

25 February 2022

## LETTER FROM THE CHAIRMAN

Dear Fellow Shareholder

Back in May 2020, I provided shareholders with a comprehensive report on the progress of your Company, Beston Global Food Company Limited (BFC or “Beston”). A lot has happened since that time, all of which has been made available to shareholders in our various communication: ASX Releases, CEO Letters and Annual Reports. However, I thought that it would be useful, and timely, to pull all of the information from these various communications together so as to provide shareholders with a thorough understanding of where the Company stands at present, and how it is expected to progress in the coming months, and years.

A lot of strategic actions have been implemented, which will show positive, wealth building results for shareholders as we go forward, which I will explain hereunder. But first, it is important to recap on where we have come from, especially for those shareholders who are new to our register.

### 1. A re-cap on our journey so far.....

The purpose of the Beston Global Food Company Limited from the time of its formation in 2012 (as previously explained in our Mission Statement) was to be a leading, Australian based supplier of safe, clean, healthy protein products to the worlds growing consumer markets, particularly in Asia, by building a reputation for quality, innovation and integrity. The Company started out with a core focus around dairy products but with interests in meat, seafood and



health products in order to provide a wider offering of protein products to export markets.

BFC listed in 2015 and set out to achieve its objectives with a 10 year Business Plan consisting of three phases:

Phase 1: Fix, focus and build-out the assets acquired at the IPO (by end of Year 3)

Phase 2: Capitalise on the build-out in Phase 1 to grow earnings (years 4 to 5)

Phase 3: Accelerate the growth in earnings and realise the economic value of the investments made in Phases 1 and 2 (Years 6 to 10)

We noted, and advised shareholders, (as in our 2016 Annual Report) that we may need to refine our strategies for implementing the 10 year Business Plan as we went forward in response to changed conditions in our operating environment, but that our commitment to the Company's purpose would remain resolute.

As things have turned out, we have had to deal with a number of unexpected events and adverse occurrences since the time of our IPO, resulting in a number of tactical decisions being taken to address the problems and mitigate their impacts. These problems have been extensively documented in reports to shareholders but include:

- The non-performance of several strategic supply contracts in China, (which were addressed by accelerating our entry to the domestic Australian market and producing the best quality cheese products as quickly as possible to win awards and build a market presence, as explained in our 2018 Annual Report).
- Two years of drought in a row, in 2018 and 2019 (which was addressed by using the technology in our state-of-the art Italian built mozzarella plant to "stretch" our milk to provide different product offerings for different

customers and working closely with farmers to help them through their difficult times, as explained in our 2019 Annual Report).

- The on-set of the COVID-19 pandemic in early 2020 which effectively closed off our restaurant and food service trade (which was addressed by switching focus to food manufacturing customers, such as by winning a supply contract with McCain Foods, and by bringing forward the second stage expansion of our Lactoferrin plant via a capital raising and a South Australian Government grant as explained in our 2020 and 2021 Annual Reports).

Through all of these challenges we have stayed the course to keep focussed on our end objectives and have done what we said we would do. Over the period of five years, from 2016 to 2020, we implemented a comprehensive restructuring of the BFC portfolios in response to the different set-backs and adversities experienced via a number of management and operational changes, moving to 100% ownership and control of some assets, divesting others and instituting various capital management strategies.

The progress achieved by the Company in a relatively short period of time has been significant. Since listing in late 2015, BFC has successfully taken two substantial dairy factories out of receivership, rebuilt the assets, restored the export accreditation, brought the assets back into commercial production with elevated operating standards (i.e., to world best practice SQF standards), while building solid relationships with key stakeholder groups and communities. BFC also successfully completed the acquisition and installation of a state-of-the art Italian built Mozzarella plant at its Jervois (SA) factory and restored the cream and butter plant as well as the dairy fractionation (lactoferrin) plant, (which has been substantially expanded during the past twelve months as mentioned above).

Within this same time frame, BFC has built a reputation, both domestically and internationally, for producing premium quality dairy products, around a brand (“Beston Cheese” and “Edwards Crossing”) which previously did not exist. We have also won 153 major industry awards to date for the quality of our cheese products since listing in 2015 (including the prestigious Christian

Hansen Cup for the “Best Cheddar in Australia”). We are a young player in the dairy industry in Australia in comparison with our industry peers (most of whom have histories stretching back for more than 50 years) and have had to establish a position in the marketplace in competition with these well established, long time players by thinking strategically and working hard.

