



ASX Release Quarterly Report For the period ending 31 March 2019

30 April 2019

KEYTONE DAIRY QUARTERLY REPORT

Keytone Dairy Corporation Ltd (ASX:KTD) (“Keytone Dairy” 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 2019. Keytone Dairy operates on a 31 March 2019 financial year and consequently, the 31 March 2019 quarter was the fourth and final quarter of its financial year 2019 (“FY2019”).

Releasing the update to the market, James Gong, Keytone Dairy’s Chief Executive Officer, commented: “The fourth quarter has capped a successful FY 2019 for Keytone Dairy as sales continue to increase relative to prior years’ performance, and a number of significant milestones were achieved in the evolution of the Company, including the highly successful IPO in July 2018, multiple new product launches, an expansion of Keytone Dairy’s distribution channels, and receipt of further licenses and accreditations, including Organic and AA status from the BRC.”

“The results of the March 2019 quarter and FY2019 have been achieved with no additional capacity yet online as we continue to construct our new purpose-built manufacturing facility, and the building blocks are being put into place for this current 2020 financial year and beyond once the facility is online and operational.”

“As the construction of the new facility is completed in the coming months, I am excited to see the project finalised and the opportunities the Company will be able to capitalise on with the additional capacity and importantly broader product capability in a purpose-built, best-in-class manufacturing facility in New Zealand.”

Financial Highlights

The fourth and final (31 March 2019) quarter of Keytone Dairy’s transitional FY2019 saw a significant increase in total sales revenues and cash inflows from sales compared with the prior third quarter. The strong performance in the fourth quarter builds on the results of the prior quarters. As a result, this also translates into a significant uplift on year-on-year performance compared with the FY2018 result. These results were achieved notwithstanding the fact that the Company is currently not able to take advantage of the additional in-house manufacturing capacity that is currently being built, while the new manufacturing facility is under construction.

The financial performance highlights include:

- Total sales revenue **was up 31% for the quarter** (1 January 2019 to 31 March 2019) compared with the prior quarter ended 31 December 2018.
- Total cash receipts for the quarter **were up 43%** to \$819,000 compared with the prior quarter.
- Sales of Keytone Dairy proprietary branded powder products (as opposed to products contract packed for third parties) for the quarter **were up 25%** compared with the previous quarter.
- Sales of private label brands (products contract-packed by Keytone Dairy for third party customers) across the entire product range **were up 31%** compared with the previous quarter.
- With the 43% increase in cash inflows from customer sales, Keytone Dairy’s net cash outflows from operations were negligible at \$63,000 (compared to an operating “cash burn” of \$537,000 in the previous quarter).
- The cash outflows from investing activities for the quarter were only \$528,000, being purchases of plant and equipment for the second manufacturing facility currently under construction – being approximately half of the spend on that facility that was incurred in the previous quarter.
- As at 31 March 2019, Keytone Dairy had a combined cash balance of \$9,768,348, as outlined in the accompanying Appendix 4C.

Execution of Growth Plan

During the course of the quarter, Keytone Dairy continued to execute on its four-pillar strategic growth plan:

1. Capacity Expansion

Second manufacturing facility

Through the transitional FY2019, Keytone Dairy continues to operate its existing manufacturing facility with a normal manufacturing capacity of 1,500 tonnes per annum. As previously advised to the market, over the recent 12 months, the Company has been undertaking the construction of a second manufacturing facility.

Whilst construction of the second manufacturing facility is nearing completion, once online, the additional capability from the second manufacturing facility will take Keytone Dairy's total normal powdered product manufacturing capacity to 5,000 tonnes per annum, from the existing 1,500 tonnes per annum today. The additional capacity will provide the Company with an opportunity to grow sales by significantly expanding the Keytone Dairy range of its premium powdered dairy products, conduct a wider variety of manufacturing runs and offer a broader product offering to its private label clients, both existing and new.

Construction of the second manufacturing facility in Christchurch, New Zealand continues to progress. The facility is now water tight and secure and the installation of the plant and equipment has commenced, being the final construction stage of the project. The sterilised packing room arrived on site in December 2018 and the installation was finalised during the March quarter. The packing room is considered state of the art and includes 24 hours central sterilisation technology which is a first in the New Zealand market. The large scale two-tonne blender that was being prepared by the manufacturer underwent a compliance and final inspection visit from the Company's Head of Production during the quarter and is to be installed imminently in the new facility. The remaining automated plant and equipment, being a canning line, a sachet line and ancillary automated manufacturing equipment are to be inspected in the coming weeks and installed shortly thereafter ahead of final compliance and licensing assessments by the New Zealand Ministry of Primary Industries, ahead of the commencement of production.





Keytone Dairy's purpose built second manufacturing facility through the various stages of construction in Christchurch

Once the facility is completed, Keytone Dairy will be able to manufacture significantly higher volumes of finished product more efficiently, across a broader range of the Company's proprietary product suite, and re-align the sales mix towards higher value proprietary products, with a view to substantially growing sales.

