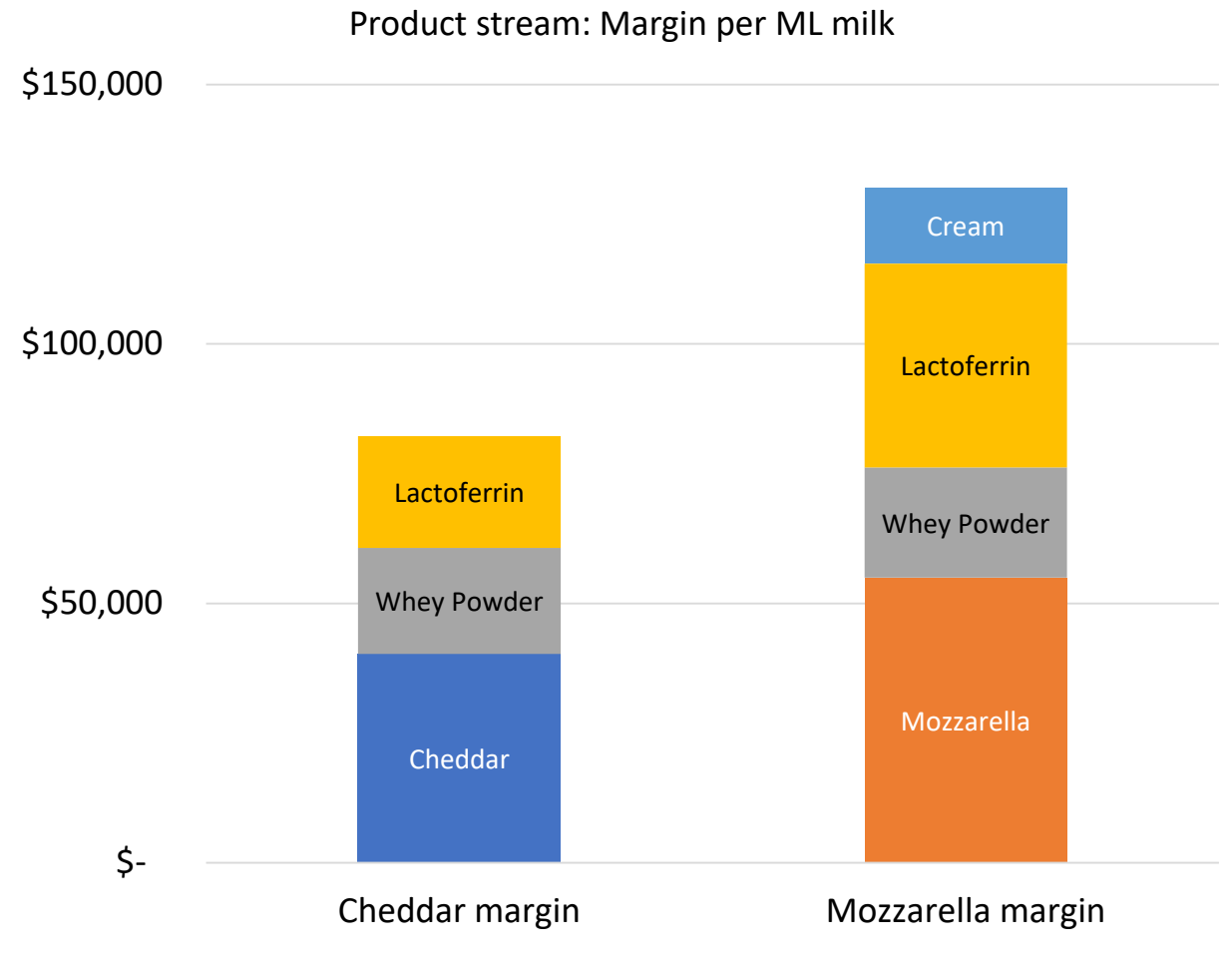
*Mozzarella production, due to its higher returns and higher yield, provides a ~60% better margin than cheddar production per litre of milk used.*

## Mozzarella Stream

- 1 tonne of mozzarella produced generates:
  - 175 litres of cream
  - 480 kilograms of whey powder
  - 350 grams of lactoferrin

## Cheddar Stream

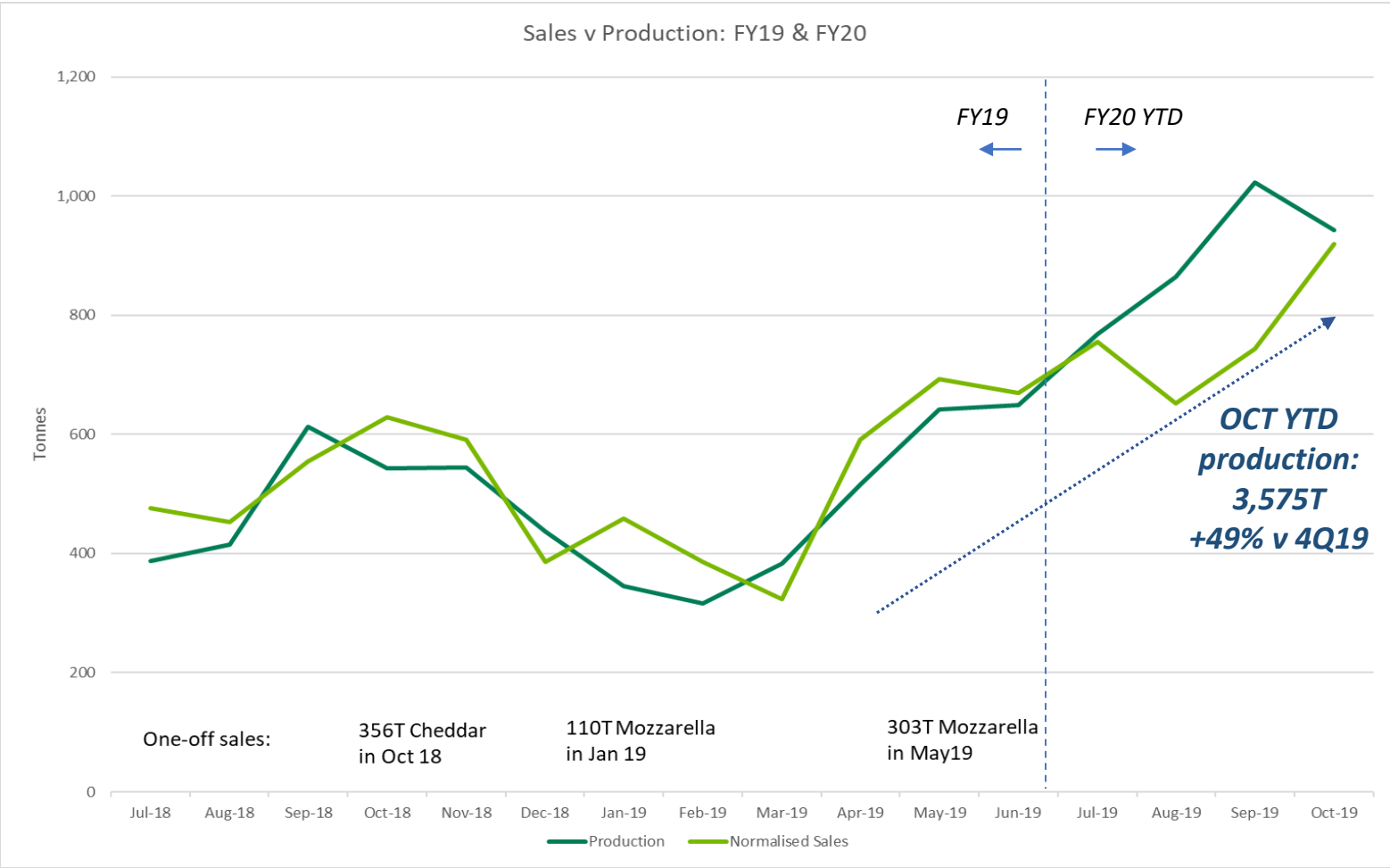
- 1 tonne of cheddar produced generates:
  - 480 kilograms of whey powder
  - 200 grams of lactoferrin



