

FY21: Vertical Integration Strategy Nearing Completion

- *New Infant Formula Plant building completed and commissioning works progressing well*
- *Launch of 'future' infant formula range in Q1FY22 and organic A2 protein infant formula range in Q2FY22*
- *Right sizing of Group farm portfolio to de-leverage balance sheet and focus on specialty milk production*
- *Successfully raised \$7.7 million from new and existing securityholders to fund acquisition of high speed canning line and the launch of the Group's infant formula brands and ranges*
- *FY21 Group operating EBITDA -\$2.99 million, the farm result was \$1.44 million whilst the processing segment recorded a disappointing result of (\$2.03 million)*
- *Appointment of new independent director, Jason Dong, to expand experience and business relationships in China*

Australian Dairy Nutritionals (ASX: AHF) announces its Appendix 4E and Annual Report for the twelve months ended 30 June 2021 (**FY21**), a year in which a number of key milestones were achieved as the Group nears the completion of its strategy to transition to a fully vertically integrated producer of specialty infant formula and nutritional products.

The key focus of FY21 was the construction of the Group's new infant formula building and installation and commissioning of the plant itself. Despite the ongoing impact of COVID-19 restrictions in Victoria, the building and plant installation works were successfully completed. Commissioning and trial production works are ongoing with a view to production of the Group's Organic A2 infant formula range early in 2022.

As part of this transition process, a review of the Group's farm portfolio versus milk production requirements identified that the Group needed to 'right size' its farm portfolio to better align with its future manufacturing requirements (including when the infant formula plant is operating at full capacity). As a result, the Group sold the Drumborg farm in February 2021 and, last week, announced that it had entered into an unconditional agreement to sell the Ecklin South farm.

The sale of these two farms will net funds of approximately \$12 million which will be used to pay out the Group's finance facility in its entirety before it matures in early October 2021. The remaining farm portfolio will focus on specialty milk production, with all 3 remaining farms achieving organic pasture certification by the end of the year and two of the three farms, converting to organic A2 protein milk production.

In addition to the restructure of the farm portfolio, the Group successfully raised \$7.7 million from new and existing securityholders to fund the acquisition of a high speed infant formula blending and canning line and, investment in the launch of the Group's two new infant formula ranges.

The Group achieved total income of \$21.7 million, a slight decrease on FY20, and operating EBITDA of (-\$2.99 million). The operating EBITDA of the farm portfolio was \$1.44 million whilst the processing segment recorded a disappointing result of (\$2.03 million). The value of the farm portfolio increased by \$3.55 million during FY21 however this is not reflected in the balance sheet under cost method adopted in the Accounting Standards.

Whilst the FY21 financial result is very disappointing, significant advances were made in the Group's vertical integration and, decisions taken to ensure the business operations best support the realisation of that strategy in FY22 and beyond.

In FY22, the Group's key priorities will be:

- 1) the launch of its two new infant formula ranges, in particular, it's organic A2 protein infant formula range which will be manufactured in the Group's infant formula plant using organic A2 protein milk produced by its farms;
- 2) investing in the remaining farm operations to support specialty milk production and leverage the environmental and sustainable aspects of the farm operations;
- 3) optimisation of the Group's operations to ensure that business assets and arrangements are contributing to the core objectives of the Group.

Farms

The farms again recorded good performance in FY21, achieving an operational EBITDA of \$1.44 million, driven by good seasonal weather conditions in South West Victoria and relatively high farm gate milk prices. Net profit for the farm segment was up \$400k in FY21 versus FY20 (after removing the Drumborg farm from both years' results). This was primarily the result of lower fodder and pasture maintenance costs.

Processing

The processing segment continues to weigh on the Group's financial results primarily due to flat demand for sales of The Collective's yoghurt products. The yoghurt category is one of the most competitive in the Australian retail market and The Collective brand has had to compete against some of the most well established brands in the category. Flat sales volumes have directly impacted the performance of the Camperdown manufacturing plant which has a fixed cost structure to accommodate production volumes in excess of current volumes.

Financial performance in the segment was also impacted by relatively high farm gate milk prices, increasing raw material costs. The average per litre farm gate milk price for conventional milk was 4 cents higher in FY21.

Distribution

In FY21 the Group's home delivery channel continued to perform well, capitalising on the shift to consumers purchasing their household staples online for home delivery. A dedicated general manager was employed to grow this business in FY21 with a focus initially on improvements to the website and service delivery. FY22 will target geographic expansion of the service in Victoria.

In FY21, Camperdown Dairy acquired all of the assets of the Group's wholesale distribution business, Jonesy's Distribution which included 100% ownership of the Jonesy's Dairy Fresh brand. Melbourne based distributor, Sealane was appointed to distribute the Jonesy's Dairy Fresh product

range in Victoria, allowing the Group to reduce operational complexity by outsourcing the logistics function.

Appointment of Jason Dong as non-executive director

As the Group approaches the completion of its vertical integration strategy and its sales efforts expand to include international markets, particularly Asia, a new non-executive director, Jason Dong was appointed to the Board, replacing Michael Hackett and Paul Morell who both retired during FY21.

Jason is a highly skilled executive with extensive experience working with Australian and Chinese entities to promote international trade and industry relationships. His insight and leadership will be invaluable to the Group as it seeks to establish distribution relationships in China and the wider Asian market.

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

AUSTRALIAN DAIRY NUTRITIONALS GROUP

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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.

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