

KEYTONE DAIRY FULL YEAR FINANCIAL RESULTS

Sydney, Australia and Christchurch, New Zealand, Keytone Dairy Corporation Ltd (ASX:KTD) (“Keytone Dairy” or the “Company”), a New Zealand manufacturer and exporter of formulated powdered dairy and nutrition blended products, reports its audited full year accounts and financial results for the 12 months ending 31 March 2019 (FY19), delivering strong top line growth through the FY19 transitional year.

FY19 Highlights

- **Keytone Dairy successfully closed its ASX Initial Public Offering (“IPO”), substantially oversubscribed at the upper end of the subscription range, raising A\$15 million**
- **Significant sales growth in the full year to 31 March 2019 resulting in \$A2.51 million of total revenue from ordinary activities being recorded for the full year, an increase of 23.9% compared to the corresponding prior financial year**
- **Full year statutory loss of \$A3.29 million, with a large proportion of the loss resulting from one-off IPO costs, advisory expenses and a non-cash expense related to option grants**
- **Strategic implementation and execution of four-pillar growth strategy continued throughout the transitional FY19 year**
- **Construction of new purpose-built manufacturing facility, due to be delivered in mid-calendar year 2019, more than tripling the Company’s capacity to 5,000 tonnes per annum**
- **Confirmation that the Company’s foreign manufacturer registration with CNCA (Certification and Accreditation Administration of the People’s Republic of China) remains effective and is expected to remain effective through to November 2021**
- **Obtained Organic certification from the New Zealand Ministry of Primary Industries**
- **Continued investment in personnel, marketing and systems, including experienced board appointments**
- **Significant enhancement of the balance sheet in FY19, closing cash balance of \$A9.8 million, increase in total assets of \$11.8m and no gearing**

Releasing the full year financial results to the market, Peter James, Keytone Dairy’s Chairman stated:

“The results are particularly pleasing given the strong top line growth through the FY19 year where no additional manufacturing capacity or product capability was online. The investment of capital being undertaken through deployment of funds raised through the IPO process is significantly transforming the company’s operations and world class manufacturing facilities are being built. Once operational, these facilities will form the foundation for Keytone Dairy moving forward, delivering future benefits for customers and growth for shareholders.”

James Gong, Keytone Dairy’s Chief Executive Officer, commented:

“Keytone Dairy has achieved significant milestones throughout the year, including the highly successful listing on the ASX, and the results are reflective of the achieved milestones. The funds raised through the IPO have enabled the Company to take a step change in its development and

rapidly bring to market new manufacturing capability and capacity to serve the latent demand within our customer base.”

“Once the investment into and the new manufacturing facility is complete, the core capability of the Company will be significantly enhanced enabling us to further scale our successes of the FY19 year.”

Financial Performance

Through the FY19 transitional year Keytone Dairy continued a phase of rapid expansion and investment, following the success of the IPO on the ASX in July 2018. As a result of this significant growth and investment in the future capacity of the Company (not yet operational), the financial results of the Company are reflective of the nature of the transitional FY19 year.

Despite the additional manufacturing capacity not yet being operational, the realised growth is in large as a result of the launch of new Keytone Dairy proprietary products, resulting in significant increases in sales revenues compared to the prior corresponding periods.

Investment in construction of the second purpose-built manufacturing facility and associated plant and equipment continues in order to more than triple the production capacity of the Company due to come on line in FY20.

The financial highlights include:

- Total sales revenue up 23.1% to \$A2.51 million for the full year ended 31 March 2019 compared with corresponding prior financial year to 31 March 2018
- Keytone Dairy has delivered a compound annual growth rate in sales revenue of 26.4% since FY17
- Proprietary sales, being sales of Keytone Dairy products (as opposed to sales of third party private label contract packed products) accounted for 45% of the sales revenue of the Company in FY19
- Cash receipts from customers increased through the FY19 year by 33% to \$A2.86m compared with A\$2.15m in FY18
- Contraction of blended realised gross margin to 36% during the period as a result of the introduction of KeyDairy AMF. The manufacture of AMF is currently outsourced to a New Zealand third party on behalf of the Company and while production is outsourced, the AMF product line realises lower gross margins compared to the Company's powdered dairy business
- Statutory loss before tax of A\$3.29 million realised through the FY19 transitional year, principally driven by a non-cash expense related to option grants and non-recurring one-off IPO and compliance costs associated with listing the Company on the ASX in addition to one-off advisory expenses. The loss was further contributed to by the expansion of the cost base of the Company in advance of the additional capacity volumes due to come online upon completion of the new purpose manufacturing facility in mid-calendar year 2019
- As at 31 March 2019, Keytone Dairy had a cash balance of A\$9.7 million and no gearing as outlined in the accompanying Appendix 4E and Annual Report

At listing, Keytone Dairy had a market capitalisation of A\$30 million (based on the IPO issue price of \$0.20 per share and following the raising of A\$15 million). The Company's share price closed 80% up on its first day of trading and has performed strongly since, with significant support from shareholders and a market capitalisation of approximately A\$75 million at the date of this report.



