Keytone Dairy
Corporation Limited
ABN: 49 621 970 652

Keytone Dairy

ASX Release
Quarterly Report
For the quarter ending 31 March 2021

30 April 2021

www.keytonedairy.com

KEYTONE DAIRY QUARTERLY REPORT

Keytone Dairy Corporation Ltd (ASX:KTD) ("Keytone" or the "Company") is pleased to provide the following update on its activities and lodge the Appendix 4C Cash Flow Statement for the quarter ending 31 March 2021. Keytone operates on a 31 March 2021 financial year and consequently, the 31 March 2021 quarter was the fourth and final quarter of its financial year 2021 ("Q4 FY21").

"The fourth and final quarter of FY21 completed an extraordinary year of strong triple digit growth for the business" stated Keytone CEO Danny Rotman. "This growth has occurred notwithstanding the magnitude of disruption caused by a global pandemic and the material disruptions to global logistics, pricing and the everyday work environment."

"The New Zealand Dairy business has realised record growth quarter-on-quarter, while the Australian business and Brands division have continued to surge forward."

"While the business has made certain short-term tactical decisions regarding the investment in working capital and opportunistic purchasing of inventory to mitigate macro-economic factors, these decisions have impacted the immediate result of FY21 and the final quarter. I am confident these will greatly benefit the business into FY22 as we continue to build on the solid foundations created and take advantage of new opportunities that present with added capabilities in the group."

Financial Performance

The fourth and final quarter of FY21, being 1 January 2021 to 31 March 2021, concluded a year of significant growth and milestones across the Keytone business. As previously announced, Keytone recorded significant sales growth across all segments of the business, resulting in consolidated revenues of $50.7m for FY21, a 125% increase from FY20 on a statutory reporting basis and a 59% increase on a pro-forma basis. These results were recorded notwithstanding a COVID impaired operating environment providing significant operating challenges and continued global logistics disruptions.

The New Zealand Dairy business had a record sales quarter of $3.4m and its highest sales month to date in March 2021 as it continues to reap the benefits of scale and efficiencies from the second manufacturing plant in New Zealand. Furthermore, the New Zealand business recorded a surge in EBITDA realising a positive swing of $1.5m[1], from a prior year loss of $778k. Keytone will seek to further accelerate this growth and momentum through the coming 12 months.

Through the quarter the net cash used in operating activities materially increased to $3.0m. This was driven by several key macro-economic factors and pro-active short-term tactics which the Company expects to realise the benefit from over the coming two quarters. The key drivers in the uplift of cash outflow from operations for Q4 FY21 were:

- Ongoing global logistics and shipping delays resulting in a shift in sales into the next quarter to some clients due to the late delivery of ingredients and packaging. This was compounded by the decision to carry higher inventory levels late in the quarter to mitigate the risk against

[1] Unaudited management results for FY21

further delayed sales and ensure continuity of supply to clients and the Company's own proprietary brands. This position is expected to unwind over the next six months on the basis that global logistics conditions improve;

- Rising key ingredient prices of both milk powders and protein ingredients, in some instances by more than 40% - these increases have been passed on and will be realised as inventory is converted to finished product and despatched;
- A pro-active tactical investment in working capital through the quarter, principally in opportunistic purchasing of inventory, to improve ambient margins and profitability through FY22. Material volumes of ingredients have been acquired across both New Zealand and Australia to mitigate against ongoing price increases being experienced across the health and wellness industry;
- Additional and anticipated inventory build has occurred ahead of previously announced contract wins for Coles and forecast increased volumes by key international clients coming on stream through forthcoming quarters;
- The Company secured a new leased warehouse in Melbourne for storage to reduce third party logistic costs and improve gross margins in FY22 as the Company continues to scale and fulfil significantly larger orders with increasing frequency. The additional warehouse has one-off upfront costs incurred during Q4 FY21 including the security bond, establishment of the warehouse and leasing fees; and
- Finally, the Company has undertaken a significant cost reduction program through Q4 FY21, resulting in higher one-off costs for the quarter, being redundancies, employee entitlement payouts, associated taxes and the cessation of multiple contractor/advisory relationships. These are targeted cost-out initiatives where roles are no longer required in the business in line with the Company's growth strategy and agenda. Further cost outs are to be actioned through Q1 FY22 and these combined savings, coupled with a growing sales pipeline and new contract wins, will further drive the Company towards net cash generation in FY22.