Further expansion of manufacturing capacity

As announced on 25 January 2019, Keytone Dairy exercised its option to acquire the land known as "Lot 5" in the Izone Southern Business Hub in Christchurch, New Zealand. Consequently, in addition to operating its existing manufacturing facility, the Company now owns three blocks of industrial land in Izone, being Lots 8, 9 and 5. Through executing the option, the building blocks for future growth have been set in place, allowing for significant economies of scale over the medium term as the manufacturing capacity is built out to cater for demand which the Company cannot currently cater to given its capacity constraints, thus providing both critical mass and diversification to the Company.

Specifically, the option over Lot 5 has been exercised to enable the Company to:

- utilise additional land for further capacity roll out, as the Company develops its product range;
- facilitate the future potential of a larger integrated and purpose-built manufacturing facility across three owned blocks of land (each adjacent to the other) with multiple road access points, allowing for seamless drive-through distribution logistics (in addition to the Company's existing facility); and
- achieve economies of scale.

2. Product Expansion

Keytone Dairy Facility Achieves Organic Certification

As previously announced on 19 and 20 March 2019, during the quarter, Keytone Dairy received both organic certification from AsureQuality and Organic Exporter Certification from the New Zealand Ministry of Primary Industries ("NZ MPI") for the production of Organic Instant Whole Milk Powder.



AssureQuality, the State Owned Enterprise of the New Zealand government, performs organic audits on behalf of the New Zealand Ministry of Primary Industries. Keytone has passed a number of rigorous audits on achieving its organic status. These audits are in addition to the audits the Company complies with frequently from the Ministry of Primary Industries. As a result, achievement of Organic Exporter Certification followed from NZ MPI. This is the final step of organic certification from New Zealand government agencies and significantly enhances the capabilities and product depth of Keytone Dairy.



Keytone Dairy's official AssureQuality Certified Organic logo to be used on the Company's organic products

The organic dairy market is a significant addressable market which reached a value of around US\$18bn in 2017, growing at a CAGR of 8% during 2010-2017. Looking forward, the market is projected to reach US\$27bn by 2023, with a projected CAGR of 7% during 2018-2023¹.

Keytone will now commence production of organic product runs, ahead of securing long term contracts for its organic proprietary products and third party private labels. The AssureQuality and Organic Exporter Certification will enable Keytone to expand its proprietary product range into high value, premium products to meet demand both domestically and offshore.

Other

The Company is continuing to develop further proprietary powdered dairy products, including organic derivatives with the organic license for Instant Whole Milk Powder now received. These include customised products for specific distributors, retailers and geographic markets, and are expected to be released over the course of calendar year 2019 and as the new facility comes online.

Whilst new product development for Keytone Dairy's proprietary brands remains a strategic priority, the Company continues to work and partner with global supermarket chains and brands for the manufacture and supply of their private label brands. These relationships validate the Keytone Dairy credentials and high standards of quality. The Company looks forward to updating the markets on additional contract manufacturing relationships in due course.

¹ "Organic Dairy Market Report & Forecast 2018-2023" - International Market and Research Consulting Group

3. Expansion of Distribution Channels

Through the quarter Keytone Dairy continued work on expanding its distribution channels in a range of countries.

By way of example, recently the Company has been working on leveraging its existing Halal certification and establishing new distribution channels in the United Arab Emirates.

During February 2019, Keytone Dairy exhibited at the Gulfood 2019 trade show in Dubai, where the Company was part of the New Zealand stand. Gulfood is one of the largest food and beverage trade shows globally, held annually. Keytone Dairy received significant inbound interest from tradeshow participants for both its proprietary product suite and contract manufacturing capabilities for private label opportunities. Following Gulfood, the Company looks forward to updating the market with new agreements in due course.



Meetings with potential clients at Gulfood 2019 in Dubai and meeting with the Minister New Zealand Minister for Agriculture, Biosecurity, Food Safety and Rural Communities, Damien O'Connor

The Keytone Dairy team is continuing to actively work on further expanding the distribution footprint. The Company is continuing the process of recruiting senior and experienced sales staff to drive distribution channel expansion as well as sales volumes.

4. Geographic Expansion

Keytone Dairy continues to explore opportunities in new geographies. The Company is actively working on new partnerships and distribution agreements to leverage its clean, green, pristine New Zealand credentials in addition to its Halal certification and organic certification. The Company looks forward to updating the market on its entry into new geographic markets as it occurs.



In this context, most recently, Keytone Dairy successfully received AA status and accreditation from the British Retail Consortium (“BRC”) for food safety, providing further validation for the quality of the Company’s products and manufacturing process. The British Retail Consortium (BRC) first introduced its Global Standard for Food Safety, a GFSI benchmarked standard, in 1998. Today the BRC Global Standard for Food Safety has almost 16,000 certified sites in over 100 countries world-wide.



The BRC accreditation is a well-recognised global standard and will assist the Company when marketing to new clients and distributing into new geographies and markets.