The milestones recorded in our dairy business during the journey thus far include:

- Year-on year growth in revenues of some 111% per annum on average over the five years to June 2021 (i.e., well in excess of the 20% YOY growth target in our business plan). BFC was recognised as the fastest growing food and beverage company in Australia and the second fastest growing food company in the Asia Pacific Region over the period 2016-2019 in a survey undertaken by the prestigious Financial Times, in conjunction with Nikkei Asia and Germany’s Statistica (April 2021).
- Despite a decline in total milk production across Australia, we have built our milk pool from 17 million litres (our own farms) in 2015 to circa 155 million litres currently (representing year-on-year growth of 135% per annum over the period).
- In response to a growing global demand for functional Dairy ingredients, we acquired a dairy nutraceutical “chassis” and have recently expanded it to fractionate whey protein streams and provide the capacity to produce more than 20 tonne of Lactoferrin per annum. Our Lactoferrin is recognised as one of the world’s most pure Lactoferrin products with high levels of bio-availability. We are currently exporting to multiple markets, including China.
- Only one of 10 manufacturers of Lactoferrin in the world with now installed capacity to produce 5% of the world demand for Lactoferrin in 2021.
- We have continued to grow our Dairy Foods portfolio and built capability and capacity in the production of high quality Mozzarella, more than tripling the total production output since 2019 (ie from 4,400 tonnes pa in FY2019 to approximately 15,000 tonnes pa currently). BFC is now well positioned to continue to respond to the

rapid growth of QSR (quick service restaurants) and Foodservices channel in a post COVID-19 world across the entire Asia Pacific region.

While the Company paid a dividend to shareholders in its first year of operations as a Public Company, the operational and other challenges experienced since this time have hampered bottom line performance and the ability to pay further dividends. Shareholders who have remained loyal to the Company through this time have been rewarded with Share Purchase Plans (SPP) and Entitlement Offers along the way at significant discounts to net asset values.

During its relatively short life as a Public Company, BFC has been progressively positioned so that it has a strong commercial outlook that can generate profitable sustainable returns as it goes forward. Our vision was not to be an “overnight success” but rather to grow sustainably with the view of producing reliable, consistent returns and creating wealth for our shareholders by having a clear sense of purpose with consistent values and by staying the course.

Much of the hard work has been done over the last six years, as in Phases 1 and 2 of our ten year business plan, and the foundations are in place for shareholders to reap the benefits. Substantial value-creation can be expected to occur over the next few years...for the reasons which I will explain below.

## **2. Management Changes**

The Chief Executives who have led BFC since our listing in 2015 have served the Company, and its shareholders, well. All were appropriately skilled and experienced for the respective stage of development of the Company during their tenure.

Sean Ebert, our initial CEO (2014-2018), did a great job in taking BFC through the first phase (Phase 1) of our 10 year Business Plan. As acknowledged in the 2019 Annual Report, his professional engineering and project management skills were instrumental for the asset build-out work which had to be done to rebuild the dairy factories at Murray Bridge and Jervois and install and commission the new high technology Mozzarella Plant which we acquired from Italy.

Our second Chief Executive, Jonathan Hicks (2019-2021), came with a wealth of knowledge and global experience, in the technical aspects of operating dairy

manufacturing facilities. As a Qualified Cheese-maker, Jonathan was instrumental in capitalising on the asset build-out work done (in Phase 1 of the Business Plan) and increasing factory revenues, yields and returns (with a focus on volume, value and velocity) as per the objectives in Phase 2 of the Business Plan.

Darren Flew (Chief Financial Officer) has done a commendable job in serving as Interim CEO since Jonathan Hicks stepped down in July 2021 for family reasons. The Board advised Shareholders that it would conduct a national and international executive search to find the best CEO to lead BFC through the third Phase of its Business Plan, to continue the growth trajectory of the Company and maximise the value for shareholders from the building blocks put in place in Phases 1 and 2 of the Business Plan.

This executive search process was hampered by the COVID-19 travel restrictions imposed by the Federal and State Governments and therefore took longer than we had hoped. It was nevertheless a very important appointment for the future growth and success of BFC, and the Remuneration and Nominations Committee of the Board was determined to find the right person to take the Company into the future and realise its potential, building on all the hard work which has been done.

Our Board believes that it has found that “right person” and was delighted to announce on 4 January, 2022, the appointment of Fabrizio Jorge as the incoming Chief Executive of BFC, effective 1 April, 2022. Fabrizio has had a stellar career in the global dairy industry. He started his working career with Nestlé in Brazil in 1997 and then worked with Nestlé in various executive positions across Asia, Oceania and Africa and the Middle East, including as Regional Supply Director with responsibility for Nestle’s dairy and nutraceuticals portfolio, based in Bangkok, Thailand.

