



## Chairman's Letter

Dear Shareholder,

This has been a very challenging year for Wattle Health Australia Limited (WHA). I know some shareholders are not satisfied with the market's current valuation of the company and the overall decline in share price. I want to assure you that the board, management, all employees, and particularly myself, are extremely aware of this situation and are very focused on improving performance, explaining and executing our strategy and rebuilding value.

Like others in the sector WHA has faced several macro challenges. For many companies focused on infant formula sales into China, including WHA, the requisite Chinese product registration (SAMR) has not been granted.

The other major headwind has been the delays in the construction of the Corio Bay Dairy Group (CBDG) facility.

What I do want to assure you is that the directors and management are addressing these issues as best as is possible. Concurrently, we have undertaken several initiatives to diversify and expand WHA. We put in place the foundations for what we believe will be our future success, with some potentially transformative steps that I wish to outline to shareholders.

### **Blend and Pack**

The resolution at the meeting today is for shareholders to consider approving the acquisition by WHA of further shares in Blend and Pack, which would take WHA up to a 93.5% ownership of Blend and Pack Pty Ltd.

While we are still finalising the formal facility agreement to fund the Blend and Pack acquisition, we have structured the debt funding to reduce dilution for shareholders rather than undertake an equity issue at current prices. We believe this is the better option for shareholders.

WHA believes the acquisition of Blend and Pack is in line with our vertical integration strategy and also strengthens our position to sell product into China. Blend & Pack is one of a small number of Australian CNCA registered production sites for the processing of dried dairy products, with gross revenue for FY18 of circa \$20 million. From day one Blend and Pack significantly grows our revenue and diversifies our risk profile.

Management of Blend and Pack will be independent of WHA and we hope its sales performance will continue to increase as its customers increase their sales across the world.

### **Corio Bay Dairy Company (CBDG)**

As shareholders are aware, we have made a significant commitment in funding a dedicated organic spray drying facility at Corio Bay Geelong. Our partners in CBDG are Organic Dairy Farmers of Australia (50%) and Niche Dairy Pty Ltd (5%) owned by Andrew Grant, one of the founders of Blend & Pack.

Our partners bring significant strengths to CBDG. ODFA is Australia's largest supplier of certified organic fresh milk. An industry leader, Andrew Grant also has significant engineering and manufacturing experience that will support CBDG.

CBDG has now appointed an experienced CEO, Dr. Tony Mckenna, who is driving the plant construction and customer acquisition for CBDG with an estimated construction cost and working capital of circa \$70 million. We acknowledge that the project is behind the schedule we previously outlined, however construction has commenced and is now scheduled for completion in the first half of 2020, in time for the spring season.

WHA has first right over all certified organic powder from CBDG to be used across its nutritional dairy range, which will be processed at Blend and Pack.

This is in line with our vertical integration strategy and also strengthens our position to sell product domestically and internationally. We believe it's a major step towards our goal of becoming Australia's leading supplier of certified organic milk products.

### **WHA Sales**

We are confident on the sales prospects for WHA when the marketing program for Uganic commences, with production ramping up from August. Whilst we have a lot of interest for sales of WHA infant formula and other nutritional dairy milk products into China, without SAMR approval we cannot sell infant formula in traditional retail channels. However, WHA will take advantage of other channels, such as cross border e-commerce and offline to online, to generate sales in China.

With our unique and premium offering using 100% certified Australian organic fresh milk, we are confident WHA's organic certified nutritional dairy range will provide an attractive proposition for consumers domestically and internationally.

### **Building Shareholder Value and Transformative Steps**

We believe both Blend and Pack and CBDG will add significant value and additional revenue streams to WHA. Both initiatives will diversify our risk profile and open significant market opportunities.

At the same time, we are executing a strategic marketing program for Uganic aimed at driving sales for the business.

The Board and Management believe these initiatives will deliver a stronger and more diverse company.

In conclusion, I'd like to thank all shareholders for their patience and support during this challenging period. I am looking forward to providing further updates as Wattle Health progresses towards realising its vision of being Australia's leading supplier of certified organic milk products.

Lazarus Karasavvidis

Executive Chairman

Wattle Health Australia Limited