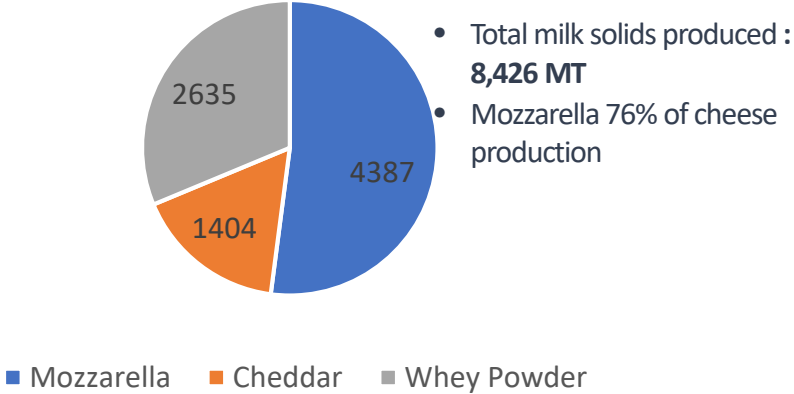
*Every 20ML of milk intake adds c. \$2.5m to Gross Margin*

# 12. Cheese Production and Sales

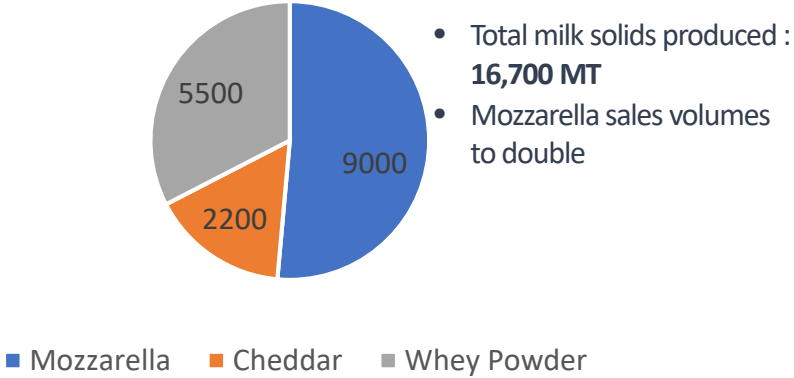
Strong growth in production and sales. Outlook to double sales.



FY19 Production



FY20 Production Outlook

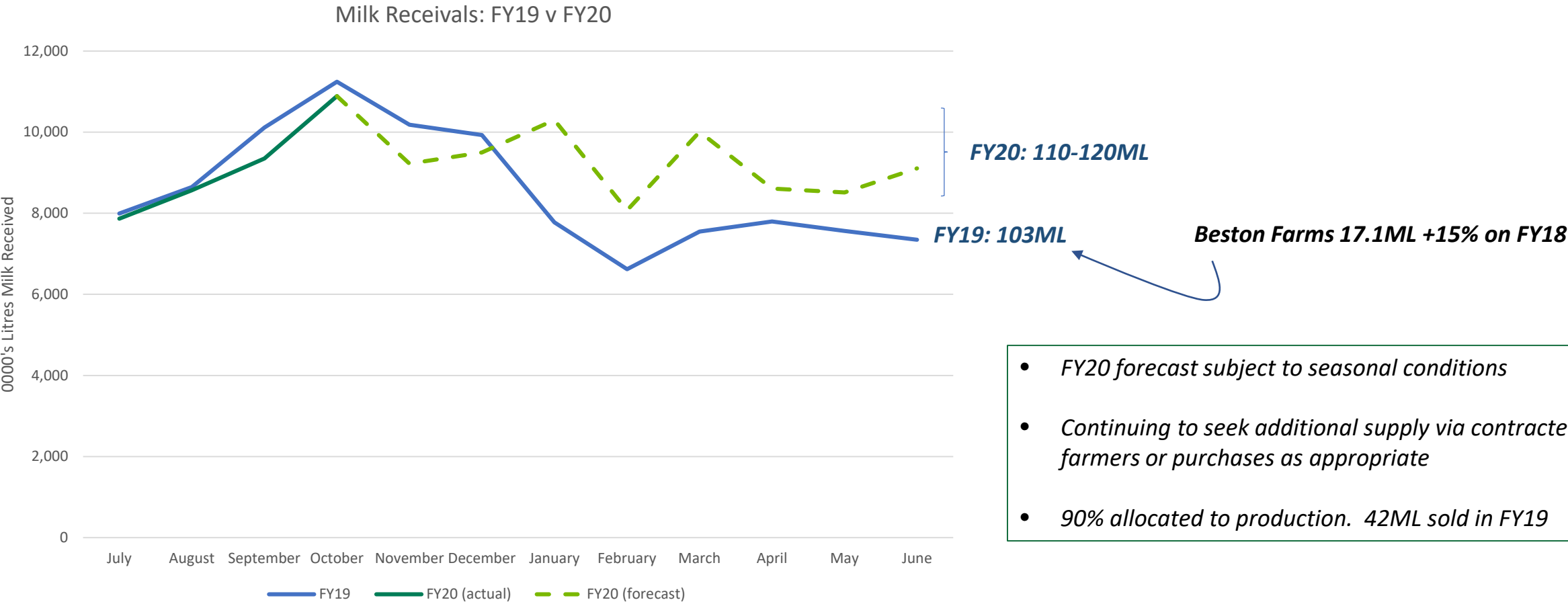


Deep sales pipeline – 82% allocated to customers



# 13. Milk Supply

Milk supply forecast to grow in FY20.