Fabrizio subsequently joined Fonterra Cooperative Limited in 2009 and over the course of the next 12 years, worked in a number of senior roles, based out of Auckland, Sao Paulo, Bangkok, Singapore and Melbourne to help build and manage the Fonterra dairy ingredients business internationally, including as Director, Ingredients, Fonterra Australia and Managing Director, Fonterra Brands Thailand.

Since May 2021, Fabrizio has been the Chief Operating Officer of Bubs Australia Limited, overseeing significant growth into new markets in Asia and the USA. He is a familiar face within the Australian Dairy industry, having served from 2016 to 2018, as a Board Member of the Australian Dairy Industry Council and the Australian Dairy Products Federation where he has helped to shape the policy direction of Australia's dairy industry over recent years. Currently, Fabrizio continues to be active in supporting Dairy Australia with the development and implementation of their International Trade programmes.

Today, BFC has announced the appointment of Mr David Isherwood as Chief Manufacturing Officer, effective 26 April, 2022.

David is joining Beston after spending the past 20 years with Fonterra, where he has held various senior roles in the technical, quality and business areas of Fonterra's operations around the world, and worked out of Japan, Netherlands and New Zealand. He has served as General Manager, Technical and Business Development, Fonterra Japan Ltd; Manager, Cheese Category, Fonterra Ingredients Ltd (NZ); Director, Partnerships, Operations, Technical and Quality (Europe, Middle East and Africa), Fonterra Cooperative (Netherlands) and most recently was Manager, Key Projects, Fonterra Cooperative (NZ) and Manager, Business Development and Marketing, Fonterra Australia.

Prior to joining Fonterra, David spent seven years with the New Zealand Dairy Board in various technical, strategic, analytical and product costing roles. He holds Bachelor of Science (Chemistry) and Bachelor of Engineering (Hons) degrees from Canterbury University, New Zealand and a Diploma in Business Administration (Finance and Marketing) from Massey University, NZ.

David will replace Frank Baldi who has resigned from his position as Chief Operating Officer (COO) in order to retire from full time employment and live in Cairns with his family.

The Board of Beston has acknowledged the significant contribution which Frank has made to the Company in improving the operational processes and efficiencies of the factories and in upgrading the skill base of our factory workforce in a relatively short period of time. He has been instrumental in overseeing the commissioning of our Lactoferrin plant expansion at Jervois and

placing the Jervois and Murray Bridge factories on a trajectory of continuous improvement.

The change of title of the position from Chief Operating Officer (COO) to Chief Manufacturing Officer (CMO), from 26 April 2022, when David Isherwood starts with Beston reflects a re-focussing of the role to concentrate on the delivery of manufacturing excellence at our factories and build on the momentum established by Frank Baldi.

David brings to BFC a deep technical and global knowledge of cheese whey protein and lactoferrin manufacturing as well as strong leadership. He has driven some of Fonterra's most important business developments including commissioning of their mozzarella and whey plants in the Netherlands and the development of their IQF (Individual Quick Frozen) mozzarella plants in New Zealand.

Some of the broader functions previously performed by Frank Baldi as COO will be re-assigned to other senior executives with Beston under a restructure to be put in place by the incoming CEO, Fabrizio Jorge, which will allow David to concentrate his efforts on our manufacturing operation. Several other important appointments will be considered as part of this restructure and then announced.

### **3. Operations**

Our dairy factories at Murray Bridge and Jervois have undergone significant changes over the past 18 months, in terms of both equipment upgrades (to address the break-down issues in some of the supporting infrastructure as previously explained to shareholders) and efficiency improvements. As noted above, our retiring Chief Operating Officer, Frank Baldi, has done an outstanding job in driving these changes as well as putting in place best practice manufacturing practices and processes, improved work practices (including by introducing our new shift structures to deal with COVID-19 restrictions and be able to operate efficiently and effectively 24/7 through the milk peak) and has enhanced our capabilities with the addition of technically capable people in supervisory, team leadership and trade-skill dependent roles.



Frank has created a strong platform for David Isherwood to step in as Chief Manufacturing Officer to take our manufacturing operations to the next level and with a team who are now well equipped to do so. The workforce changes include the addition of a dedicated reliability team who have put in place a preventative maintenance program for both factories. While some work still needs to be done to replace some older sections of plant infrastructure particularly at Jervois, the general condition of our factories has been significantly improved under Frank Baldi's management.