While the Company retains a strong cash balance of $4.1m and undrawn debt facilities of $1.8m, Keytone is in advanced discussions with its house banks and other lenders regarding an increase in the size of its facilities to support the working capital needs of the fast-growing business as it continues to scale. Keytone will update the market on these discussions as they are finalised in the short term.

The key financial metrics for Q4 FY21 quarter include:

- Consolidated cash receipts received from customers increased to $13.7m compared with $12.6m in Q3 FY21 and being magnitudes larger than the $8.3m of sales recorded in the prior corresponding period of Q4 FY20;
- Sales for the consolidated group totalled $13.2m for Q4 FY21 compared with $13.0m in Q3 FY21 and a 52% uplift from $8.7m in the prior corresponding period of Q4 FY20. The sales results do not yet reflect new contract wins announced to the market through Q3 FY21 such as the Coles contract, the full uplift of New Zealand Dairy customers nor the protein bar line facility due to come on stream at the end of June 2021, with production to commence thereafter;
- New Zealand Dairy recorded sales of $3.4m through Q4 FY21, being its highest sales quarter since listing, 26% larger than sales in Q3 FY21 of $2.6m and 161% greater than sales in the prior corresponding period of Q4 FY20 with recorded sales of $1.3m. The month of March 2021 recorded the highest sales month in the New Zealand business to date;
- Sales of the Australian powders business grew to $7.0m for the quarter while ready-to-drink

sales fractionally eased to $1.9m following a record quarter in Q3 FY21;

- Sales in the Brands division fell to $923k through the quarter compared with $1.4m in Q3 FY21. In parallel to this result the marketing spend through the quarter fell by $255k to $93k, demonstrating a strong correlation between sales and marketing spend in the establishment phase of the Company's proprietary brands.
- A material increase in net cash outflow from operating activities to $3.0m due to multiple macro-economic factors and conscious strategic management decisions as outlined above;
- Staff costs and taxes paid were up $1.0m through the quarter, driven in principle by a cost out initiative across the business with redundancies realised to streamline the operation ahead of the new financial year - these are non-recurring costs and will reduce the overheads of Keytone moving forward. Further cost initiatives are expected to be realised in Q1 FY22 as the group continues to move toward positive cash generation;
- During the quarter, a further $0.9m was spent on the expansion of Keytone's Sydney protein bar/snacking plant where capability enhancements and upgrades are expected to be finalised through the next quarter. To date the balance of the grant, being $560,000, is yet to be received and the next progress payment is expected in Q1 FY22, being the quarter ended 30 June 2021; and
- As at 31 March 2021, Keytone had a combined cash balance of $4.1m and undrawn debt facilities of $1.8m as outlined in the accompanying Appendix 4C.

Brands Division

Q4 FY2021 realised a reduction in the recorded sales of the Brands division of the Company. This reduction is attributable to and directly correlated with lower marketing spend through the quarter. Keytone will increase the marketing spend strategically through the FY22 year in order to further drive and increase sales and brand awareness across the market.

While the Tonik brand continues to perform well at this early stage and ahead of new product development launches under the brand, the realised reduction was largely the result of a delisting notice from Woolworths for SuperCubes purees. From April 2021 onwards purees will be unavailable for sale in Woolworths supermarkets. The product range will remain for sale in independent supermarkets and other select retailers. The Company has a number of ongoing discussions with regard to future ranging of purees.

