

## Letter from the CEO – AHF's Transformation Journey

Dear Valued Securityholders,

It has been a significant journey over the last few years for Australian Dairy Nutritionals Ltd (AHF) and I want to thank those who have supported us along the way.

Now that commercial production at our infant formula plant has commenced and we have launched our Ocean Road Dairies Organic A2 infant formula, AHF is positioned very differently to that of its recent past. The future looks bright, and it would be remiss of me not to acknowledge and reflect on this journey.

Many of AHF's key milestones were delivered during challenging COVID-19 restrictions and I would particularly like to acknowledge the efforts of our dedicated staff during this period.

In 2018 we announced our 5-year strategy to become a vertically integrated producer of organic infant formula and premium powdered nutritional products. This was a bold ambition requiring long term commitment from our staff and securityholders. In delivering this strategy we have:

- completed the 3-year organic conversion of our farms and transitioned all farm herds to exclusively A2 protein cows, providing security of supply of scarce organic A2 protein milk
- purchased, funded and relocated an infant formula spray dryer from overseas.
- developed two company owned premium infant formula brands, both made with innovative ingredients and farm fresh Australian milk.
- constructed a purpose-built infant formula factory on our 42,000 sqm owned site located just 20 minutes from our dairy farms.
- installed, commissioned and successfully commenced commercial production of Organic A2 infant formula at our new factory.
- grown our infant formula manufacturing, quality assurance and compliance capability through our very experienced dairy industry team.
- developed and commenced a comprehensive and targeted sales and marketing program, to build sustainable and successful long-term brands.
- launched future Gradulac Gentle infant formula in the China cross border e-commerce (CBEC) channel and other export markets.
- secured national ranging and launched both brands in Chemist Warehouse (Australia's largest pharmacy retailer) through our Ocean Dairy joint venture with Wellnex Ltd.

After a period of significant investment in our farms, manufacturing and people we have exciting plans to grow shareholder value. AHF is focussed and well positioned for the future.

For those who would like to understand our journey in more detail, the following page provides a more detailed summary of the key elements of the transformation AHF has undergone.



Peter Skene

**Chief Executive Officer**

## AHF's Transformation To A Vertically Integrated Infant Formula Producer

### Developed Extensive Infant Formula Capability

- Infant formula manufacture, labelling and marketing is highly regulated – it is more closely aligned to pharmaceutical and healthcare products than general FMCG products.
- The category is a high loyalty one in which parents consider carefully what is fed to their baby. Recent tragic world events demonstrate what happens if there is a problem with infant formula manufacture or quality assurance.
- We have developed our infant formula from the ground up – our current team have built up and directly experienced the complexities in all areas of our operations from manufacture, quality assurance, labelling and sales and marketing compliance.
- We now have significant capability in this area that would be very difficult to replicate or replace and is a real asset to AHF.
- The importance of infant formula industry experience and knowledge cannot be underestimated for a highly regulated and complex product that is fed to infants.

### Infant Formula Sales and Marketing Expertise

- We have a very experienced and capable sales and marketing function led by Jaci Hegarty our General Manager of Sales & Marketing who has many years' experience working in infant formula, FMCG, pharmacy and healthcare industries. Jaci is supported by experienced marketing/sales specialists, one of whom has worked extensively with infant formula brands such as Bellamy's and Swisse Wellness (Biostime) in Asia and the cross-border e-commerce channel (**CBEC**).
- It was a significant achievement to successfully range both of our infant formula brands in Chemist Warehouse through our Ocean Dairy joint venture with Wellnex Ltd. This strategic relationship provides AHF significant sales support in the Australian pharmacy and retail markets including a national field team covering over 3,000 stores.
- Our AHF sales team are in advanced discussions with key customers in both domestic and international markets.
- Our marketing team have commenced a targeted and cost-effective marketing program covering multiple channels and is underpinned by strong performance metrics.

### Organic conversion of our farms and A2 cow herds

- It takes **3 years** to achieve organic certification of farms which is why organic milk is more scarce than conventional milk.
- AHF is not allowed to use any chemicals on its farms and has adopted organic farming methods which are more complex than traditional chemical and fertiliser farming methods.
- Converting to organic is also costly as milk production is lower whilst the pasture regenerates and farmers are only paid a conventional price for raw milk during the conversion process.

### **Built a purpose-built infant formula factory on our 42,000 sqm owned site**

- We started with a bare paddock 20 minutes from our farms with no services connected and the odd cow grazing on the paddock.
- Our building was extensively planned and built fit for purpose (infant formula production), so it meets environmental protection authority (**EPA**), trade waste and other regulatory requirements, as well as domestic and export licensing requirements.
- The entire building process was completed whilst dealing with COVID-19 restrictions.

### **Purchase and relocation of an infant formula spray dryer from overseas**

- This was an extremely complex process which required our team to relocate the infant formula mixing plant, evaporator and spray dryer from overseas to our new infant formula building.
- Our team then had to completely reconfigure and recommission the plant.
- By choosing a smaller dryer we can enter the Organic A2 infant formula market and scale up production as the Ocean Road Dairies brand grows, optimizing production run sizes.
- Our smaller dryer also cost AHF significantly less than large, high-volume dryers, reducing the investment and risk to our securityholders.

### **Commercial production of Ocean Road Dairies Organic A2 infant formula**

- As infant formula is very highly regulated, this was a huge task with a very high degree of complexity in all operational areas from manufacturing, quality assurance, label and marketing compliance to sales.
- We have a very experienced Management and manufacturing team who understand these complex processes and requirements.
- Test results of our first commercial production were excellent indicating very high-quality production and hygiene standards.

### **Developed two premium infant formula ranges both made from farm fresh Australian milk**

- Many brand owners in the infant formula industry purchase standard infant formula in bulk to can or, produce infant formula starting with powdered milk rather than fresh milk.
- AHF have leveraged the extensive dairy/food science backgrounds of our people to develop premium, differentiated infant formula made from farm fresh Australian milk.
- Both of our infant formula ranges include premium features including straight wall cans, scoop in a lid, cutting edge prebiotics and probiotics and essential vitamins and minerals.

The release of this announcement was authorised by the Board.

**Ends**

## Further Details

For additional company information or media enquiries, please contact:

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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 of Australia's first Organic A2 infant formula made with farm fresh Australian milk from our farms at our purpose-built infant formula factory. The Group is a trusted source of premium quality branded dairy products sold in Australia and overseas.*

### 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.*