Strategic Implementation of Four-Pillar Growth Strategy

During the course of FY19, Keytone Dairy has continued to strategically implement its four-pillar growth strategy:

1. Capacity Expansion

Through the transitional FY19, Keytone Dairy continued to operate its existing manufacturing facility with a normal manufacturing capacity of 1,500 tonnes per annum. The Company has deployed funds raised through the IPO to construct a second purpose-built manufacturing facility located in Izone Southern Business Hub, Christchurch, New Zealand.



Keytone Dairy's second purpose-built manufacturing facility under construction through FY19

Construction of the second manufacturing facility has advanced significantly through the year and is nearing completion. Once operational, the additional capability from the second 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 in the current operational facility. The additional capacity and new manufacturing breadth and capability 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.

Furthermore, the additional capacity will facilitate the re-alignment of the sales mix towards higher value proprietary products and offer significant new sales opportunities.

Further expansion of manufacturing capacity

To further enhance the medium term capacity needs of the Company, Keytone Dairy exercised its option to acquire the land known as "Lot 5" in the Izone Southern Business Hub in Christchurch, New Zealand during the FY19 year. 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. As discussed above, the Company is well-advanced with the construction of the second manufacturing facility on Lot 8.

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.

Keytone Dairy has laid the foundation of capacity expansion for the business over the medium term. Keytone Dairy will have the ability to operate four manufacturing facilities, including its existing premises, providing both scale and diversification to the expanded product range.



Example of Keytone Dairy proprietary products for sale on retail shelves

2. Product Expansion

Keytone Dairy has continued to execute on the second pillar of its growth strategy, product expansion, bringing several new proprietary products to market through the FY19 year.

These products have contributed to the growth of the top line performance of the Company and the powdered products will be further scaled once the new manufacturing facility is online.



Key Dairy proprietary products bought to market through FY19

Specifically, the Company has bought to market 4 new proprietary products in FY19 being Goat Milk Powder, Junior Formula Milk Powder, Diabetic Milk Powder and its first wet product KeyDairy® AMF in 18kg tins for the food service channel. Each product is targeted at core markets of Greater China and South East Asia.

Once the new manufacturing facility is online with greater capacity and product manufacturing capability, additional high value proprietary products will be bought to market in line with the



Company's four pillar growth strategy.

3. Expansion of Distribution Channels

Keytone Dairy continues to expand its distribution channels in China, a key market, whilst also adding further reach in its home market of New Zealand and Australia and further validating the Keytone Dairy brand and credentials globally.

Whilst maintaining its existing customer relationships and strategic online presence on JD.com and Tmall in China, throughout the period the Company has listed or ranged its proprietary products through additional retail channels/platforms, including:

- **Pinduoduo (China)** – the Chinese e-commerce platform with over 55.9 million daily active users, one of the fastest growing online platforms in China with the third largest market share
- **Shanghai First Food Mall (China)** – 12 metropolitan scale stores, two neighbourhood community stores, one branded provincial store and one flagship store in the heart of the shopping centre area, Nanjing Dong Road, Shanghai
- **Corner's Deli (China)** - provides access to 10 food stores in the Pearl River Delta of Guangdong and their online platform
- **Lotus (China)** - Lotus South China provides access to 38 stores primarily in Guangdong – the most affluent province of China as well as the Lotus website
- **Irexchange (Australia)** - provides access to over 540 independent retailers across Australia through the online platform. irexchange challenges the incumbent wholesale distribution model in Australia, connecting suppliers directly to independent retailers, without the need for a wholesaler
- **Kilo (New Zealand)** - Kilo supplies locally sourced and produced New Zealand ingredients and health and wellbeing products throughout New Zealand.

4. Geographic Expansion

The Company has obtained several highly sort after and internationally recognised accreditations through the year allowing it to further leverage its New Zealand providence of “green, clean, pristine” in existing and new international markets.



Keytone Dairy's AA Grade British Retail Consortium accreditation and New Zealand Ministry of Primary Industries Organic Certification

These globally recognised standards will further assist Keytone Dairy as it continues to market its proprietary products and manufacturing capability to new markets.

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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

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