We have a modern, state-of-the-art mozzarella manufacturing plant and a modern, latest technology, dairy nutraceutical (Lactoferrin) plant. We were let down last year with mechanical breakdowns in the supporting infrastructure (primarily the boilers, waste water disposal systems and multivac packaging machine) which failed when put under the stress of 24/7 operations from our increased milk supply. The weaknesses which were exposed in our infrastructure capabilities, and some operating practices, were rectified with new capital expenditures and risk mitigation measures as detailed in the 2021 Annual Report.

Added to these infrastructure issues in FY21, we experienced a break down in the Teflon coating in some sections of the mozzarella plant. While this was a warranty issue on the part of the Italian plant supplier, COVID-19 restrictions meant that the Italian supplier was not able to rectify the problem or supply the spare parts when required, which resulted in plant shut downs for short periods in December and April.

The issues were rectified through the ingenuity of our operations team, as explained in the 2021 Annual Report, and since the European economy has opened up again after COVID restrictions were eased, we have now been able to secure a spare set of Teflon coated pipework in stock should this unexpected failure of the Teflon occur in the future.

On an operational basis, the Company's dairy factories recorded their highest levels of activity to date during the half year to 31 December, 2021 reflecting the progress of our dairy business in line with our business plan and the strategic imperatives (as detailed at the 2019 AGM). The record levels of mozzarella, whey powder and cream production as reported in our half-year 4D ASX

Release, has been enabled by higher milk supply (to around 155 million litres on a full year basis) and higher plant throughput (increased efficiencies).

While the whey powder plant has recently experienced some reliability issues as reported in the 4D release, the overall performance of the Jervois Plant in the first half of this financial year (1H22) has been on target, with capacity utilisation for the mozzarella plant running at around 85%. These results are due in no small measure to the outstanding performance of the factory operations team who have overcome the significant operating issues impacting production in FY21 whilst also managing the challenges of constructing and commissioning the Lactoferrin plant expansion at the same time.

The loss of sales revenue from whey powder production, the higher export freight costs and delays in Lactoferrin sales, now skewed to the second half of this financial year (2H22), as all reported in the 4D Release, have impacted on the trading results for our first half and resulted in the Company reporting a loss for 1H22. Based on current trends however, and with further customer acquisition prospects impacting positively on Lactoferrin sales, the earnings results of the Company's dairy operations are expected to significantly improve in 2H22.

The strong operational performance of our dairy business in 1H22 underpins the continuing trend towards higher margins and profitability. The health of the business has improved by a continuing focus on the five strategic imperatives that we explained to shareholders at our 2019 AGM.

These imperatives have involved increasing the supply of milk, increasing capacity utilisation, broadening and deepening the sales pipeline, expanding the product mix (particularly mozzarella cheese products) and increasing the production of dairy nutraceutical products (primarily Lactoferrin). Taken together, these strategic imperatives represent a virtuous circle for increasing returns per litre of milk supplied.

In short, milk supply drives capacity utilisation of our dairy facilities, which have been increasingly geared towards higher margin protein and nutraceutical products supplied to a growing and diversified customer base locally and overseas. The ongoing successful execution of these strategic imperatives will

drive free cashflow generation in the business, which in turn will allow more milk supply to be secured, thus continuing the cycle of increasing returns per litre of milk supplied ..... and increasing the market value of the Company.

#### **4. Lactoferrin**

The investment which BFC has made in its dairy nutraceutical plant (firstly in buying the “chassis” in 2016 and then expanding with the latest technology in 2021) is aimed at capitalising on the “goodness of milk” and extracting as much value as possible from each litre of milk processed. Milk contains numerous proteins, such as Lactoferrin, which have significant health benefits, not only for their nutritive value, but also for their biological properties. One of the primary uses of Lactoferrin is as a key ingredient in premium infant formula.

With the recent expansion of our dairy nutraceuticals plant at Jervois, we have significantly ramped up our total Lactoferrin production and can confidently say that we are now one of the largest manufacturers of Lactoferrin in the Asia Pacific region (with production capacity having increased from 4 tonnes per annum maximum to around 25 tonnes per annum). Lactoferrin production has increased significantly as the new plant has come on stream, with the amount of Lactoferrin powder produced increasing from 1.3 tonnes for the full year FY21 to 7.3 tonnes for the first half of FY22.

As a testament of our quality and high purity levels as well as a customer centric approach, our Lactoferrin is now sold to some of the largest Infant Formula manufacturers in China. We are well placed to continue to expand key strategic partnerships and alliances in this area across Australia, New Zealand, Europe and Japan as we expand sales and diversify markets.

