



**BESTON**  
GLOBAL FOOD COMPANY

FY21 Half Year  
Results

26 February 2021

# 1H21 Highlights

A challenging but advancing six months, with execution of major milestones completed



## Lactoferrin expansion

Initiation of Stage 1 and Stage 2 of the lactoferrin expansion project



## SA Government Grant

Award of \$2 million South Australian Government grant for Stage 2 lactoferrin expansion and securing of second column for this stage



## Dairy Farms Sale

Sale of the dairy farms and redeployment of capital to pay down debt



## Jervois Infrastructure Review

Completion of Jervois infrastructure review identifying requirements for the facility to operate more reliably as it moves toward 24/7 operations



## New Milk Supply

Commencement of new milk supply from Aurora Dairies on 1 September 2020



## Initiation of Rights Issue

\$15.6m rights issue (completed in February) to fund Stage 2 lactoferrin expansion, and further upgrades of infrastructure at the Jervois facility



## Building Dairy Experience

Employment of Frank Baldi as GM, Operations and Supply Chain (Dairy) and announcement (February) of Tina Li as GM, Nutritionals



## IMA Termination

Agreement in principle to terminate the IMA, subject to shareholder approval at an EGM, to be held 28 May 2021

# COVID-19 update

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The COVID-19 environment has had significant implications for employee safety, operational continuity and sales revenues during the half:



## Employee Safety

- The health and wellbeing of our employees has been our priority
- Essential nature of our production has meant that all staff have remained in productive employment



## Operational Continuity

- Some pressure on broader supply chain, but risks well mitigated with assistance from our major suppliers and logistics partners
- A heightened level of food safety and quality control implemented across all operations (with resultant cost implications)

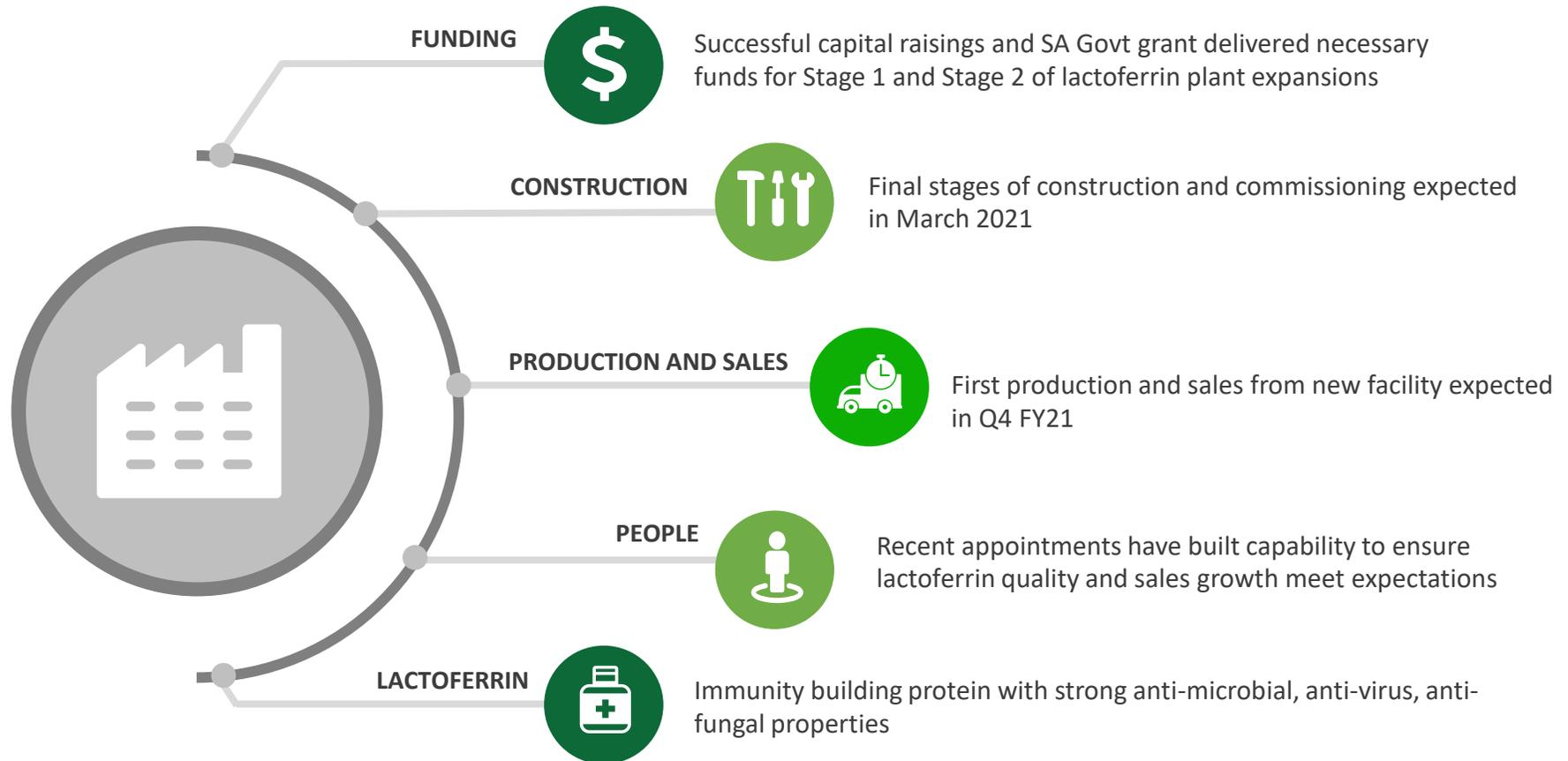


## Sales Revenues

- A fall in food service demand and a softening of prices in 1H21 has impacted on profitability
- Actions by various State Governments have led to “open up – lock down – open up” cycles resulting in changes in consumer buying patterns
- Customers have been hesitant to commit and forward order purchases have often been lowered or even cancelled

# Lactoferrin capacity expansion on track for imminent start up

Commissioning of expanded lactoferrin facility expected in March 2021, taking capacity from 3Tpa to 25 Tpa



Growing demand for lactoferrin has seen pricing move from US\$500 – 600 /kg in 2015 to US\$1,500 – 3,000 /kg currently<sup>1</sup>

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

# Key drivers to deliver long term value creation

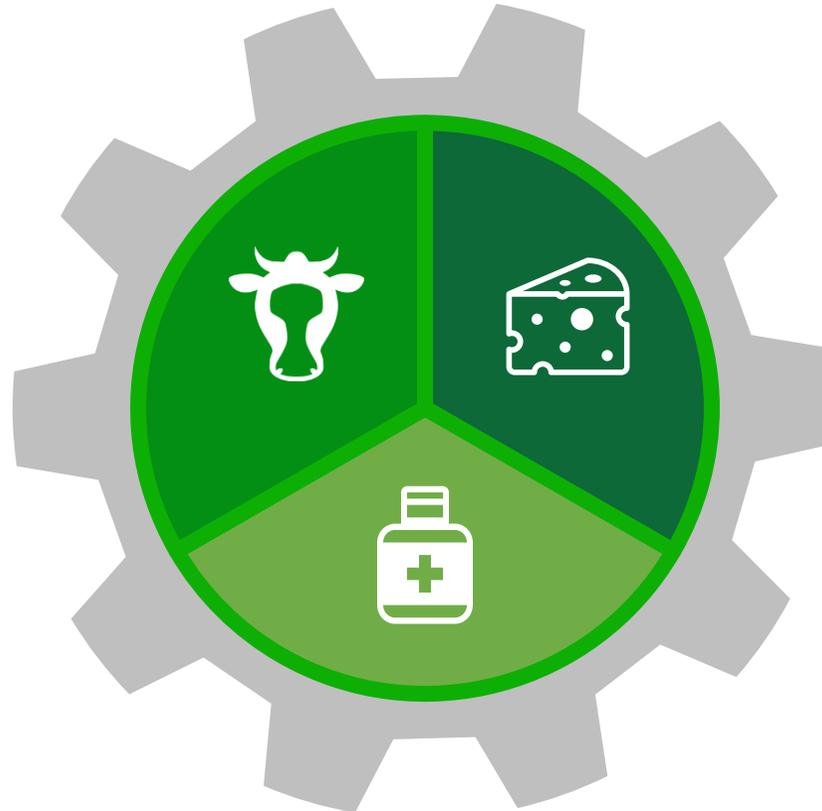
Beston well positioned to deliver increased returns from every litre of milk processed

