

## ASX RELEASE

18 October 2021

Dear Valued Shareholder,

At the conclusion of our first quarter of operations for FY22, I am pleased to advise that we remain on track to deliver on our guidance for FY22. Although business conditions continue to challenge us (particularly with the impacts of the coronavirus pandemic), we are delivering on the transformation of our dairy business. The performance of our main dairy facility at Jervois over the quarter has been consistent with our plans. I am pleased to report that we achieved record mozzarella production in the month of September of 1,283T on increased milk supply and solid plant operating performance.

### 1Q22 Key Operating Outcomes and FY22 Guidance

The table below summarises the key operating outcomes for the first quarter of FY22 and reiterates our guidance for the FY22 year.

	Sep 21 QTR	Sep 20 QTR	Sep21 QTR v Sep20 QTR	FY22 Guidance	FY21	FY22 v FY21 (midpoint FY22)
Milk Supply - ML	<b>35.3</b>	31.6	+12%	<b>152-158</b>	146.0	+6%
Mozzarella Production - T	<b>3,548</b>	2,693	+32%	<b>15,000-16,000</b>	12,150	+28%
Lactoferrin Production - T	<b>4.4 T*</b>	0.5	+780%	<b>18.5-21.5</b>	4.0	+400%
Group Sales Revenue - \$m	<b>32.0</b>	23.4	+37%	<b>160-185</b>	112	+54%
Revenue/litre milk - \$/l	<b>0.90</b>	0.74	22%	<b>1.05-1.17</b>	0.77	+44%
Capital Expenditure - \$m	<b>2</b>	5	+m	<b>14-16</b>	17	-12%

\* includes Lactoferrin in concentrate extraction yet to be dried : 1.1T powder equivalent  
Note: Numbers are unaudited.

The FY22 guidance above provides the basis for our confidence in the transformation underway at your Company. The two key drivers evident from the above are:

- Mozzarella production to increase 28% whilst milk supply increases 6%. This reflects the significantly improved operating performance of the Mozzarella production plant at Jervois in FY22.
- Lactoferrin production increases to approximately 20T and will generate significant additional revenue and margin per litre of milk processed.

Some specific comments on the key operating performance indicators are set out below.

#### Milk Supply:

Milk supply for the quarter of 35.3ML was 12% higher than the for the prior comparative period. This reflects that 1Q22 includes a full quarter of supply from Aurora Dairies who commenced supply to Beston on 1 September 20 following completion of the sale of the Company's dairy farms.

The quarter started with an unusually cold period which kept milk supply in July and August slightly below our initial forecasts. As the weather warmed into September, milk supply has increased and on a weekly basis is now running in line with our expectations. Overall milks supply was down 4% on our forecasts for the quarter. Indications are that the spring flush period has been delayed a few weeks compared to our forecasts at the beginning of the year and will peak later than we had expected. Our guidance for the full year is unaffected by these seasonal timing variations.

#### Mozzarella production:

The mozzarella production system at Jervois has been running well with yield performance in line with our plans. Mozzarella production of 3,548T for the quarter was therefore in line with our expectations, although down about 4% consistent with the lower milk supply in the period.

Given the strong operational start and our view of a slightly later spring flush milk supply period, our mozzarella production guidance for the year is unchanged.

#### Lactoferrin production:

Nearly all milk received at Jervois is being processed through the Lactoferrin plant which is also running well with extraction rates consistent with our plans. 3.3T of powder was produced in the quarter with 1.1T powder equivalent held in concentrate form yet to be dried. All of the powder was produced from our own drying facilities which can handle approximately 65% of our current drying needs. The balance of our drying needs in the short term is to be undertaken by a third party. Product will be batched and shipped for drying periodically with the first 1T of third party drying taking place over the end of the quarter.

With the Lactoferrin plant running well and our milk supply forecast unchanged, our guidance for FY22 Lactoferrin production is unchanged.