The Company is continuing to pursue national and international discussions regarding further ranging and distribution of all its proprietary brands, including KeyDairy®, SuperCubes, Tonik and Gran's Fudge. Range reviews are continuing to occur domestically in addition to building upon the early success of the brands in China, Malaysia and the Middle East. Keytone will update the market on material outcomes as they occur.

A number of new product launches are slated for calendar year 2021 which will further expand the range, depth and breadth of the proprietary product portfolio as the Company continues to scale its branded offering.

Capacity Expansion

Capital Enhancements to the Protein Bar Manufacturing Facility

The expansion of the acquired assets of AusConfec through calendar year 2020 are highly strategic and complete Keytone's fully diversified manufacturing operation across powders, ready to drink protein drinks and protein bars. The ongoing upgrade offers significant upside for sales across the Company and substantial cross-sell opportunities for the Company's large existing client base and new contract manufacturing clients with regards to ready-to-eat healthy snacking and protein bars.

Expansion of the facilities advanced towards completion in Q4 FY2021 with capital expenditure progress payments of $859,000 incurred and as detailed in the accompanying Appendix 4C. No further progress payments from the previously announced and awarded grant were received during the quarter. The balance of the grant, being $560,000, is to be received through the forthcoming quarters.

Sales discussions with clients are advancing as the facility is completed. These existing and new clients for the manufacture of protein bars will provide an additional revenue source and improved earnings profile through the upcoming financial year as Keytone continues to grow across all divisions.

Other

Payments to executive and non-executive directors totalled approximately $A244,000 for salaries and wages in the period, as outlined in section 6.1 of the accompanying Appendix 4C.

As at 31 March 2021, 106,067,442 Performance Shares are on issue. The Class C Performance Shares were realised and converted to ordinary shares in Q4 FY21, as per the announcement made to the ASX on 5 March 2021. The Class G Performance Shares lapsed at the end of the period as the financial milestones associated with Class G were not met.

	Performance Shares on issue at start of period or issued through the period (A)	Performance Shares converted to KTD shares during the period (B)	Performance Shares expired during the period (C)	Performance Shares on issue at the end of the period (A) – (B) – (C)
Class A[2]	16,500,000	0	0	16,500,000
Class B[3]	16,500,000	0	0	16,500,000
Class C[4]	16,500,000	16,500,000	0	0
Class D[4]	23,255,814	0	0	23,255,814
Class E[5]	23,255,814	0	0	23,255,814
Class F[6]	23,255,814	0	0	23,255,814
Class G[7]	2,200,000	0	2,200,000	0
Class H[8]	3,300,000	0	0	3,300,000
Total	124,767,442	0	0	106,067,442

The release of this announcement was authorised by the Non-Executive Chairman, Mr. Peter James on behalf of the board.

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Further Information

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2 Each Class A Performance Share will convert into one share upon Keytone Enterprises (NZ) Company Limited achieving, $3,000,000 of earnings before interest, taxes, depreciation and amortisation (EBITDA) in any financial year occurring on or before 31 March 2022.
3 Each Class B Performance Share will convert into one Share upon Keytone Enterprises (NZ) Company Limited achieving, $6,000,000 of EBITDA in any financial year occurring on or before 31 March 2022.
4 Each Class C Performance Share will convert into one share upon (I) the shares achieving a 30-day volume weighted average price per share exceeding $0.30, and (II) Keytone Enterprises (NZ) Company Limited achieving, in relation to Keytone, $6,000,000 of revenue in any financial year occurring on or before 31 March 2022.
4 Each Class D Performance Share will convert into one share upon the Omniblend Pty Limited achieving, in relation to the Omniblend Group, $2,600,000 of earnings before interest, taxes, depreciation and amortisation, in any financial year occurring on or before 31 March 2022
5 Each Class E Performance Share will convert into one share upon the Company achieving a volume weighted average price of its shares over a period of 30 consecutive trading days upon which the shares are traded that exceeds $0.65 and, in relation to the Omniblend Group, $50,000,000 of annual revenue, in any financial year occurring on or before 31 March 2023
6 Each Class F Performance Share will convert into one share upon the Company achieving a volume weighted average price of its Shares over a period of 30 consecutive trading days upon which the Shares are traded exceeding $1.00 and, in relation to the Omniblend Group, $100,000,000 of annual revenue and $7,500,000 of earnings before interest, taxes, depreciation and amortisation, in any financial year occurring on or before 31 March 2023
7 Each Class G Performance Share will convert into one share upon the business of Super Cubes achieving sales revenue of $20,000,000 in the financial year ending 31 March 2021
8 Each Class H Performance Share will convert into one share upon the business of Super Cubes achieving sales revenue of $35,000,000 and Omni Brands Pty Limited achieving $5,000,000 of earnings before interest, taxes, depreciation and amortisation in the financial year ending 31 March 2022