Looking to the end of FY22, our team is focused on converting further sales and consolidating our BIOLACTIVE, TRUEFERRIN and MIDFERRIN brands with key Domestic, Regional and Global Food & Beverage players.

We remain optimistic and upbeat about the potential of Lactoferrin as a broader functional Dairy Ingredient being used across the Food & Beverage industry in products to boost human immunity. Our global research indicates that over 65% of consumers globally are considering immunity benefits as top of mind when

making healthy food choice decisions today. We also believe that this trend will continue to grow exponentially in a post-Covid world.

As explained in our November 2021 Business Update and in the 1H22 ASX Release, the global market for Lactoferrin has softened since BFC committed to undertaking the expansion of its dairy nutraceutical plant, in large part because of the slowing of birth rates in China. As a flow-on consequence of COVID, young couples in China have deferred plans to expand their families, which has reduced the demand for infant formula.

These changes in the business environment have increased the supply available in other markets and skewed our sales of Lactoferrin towards H2 and later periods. As frustrating as these market developments may be, the profit generated from the sales of Lactoferrin to date (ie 2.3 tonnes) aside from another circa \$5 million of pre-tax earnings to be contributed from a further 5.9 tonnes of finished product on hand for sale from 1H22 production, has demonstrated the value of the investment made by the Company in its dairy nutraceutical plant. Even with the slower than expected sales to date, the pay-back period on the plant will be well under four years.

Our investment in plant and equipment to fractionate the protein streams in milk is part of a long game to capture opportunities arising from the rising global demand for health supplements which support human wellbeing by assisting the natural inflammatory responses in the human body and boosting immunity.

While our short-term focus is to secure and service our new client base for Lactoferrin, and ensure that our product meets their various specifications (in terms of purity levels), our technical and operations teams are now working on processes to provide an additional range of nutraceutical products from our whey streams.

We have already started producing small amounts of Lactoperoxidase and Immunoglobulins from a modest additional investment in our new nutraceutical plant and will gradually increase the volumes produced over the next twelve months.

Lactoperoxidase is an enzyme derived from milk that has anti-microbial properties. Its uses include cosmetics, oral hygiene and medical cleaning

products. In volume terms, we estimate being able to capture Lactoperoxidase at about one-third of the volume of Lactoferrin produced. Whilst not as valuable as Lactoferrin in the market, the incremental extraction cost is quite low.

Other key products we are either working on or actively considering include:

- Whey Concentrates – D40, D90, WPC, WPI. Concentrating and purifying the whey proteins in a powder for use in infant formula, health and sports powders and drinks.
- Alpha-lactalbumin. Also used in infant formula as this protein is abundant in human breast milk.
- Immunoglobulins (IgG, IgD, IgE, IgF, IgM). Boosts the immune function and promotes gut health by binding some pathogenic bacteria.
- Osteopontin. Found in high levels in human breast milk but in low concentration in bovine milk, this glycoprotein has strong calcium binding properties and is used in treating bone disorders.
- Bovine Serum Albumin. Has 538 amino acids in its structure and is used as a media in laboratories for its fatty acid binding properties.
- Beta-lactoglobulin. Is rich in branched chain amino acids (BCAA) and is used in sports nutrition as an aid to muscle repair and growth.

Each of these components of milk have different investment and operational requirements that will be evaluated, along with market opportunities to determine where we will focus our next investment to continue to extract more value from every litre of milk we process.

These investments are a key part of our business plan in evolving the health and nutrition division in our dairy business over the medium term and creating value for shareholders by providing consumers with safe and sustainable foods aimed at supporting optimal nutrition and healthy lifestyles.

We were disappointed last year that we were forced to cancel the official opening of the new Lactoferrin plant which had been scheduled for Friday 30

July, 2021. The plant was to be opened by the Premier of South Australia, Hon Stephen Marshall, but the imposition of new COVID-19 lockdown restrictions made it impossible to proceed with the arrangements that had been planned.

We have put the safety of our employees, our suppliers and our customers as first and foremost during COVID-19 and will continue to do so until we return to some form of “normality”. When that occurs, we will endeavour to put the arrangements back in place for an official opening and enable our shareholders to inspect the new plant and enjoy a light lunch with our factory and management teams. We have no understanding, at this stage, when that may be possible, but we will keep shareholders well informed and give you plenty of notice.