# 14. PFG: Growth Opportunity in Expanding Market Segment

## Provincial Foods Group



- 100% ownership : 23 August 2018
- Transforming operations and building capability
- Considerable opex and capex expenditure in FY19 to reposition and restructure operations to enhance capabilities and win the new contracts.
- Revenue FY19 \$6.5m.
- In February 2019, BFC announced three new customers and associated orders of close to \$10m in annualised sales for the supply of gourmet burgers and other quick meal products (pre-cooked, ready to heat) for domestic and international markets. These new customers are a mix of meat and also plant based protein products.
- Revenue forecast FY20 >\$12m. Growing to \$20m in 2-3 years.

### Meat Contracts

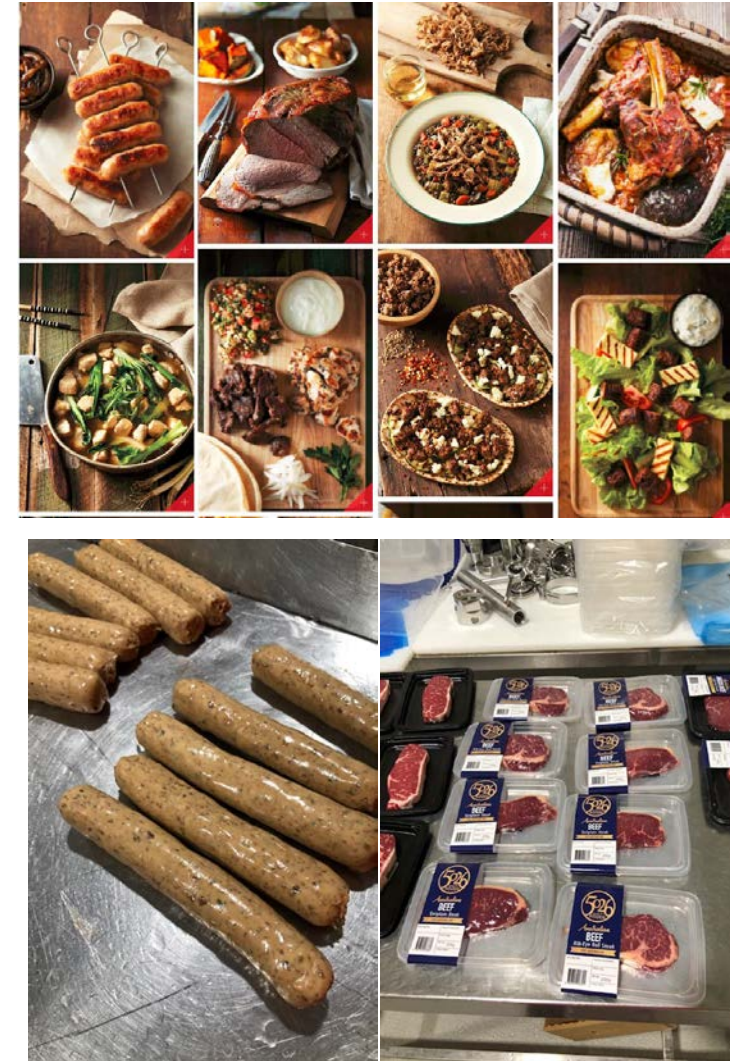
- Campbells
- ALDI
- CP GROUP
- Seagrass

### Plant Based Contracts

- Soulfresh

### Other

- Flavour Makers



*Driving change by focussing on 3 key aspects of the business to deliver profit*

### VOLUME

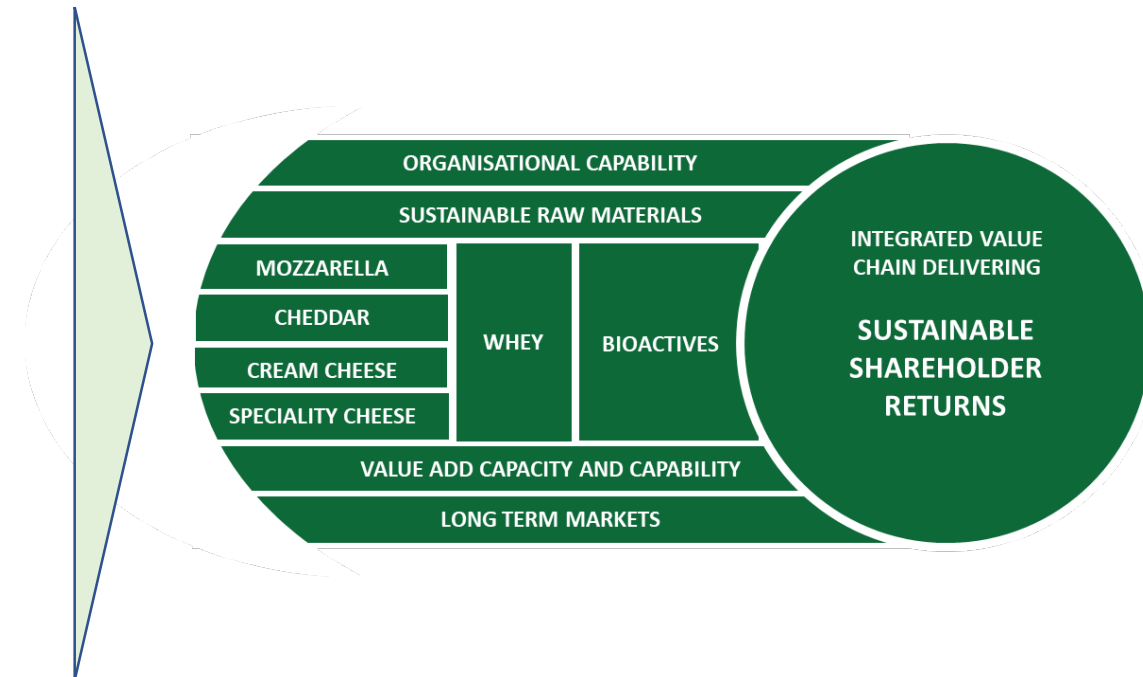
- Ensure Best Use of assets and total supply chain value management
- Aggressively prosecute utilisation of assets with specific focus on Mozzarella
- Maximise returns from by-products and continue to pursue options to valorise milk solids

