

## **Market Update**

- **Strategic review of fresh operations allows AHF to focus on nutritionals segment**
- **Fresh milk processing to cease at Camperdown Dairy Manifold Street site but Camperdown Dairy brand retained**
- **Most permanent staff will transition to the Infant Formula site, minimising job losses**
- **Closure to deliver significant cost savings resulting in estimated \$1 million EBITDA improvement on current position**

In September 2021, the Board of Australian Dairy Nutritionals Group (**AHF** or the **Group**) commenced a strategic review of its fresh dairy manufacturing segment after disappointing FY21 financial performance in this segment. As a result of this review, the Board announced the decision to cease yoghurt manufacturing at the Manifold Street site and terminate the Group's manufacturing agreement with The Collective.

Early in 2022, with yoghurt manufacturing to cease at the Manifold Street site and strong progress being made with the Group's infant formula project and vertical integration strategy, the Board recognised a further review of the remaining fresh processing operations was required to ensure the Group's resources and operations align with the final stage of its vertical integration strategy to drive sales of its infant formula and nutritional products.

The Board's strategic review identified several issues with the Group's fresh dairy operations which will continue to adversely impact the Group's financial performance including resourcing and logistics disruptions from COVID-19, increasing production costs and ongoing competition from fully automated, low-cost competitors. As a result of this, the Group has decided to cease fresh milk processing at the Manifold Street site by the end of August 2022. It is disappointing that the fresh milk processing will cease but the Board would like to thank all customers and staff for their support.

## **Cost Savings and EBITDA improvement**

Whilst sales of Camperdown Dairy milks in Woolworths stores have shown good year on year growth, the highly inflationary environment has significantly increased production costs, eroding the already slim margins in this category in the major supermarkets. In 2022 nearly all of Camperdown's Dairy's materials suppliers have increased prices by more than 10% and, logistics costs have nearly doubled. On top of this, the FY23 conventional milk price finished up 26% higher than FY22's record high prices. The Group estimates the impact of these cost increases translates to approximately \$0.50 increase in the production cost for a 2L bottle of milk.

In addition to this, the tight domestic labour market has made it extremely difficult for the Group to employ staff for its Infant Formula operations, particularly employees skilled in dairy manufacturing. The decision to cease fresh milk processing operations allows the Group to

transition most permanent staff at the Manifold Street site to its Infant Formula site and minimise job losses because of the closure. The closure will reduce operational complexity by allowing the Group to run a single operational, quality and compliance system for nutritional products rather than a dual site system covering both fresh milk and nutritionals.

The Group will also avoid upcoming significant maintenance and capital costs necessary to improve the condition of the aging Manifold Street building plus, the closure of the site is expected to deliver significant savings for the Group's insurance portfolio.

Whilst the closure of the fresh milk processing will result in an estimated \$4 million reduction in revenue for the Group in the short term, at the EBITDA level, closure of the fresh milk processing is expected to deliver an estimated \$1 million improvement for the Group based on the current position. This is primarily a result of the substantial cost savings the closure will deliver, after expenses which will be transferred to the Group's nutritional segment such as employment, waste management and quality assurance.

In the medium to long term, revenue is expected to increase as infant formula and nutritional product sales build, both domestically and internationally. Infant formula customers (parents) tend to be very brand loyal, so the Group is focussing on building consumer trust as well as recognition in our brands. We have also identified other product development opportunities in the nutritional category which are being progressed.

There are likely to be some direct costs incurred because of the site closure but these are not expected to be material.

### **Focus on Infant Formula and Nutritionals Segment**

After 5 years of significant investment in the Group's transformation strategy, from the farms and the infant formula plant to our brands, the infant formula and dairy nutritionals segment is the Group's future. Closure of the fresh milk operations will allow AHF's management team to completely focus on delivering this strategy and capitalising on the opportunities it presents.

The decision to cease fresh milk processing in no way diminishes the efforts of our dedicated staff who have worked tirelessly to deliver premium quality dairy products to consumers in Victoria and nationwide. Camperdown Dairy milk and yoghurt products have consistently won Gold and Silver awards at the Victorian and National Dairy awards in several categories. The Camperdown Dairy brand has a good reputation in the market as a regional Victorian brand and will be retained by the Group.

### **Plans for the Site**

When fresh milk operations cease, the Group will continue to use the site on a short-term basis for storage until the Infant Formula site obtains its export licence. Select processing equipment will be transitioned to the Infant Formula site but the majority will remain at the Manifold Site to allow it to be sold, with or without the site lease. AHF have been approached by third parties interested in purchasing the processing equipment and/or taking over the site, these opportunities will be progressed in the coming months.

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

### **Ends**

## Further Details

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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 Southwestern 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

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