In the meantime, our team at the Lactoferrin plant have put together a brief video clip which can be viewed by clicking on this link:

[https://1drv.ms/v/s!Aknjgk\\_wvno1h1N9dROul\\_bUY7U?e=4JkfUh](https://1drv.ms/v/s!Aknjgk_wvno1h1N9dROul_bUY7U?e=4JkfUh)

## **5. Innovation**

At the core of our 10 year business plan has been a driving focus on innovation and the adoption of technology. We recognised at the outset that markets in which we operated were ever changing and becoming more competitive.

Good companies are the ones that cope with these changes. But “Great Companies” are the ones which create opportunities from these changes and adopt the latest technologies to stay ahead of their competitors ..... and that is what we have done.

At Beston, COVID-19, the most disruptive business event in a generation has been seen as an opportunity for change. While the coronavirus pandemic interrupted the momentum in the business and imposed additional costs, complexity and volatility, the changes put in place in response include:

- Expanding the Lactoferrin plant to not only increase production but change the raw material source so that Lactoferrin is extracted from our milk supply before the cheese-making process rather than using the whey liquid produced after the cheese is made.

- Widening the product range and the customer base so that the sales of mozzarella products are not so heavily weighted towards the food service sector.
- Improving productivity and reducing costs to provide greater flexibility in adjusting production to meet sudden changes in consumer demand.
- Pursuing market opportunities to expand our range of health and nutrition products, using the capabilities and capacities in our dairy nutraceuticals facility.

We have had a clear purpose from the outset (to be a leading Australian base supplier of safe, clean, healthy protein products to the world's growing consumer markets), a coherent strategy (as set out in our 10 year business plan), and a long-term focus. We have stayed true to our purpose, notwithstanding some tough operating conditions and unexpected adversities.

Along the way, we have employed some of the best technology in the world, such as with our Italian built mozzarella plant and our new high yielding Lactoferrin plant. Importantly, we have also developed some of our own technology and intellectual property, which is considered leading edge.

The OZIRIS track-and-trace technology developed within our 100% owned Beston Technologies company has been awarded 13 international patents and is finding applications well outside of its original food traceability and authentication objectives, as explained in Section 6 below. The technology has demonstrated superior performance over existing systems in trials for food recall management in supermarkets to minimise food waste, labour and resource costs as well as improving inventory restocking processes.

As a result of our focus on driving improvements in the efficiency of our operations and quality of products through innovation, we are currently working with the technology providers for our Lactoferrin plant to further increase the purity levels of our product. Our plant currently produces >95% purity Lactoferrin which meets current market requirements. However, we expect in the next few years that the market will increasingly demand even higher grades of Lactoferrin. With the latest available technology, we are well placed and are

proactively working to refine our processes further to be able to produce High Purity Lactoferrin >98% purity. Being able to offer a high purity product, one that is not readily available, will provide a further competitive advantage for the Company.

Recently, BFC announced that we had secured exclusive rights to the Danish Lyras Raslysat (‘‘Cold Pasteurisation’’) technology for use on Lactoferrin and other milk components in Australia and New Zealand. The technology is based on ultraviolet (UV-C) light and uses significantly less energy and water than traditional High Temperature Short Time (HTST) thermal pasteurisation processes. The use of cold pasteurisation techniques has been widely adopted in the fruit juice industry and has been approved for dairy products testing and validation within Australia.

BFC is currently working with the relevant authorities to provide the information required to gain certification of the Raslysat technology. The benefit of the technology is that it reduces the level of denaturing in the process of producing Lactoferrin and thereby increases the quality (bioavailability) and purity levels of the final Lactoferrin product, making the product highly suitable for pharmaceutical applications.

## **6. Beston Technologies**

Early on in the process of founding and developing BFC, we recognised that consumers around the world were changing their dietary habits and were looking, increasingly, for safe, high quality food options as well as health-enhancing nutritional supplements. We also recognised that consumers were also looking for transparency in the source and composition of food products and the ability to track-and-trace the ingredients in the products they purchased.

In order to enable consumers to verify the provenance of the products and be assured that they are safe to consume, BFC has built a proprietary technology platform which has been awarded with 13 patents including 2 Block Chain patents granted in the USA and Australia. Over the past few years we have further refined the technology so as to enable it to be used as a Software-as-a-Service (SaaS) by other food producers in Australia.



As a result of the refinements we have put in place, the Beston Technologies' platform has evolved into a multifunctional device which can be used in much wider applications, such as managing the recycling of plastic packaging (at waste transfer solutions), food recall management and carbon tracking.