### VALUE

- Drive out all waste from the Business
- Identify and Develop Value drivers
- Develop Sales Volume and Value

### VELOCITY

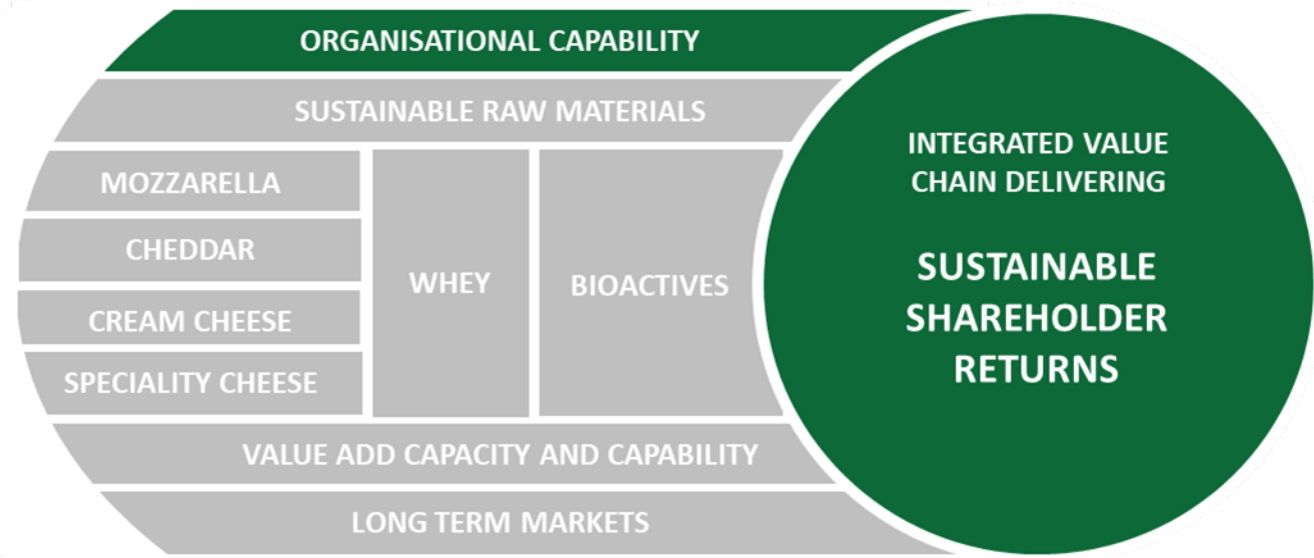
- Cash Management
- Milk and Mozzarella sales represent fastest stock and cash cycle within major asset base
- Agile Thinking and Ability to Act



*5 review areas identified and actioned in 1H19*

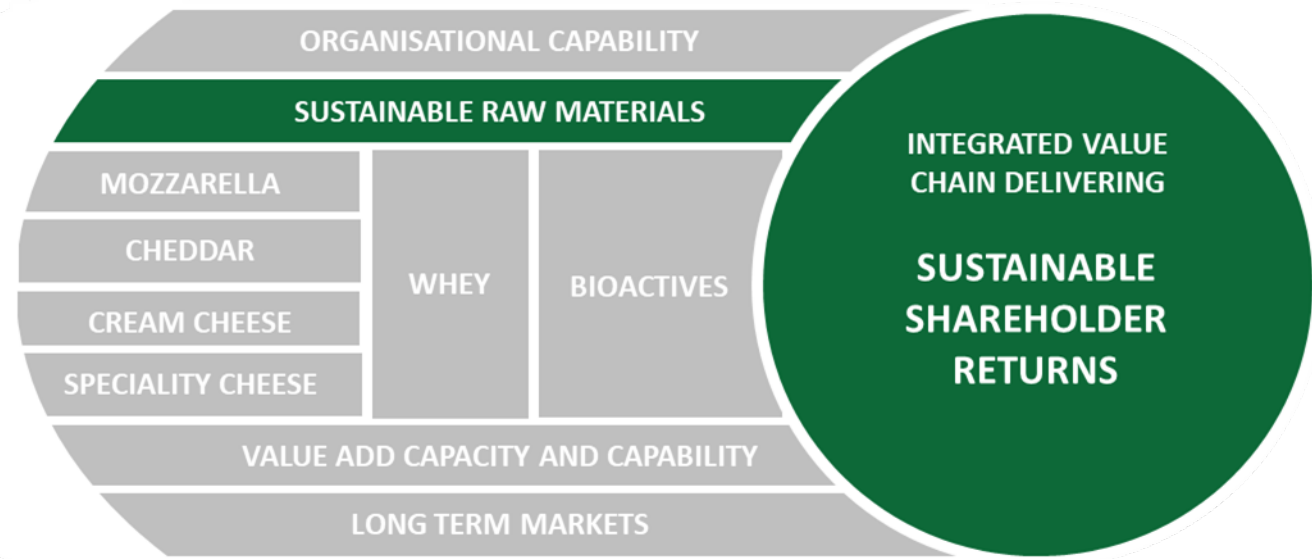
# 16. Organizational Capability

- New CEO as of January 2019
- “Top to Bottom” Review of Business
- V3 focus with \$6M of savings banked
- Revised Group Strategy
- Restructured Senior Executive Team
- Delivering on Strategy