## MILK SUPPLIED

Record milk supply for 1H21 and expected to grow into FY22  
Greater value extraction from each kg of milk solids allows for competitive pricing for suppliers

## LACTOFERRIN

Newly minted lactoferrin facility to increase capacity by at least 7x  
Lactoferrin demand growing significantly  
New hires to ensure that skills in the business match the forward growth objectives



## MOZZARELLA

Record production for 1H21  
Increased throughput exposed operational weaknesses in Jervois facility  
Remediation and risk mitigation works near completion in preparation for increased milk supply in FY22  
Recent successful capital raising provided funds for Jervois plant upgrade  
Demand and pricing slowly recovering from COVID-19 impact

People capability and financial coverage in place to deliver strong returns from increasing milk supply

# Key Statistics for 1H21

Challenging first half with foundations secured for future growth in revenue, margins and profits



MILK SUPPLIED

**74 ML**

Up 28% on 1H20



MOZZARELLA PROD.

**5,646 T**

Up 29% on 1H20



REVENUE

**\$53 M**

Up 3% on 1H20



UTILISATION

**56%**

49% in FY20



GEARING

**31%**

62% (31 December 2020)



CAPITAL EXPENDITURE

**\$8 M**

Up \$5 M on 1H20



BUILDING DEPTH IN DAIRY BUSINESS EXPERIENCE

2018

Current

2



8

Number of staff in dairy leadership roles with >20 years industry experience



LACTOFERRIN CAPACITY

**3 Tpa**

Currently

**25 Tpa**

Forecast for FY22

# An operationally challenging 1H21

The 30% increase in milk supply exposed operational weaknesses at Jervois, with issues now rectified and risk mitigation measures put in place for future operations

Operational Area	Key Issues	Rectification Actions	Risk Mitigation Measures
Plant Pipework	Deterioration of Teflon coating inside major pipework	Pipework recoated during December shut down	Spare piping ordered to ensure a quick turnaround should the problem re-occur
Boiler	Breakdowns/inconsistent steam supply	Control systems upgraded and parts replaced (boiler replacement plan accelerated)	Boiler replacement plan accelerated with \$2.25M cost funded from capital raising
Multivac Packaging Machine	Breakdowns	Retro-fit package to upgrade capability	Second Multivac to be acquired with \$0.75M cost funded from capital raising
Lactoferrin Plant	Breakdowns and inconsistent quality (contributed to by inconsistent whey quality)	Old plant now shut down with transition to new skim milk based plant	New lactoferrin plant to replace old technology, with significant volume and quality increases planned

# Dairy Revenue and EBITDA

## 1H21 Revenue of \$53 million, up 3% on the pcp

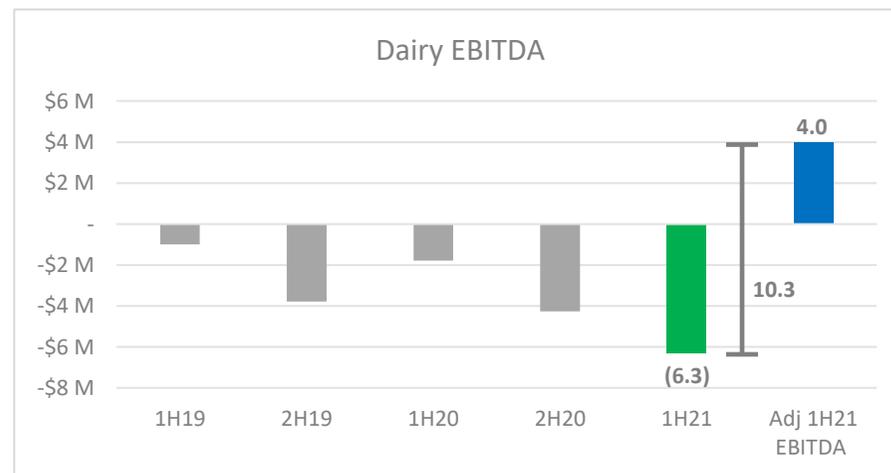
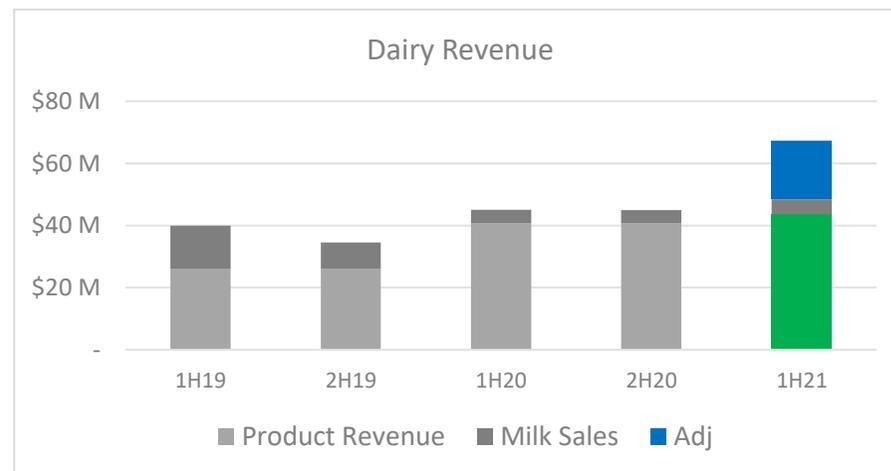
**Operational issues at Jervois (now rectified) negatively impacted dairy revenue by \$18.7 million and EBITDA by \$10.3 million**

- Main contributor to higher production was increased milk supply of 74 ML, which was offset by:
  - Operational issues at Jervois, including Teflon coating issues in some of the main pipework, boiler, Multivac packaging machine and lactoferrin plant breakdowns; and
  - Demand impacts from COVID-19 lockdowns

### Negative EBITDA of approximately \$6 million

- Dairy facilities on-track to report positive EBITDA before operational issues negatively impacted result

1H21 dairy operating issues	\$M
Lower sales due to lower production (lost margin)	(2.1)
Losses on disposal of milk	(0.8)
Production/yields below expectations	(3.1)
Losses on sale of down-graded product	(0.9)
Higher repairs and maintenance and quality control costs	(0.3)
Existing lactoferrin plant performance	(1.1)
Demand/COVID-19:	
Lower sales prices	(1.6)
Lower demand	(0.4)
<b>Total pre-tax impacts</b>	<b>(10.3)</b>
Total after-tax impacts	(7.2)



