

Commentary on Half Year Report and Market Update

- *Farms experiencing excellent seasonal conditions with strong pasture growth and increased milk production resulting in a net profit of \$1.1 million to 31 December 2020.*
- *Performance of the processing segment remains challenging impacted by lower capacity utilisation of the manufacturing plant, increased costs due to COVID-19 restrictions in Victoria and additional investment in marketing and sales*
- *1HFY21 Group operating EBITDA was a loss of \$154,888 compared to \$505,609 for the same period in FY20. The final result for the period was impacted by a non-cash impairment expense in relation to the acquisition of Camperdown Dairy (\$2.3 million)*
- *Fit out and installation of the new infant formula plant progressing well and the high speed Blend & Canning Line has arrived safely in Melbourne*
- *The Group has strengthened its balance sheet after obtaining all security holder approvals for the second stage of its capital raise and the recent sale of Drumborg farm*

Australian Dairy Nutritionals Group Limited (**AHF** or the **Group**) advises that it has today released the Appendix 4D and the Group's financial report for the half year to 31 December 2020 (**Half Year Report**).

The Farm segment has continued to benefit from excellent seasonal conditions in South West Victoria achieving a net profit of \$1.1 million for the period, up 131% on the equivalent period in FY20. All of the farms are experiencing strong pasture growth and are starting to see the results of the transition to organic farming practises with improved soil nutrient levels and increased soil organism counts. This is a very pleasing result as most of the farms are in the 3rd year of organic conversion and there is a considerable opportunity cost in lower milk production volumes compared to non-organic farming, resulting in lower short term returns.

The dairy processing segment recorded a moderate increase in revenue (up \$952K on 1HFY20) however the segment continues to underperform due to the impact of underutilised production capacity and increased costs due to the impact of COVID-19 restrictions in Victoria.

Sales and marketing costs for the processing segment were also higher during the period due to increased investment in trade spend for the new range of The Collective products introduced in October/November 2020, a necessary investment given the highly competitive nature of the yoghurt category in the major retailers. The half year results also reflect the Group's increased investment in sales and marketing personnel through the acquisition of The Collective Australia and, in preparation for the launch of its two new infant formula ranges this year.

The final result for the processing segment was also impacted by a non cash impairment expense of \$2,353,749 in relation to the goodwill on acquisition of Camperdown Dairy Company. The write-down of the goodwill has no impact on the cash position or future operations of the dairy processing segment however the Board determined it prudent to adopt a conservative approach and fully impair the remaining goodwill.

The Directors retain the view that there is still significant value in the processing plant operations and processing segment's brand portfolio.

Infant Formula Plant Update

Management are heavily focussed on the fit out and installation of the Group's infant formula plant now that building construction works are largely complete. Fit out of the internal walls commenced this week after being delayed due to the recent COVID-19 lockdown in Victoria. The Group remains optimistic that the infant formula plant will be operational in July 2021, commencing with milk powders and followed by infant formula in the final quarter of calendar year 2021.



Images: Installation of liquid mixing tanks and internal fit out of the production facility

Infant Formula Blend & Canning Line Update

The infant formula blend & canning line has arrived safely in Melbourne and is awaiting clearance from the Port of Melbourne for transport to Camperdown, Victoria. A final cash payment of \$USD100,000 will be due once the line has been cleared for release from the Port at which time ownership of the line will transfer to the Group. The line has the capacity to produce 20 million tins per annum in the future once installed.

Capital Raise and Drumborg farm sale strengthens the Group's balance sheet

As the Group reaches the final stage of its infant formula strategy and launch of its two new infant formula brands, Future (Tummy Health) and Ecklin South Organic A2, the Group has strengthened its balance sheet through the capital raising process commenced in December 2020 and sale of the Drumborg farm on 10 February 2021.

The capital raise is expected to raise up to \$7.74 million (before costs) comprising:

- \$6.5 million as part of the placement to sophisticated investors announced on 15 December 2020 (**Placement**). Securityholder approval for the second tranche of the Placement was obtained at the recent extraordinary general meeting (**EGM**) of the Group and the second tranche securities were issued on 25 February 2021;
- \$1.03 million through the conduct of a successful security purchase plan (**SPP**) to existing securityholders. 16,706,011 securities were issued to securityholders who participated in the SPP on 17 February 2021; and
- up to \$240,000 through the conduct of a placement to directors at the same price as the Placement and the SPP, expected to complete on or about 26 February 2021.

In addition, the Group has repaid \$6.15 million of its debt facility with Commonwealth Bank of Australia through the sale of the Drumborg farm on 10 February 2021. The remaining proceeds of the sale, a further \$1.28 million, were retained for working capital purposes. The Board decided to sell the Drumborg farm as it's milk production was surplus to the Group's current and future requirements and, it was located over 200km from AHF's processing facility in Camperdown, Victoria.

Future Infant Formula production and launch

First production of the Group's 3-stage Future Infant Formula range is scheduled for early April 2021 with domestic launch in the second quarter of the financial year. Management is heavily focussed on securing physical and online retail distribution opportunities in both domestic and international markets. Distribution will be supported by a comprehensive omni-channel marketing and promotional campaign to drive range awareness and education of the new range.

The release of this announcement was authorised by the Board of AHF.

Ends

Further Details

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Communications Policy

AHF makes ASX market releases at times directors believe it would be helpful or necessary for investors and as required by the Listing Rules. For further information regarding our shareholder communications policy, please refer to AHF's website: www.adnl.com.au.

About Australian Dairy Nutritionals Group

Australian Dairy Nutritionals Group (AHF) (previously named Australian Dairy Farms Group) is a vertically integrated Australian dairy group which owns high quality dairy farms and a processing facility (Camperdown Dairy Company) located in South Western Victoria, the 'Golden Triangle' of Australia's dairy

industry. The Group is a trusted source of premium quality branded dairy products using milk sourced fresh from its farms.

Disclaimer – Forward Looking Statements

This announcement may include “forward looking statements” within the meaning of securities laws of applicable jurisdictions. These forward-looking statements are not historical facts but are based on AHF’s current expectation, estimates and projections about the industry, in which it operates, and beliefs and assumptions. Readers are cautioned not to place undue reliance on forward looking statements.