About Keytone Dairy Corporation Limited

Based in Sydney and Melbourne, Australia and Christchurch, New Zealand, Keytone Dairy Corporation Ltd is an established manufacturer and exporter of formulated dairy products and health and wellness products. Keytone Dairy's wholly-owned subsidiary Omniblend is a leading Australian product developer and manufacturer in the health and wellness sector, with both dry powder, ready to drink and protein bar health and wellness-based product capability. In addition to Keytone Dairy's own brands, the company is a trusted production partner, contract packing for well-known brands in Australia, New Zealand and internationally. The Company's purpose-built production facilities in Australia and New Zealand offer a wide range of dairy, health and wellness and nutritional packing solutions, meeting the diverse needs of consumers from different markets and cultures. Please visit www.keytonedairy.com for further information.

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Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

Keytone Dairy Corporation Limited

ABN	**Quarter ended ("current quarter")**
49 621 970 652	31 March 2021

Consolidated statement of cash flows		**Current quarter $A'000**	**Year to date (12 months) $A'000**
1.	**Cash flows from operating activities**		
1.1	Receipts from customers	13,674	48,507
1.2	Payments for		
	(a) research and development	-	-
	(b) product manufacturing and operating costs	(12,695)	(43,810)
	(c) advertising and marketing	(93)	(758)
	(d) leased assets	(0)	(0)
	(e) staff costs	(2,963)	(9,491)
	(f) administration and corporate costs	(414)	(2,441)
1.3	Dividends received (see note 3)	-	-
1.4	Interest received	1	20
1.5	Interest and other costs of finance paid	(17)	(55)
1.6	Income taxes paid	(558)	(706)
1.7	Government grants and tax incentives	0	534
1.8	Other (provide details if material)	0	0
1.9	**Net cash from / (used in) operating activities**	**(3,065)**	**(8,200)**
	**** payment for leased assets have been reclassified to section 3.6 Repayment of borrowings consistent with AASB 16 disclosure requirements.***		

2.	**Cash flows from investing activities**		
2.1	Payments to acquire:		
	(a) entities	-	-
	(b) businesses	-	(2,286)

Consolidated statement of cash flows			**Current quarter $A'000**	**Year to date (12 months) $A'000**
	(c)	property, plant and equipment	(859)	(2,471)
	(d)	investments	-	-
	(e)	intellectual property	(3)	(22)
	(f)	other non-current assets	-	-
2.2	Proceeds from disposal of:			
	(a)	entities	-	-
	(b)	businesses	-	-
	(c)	property, plant and equipment	-	-
	(d)	investments	-	-
	(e)	intellectual property	-	-
	(f)	other non-current assets	-	-
2.3	Cash flows from loans to other entities		-	-
2.4	Dividends received (see note 3)		-	-
2.5	Other (provide details if material)		-	-
2.6	**Net cash from / (used in) investing activities**		**(862)**	**(4,779)**