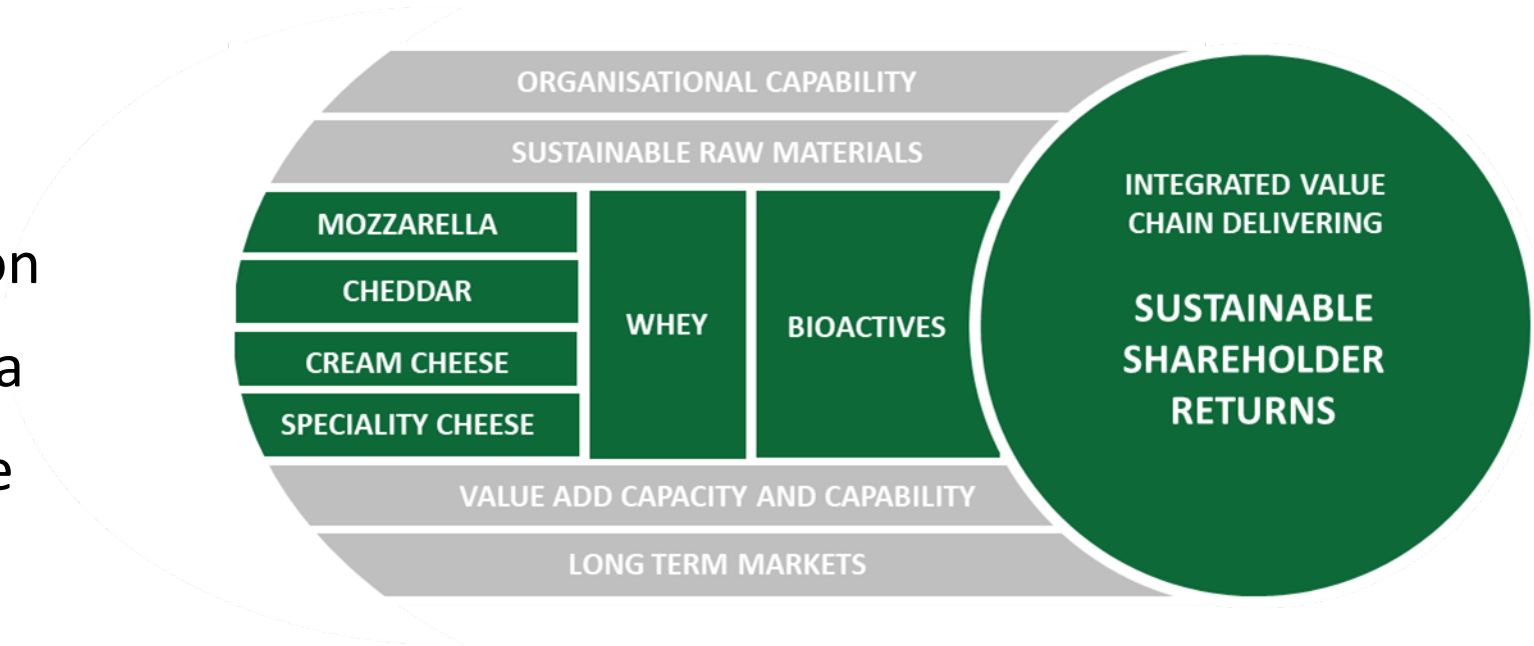
# 17. Sustainable Raw Materials

- Close relationship with Farmers
- Sustained and Building Milk Pool
- 20% increase on raw milk supply
- Innovative support program(s)
- Making best use of every litre of milk



# 18. Product Mix

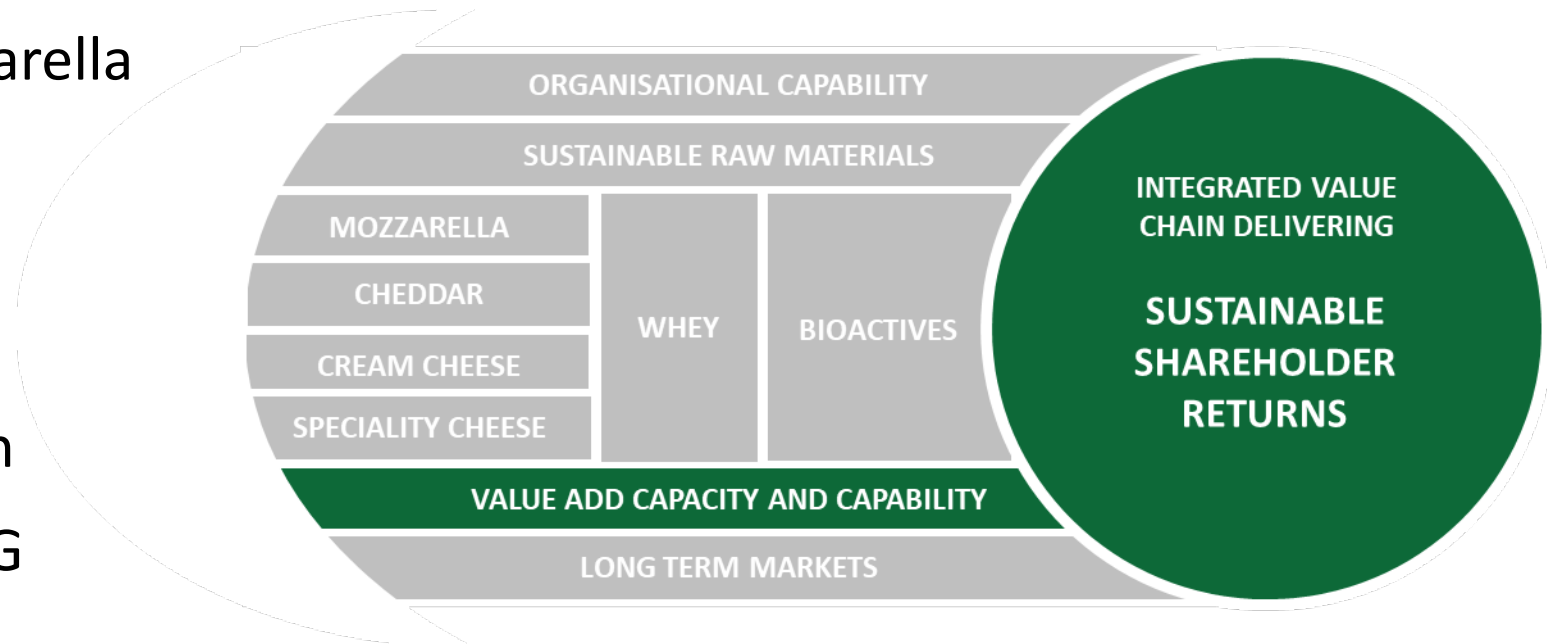
- Asset capability – people and process
- Mozzarella key value proposition
- “End User Focus” for Mozzarella
- Growth and innovation pipeline
- Product differentiation