# Dairy Production

1H21 Mozzarella production of 5,646 T, up 29% on pcp

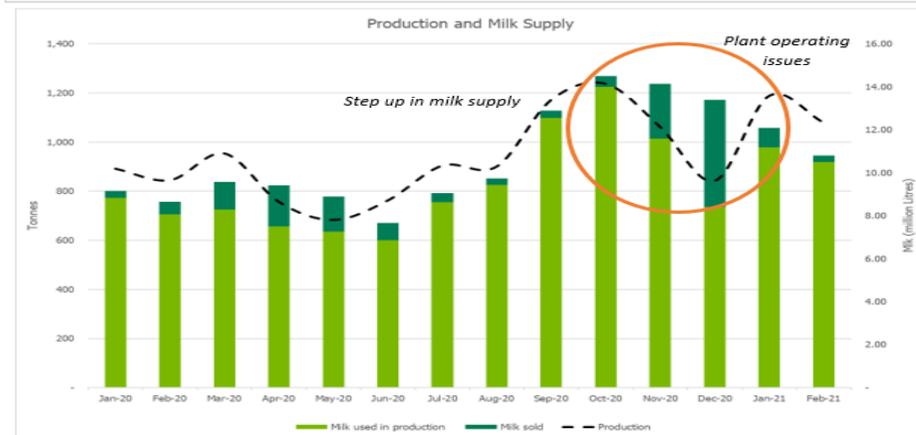
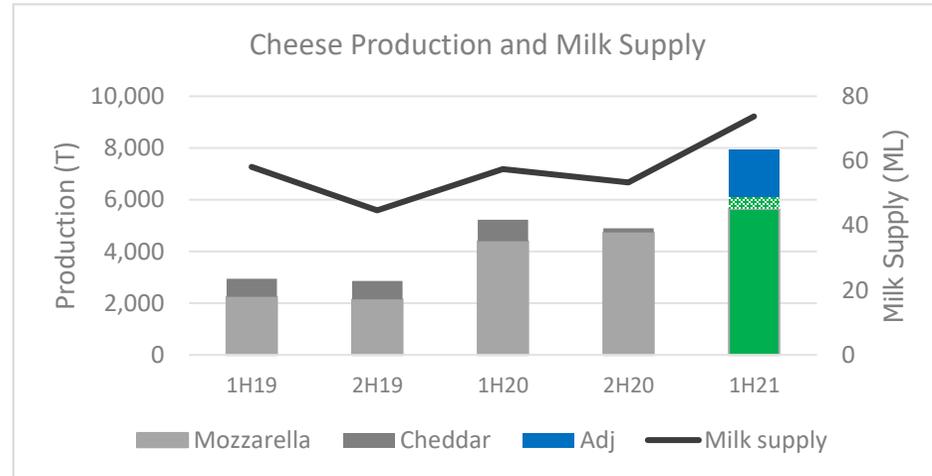
## Mozzarella production grew 29% despite operational issues

- Breakdowns and shut-down in December resulted in an extra 7 ML of milk sold above budget
- Lower yield from Jervois performance issues and extra milk sold resulted in ~1,800 T in first half lost Mozzarella production
- January and February 2021 performance indicates Jervois has been restored back to target levels

Knock-on effects of the 1H21 operational issues included:

- Powder production 2,622 T, 29% below budget
- Cream production 1,420 KL, 9% below budget (719 KL converted to butter)
- Lactoferrin production of 640 kg, 860 kg below budget due to reduced whey feedstock and partly impacted by lactoferrin plant performance

Operational issues now rectified.



Record Mozzarella production of 1,189 T in January 2021 from seasonally lower milk supply

# Net debt and gearing

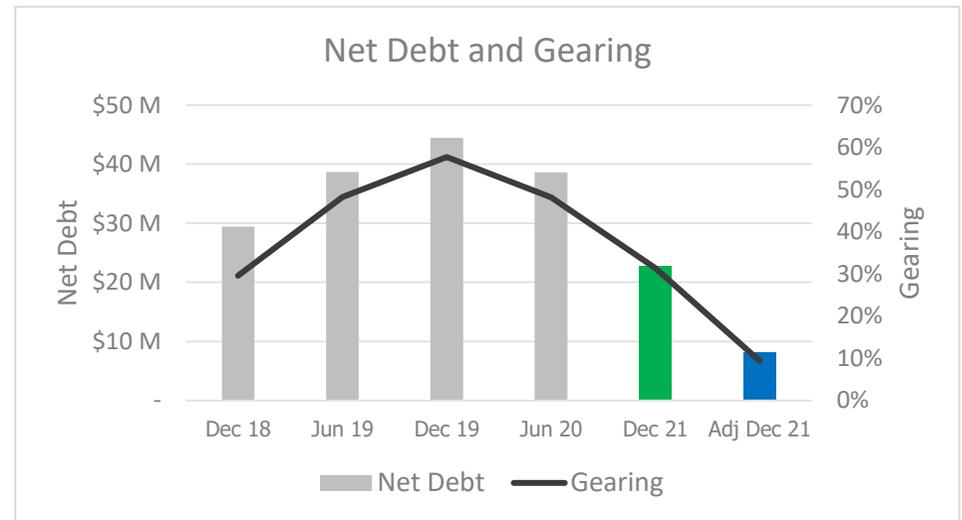
Gearing returned to manageable level ahead of anticipated strong returns from expanding lactoferrin production

Gearing at 31% (31 December 2020), 62% (31 December 2019)

- \$39 million net proceeds received from sale of farms
- \$1.6 million share purchase plan

Funds applied to:

- Debt reduction: \$21 million
- Capital expenditure: \$8 million
- Growth working capital: \$8 million
- Operating losses: \$10 million
- Adjusted gearing of 9%, assuming proceeds from February 2021 equity raising (\$14.6 million, net of costs) included at 31 December 2020
- Financial capability secured ahead of expected strong cash flow generation from streamlined Jervois facility and increased lactoferrin production



# FY21 operating guidance maintained

	FY20	FY21	Key drivers	Key risks
 <b>MILK SUPPLY</b>	111 ML	<b>131-145 ML</b>	Contracts in place to supply 138ML in FY21	<b>Seasonal conditions</b>
 <b>MOZZARELLA PRODUCTION</b>	9,128 T	<b>12,600-14,700 T</b>	Milk supply and remediated Jervois facility	<b>COVID-19 impact on demand</b>
 <b>LACTOFERRIN PRODUCTION</b>	1.4 T	<b>4.0 - 6.0 T</b>	Process efficiency; milk supply	<b>Timing delay on new facility completion</b>
 <b>REVENUE</b>	\$103 M	<b>\$130-145 M</b>	Milk supply and pricing	<b>COVID-19 impact on demand; timing delay on new facility completion</b>
 <b>GEARING AT YEAR END<sup>1</sup></b>	49%	<b>23-30%</b>	Dairy farms sale completed Aug-20 and equity raisings	<b>EBITDA and working capital changes, timing of capital expenditure</b>
 <b>CAPITAL EXPENDITURE<sup>1</sup></b>	\$6.0 M	<b>\$23-28 M</b>	Lactoferrin expansion Stage 1 and 2 completed Mar-21 and other growth capex timing	<b>COVID-19 impact on demand</b>