#### Group Sales Revenue:

Group sales revenue of 1Q22 was \$32.0 million, up 37% on the prior comparative period. The higher revenue reflects the following main trends:

- Increased milk supply enabling higher production and sales of mozzarella, whey powder and cream. The commencement of new mozzarella supply contracts was matched with the increased production.
- Increased lactoferrin production and sales. We had planned to sell approximately 1.6T of Lactoferrin from the expanded facility by this time. A 1T order we had planned for delivery in September is being shipped now ie delayed slightly to mid October. The 1T order for our "Trueferrin" branded product is the first shipment under a multi-year supply agreement

recently concluded, with the customer forecasting to take 3T in FY22, 5T in FY23 and 7T in FY24. We are also in the advanced stage of negotiations with several other customers who are similarly seeking longer term supply arrangements. We remain confident of selling approximately 20T of Lactoferrin in FY22, in line with our production guidance.

- Revenue per litre of milk supply has increased by 22% in the quarter. This is consistent with the improved operating performance of the plant, aided by the addition of lactoferrin to the product mix. As we deliver proportionately more Lactoferrin to customers over the coming months the average revenue earned per litre of milk will increase further, consistent with the strategic imperatives we have previously outlined to shareholders.

Capital expenditure for the quarter was \$2 million including an approximately \$600,000 payment on achieving Final Completion under the Lactoferrin expansion project contract.

We have in our recent investor presentations alluded to our desire to continue to expand our nutraceuticals product range. One such expansion is the production of Lactoperoxidase which is an enzyme that also has anti-microbial properties. Its uses include cosmetics, oral hygiene, and medical cleaning products.

Lactoperoxidase is currently extracted from our milk supply alongside Lactoferrin but is not then captured as a useable product. We have determined that for a modest capital investment of less than \$500,000, we can add the necessary equipment to the existing Lactoferrin extraction process to also capture Lactoperoxidase. We are planning to be in a position to offer Lactoperoxidase to the market in commercial quantities later in FY22.

In volume terms, we estimate being able to capture Lactoperoxidase at about one-third of the volume of Lactoferrin produced. Whilst not as valuable as Lactoferrin in the market on a \$/kg basis, the additional extraction cost is quite low so this product offers a low risk/low cost incremental gain for the dairy business that allows us to extract yet more value from the milk we process.

### COVID-19

The health and economic uncertainties created by the current COVID-19 outbreaks on Australia's eastern seaboard is of concern for everyone. We look forward to the economic situation improving, as it appears to be in NSW with that state coming out of lock-down.

We continue to grapple with the actual and potential impacts of COVID-19 on our business. The lock downs and other restrictions in the eastern states of Australia has placed pressure on all dairy producers to maintain sales and margins.

Our meat business operating out of Shepparton in Victoria has also endured significant operational constraints at times as well as delays in pursuing new business opportunities with customers unable to do business in "normal" ways and time frames.

The threat of COVID-19 impacting our production operations is well understood and we have put plans in place to minimize disruptions should there be an outbreak affecting some of our employees and key suppliers. We are actively encouraging our employees, through an incentive programme, to become fully vaccinated. Appropriate protocols are in place to minimize the risk of any non-employees coming onto site bringing COVID-19 with them.

## Closing Comments

As I said in the beginning of this letter, our first quarter operations have been solid and in line with our expectations. We have therefore maintained our guidance for FY22.

With the operating performance issues that we experienced at Jervois in FY21 behind us, the key risks (and opportunities) for our business become more market related. We have a high proportion of our products being supplied under contracts and to a number of repeat customers. A strengthening economy, hopefully on the back of a steady recovery from the restrictions on economic activity due to the pandemic, is likely to provide a boost to demand for our products. A slow or poor recovery will place additional pressure on the economic situation for everyone, and impact on our financial results. Whatever the short-term situation becomes, a strong operating base will be important, and we have made significant improvements in the last six months to ensure we can operate and produce reliably.

Your management team looks forward with great enthusiasm to what we can deliver for shareholders over the next 12 months. On behalf of the management team, I sincerely thank you for your support to date. We also hope that you and your families are safe and well. We are looking forward to reduced restrictions for everyone as our communities get vaccinated and find our way through the pandemic in Australia and around the world.

Kind regards



Darren Flew  
Interim Chief Executive Officer