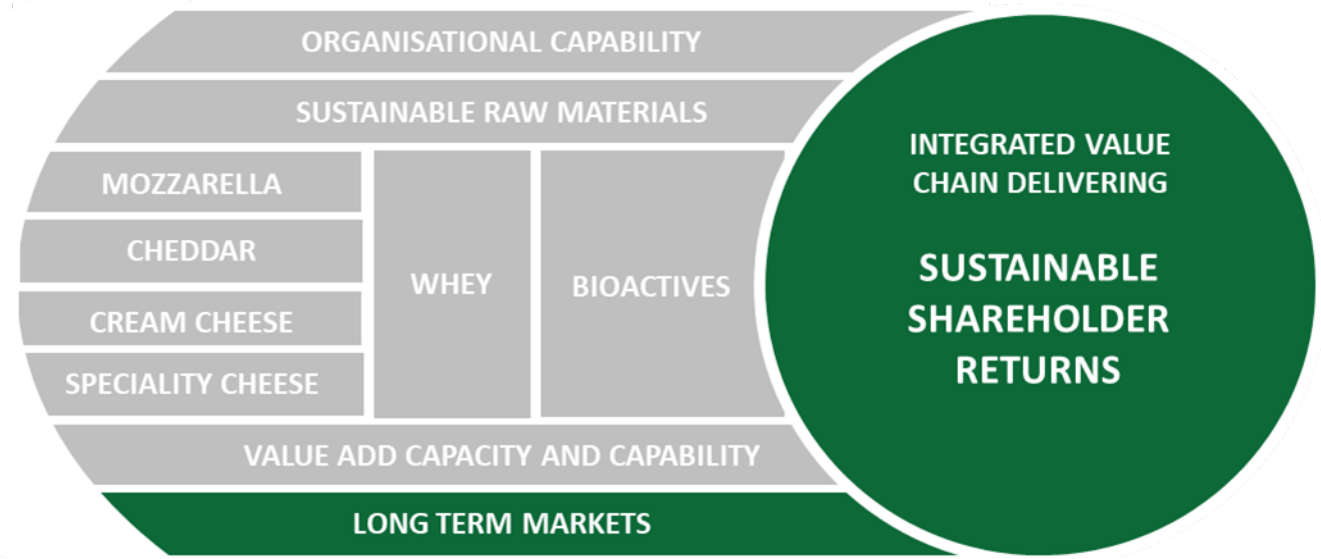
# 19. Value Add Capacity and Capability

- Recipe Development for Mozzarella
- “Milk Stretching” focus
- Lactoferrin investment and expansion
- Adopting a “be ready” position
- Premium animal protein at PFG
- Plant Based Proteins



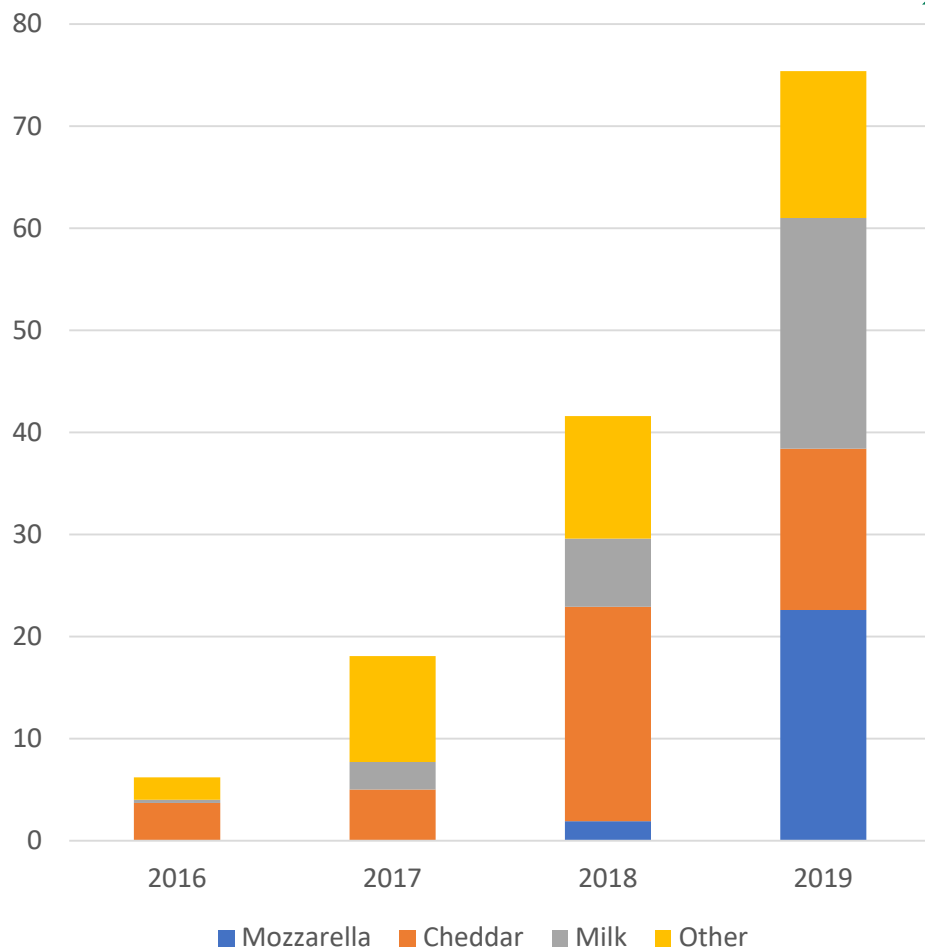
## 20. Long Term Markets

- Domestic and International growth
- Australian Retailers and Food Service
- Drive end user innovation
- Demonstrating agility
- Reducing commodity exposure and risk



# 21. DAIRY FACTORIES REVENUE : \$75m ... 90% of group sales

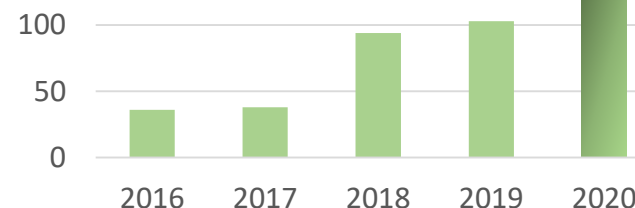
Dairy Factories Revenue by Product \$m



## Drivers of increasing revenue into FY20:

- **Growing milk supply** – from 103ML to 110ML-120ML
- **Deep sales pipeline** – 82% allocated to customers
- **Increasing proportion of mozzarella in sales / production mix**
- **Small volume of milk sales only** – largely to supply local secondary manufacturers

Milk Supply ML



110ML-120ML is c. 40% utilisation of installed capacity

## FY19 Key Drivers

- Increased milk supply drives higher total sales revenue since commencement of initial operations in FY16
- Prior to 4Q18 cheese production related only to cheddar and other hard cheese products at Murray Bridge.
- Mozzarella plant at Jervois commissioned 4Q18. Mozzarella sales subsequently building through FY19; 1H19: \$8.9m, 2H19: \$13.8m
- Disproportionate volume of milk sold FY19 due to delayed commissioning of mozzarella plant.
  - 42ML or 41% of milk intake sold out in FY19, 27 ML in 1H19.
  - With 82% sales committed to customers in FY20, this will not recur.

# 22. FINANCIAL OUTCOMES

## Transitional Growth Year

- FY19 results reflect transition from “phase 1 start-up” to “phase 2 start-up”. Focus now on core Dairy and Meat businesses.
- Sales growth driven primarily by dairy operations. Growth enabled by higher milk supply, new mozzarella plant in production and growing customer base.
- Meat division directly contributes in FY19 for the first time.

