



## **ASX ANNOUNCEMENT**

### **BGA OUTLOOK IN TIGHTENING MARKET CONDITIONS**

Bega Cheese Limited (Bega Cheese ASX: BGA) provides the following update.

#### **FY2020 outlook in tightening market conditions**

Bega Cheese is committed to diversifying its reach in the Australian dairy industry, growing its portfolio of high-quality food products and investing in and protecting its famous Australian brands. However, unprecedented competitive milk supply conditions and easing demand from third party branded businesses has changed the profit outlook for this year.

Considering these factors, Bega Cheese advises that normalised EBITDA is expected to be in the range of \$95 - 105 million for FY2020, compared to \$115 million in FY2019.

#### **Intense competition for milk supply**

The effects of the continuing drought and further decreases in total Australian milk production has escalated competition for milk in Q1 FY2020. This competition has flowed through to a higher ongoing cost of milk across the industry.

Chairman Max Roberts noted “We have previously advised that conditions impacting FY2019 would continue into FY2020. This has proven to be the case, but at a faster and deeper rate. To remain competitive Bega Cheese today announced an increase in its Southern Region milk price and other initiatives to sustain and grow milk supply. This higher milk price will directly impact Bega Cheese’s earnings in FY2020.”

#### **Softening demand easing in key product categories**

In addition to the competitive milk supply environment, the last quarter has seen a slowdown in growth in key categories. CEO Paul van Heerwaarden said “While our branded consumer food business is continuing to grow we are seeing softening in demand for products destined for certain export markets which will adversely impact earnings in FY2020.”

#### **Responding to current conditions**

Bega Cheese is well advanced in its plans to restructure its manufacturing capacity to meet the changing supply environment including the development of toll and third-party manufacture relationships to ensure our efficient use of capital within the dairy industry. Bega Cheese continues to review its supply chain and overhead cost to remain competitive.

Paul van Heerwaarden said “Bega Cheese is proactively responding to increased milk competition and we will continue to manage our supply chain for domestic and international trade to mitigate further downside risk. We are also well advanced with internal reviews within our business to ensure our cost structure is correctly aligned to current and medium-term market conditions.”

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