

### **Market Update**

- **Infant Formula Plant construction on track**
- **Commissioning of the Infant Formula Plant targeted for completion mid-2021**
- **AHF's first certified organic farm, Yaringa, to be fully converted to Organic A2 milk production by March 2021**
- **First production of AHF manufactured Organic A2 Milk powder expected from July 2021**
- **AHF aiming to be Australia's first producer of Organic A2 infant formula manufactured from Australian milk**
- **AHF's organic milk wins 'overall milk champion 2020' for premium milks**
- **Seasonal farm conditions very favourable in South West Victoria**

#### **Infant Formula Plant Construction and Commissioning**

Construction of the building to house AHF's introductory infant formula plant is progressing very well. The building is being constructed on the Group's Camperdown Dairy Park site purchased in 2018, approximately 2km from AHF's existing manufacturing site in Camperdown, Victoria. The building will not only house the infant formula plant but will also allow for enhanced raw milk receipt and segregation (eg. Organic, A2, Jersey and conventional milk) as well as double the Group's existing capacity of dry storage.

Despite some delays in the final stages of the planning process as well as delays caused by COVID-19 restrictions, the building is beginning to take shape (as can be seen in the images below) and preparation works are in full swing for the re-installation and commissioning of the plant from January 2021.

Installation and commissioning works are expected to be finished in June 2021 for first production of the Group's Organic A2 milk powder (see Farm Update below). Infant formula production is expected to follow thereafter.





## Farms Update

Seasonal conditions in South West Victoria, where AHF's 5 dairy farms are located, are looking promising for financial year 2021. All AHF farms received strong rainfall during the winter months assisted by relatively mild temperatures over the same period. Spring brought continued frequent rainfall and plenty of sunshine resulting in strong pasture growth. This will reduce the amount of external feed required for the farms in the second half of the financial year when conditions are naturally drier. In addition, external feed costs have eased considerably from record highs last financial year due to the drought, thus the Group are expecting a marked reduction in external feed costs (a key cost driver for the farm portfolio) this financial year.

All our farms, other than the Drumborg farm are located 20 to 30 minutes from our manufacturing sites, in close proximity to each other. Drumborg is approx. 2 hours from Camperdown and the volume from this farm is surplus to AHF's requirements. The farm is now for sale and expected to be sold in the near future. The sale proceeds will be used to pay down almost half of our debt to strengthen the balance sheet and, increase our A2 herd concentration in the key farms undergoing organic conversion located close to Camperdown. When these farms achieve organic certification, the A2 cows will also be organic giving AHF a scarce raw material to add value to.

## A2 Organic powder and infant formula production

AHF's first farm, Yaringa, achieved full organic certification in November 2019 with all other farms on track to achieve organic certification in calendar year 2021. With certified organic A2 beta-casein only milk (**Organic A2 Milk**) in scarce supply globally, the Yaringa farm herd will be converted to full Organic A2 Milk production by March 2021, to time with commissioning of the Group's infant formula plant.

Conversion to a A2 beta casein producing herd is further 'premiumisation' of an already premium product in organic milk. The Board believes AHF will be, if not the first, one of the first vertically integrated dairy operations in Australia producing and processing Australian Organic A2 Milk. AHF's 100% Australian Organic A2 milk powder is expected to attract a significant price premium compared to standard organic milk powder.

Not only will AHF move into production of 'super-premium' products that capture both the Organic and A2 milk premium, AHF products will be augmented by "farm-fresh" branding which highlights our unique provenance position. Many infant formula businesses do not manufacture their own formula; they are tinning operations that pack infant formula base which has been manufactured by others utilising milk powder sourced from overseas. As a result, the milk ingredient in the finished product can be very old by the time it is packed into a tin.

AHF's milk powder and infant formula products will be unique in that they are manufactured in AHF's facility just 20-30 minutes from the fresh milk sourced from AHF's farms. Our short, vertically integrated supply chain not only provides superior quality control but also significant flexibility in both manufacturing

and inventory holdings to respond quickly to emerging industry and consumer trends. Many supply chains in the infant formula market are very long and supply disruptions can result in significant build ups in inventory of finished products. By comparison, our supply chain for the key ingredient milk, will be very short.

The Board believes that manufacturing our own farm-fresh infant formula from our own Organic A2 Milk will differentiate AHF from other manufacturers, in an estate-grown strategy similar to that of Australian premium wine and olive oil manufacturers.

### **Award winning raw material and processing**

Camperdown Dairy has been awarded the Victorian Overall Milk Champion for its Organic Low-fat Milk. This is a testament to the quality of the raw organic milk being produced from AHF's farms and the skill of Camperdown Dairy's processing team. It is this milk which will be used as the base for AHF's organic infant formula product.



### **The Future**

Three years ago, we outlined a 1- 5-year strategy by which we intended to become a fully vertically integrated producer, manufacturer and supplier of our own branded dairy products. On the 26<sup>th</sup> March 2018 we updated the market that this included conversion of our farms to organic and the production of organic dairy products, and, organic infant formula. To that business we are now adding the attribute of A2 milk production.

Considerable investment has gone into the realisation of this long term strategy and, with the commissioning of our own infant formula plant expected to be completed by the end of the financial year, the Board is becoming increasingly confident in the outlook and potential of the AHF business.

### **Further Details**

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**Communications Policy**

*AHF makes ASX market releases at times directors believe it would be helpful or necessary for investors and as required by the Listing Rules. For further information regarding our shareholder communications policy, please refer to AHF's website: [www.adfl.com.au](http://www.adfl.com.au).*

**About Australian Dairy Nutritionals Group**

**Australian Dairy Nutritionals Group (AHF)** (previously named Australian Dairy Farms Group) is a vertically integrated Australian dairy group which owns high quality dairy farms and a processing facility (Camperdown Dairy Company) located in South Western Victoria, the 'Golden Triangle' of Australia's dairy industry. The Group is a trusted source of premium quality branded dairy products using milk sourced fresh from its farms.

**Disclaimer – Forward Looking Statements**

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