1. Amended guidance reflecting decision to accelerate capital program

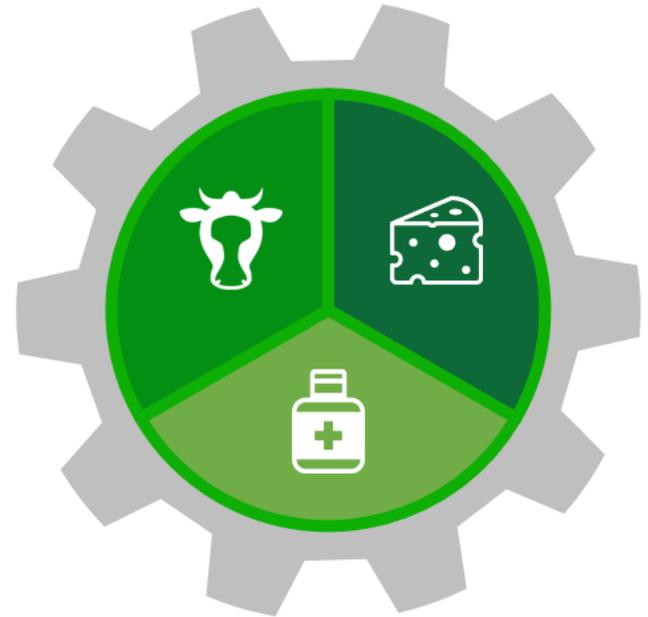
# Value proposition and upcoming catalysts

Implementation of strategic imperatives have positioned Beston to deliver on its value proposition:

- **Growing milk supply** to underpin mozzarella and lactoferrin production
- **Lactoferrin capacity increasing** to more than 7x, with global demand growing significantly
- **Streamlined Mozzarella production** with remediation of supporting infrastructure nearing completion
- Building depth with **new hires in dairy and nutraceuticals** to ensure that skills are fit-for-purpose and match growth objectives
- **Financially secure** with funding to support business well ahead of expected free cash flow generation

## Upcoming catalysts

- March 2021 Commissioning of expanded lactoferrin plant
- April 2021 First sales of production from expanded lactoferrin plant  
Commencement of Tina Li, General Manager Nutritionals
- May 2021 EGM on 28 May 2021 to approve termination of the IMA



People capability and financial coverage in place to deliver strong returns from increasing milk supply

# Appendices



# Five strategic imperatives underpin growth objectives

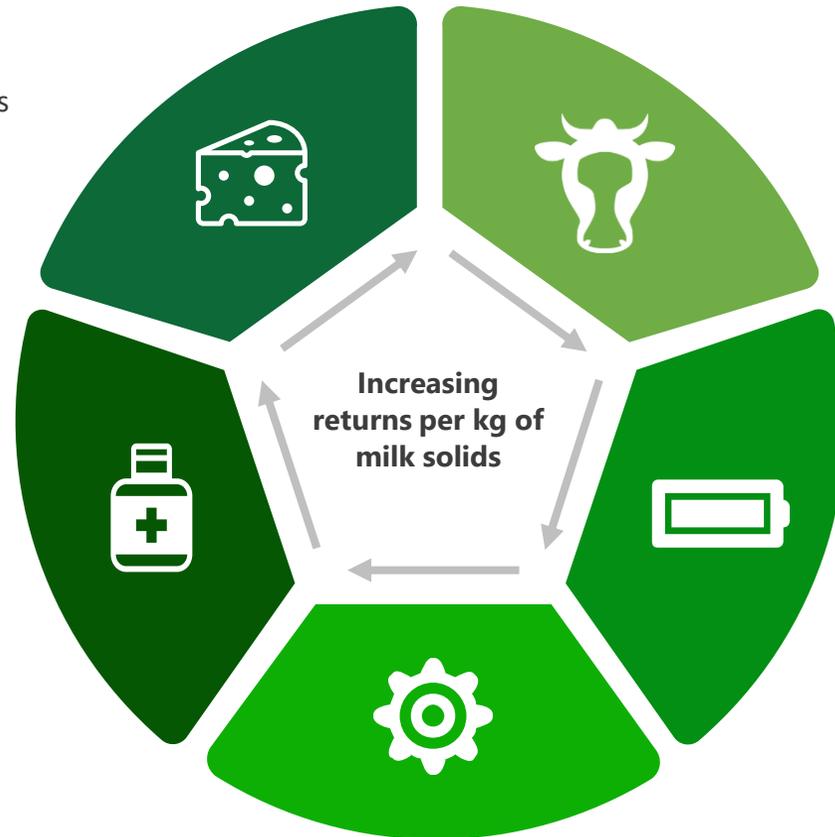
Each additional 20 ML of milk supply expected to generate additional gross margin of ~\$8 million<sup>1</sup>

## SALES PIPELINE

- Expanding customer base
- Diversifying product channels
- Driving revenue growth

## DAIRY NUTRACEUTICALS

- Lactoferrin to be produced from skim milk
- Current capacity 3 Tpa
- Expansion to 25 Tpa capacity



## PRODUCT MIX

- Dairy, meat and value-added protein producer
- Transitioning to higher margin product mix

## MILK SUPPLY

- Security of raw material (contracts with dairy farms)
- FY20 111 ML; FY21 contracted milk supply of ~135 ML; targeting ~180 MLpa
- Sourcing ~25% of South Australian milk pool

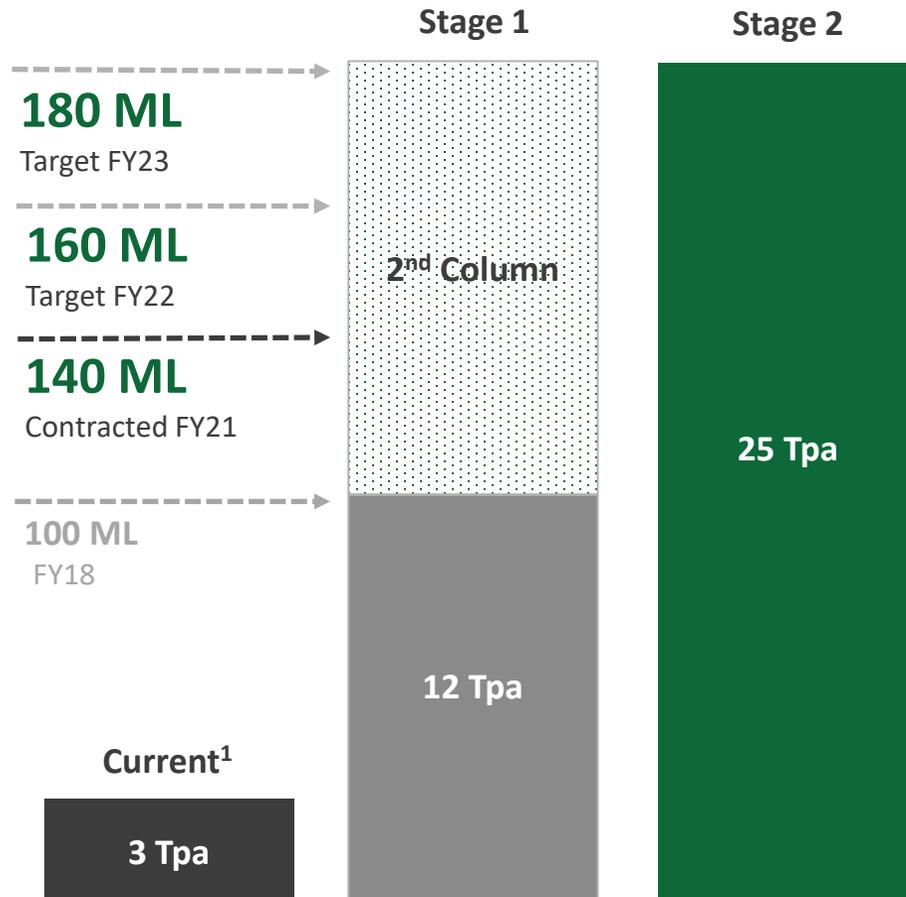
## CAPACITY UTILISATION

- Installed mozzarella production capacity of 20,000 Tpa
- Currently ~56% utilisation and increasing