\$84.8m

Sales revenue

+77%

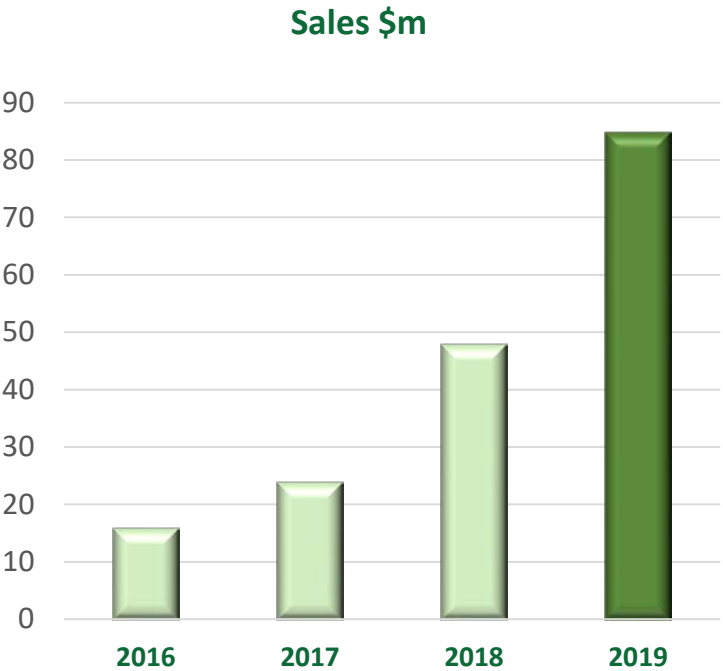
On FY18

\$10.4m

Impairment charges and equity accounted losses on non-core assets

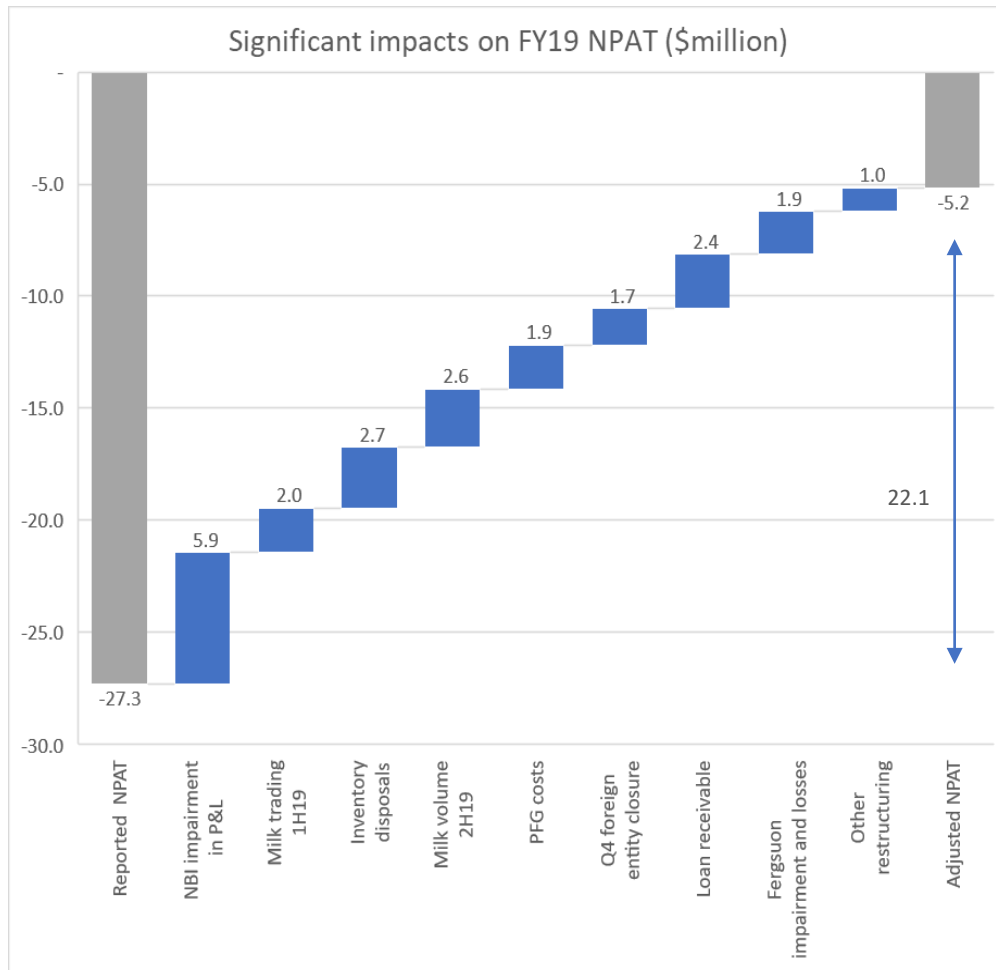
\$27.0m

Total statutory loss



	FY19	FY18	%CHANGE
SALES	\$84.8m	\$47.9m	+77%
COST OF SALES	\$81.1m	\$42.5m	+91%
GROSS PROFIT	\$3.7m	\$5.4m	-31%
GROSS MARGIN	4%	11%	-7%
STATUTORY LOSS	(\$27.0m)	(\$12.6m)	-112%
LOSS BEFORE IMPAIRMENTS	(\$16.4m)	(\$12.6m)	-30%

## 23. FINANCIAL RESULTS UNPACKED



### Drivers of increasing profitability into FY20:

- **Growing milk supply** – from 103ML to 110ML-120ML
- **Deep sales pipeline** – Dairy and Meat
- **Increasing yields and margins being achieved** – higher mozzarella % in production mix
- **Cost reductions already implemented will add c. \$4.5m to NPAT in FY20**

### Key Impacts on FY19 : \$22.1m

The impact of these matters will not be recurring

- Impairment of non-core assets and associated losses: \$10.4m
  - NBI: \$5.9, Ferguson : \$1.9m, debtor: \$2.4m
- China and Thailand closures: \$1.7m
- Other restructuring costs: \$1.0m
- Milk traded out in 1H19 at cost, lost margins: \$2.0m
- Inventory disposals below cost: \$2.7m
- Milk volumes below budget in 2H19, lost margins: \$2.6m
- PFG restructure and repositioning: \$1.9m

## 24. Investment Management Agreement

- In recent months there has been some outside speculative commentary about the operation and financial implications of the Investment Management Agreement (IMA) in place between Beston Pacific Asset Management (BPAM) and BFC. Those responsible have not checked the accuracy of the statements with the Company. They have been false and misleading.
- The reasons for the Investment Management Agreement with BPAM were set out in the IPO Prospectus and have been summarised in this year's 2019 Annual Report.
- The management fee payable to BPAM each year is based on a fixed fee (1.2%) of the gross Portfolio Value of BFC (exclusive of GST). From this fee, BPAM pays the remuneration and related costs of the BFC senior management team, including the CEO and CFO.
- The fees paid to BPAM to compensate for the remuneration and related costs of the senior management team at BFC has been less than the actual costs incurred by BPAM in every year since the time of the IPO.
- In 2018-19, the management fee was approximately \$2.4 million, the same as in the previous financial year, and was based on a Portfolio Value of \$199 million (as determined by Independent Qualified Valuers).