3.	**Cash flows from financing activities**		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	12,859
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	75	(780)
3.5	Proceeds from borrowings	2,795	5,282
3.6	Repayment of borrowings	(2,565)	(4,616)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	**Net cash from / (used in) financing activities**	**305**	**12,745**

Consolidated statement of cash flows		Current quarter $A'000	Year to date (12 months) $A'000
4.	**Net increase / (decrease) in cash and cash equivalents for the period**		
4.1	Cash and cash equivalents at beginning of period	7,770	4,389
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(3,065)	(8,200)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(862)	(4,779)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	305	12,745
4.5	Effect of movement in exchange rates on cash held	(43)	(50)
4.6	**Cash and cash equivalents at end of period**	**4,105**	**4,105**

5.	**Reconciliation of cash and cash equivalents** at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	**Current quarter $A'000**	**Previous quarter $A'000**
5.1	Bank balances	4,105	7,770
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	**Cash and cash equivalents at end of quarter (should equal item 4.6 above)**	**4,105**	**7,770**

6.	**Payments to related parties of the entity and their associates**	**Current quarter $A'000**
6.1	Aggregate amount of payments to related parties and their associates included in item 1	244
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments

7.	**Financing facilities** *Note: the term "facility' includes all forms of financing arrangements available to the entity.* *Add notes as necessary for an understanding of the sources of finance available to the entity.*	**Total facility amount at quarter end $A'000**	**Amount drawn at quarter end $A'000**
7.1	Loan facilities	3,736	1,987
7.2	Credit standby arrangements	-	-
7.3	Other (please specify)	-	-
7.4	**Total financing facilities**	3,736	1,987

7.5	**Unused financing facilities available at quarter end**	1,749

7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.

The financing facilities outlined above include:

- equipment finance facilities, secured against selected plant and equipment. Commonwealth Bank of Australia is the financier at an average interest rate of 5.7% with an average maturity of December 2022;
- A secured rolling overdraft facility of NZD500k with ANZ New Zealand at an interest rate of 5.2%; and
- A secured rolling trade finance facility of up to NZD1,500k with ANZ New Zealand at an average rate of 2.29%.

8.	**Estimated cash available for future operating activities**	**$A'000**
8.1	Net cash from / (used in) operating activities (Item 1.9)	(3,065)
8.2	Cash and cash equivalents at quarter end (Item 4.6)	4,106
8.3	Unused finance facilities available at quarter end (Item 7.5)	1,749
8.4	Total available funding (Item 8.2 + Item 8.3)	5,855
8.5	**Estimated quarters of funding available (Item 8.4 divided by Item 8.1)**	1.9

8.6 If Item 8.5 is less than 2 quarters, please provide answers to the following questions:

1. Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

Answer: As outlined in the accompanying Quarterly Activities Report, the Company expects its working capital position to unwind in the short term as a number of strategic management decisions were undertaken in Q4 FY21 to benefit the longer term financial performance of the business. These include cost-out initiatives having a one-off and non-recurring impact on the cashflows of the reported quarter in addition to global logistic delays and onboarding of new clients through the first half of FY22 requiring a higher than normal inventory build.

2. Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer: The Company is in advanced discussions with its house banks and additional lenders to increase the size of its debt facilities to further support the working capital and capitalisation needs of the business as larger clients are onboarded, Brand Division is grown and the working capital converted to cash.

3. Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer: Based on the forecast of the unwinding of the working capital position and the expected grant receipts, the Company fully expects to meet its business objectives and continue its operations uninterrupted.

Compliance statement

1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.

2 This statement gives a true and fair view of the matters disclosed.

Date: 30 April 2021

Authorised by: Non-Executive Chairman, Peter James, on behalf of the Board
(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.

2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.

3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.

4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [*name of board committee – eg Audit and Risk Committee*]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".

5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.