1. Post Stage 2 skim milk lactoferrin facility construction

# Lactoferrin production from milk supplied

2<sup>nd</sup> Lactoferrin column to: remove FY22 capacity constraints; and enhance ability to compete for increased milk supply



- Stage 1 expected on-line March 2021; new lactoferrin column production capacity of 12 Tpa, with matched freeze-drying capacity
- FY21 forecast milk supply ~140 ML exceeds capacity of first lactoferrin column
- Stage 2 initially planned to be on-line March 2022 with additional lactoferrin column and spray drying capacity
- Accelerating Stage 2 will deliver second column (~\$1.5 million) from March 2021
- Funds raised for Stage 2 spray dryer (~\$7.0 million), which has an 8-12 month factory lead time

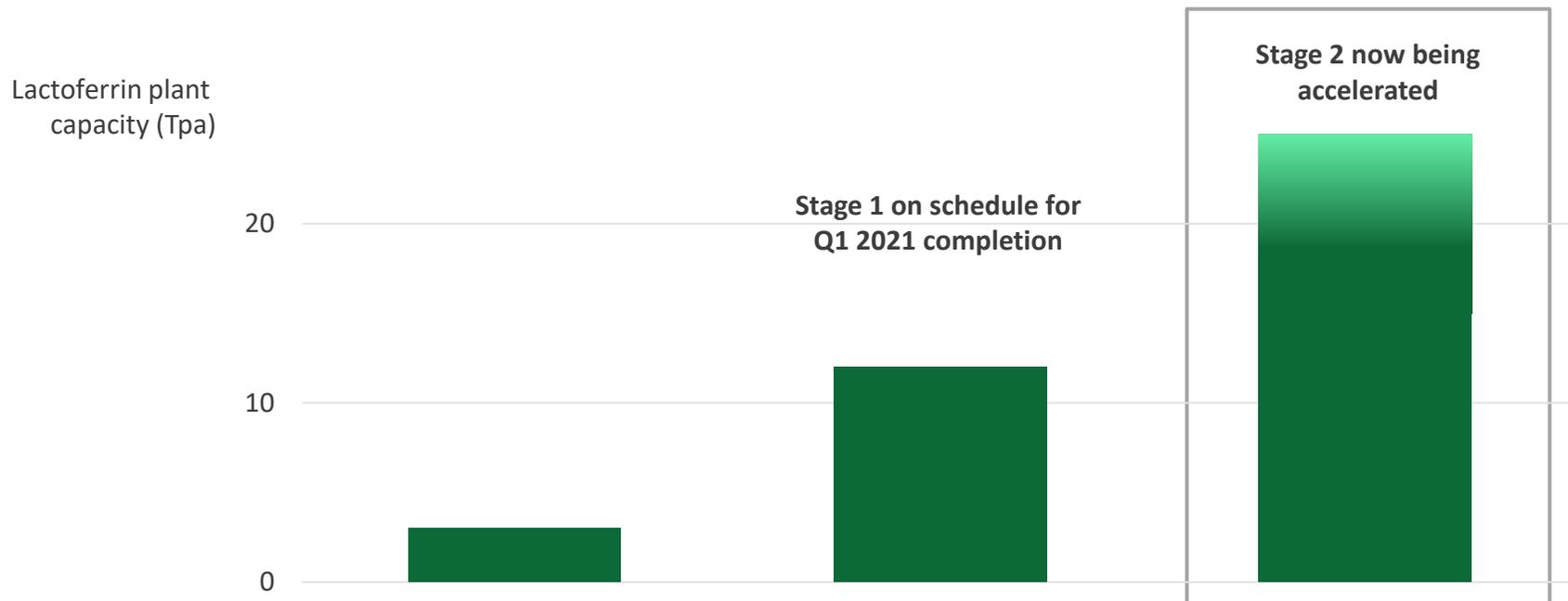
## FY22 impact from accelerating Stage 2

- Assuming 160 ML of milk supplied, Lactoferrin production will increase for a total of ~22 T
  - 12 T freeze dried and sold as powder
  - 10 T sold in liquid form pending installation of spray dryer. Anticipated sale price of liquid lactoferrin: \$700-\$800/kg, with potential to toll process to powder ahead of spray dryer installation.

1. Existing whey-based extraction process being replaced in March 2021

# Lactoferrin expansion a core strategic imperative for increasing returns

Expansion of lactoferrin production to potentially capture ~5% of the growing global market from FY22

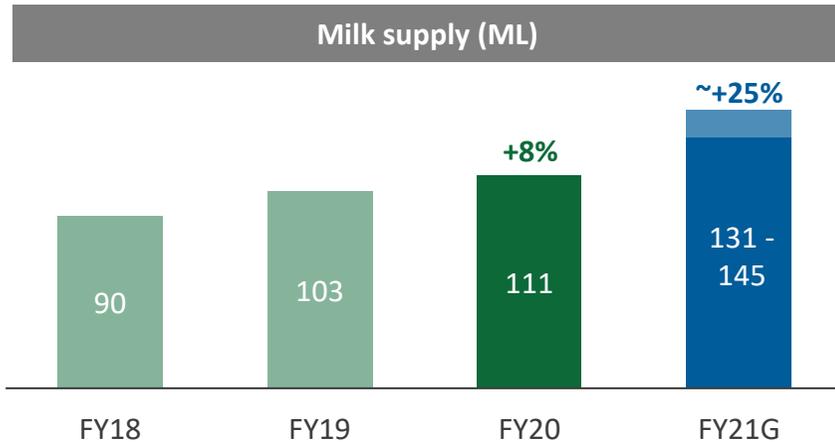


Production metrics	Current	Stage 1	Stage 2
Production capacity	3 Tpa	12 Tpa	25 Tpa
Production input	Whey	Skim milk	Skim milk
Milk supply required	100 ML	100 ML	180 ML
Expansion cost	\$3 million	\$12 million	\$9.5 million
Revenue <sup>1</sup>	\$4.5 million	\$18 million	\$37.5 million

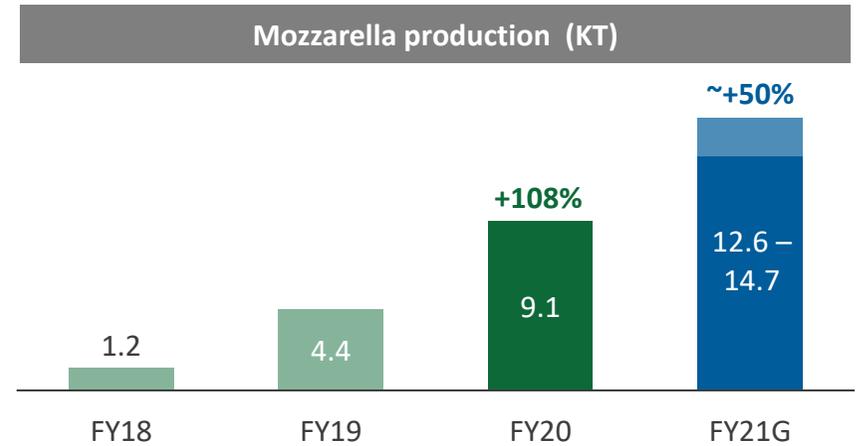
1. Assumes full production capacity utilised and lactoferrin price of \$1,500/kg