The team at Beston Technologies has recently completed a Proof of Concept (POC) in conjunction with GSI Australia, Australian Dairy Federation (ADF) and EY on a review and trial of BFC's Mozzarella supply-chain (end-to-end) including the Jervois dairy factory and farmers. This involved ADF's draft traceability guidelines (full dairy supply chain including retailers) and BT's Blockchain and Smart contracts (food recall with Woolworths). A podcast is now being produced in conjunction with all of our supply-chain partners so as to explain Beston's profile and technology agility in these areas.

Beston Technologies is also working with the University of Adelaide, Enterprise Singapore, a Singaporean importer (WHATSHALAL), Provincial Foods, and Adelaide Microscopy with Government funding support to undertake a Proof Of Concept (POC) into spectral biological fingerprinting of Halal Foods (provenance and verification). Four spectral scanning technologies and machine learning, accessed via OZIRIS™ are being evaluated. The integrated first deliverable is due in late April 2022 and intended to be commercially trialled and licenced to WHATSHALAL in Singapore.

As explained in my Chairman's Address at the 2021 Annual General Meeting, much of the progress made by Beston Technologies has been achieved through a collaboration with the University of Technology Sydney (Computer Sciences), supported by the Australian Government's DIIS Entrepreneurs Programme, and a 3-year award of the prestigious CSIRO supported SIEF Ross Metcalfe Business Fellowship grant.

Obviously, the technologies which have been developed within Beston Technologies are not our core business but have significant potential to produce value for shareholders. As I have explained in previous communications, we started developing an anti-counterfeiting and track-and-trace technology for our own products after finding that the technology that we wanted to apply did not already exist in the world. The broader applications of the technology have

in a sense, almost come about “accidentally” as other companies have discovered that they also have a need for what we have developed.

Beston Technologies is 100% owned by Beston Global Food Company and, will have significant value once the commercialisation of its technology platforms has been completed and the technology has been deployed in the form of software-as-a-service licences and in smart contracts on our blockchain, all of which is nearing fruition.

## **7. Sustainability**

BFC has a distinct advantage in relation to its peers in dairy manufacturing in Australia in having its provenance in South Australia and being able to source our milk supplies from a non-GMO milk pool.

In recent years, BFC has implemented a number of initiatives to increase its sustainability and minimise our environmental impacts (and carbon footprint) as we grow. These include initiatives around water usage, packaging, waste and energy consumption as outlined in our 2021 Annual Report. We are an active participant in the Dairy Industry Roadmap Delivery Working Group which is working to achieve a circular economy in the use of packaging in the dairy industry.

The Company has installed solar power at our meat processing factory at Shepparton and is well advanced (after three years of feasibility and economic studies) with the adoption of a 4.0 megawatt solar and battery project for our Jervois Dairy factory.

At Shepparton, we are using the solar power generated to enhance our waste water treatment facilities in addition to replacing grid-sourced power in our factory.

The Jervois solar plant will form part of our “farming in the sky” project initiative whereby we will be able to provide renewable power to many of our contract dairy farmers and reduce their on-farm energy costs by around 50%. We have more than sufficient land at Jervois to expand our renewable power generation while also providing for operational expansion. The project will provide support to BFC’s contract dairy farmers to obtain efficient on-farm solar and battery

solutions (owned by individual farmers) and, by agreement to obtain additional renewable energy from a virtual network of suppliers and access bulk discounts (via in front of meter costs and sale of surplus power).

As we recognised in our 2020 Annual Report where we quoted University of Oxford Economist, Professor Colin Mayer: *“Companies exist to create profitable solutions to the challenges of people and the planet”*, we have taken the view at BFC that our responsibility is not simply to manufacture food and beverage products and generate returns to our shareholders. It is also about creating socially sustainable solutions to the problems faced in our industry, and where possible, to those faced by mankind more generally.

The objectives we have worked towards in our business are very much focussed around these twin objectives; that is, of meeting both our financial and corporate responsibilities to shareholders and our social and environmental responsibilities to the broader community. We recognise that our customers demand a cleaner, greener future and that our future success depends on meeting these demands as well as delivering long-term value for our shareholders. As Larry Fink, the Chairman and CEO of Blackrock has commented in his 2022 Letter to CEO's, *“In today's globally connected world a company must create value for and be valued by its full range of stakeholders in order to deliver long-term value for its shareholders.”*

Under the leadership of incoming CEO Fabrizio Jorge, we aim to make BFC one of the most sustainable dairy companies in Australia, as well as being the most inclusive and profitable (measured on return capital employed). To that end, we are developing a roadmap to take BFC to net zero carbon emissions and are in the process of going to market to find a person suitable to be our Chief Sustainability Officer and drive the projects which we are putting in place to achieve the decarbonisation of our business. We aim to lead by example and take our farmers with us on this decarbonisation journey.