## 25. Investment Management Agreement (cont.)

- In determining the appropriate amount of the management fee each year, the independent Directors on the Board of BFC and BPAM, engage suitably Qualified Independent Valuers to advise on the appropriate Portfolio Value on which the fee is to be based.
- From July 1, 2019, BPAM has voluntarily taken a reduction in the management fee for a period of twelve months to assist BFC in recovering from the significant deleterious effects of the drought. This decision has in turn increased the amount of costs to be picked up by BPAM in the 2019-20 year.
- The reason that BPAM has funded the deficit on management expenses since the IPO, and continues to do so, is because of the determination of the principals of BPAM in wanting the business of BFC to succeed and drive value for all shareholders, including those principals.
- The IMA sets out the terms under which the IMA with BPAM may be terminated. BPAM has made it known to the non-executive Independent Directors of BFC, and to shareholders, as it did at last year's AGM, that it will agree to terminate the IMA arrangements at an appropriate time upon agreeing to commercial terms with BFC.

## 26. General business

### **Resolution 1 – Adoption of the Remuneration Report for the year ended 30 June 2019**

To consider, and if thought fit, pass the following resolution as an ordinary resolution:

*“That, for the purpose of Section 250R(2) of the Corporations Act, the Company adopt the Remuneration Report for the period ended 30 June 2019 as set out in the Directors’ Report in the 2019 Annual Report.”*

## 27. General business

### Resolution 2 — Re-election of Mr Stephen Gerlach as a Director

To consider, and if thought fit, pass the following resolution as an ordinary resolution:

*“That Mr Stephen Gerlach, having retired by rotation in accordance with clause 59 of the Company’s Constitution and being eligible and having offered herself for re-election, is re-elected as a Director of the Company.”*

## 28. General business

### Resolution 3 — Re-election of Mr Ian McPhee as a Director

To consider, and if thought fit, pass the following resolution as an ordinary resolution:

*“That Mr Ian McPhee, having retired by rotation in accordance with clause 59 of the Company’s Constitution and being eligible and having offered himself for re-election, is re-elected as a Director of the Company.”*

## 29. Priority areas for investment

- Packaging (cut, pack and shred)
- Expansion of dairy protein operations
- Dairy Cow herd expansion
- Alternative energy generation solutions
- Plant additions and upgrades
- Increased refrigerated storage capacity

# 30. Capital Management

1. Share Purchase Plan
2. Farms Sale and Leaseback
3. Rights Issue and Placement



# 31. Share Purchase Plan (SPP)

- Will provide eligible shareholders with an opportunity to apply for up to \$30,000 worth of BFC fully paid ordinary shares (regardless of the number of shares held at the offer date).
- Will provide an opportunity for BFC shareholders, particularly small shareholders, to take advantage of the current BFC share price, which in the opinion of Directors, does not fairly reflect the underlying value of BFC shares.
- Will facilitate early investment in the next phase of expansion of our lactoferrin plant to increase production in response to increasing demand.
- Details of the SPP and timing of the offer, will be announced soon.

## 32. Farms Sale and Leaseback

- Sale and Lease back of BFC Farms will enable BFC to re-deploy \$30+ million of capital tied up in farms (where it earns comparatively low returns) to our factories (where we can achieve significantly higher returns on capital employed, particularly in dairy nutraceuticals).
- Achieves a more efficient allocation of capital, and re-sets the balance sheet (gearing reduced from 49% to 15%)
- Will enter into 10 year sale and leaseback agreements whereby BFC will continue to operate the farms, take the milk produced and have the right to buy back the farms at the end of 10 years (with further rights extending for 5 year periods).
- Over-riding objectives is to retain long-term control over the dairy farms and guarantee the future supply of milk to BFC factories.

# 33. Rights Issue and Placement

- Two investment opportunities which will achieve a step-left in earnings and profitability (with a relatively short pay-back):
  - (1) Expansion of our Lactoferrin plant
  - (2) Internalisation of cheese processing requirements (cut, shred, wrap and pack)
- Incremental gross margins on lactoferrin production are between 60% and 80%.
- Expansion of lactoferrin production will add c. \$6 million to EBITDA, with a payback of <24 months.
- Cheese processing requirements are currently outsourced to third parties and involves double handling and limited control over the quality and presentation of the end product (at a cost of around \$3 million pa).
- Both investment opportunities are currently in an advanced stage of evaluation.
- If a decision is made to proceed, it is the Board's intention to fund the projects by way of a rights issue and placement. The size and terms will be determined at the time

## 34. Ten Key Messages

1. We are gradually and methodically increasing the milk supply to our factories to achieve our 200 million litres plus short-term target.
2. We are putting more of our milk into our own products and particularly higher value products.
3. We are making our milk go further (i.e. “stretching” our milk with new products) and have expanded our product offerings around Mozzarella to provide a range of different qualities and price points (e.g. high fat/low moisture; low fat/high moisture etc.) using the technology we acquired as part of our Italian made Mozzarella Plant.
4. We are expanding our production capacity in dairy nutraceuticals, especially Lactoferrin, where we can earn high margins on the by-products from our Mozzarella production line.
5. We have developed, and are developing further capacity, in the contract manufacture of plant-based foods (a rapidly growing global food segment).

## 35. Ten Key Messages (cont.)

6. We are re-deploying capital within the business to achieve greater returns on capital employed (ROCE).
7. We are maturing our sales pipelines and bringing on new customers with well established markets who are more concerned with quality and consistency of quality than price.
8. We are continuing to develop Beston Technologies to reduce its cost to users and increasing its affordability relative to other emerging competitors and alternative solutions in the market place (as explained in the 2019 Annual Report).
9. We are exploring the best way to achieve our cut, pack and shred requirements with a view to reducing this cost and provide greater quality control over the final product.
10. We have adopted a “be ready” position for strategic vertically integrating expansion opportunities and are formulating capital management options around this position.



# A tribute to our Farmers

**Thank you**