# Dairy facilities transformation underway

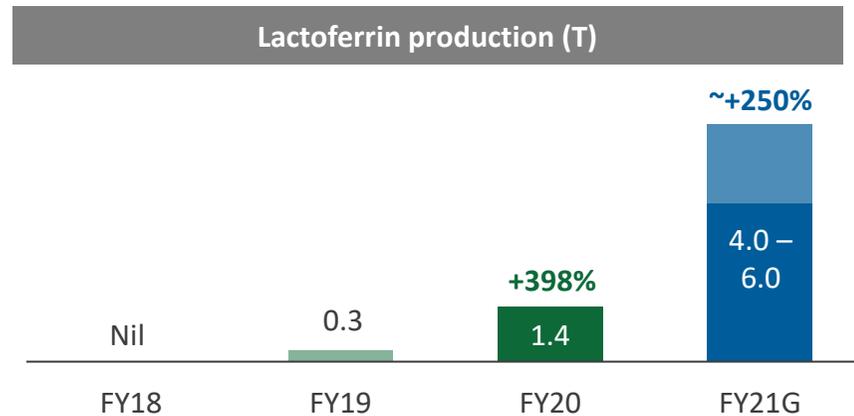
Production and revenue increases driven by growing sales pipeline and enabled by increased milk supply



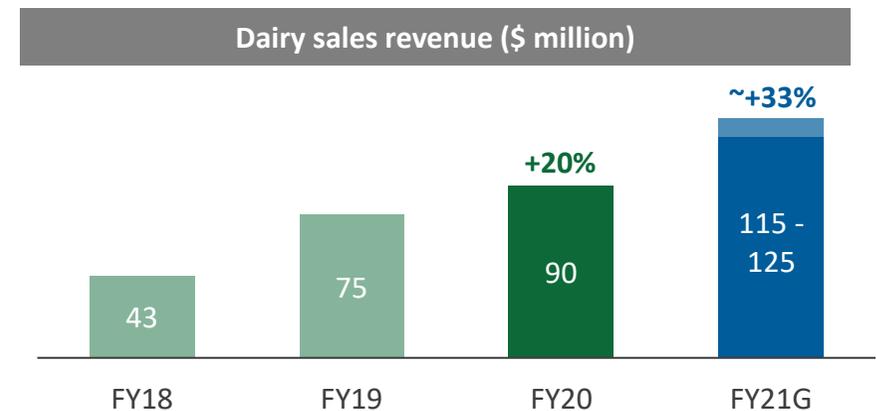
✓ Contracts secured to supply 138 ML in FY21



✓ Higher-margin mozzarella production driving growth



✓ Step-change in lactoferrin production underway

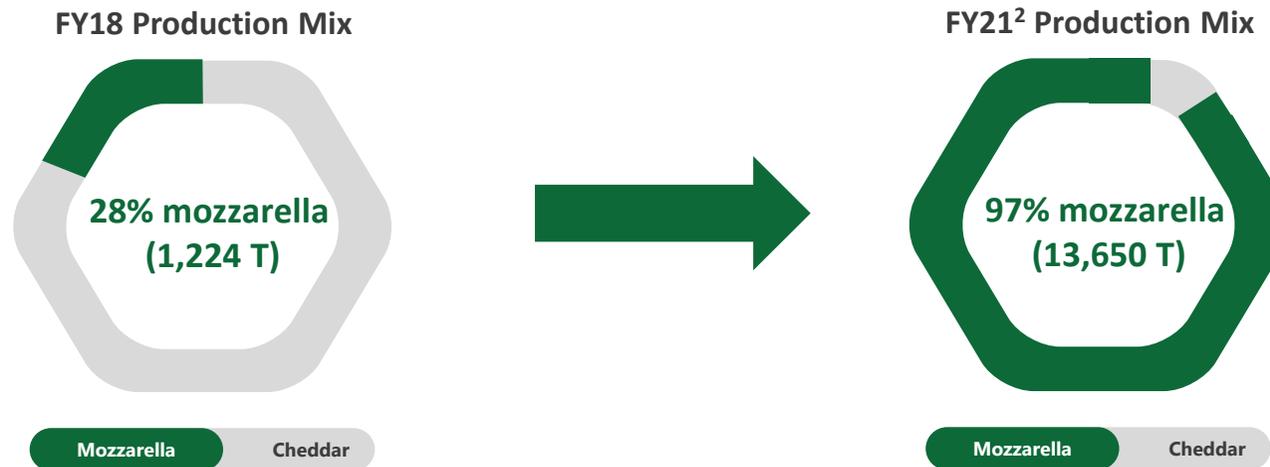


✓ Volume growth and transition to higher value products

# Transition of product mix to higher margin mozzarella

Installation of \$28 million state-of-the-art Italian made mozzarella processing equipment completed in 2018

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	• No Production	• 1,300 grams

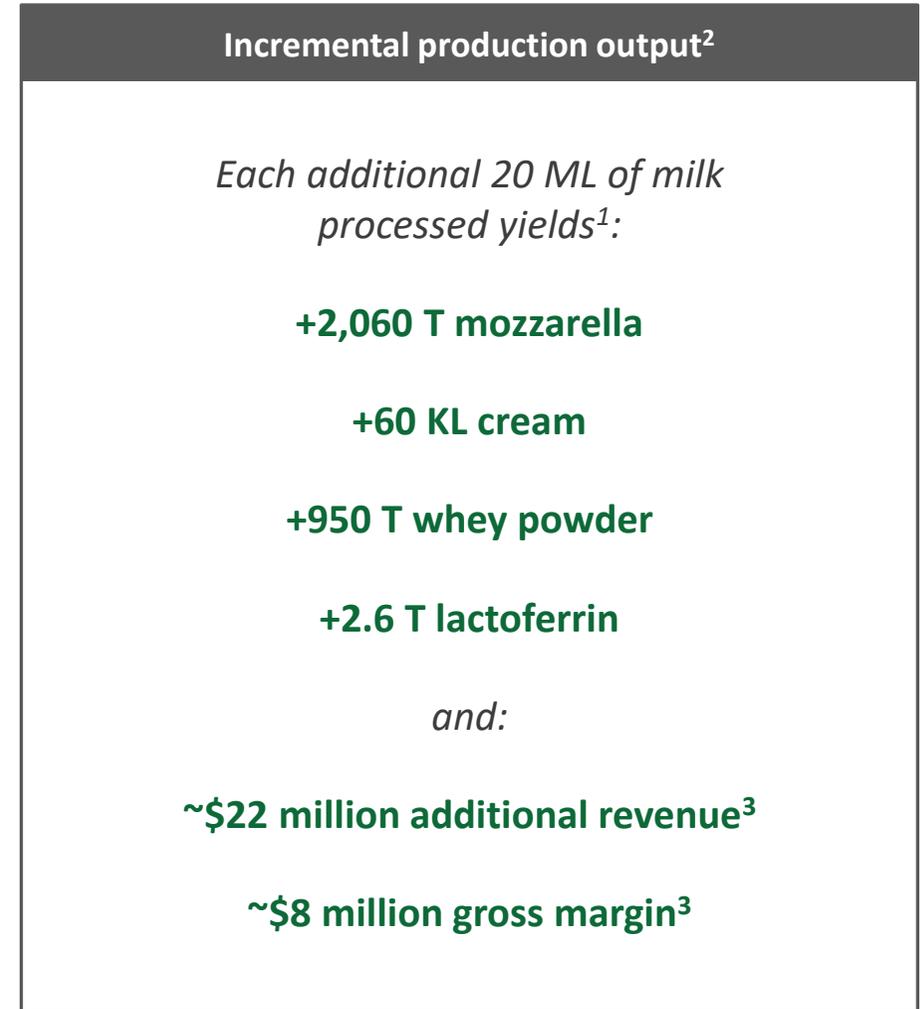
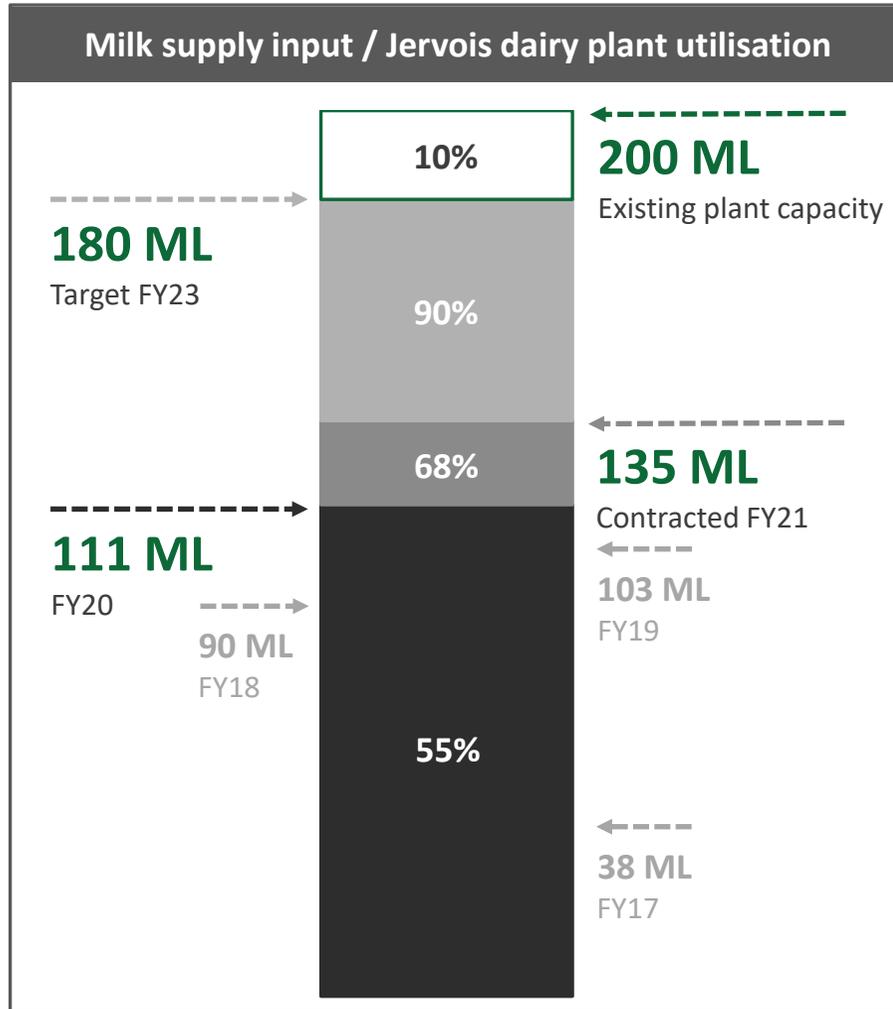