Other

As at 31 March 2019, 49,500,000 Performance Shares are on issue. No performance share vesting or conversion milestones were met during the period, and no performance shares were redeemed during the period.

	<i>Performance Shares on issue at start of period</i>	<i>Performance Shares converted to KTD shares during the period</i>	<i>Performance Shares expired during the period</i>	<i>Performance Shares on issue at the end of the period</i>
	(A)	(B)	(C)	(A) – (B) – (C)
<i>Class A²</i>	16,500,000	0	0	16,500,000
<i>Class B³</i>	16,500,000	0	0	16,500,000
<i>Class C⁴</i>	16,500,000	0	0	16,500,000
<i>Total</i>	49,500,000	0	0	49,500,000

* * * * *

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.

Further Information

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About Keytone Dairy Corporation Limited

Based in Sydney, Australia and Christchurch, New Zealand, Keytone Dairy is an established manufacturer and exporter of formulated dairy products. In addition to Keytone Dairy's own brands, the company is a trusted production partner, contract packing for well-known brands in New Zealand and internationally. Keytone's purpose built dairy production facility offers a wide range of dairy and nutrition packing solutions, meeting the diverse needs of consumers from different markets and cultures.

Keytone Dairy's facility is certified with the New Zealand Ministry of Primary Industries, and Keytone holds a Certification and Accreditation Administration (CNCA) of the People's Republic of China manufacturer registration, thereby enabling export of Keytone's products to China. In addition, the facility holds a Halal certification from the Federation of Islamic Associations of New Zealand (an accredited body recognised by Islamic countries worldwide). Please visit www.keytonedairy.com

ENDS



Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

Name of entity

KEYTONE DAIRY CORPORATION LIMITED

ABN

49 621 970 652

Quarter ended ("current quarter")

31 MARCH 2019

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	819	2,598	
1.2 Payments for			
(a) research and development			
(b) product manufacturing and operating costs	(204)	(1,674)	
(c) advertising and marketing	(128)	(288)	
(d) leased assets			
(e) staff costs	(418)	(1,257)	
(f) administration and corporate costs	(172)	(1,516)	
1.3 Dividends received (see note 3)			
1.4 Interest received	40	146	
1.5 Interest and other costs of finance paid			
1.6 Income taxes paid			
1.7 Government grants and tax incentives			
1.8 Other (Listing process costs)			
1.9 Net cash from / (used in) operating activities	(63)	(1,991)	
2. Cash flows from investing activities			
2.1 Payments to acquire:			
(a) property, plant and equipment	(528)	(2,722)	
(b) businesses (see item 10)			
(c) investments			

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
	(d) intellectual property		
	(e) other non-current assets		
2.2	Proceeds from disposal of:		
	(a) property, plant and equipment		
	(b) businesses (see item 10)		
	(c) investments		
	(d) intellectual property		
	(e) other non-current assets		
2.3	Cash flows from loans to other entities		
2.4	Dividends received (see note 3)		
2.5	Other (cash acquired from acquisition of subsidiary)		17
2.6	Net cash from / (used in) investing activities	(528)	(2,705)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares		15,000
3.2	Proceeds from issue of convertible notes		
3.3	Proceeds from exercise of share options		
3.4	Transaction costs related to issues of shares, convertible notes or options		(1,220)
3.5	Proceeds from borrowings		
3.6	Repayment of borrowings		(439)
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	-	13,341

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of quarter/year to date	10,354	1,114
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(63)	(1,991)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(528)	(2,705)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-	13,341

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	5	9
4.6	Cash and cash equivalents at end of quarter	9,768	9,768

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	9,768	10,354
5.2	Call deposits		
5.3	Bank overdrafts		
5.4	Other		
	- business debit cards		
	- bank balances (held in trust)		
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	9,768	10,354

6. Payments to directors of the entity and their associates

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

Current quarter \$A'000
151
-

Director fees and salary for executive director and related parties.

7. Payments to related entities of the entity and their associates

- 7.1 Aggregate amount of payments to these parties included in item 1.2
- 7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2

Current quarter \$A'000
-
-

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	-	-
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	-	-
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

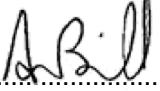
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9. Estimated cash outflows for next quarter	\$A'000
9.1 Research and development	-
9.2 Product manufacturing and operating costs	(541)
9.3 Advertising and marketing	(43)
9.4 Leased assets	-
9.5 Staff costs	(704)
9.6 Administration and corporate costs	(582)
9.7 Other (provide details if material)	-
9.8 Total estimated cash outflows	(1,869)

10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
10.1 Name of entity	N/A	N/A
10.2 Place of incorporation or registration	-	-
10.3 Consideration for acquisition or disposal	-	-
10.4 Total net assets	-	-
10.5 Nature of business	N/A	N/A

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.

Sign here: 
(Company secretary)

Date: 30 April 2019

Print name: Andrew Bursill

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly 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 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.