

FY22 Appendix 4E and Annual Report

Australian Dairy Nutritionals Group Limited (AHF or the Group) advises that it has today released the Appendix 4E and Annual Report for the financial year ending 30 June 2022 (FY22).

Key Takeaways

- **Completion of vertical integration strategy imminent with commercial production of organic A2 infant formula for launch in Chemist Warehouse in October 2022**
- **Restructured our operations to support the infant formula and nutritional strategy including closure of fresh processing, transition to A2 cow herd and right sized the farm portfolio**
- **Farm properties sold at record prices and proceeds used to repay the Group's CBA finance facility, leading to a debt free balance sheet on repayment**
- **Consolidated EBITDA loss of \$3,020,918, an improvement on FY21 (\$5,342,519 loss)**
- **FY22 results reflect the negative impact of the COVID-19 pandemic in all areas of our operations**
- **Revaluation of farm portfolio up \$7,160,545 (59%) to \$20,491,617 at balance date**
- **Net assets increased to \$39,948,487 an increase of \$5,961,522 on FY21**
- **Net tangible asset backing per security increases to 7.2 cents per security (FY21: 6.7cents per security)**

FY22 was a strategically important year for the Group as it nears the completion of its 5-year strategy to become a fully vertically integrated manufacturer of premium organic dairy nutritional products. Commissioning of our infant formula plant was completed amidst a backdrop of COVID-19 restrictions and excellent progress was made in the testing and trial phase in the second half of FY22.

This financial year also marked the Group's first step into the infant formula market with the launch of our new future Gradulac Gentle infant formula range. Another significant milestone was the establishment of the Ocean Dairy joint venture with Wellnex Life Ltd to distribute the Ocean Road Dairies Organic A2 infant formula range in Australia.

Operationally, several important structural changes were made to our business to ensure our operations are strongly aligned and support the Group's vertical integration strategy going forward.

Whilst it is disappointing to record an EBITDA loss of \$3,020,918 for FY22, this result was an improvement on FY21's EBITDA loss of \$5,342,519. The FY22 results also reflect the negative impact of the COVID-19 pandemic in all areas of our operations in FY22.

OUR MANUFACTURING PROCESS: FROM Paddock TO PLATE



Our Infant Formula Plant

The core focus of FY22 was the commissioning and testing of the infant formula plant in our newly constructed building at Depot Road, Camperdown, Victoria. This was a very complex process carried out by the Group's internal project team, requiring them to completely re-configure the plant prior to installation in the new building and commissioning.

Trial and testing commenced in early 2022 and progress to date has been impressive. Just prior to the end of FY22 the plant successfully produced organic A2 whole milk powder and shortly thereafter, all three (3) stages of the Ocean Road Dairies organic A2 infant formula. Commercial production of the Ocean Road Dairies infant formula range is on track for September 2022 for launch in Chemist Warehouse stores nationally in October 2022.



Launch of future Gradulac Gentle infant formula range

This financial year marked the Group's first step into the infant formula market with the launch of our new future Gradulac Gentle infant formula range. The range has been available in Chemist Warehouse stores nationally since April 2022 and, via a guaranteed subscription model through the future website (www.futureformula.com.au).

Infant formula purchasers tend to be highly brand loyal so we have supported the launch with an omni-channel marketing campaign designed to build trust and brand recognition with consumers.



Aligning our Farm Operations to support our Infant Formula Plant

Complementing the strong progress with the infant formula plant, in FY22 the remaining 2 farms completed their conversion to certified organic pastures and all farms transitioned to A2 only cow herds. In October 2022, the herd on the Brucknell North farm will be certified organic, meaning all farms will have transitioned to organic A2 protein milk production. Organic A2 protein milk fresh from our farms will be used to produce the Ocean Road Dairies organic A2 infant formula range as well as organic A2 milk powders.

In FY22 the Group's farm portfolio was restructured to ensure it properly aligned with the Group's manufacturing requirements. As farm milk production significantly exceeded manufacturing capacity, the Group decided to reduce the farm portfolio to free up capital and take advantage of record price growth for farm properties in Southwest Victoria.

The Ecklin South farm was sold for \$5.625 million enabling the Group to pay out the remainder of its finance facility with CBA and deliver a debt-free balance sheet on repayment. The Brucknell North farm was sold for \$6.425 million and the proceeds will be used to support further investment in infant formula inventory and for general working capital. The Group continues to operate the Brucknell North farm via a leaseback arrangement giving it significant flexibility in relation to its raw milk requirements.

Fresh Processing

In FY22, difficult but strategically important decisions were made to restructure and ultimately cease our fresh dairy processing operations at the Manifold Street site. The fresh dairy processing segment has weighed on the Group's financial performance because of increasing production cost pressures, competition from fully automated, low-cost competitors, and resourcing and logistics disruptions.

Following strategic reviews of the fresh operations, the Group ceased manufacturing yoghurt for The Collective in April 2022 and, shortly thereafter announced it would cease fresh milk processing at the Manifold Street site by the end of August 2022. All processing has now ceased at the site which will be used on a short-term basis for storage while the Group explores opportunities to sell the remaining equipment and lease.

Most of the staff have transitioned to the infant formula plant allowing the Group to retain its skilled dairy processing staff ready for commercial production in September 2022. We have assisted the remaining staff secure other employment with local businesses in the region.

Closure of the fresh processing plant will deliver significant cost savings for the Group's insurance portfolio, reduce operating complexity by running a single operational, quality and compliance system for nutritional products only and, avoid upcoming maintenance and capital costs to the aging Manifold Street site.

Whilst closure of the fresh milk processing will result in an estimated \$4 million reduction in revenue for the Group, the Board believes the site closure will deliver an estimated \$1 million improvement at the EBITDA level, based on current circumstances.

Looking to the Future

Despite a challenging two years for the dairy industry amidst changing macroeconomic conditions and the challenges of COVID-19, the Group has used this period to complete our investment in

our infant formula plant and re-position our operations away from fresh dairy to focus on infant formula and dairy nutritionals.

Despite the challenges, our management team and their staff have performed to the highest standard and have enabled the Group to look confidently toward a strong future in FY23 and beyond.

The Board are confident our operations are strongly positioned to support the business as we move to leverage the investment in our vertical integration strategy with the launch of the Ocean Road Dairies organic A2 infant formula range and grow distribution of our future Gradulac Gentle range.

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) is a vertically integrated Australian dairy group which owns high quality organic and organic A2 dairy farms, and a processing facility located in Southwestern Victoria, the 'Golden Triangle' of Australia's dairy industry. In addition to our premium Future range of infant formulas the group has also commenced production what is Australia's first organic A2 infant formula made with farm fresh Australian milk in of a purpose-built infant formula factory. The Group is a trusted source of premium quality branded dairy products using fresh milk sourced direct 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.