Transition from lower margin hard cheese to higher margin mozzarella nearing completion

1. Unless milk first processed at Jervois and then transferred to Murray Bridge 2. Mid-point of guidance range

# Driving growth through increased milk supply and plant utilisation

Ramp-up of Mozzarella plant utilisation gaining momentum



1. Current production mix

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

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

# Attractive lactoferrin market fundamentals

Growing demand and prices, with limited producers of scale globally



CURRENT DEMAND (2019)<sup>1</sup>

**352 Tpa**



FORECAST DEMAND (2023)<sup>1</sup>

**+500 Tpa**



GLOBAL PRODUCERS TO SERVICE DEMAND<sup>1</sup>

**<10**



STRONG PRICING GROWTH<sup>1</sup>



LIMITED AUSTRALIAN PRODUCERS

**4**

Current Australian producers

**~5%**

Targeted Beston global market share (FY22+)



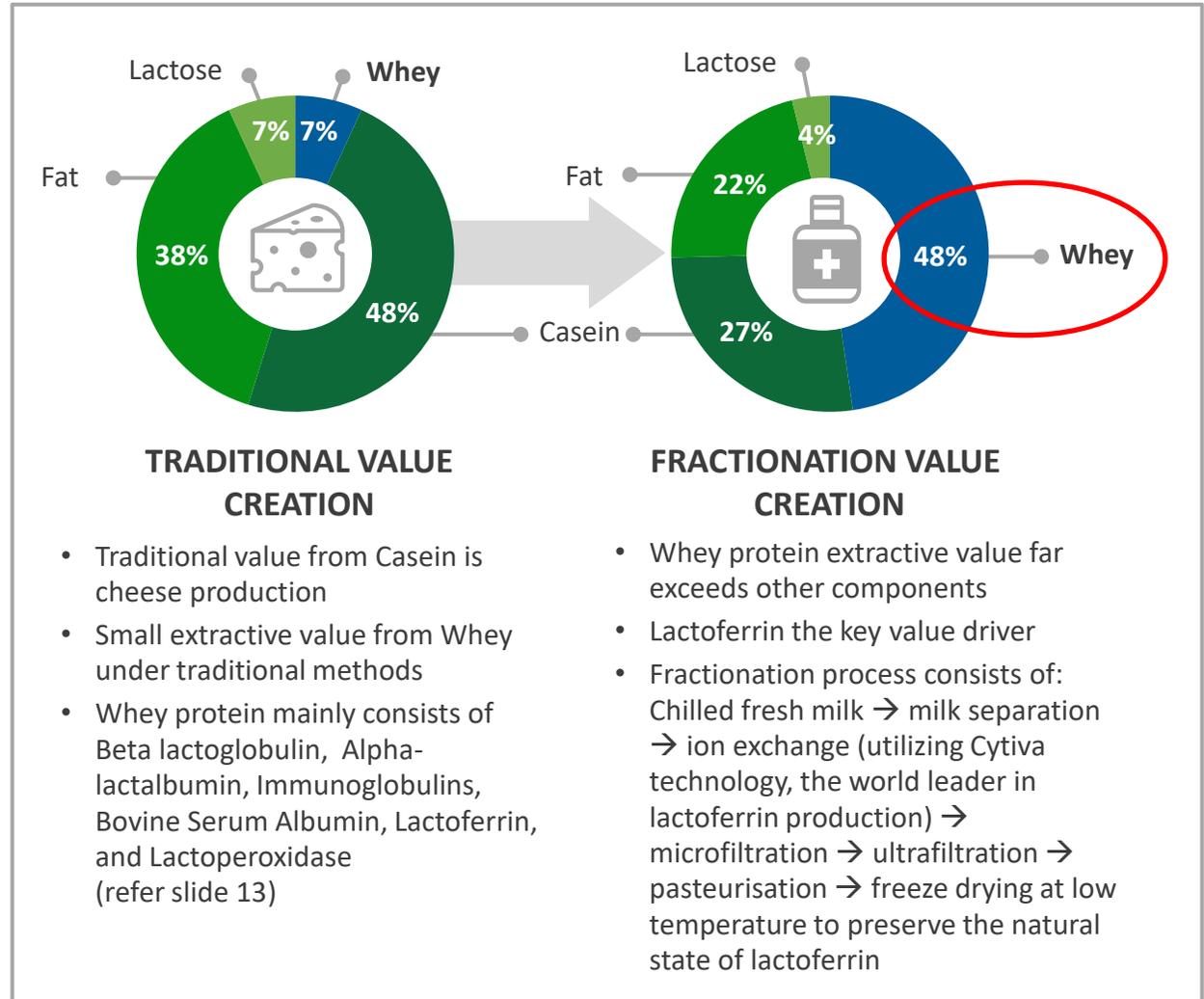
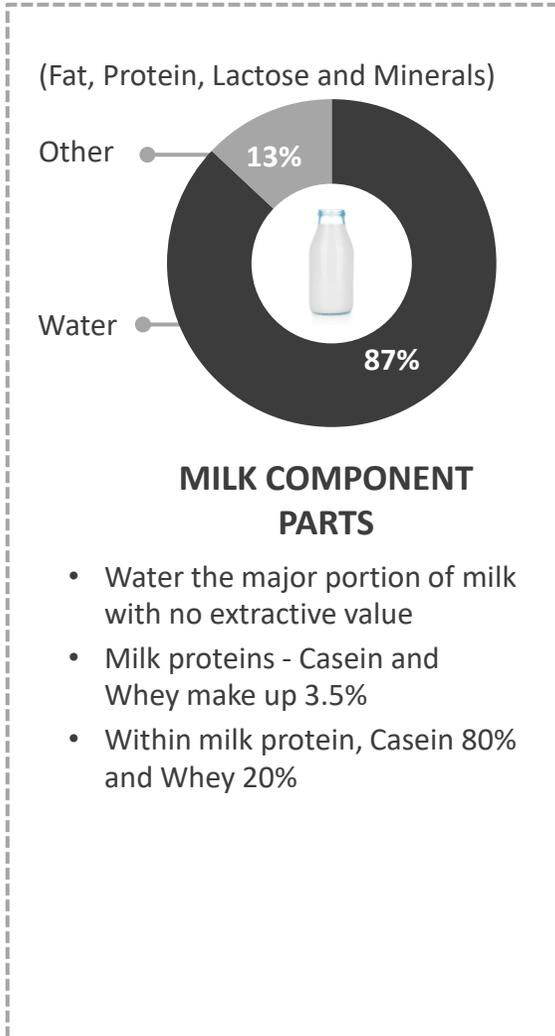
FAVOURABLE GLOBAL MARKET DYNAMICS

