ASX Code: AHF

2023 Annual General Meeting

CEO's Address

The 2023 financial year brought mixed fortunes for AHF. There were some key milestones achieved, namely the launch of the Ocean Road Dairies organic A2 infant formula following a long period of capital investment converting our dairy farms to organic A2 milk production and, commissioning our manufacturing facility in Camperdown.

Ocean Road Dairies is the first organic A2 infant formula range made with Australian, certified organic A2 protein milk, sourced from our dairy farms in Southwest Victoria. The Ocean Road Dairies range has been available domestically since late October 2022 in Chemist Warehouse and via the Ocean Road Dairies website.

Roughly 12 months after launching we are starting to see some positive signs that the Ocean Road Dairies brand and the product proposition is resonating with consumers but there is a way to go before domestic sales contribute in a meaningful way to the overall financial performance of the Group.

Sales of the Future range have been very disappointing. It appears consumers find the gradual lactose formulation difficult to understand, made more challenging by regulatory restrictions on what consumers can be told about the formulation of infant formula products. The FY23 accounts include a write down of future inventory of $917k.

In February 2023, the Depot Road manufacturing facility achieved export certification, allowing products manufactured at the facility to be exported to international markets. With this certification in place we were able to seek international distribution partners and, to date, we have appointed distributors for Vietnam and Canada as well as for the Ocean Road Dairies signature store on the JD.co.hk platform in China.

Challenges

Countering these successes were some significant headwinds.

Establishing two new infant formula brands in a competitive, highly loyal category like infant formula was always going to take time, not only to build brand recognition but also to build trust with parents.

In addition to this, we have had to deal with a challenging retail environment driven by significant increases in the cost of living as well as the disappearance of the daigou channel resulting in a material reduction in infant formula sales through the major domestic supermarket and pharmacy retailers.

The result of this was that the major retailers had very limited motivation to introduce any new brands to the category meaning we had to accelerate our focus on international markets.

We have exhibited at several trade shows in Asia and the USA and received excellent feedback in relation to the products however the timeline to access international markets is far longer, typically taking between 3 to 12 months after appointment of a distribution partner.

The cross border e-commerce (CBEC) and online to offline (O2O) channels in China allow for faster entry to the Chinese market as our products comply with the

CNCA registration requirements, however the Chinese infant formula market has also faced, and continues to face, significant challenges including the declining birth rate, cost of living pressures and increased ranging of locally produced Chinese formulas.

As such, we are seeking distribution arrangements in other Asian countries as well as North America and the Middle East. As already noted, we have appointed distributors in Vietnam and Canada and are working through the product registration process in both of these countries.

Cash position

The lack of infant formula sales have put significant pressure on the cash position of the Group. Throughout the financial year we secured some additional working capital via two private placements and a Share Purchase Plan however equity capital raising is difficult in the current market conditions and at the current share price and valuation.

We are very close to finalising a debt facility to support cash flows in the short term and expect to make an announcement in relation to this very soon. However, as everyone is aware, debt funding is expensive in the current interest rate environment and the loan need to be repaid.

Whilst we have a good understanding of the level of sales and factory utilisation needed to break even, it is still very difficult to predict when the Group will generate sufficient product sales to return positive cash flows. With these considerations in mind, and whilst not the preferred position, the Board made the decision to put the Brucknell South farm up for sale and is currently assessing its options in this regard.

FY23 Financial Snapshot

Overall, financial year 2023 was a difficult year for AHF and this was reflected in our financial results. The Group recorded a net loss from continuing operations of \$6.9 million, a net loss from discontinued operations of \$2.3million, net fair value gains of \$1.0million giving a total comprehensive loss of \$8.2m, a very disappointing result.

The net assets of the Group at 30 June 2023 total \$33.5million. Net tangible assets were 5.4 cents per share at the end of the financial year.

We also continue to focus on reducing operating costs. Our loss making, fresh dairy operations ceased in September 2022. The residual processing assets were sold for $1.05 million and the Manifold Street site lease transferred to the buyer which was a good result.

We have also made $1m in cost savings in insurance, labour and compliance costs.

Strategy Review

As Bernard mentioned, the Board conducted a complete review of the Group's strategy mid-way through the year in response to lower than anticipated infant formula sales and a challenging macroeconomic environment.

The revised strategy recognises it will take time to build product sales to a point where they are sufficient to generate positive cash flows for the Group and therefore, a different approach is required.

The revised strategy focuses on 4 key strategic pillars:

1. **Stabilise the Group's cash position**

   As mentioned above, it is still difficult to predict when sales will gain sufficient momentum to generate positive cash flows so we need to ensure there are meaningful cash resources to sustain the Group as it executes its revised strategy. Equity markets will remain difficult and debt funding assists in the short term but needs to be repaid.

As such, asset sales are the best option to generate cash and this is reasoning behind the Board's decision to put the Brucknell South farm up for sale.

2. Grow domestic and international distribution of the Ocean Road Dairies range

The Ocean Road Dairies brand is starting to get some traction in the domestic market and we will continue to work on expanding sales here, as well as in key international markets in Asia, Canada and the Middle East.

3. Increase utilisation of the Depot Road manufacturing facility

We are seeking out contract manufacturing opportunities to use surplus capacity at the Depot Road facility which will assist in covering fixed operating costs and mitigate the working capital impact as infant formula sales build.

We are also investigating complementary product extensions which utilise our milk powders as production inputs.

4. Synergistic consolidation opportunities

As Bernard mentioned, the industry landscape has changed significantly in the past few years so, a key pillar of our revised strategy is to proactively identify and investigate consolidation opportunities.

When investigating these opportunities, we are looking for arrangements which provide:

- access to new customers;
- access to new markets;
- increased utilisation of the Depot Road manufacturing facility; and
- operational cost savings and synergies.

In relation to new markets and new customers, there are several companies which are further progressed in terms of access to new markets and customers so it would be highly beneficial to utilise this expertise to grow our distribution network.

Additionally, partnering with a business which uses the surplus capacity at the Depot Road facility would have a significant impact on our financial situation and make a significant contribution to our fixed and semi-variable costs.

Finally, partnering with synergistic entities will also provide opportunities to reduce operational costs by removing duplication and to spread the corporate and administration costs over a larger base.

We acknowledge it has been a challenging year for the Group and want to thank shareholders for their continued support as we work to implement our revised strategy to improve the prospects of the Group moving forward.