

FY23 Appendix 4E and Annual Report

Australian Dairy Nutritionals Group Limited (**AHF** or the **Group**) advises that it has today released the Appendix 4E and Annual Report for the period from 1 July 2022 to 30 June 2023 (**FY23**).

Key Takeaways

- **Vertical integration strategy complete, with commercial production at the Group's new manufacturing plant and export certification in February 2023 however sales have been slow to gain traction putting pressure on working capital**
- **Consolidated net loss from continuing operations in FY23 was \$6.9m largely attributable to investment in production of export inventory plus sales and marketing costs, without material product sales**
- **Net assets total \$33.5m and net tangible assets of 5.4 cents per share**
- **Operating costs reduced through sale of discontinued fresh processing assets, transfer of the Manifold Street site lease, insurance, role restructuring and compliance costs**
- **Revised strategy to focus on three core elements: (i) international sales expansion; (ii) ingredient sales and product range extensions; and (iii) consolidation opportunities**
- **International distributors appointed for Vietnam, Canada, China (JD.co.hk and Tmall) and product registrations progressing for Vietnam and Canada**

FY23 has brought mixed fortunes for the Group. Whilst the vertical integration strategy is now complete, with commercial production and export certification of the new infant formula plant, we have invested significantly in export inventory as well as sales and marketing costs but this is yet to translate to material product sales.

The Group has recorded a net loss from continuing operations of \$6.9m, a net loss from discontinued operations of \$2.3m, net fair value gains of \$1.0m and a total comprehensive loss of \$8.2m, a very disappointing result. The results of continuing operations comprise a net loss from the dairy farms segment of \$724k, net losses from the nutritional powders segment of \$3.71m and corporate costs of \$2.5m.

As announced earlier this week, included in the nutritional powders segment is a write-down of \$917k relation to short-dated stock of the future Gradulac Gentle range. This range has been available in Chemist Warehouse stores nationally since May 2022. Sales of the future range have been slower to gain traction than anticipated most likely due to consumers finding the gradual lactose formulation difficult to understand. Moving forward opportunities for the future

range will primarily relate to international markets.

The net assets of the Group at 30 June 2023 total \$33.5m, a \$6.4m decrease from the June 2022 comparative of \$39.9m. The decrease is primarily driven by operating losses, offset by fair value increases and equity capital raising. Net tangible assets are 5.4 cents per share.

In FY23 the Group sought to reduce operating costs with the sale of the discontinued fresh dairy processing assets for \$1.05 million, transfer of the Manifold Street site lease and sale of the Group's home delivery business, Victorian Farmers Direct. These actions, as well as the unstapling of the shares in the Company and wind up of the Australian Dairy Farms Trust will reduce complexity and significantly reduce insurance and compliance costs in FY24.

The Board acknowledges that the disappointing operating performance and lack of material infant formula sales has put significant pressure on the working capital position of the Group. Now that the new manufacturing facility has obtained its export licence the Board is confident that our search for global distribution partners will result in the Group's ability to scale up its manufacture and product sales.

Until such time as the product sales build sufficient momentum to return positive cash flows the Group has several initiatives it can utilise to ensure working capital is adequate including short term borrowings, disposal of surplus assets (without impacting core operations) and further equity capital raisings (subject to refreshment of the Group's 15% placement capacity).

Strategy Revision

The significant losses have driven a reset of the Group's strategy to reduce operating costs and shift focus to three core elements:

(i) International sales expansion

The domestic market for infant formula sales has changed significantly due to COVID-19 border closures, sustained lock downs and working from home policies. Prior to COVID-19 significant amounts of infant formula on domestic supermarket and pharmacy shelves were exported to international markets, particularly China by personal shoppers (referred to as "daigous"). This channel contracted significantly, and the Board is of the view it is unlikely to return to its pre-COVID-19 position.

In addition, there have been significant structural changes in China which, prior to COVID-19 was the largest market for Australian infant formula. The birth rate has dropped significantly, cost of living pressures has reduced demand for high priced, premium infant formula and China's domestic infant formula brands have significantly increased their market share. Whilst the Group will continue to work with and support its Chinese partners and distributors, it has been necessary to improve focus on markets outside of China.

In FY23 the Group appointed distributors in Canada and Vietnam and is continuing negotiations with potential distributors in other key growth markets in Asia and the Middle East. The Group is working through the process of registering both infant formula ranges in Vietnam and Canada and as soon as the products are registered the appointed distributors will submit purchase orders for dispatch to these markets.

(ii) Ingredient sales and product range expansions

Whilst sales of the Group's Ocean Road Dairies infant formula range build, there is significant residual manufacturing capacity at the Group's facility. Using this residual capacity will assist in covering fixed operating costs and mitigate the working capital impact of the manufacturing operations in the absence of material infant formula sales.

The Group is focussed on securing contract manufacturing opportunities for milk powders for sale to ingredient and commodity customers, and other brand owners. We are also investigating complementary product extensions which utilise our milk powders as production inputs such as protein powders and adult powders. These products are not as highly regulated as infant formula products and therefore don't have such high barriers to entry in international markets.

(iii) Consolidation opportunities

As a listed entity, the Group has significant corporate and administrative costs including listing fees, registry costs, director fees and professional services fees.

There is scope to investigate potential consolidation opportunities with synergistic businesses which could spread these corporate and administration costs over a larger base. The industry landscape has changed significantly in the past few years and the Group will take a proactive approach to identify consolidation opportunities to pursue.

The release of this announcement was authorised by the Board of AHF.

Ends

Further Details

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About Australian Dairy Nutritionals Group

Australian Dairy Nutritionals Group (AHF) is a vertically integrated Australian dairy group which owns high quality organic and organic A2 dairy farms, and a processing facility located in Southwestern Victoria, the 'Golden Triangle' of Australia's dairy industry. In addition to our premium Future range of infant formulas the Group has also commenced production at its infant formula factory of Australia's first organic A2 protein infant formula made with farm fresh Australian milk, sourced directly from our organic certified dairy farms.

Disclaimer – Forward Looking Statements

This announcement may include "forward looking statements" within the meaning of securities laws of applicable jurisdictions. These forward-looking statements are not historical facts but are based on AHF's current expectation, estimates and projections about the industry, in which it operates, and beliefs and assumptions. Readers are cautioned not to place undue reliance on forward looking statements.