- ✓ China regulation requiring lactoferrin to be added to infant formula
- ✓ Significant anti-viral, anti-bacteriological and anti-fungal properties
- ✓ Increasing awareness of health benefits in functional foods, cosmetics products and oral hygiene
- ✓ Increasing pharmaceutical product use, including immune system stimulation

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

# Milk fractionation value creation

Milk fractionation has resulted in significant value extracted from whey protein



# Whey proteins and their properties

## **Lactoferrin**

An iron-binding glycoprotein which boosts the immune system. It has strong anti-microbial, anti-virus, anti-fungal properties, especially in infants

## **Beta-lactoglobulin**

Rich in branched chain amino acids (BCAA) and used in sports nutrition, aids in muscle repair and growth

## **Alpha-lactalbumin**

Most abundant whey protein in human breast milk, high demand in infant formula as abundant in essential amino acids and replicates breast milk

## **Lactoperoxidase**

An enzyme isolated during the Lactoferrin extraction process. It has anti-microbial properties and used in cosmetics, oral hygiene and medical cleaning products

## **Immunoglobulins (IgG, IgD, IgE, IgF, IgM)**

Boosts immune function and promotes healthy gut environment by binding some pathogenic bacteria

## **Osteopontin**

Found in high levels within human milk, this glycoprotein has strong calcium binding properties (low levels in bovine milk)

## **Bovine Serum Albumin**

583 amino acids within its structure, used as a media in chemical labs with fatty acid binding properties

## **Bioactive Peptides**

Particles that have a positive impact on body functions and health

# Lactoferrin and Nutraceutical Capability

Key executive appointment reaffirms importance of the transformational impact of lactoferrin

## Frank Baldi – General Manager Operations and Supply Chain

- Commenced 5 October 2020
- Operating oversight of Jervois and Murray Bridge dairy facilities
- Significant experience in dairy nutraceuticals, especially lactoferrin
- Further appointments to bolster dairy team, with dairy nutraceutical experts to aid expansion of current capabilities
- Potential production of other value-adding dairy nutraceuticals in addition to lactoferrin



### Immune +

- Lightly sparkled and flavoured 250ml mineral water containing therapeutic dose of lactoferrin
- Initial release to market planned for April 2021
- Winner of major international beverage award
- Planned release of lactoferrin in capsule form by Q4 FY21
- Additional lactoferrin based products in development



WINNER of Best Functional Drink



## Investment Management Agreement

### Termination and internalisation of IMA announced on 11 December 2020

#### Key points

- IMA termination date of 28 August 2021
- Termination fee:

<b>Cash</b>	<b>\$1,130,000</b>
<b>Shares</b>	<b>21,100,000</b>
- Market value of shares on announcement was \$1.8 million at 8.6 cents per share
- Shares issued under the termination agreement to have an implied price of 21.0 cents
- Termination requires shareholder approval at an EGM, to be held on 28 May 2021
- CEO, CFO and other senior management to be internalised in Beston from 29 August 2021

#### Announcement summary

- Independent Directors have further considered the IMA between BFC and BPAM and reached an in-principle agreement for termination
- Termination fee due under the terms of the IMA was independently verified (based on work by Grant Thornton, Peloton and Moelis) as \$5.64 million
- Beston and BPAM agreed the termination fee will be payable 20% in cash equal to \$1.13 million and 80% in shares with the issue of 21.1 million new shares
- Termination is contingent upon an ordinary resolution being passed by shareholders at an EGM to be held on 28 May 2021 (the terms of the termination payment are fixed and will not change)
- Settlement of termination fee will occur 90 days after the EGM Resolution is passed (ie on 28 August 2021), in accordance with the contractual terms of the IMA
- BPAM to meet any remuneration and other related cost shortfalls of the management team until the date of settlement
- Transition Committee to oversee internalisation and transition of senior management team and related administrative functions from Beston

## Disclaimer

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# Guidance disclaimer



## COVID-19

- COVID-19 continues to disrupt industries and economies globally
- Beston's guidance is based on current, known circumstances regarding COVID-19 and its impacts
- Guidance may be impacted adversely if COVID-19 continues longer than expected and/or has larger effects on demand and supply chains than presently anticipated



## Market conditions

- General market conditions, such as market downturn, recession, industrial disputes and interest rates, could impact Beston's performance
- Certain risks are beyond the control of Beston; wherever possible Beston seeks to reduce or mitigate exposure to negative impacts of operating risks, whilst competing effectively in the market



## Operating performance

- Dairy facility performance may be below expectations resulting in unplanned down time, higher repair costs and lost production
- Other key operating costs include electricity, gas, freight and insurance costs (some of which are not fixed and without forward contracts in place)



## Milk supply

- Milk supply is subject to agricultural risk, for example, a repeat of the drought conditions experienced in FY19 and FY20 could reduce the supply below contracted levels
- A reduction in milk supply may lead to increased milk prices



## Lactoferrin facility

- Risk of delay in delivery of already ordered long-lead items
- Construction delays could arise via importation issues or unforeseen site conditions
- Potential performance and reliability issues with new skim-based technology



## Other risks

- Adverse weather events, new global pandemics, unplanned increases in costs, mechanical failures, human errors, industrial action and other unforeseen events, all have the potential to impact on Beston guidance

# Glossary

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- AICD Australian Institute of Company Directors
- Beston Beston Global Food Group
- BPAM Beston Pacific Asset Management
- HACCP Hazard Analysis and Critical Control Points
- IMA Investment Management Agreement
- FY Financial year
- kg Kilogram
- KL Thousand litres
- ML Million litres
- T Metric tonnes
- pa Per annum
- SPP Share Purchase Plan
- SQF Safe Quality Food
- YTD Year to date