In addition to the Jervois renewable energy project and the “farming the sky” project outlined above, BFC has established a partnership to facilitate the introduction of a dairy cow methane abatement scheme using an accredited feed supplement for its contract dairy farmers. A trial in South Australia on two dairy farms is being planned to demonstrate the potential benefits of this

approach. Beston Technologies will provide technology services to provide provenance, regulatory compliance, and verification of the carbon savings.

Based on agreements reached at the recent UN Climate Change Conference (COP26) in Glasgow, and decisions taken by regulatory authorities in Australia as a result (such as the guidelines issued by Victoria's Environmental Protection Authority in January 2022 for managing greenhouse emissions by businesses) it is likely that all participants in the dairy industry supply chain (ie farmers, processors, logistics providers, distributors, retailers) will, in the not-too-distant future, need to account for carbon efficiencies per enterprise (ie to make their carbon footprints visible in real time). The Beston Technologies patented OZIRIS traceability technology facilitates the tracking and tracing of ACCUs (Australian Carbon Credit Units) and is well positioned to provide a technology infrastructure for the management of enterprise carbon efficiencies and carbon credits.

## **8. Where to from here?**

The foregoing discussion has been important to provide the context for our forward business strategy (ie the delivery of Phase 3 of our ten year business plan), which includes focussing on the following key elements:

- To maximise the value extracted from our milk supply by value inherent in the “goodness of milk” by producing high value Lactoferrin and other high value nutraceuticals in addition to the Company's award winning mozzarella and other cheese products and then moving progressively on to the production of other high value nutraceutical products.
- Additional high value, high demand and margin nutraceutical products (which are in high demand) are capable of being produced from the existing platform as BFC completes its transformative journey in developing its health and nutrition division, centred around protein and protein derivatives, in line with the third stage of its ten year business plan (to realise the economic value from the investments made and maximise earnings).
- The opportunities to expand the production of nutraceutical products at the high end of the value chain include lactoperoxidase, GOS

(galactoligosaccharide), immunoglobulins and whey protein isolate, all of which command high prices relative to the “commodity” products produced from milk (such as cheese, butter, cream, etc).

- To build on our capacity and capability in the production of ready-to-heat meat products and plant based (alternative meat) protein products. The global demand for plant-based alternative meat products is estimated to increase by 100 fold to reach USD 1.4 trillion by 2050 (Credit Suisse) and represent around 50% of all food consumed by that time.
- To explore strategic partnership opportunities for profitable growth acceleration (including via toll manufacturing arrangements) and further diversify our earnings streams.
- To drive continuous improvements in operating efficiencies and cost reductions in our factories while maintaining a focus on innovation, product quality and customer service.
- To utilise our reputation for premium quality and market position to earn higher margins for our products. As the world has started to emerge from the widespread COVID-19 lockdowns, the demand for dairy products has increased substantially and the global prices of dairy products such as mozzarella, cheddar, butter, cream and whey powder have increased significantly in recent months. With a full order book for these products, BFC is well positioned to achieve increased price realisations on the back of these strong industry tailwinds. Accordingly we have put a comprehensive portfolio review in place to initiate price rises across all products, including freight recoveries, with the aim of increasing the margins earned on these products. The objective, in short, is to make more from what we make. These price adjustments will start to flow through in 2H22 earnings.

Put another way, Phase 1 and Phase 2 of our 10 year Business plan were focussed around building out our asset base and driving production to maximise capacity utilisation (with all milk received at our dairy factories processed through our own facilities). The focus of Phase 3 is to leverage off the quality of our products and drive margin growth (and profits) in a diversity of consumer channels and markets.

With the recent recruitment of Fabrizio Jorge, David Isherwood and other highly experienced global dairy and food players, we have the team in place to deliver on all the objectives in our forward business strategy.

What is important to note about these recent appointments is that BFC is attracting many highly skilled, and experienced, seasoned operatives from the global dairy industry into its employment as we progress forward. Most of the key industry players have watched from the sidelines over the past few years to see whether we achieved what we set out to do. They can now see that the senior personnel who are joining us are doing so because they understand the direction in which we are heading at BFC and the potential we are going to be able to achieve. Their recruitment is a strong endorsement of the strategic direction and future growth of the Company.

Not only does BFC have the pieces in place to be one of the leading food and beverage companies in Australia, but we are also well positioned to capitalise on the secular global themes around the supply of protein to “feed the world” (with a global population increasing to 10 billion by 2050 and a rapidly expanding middle income class) and an ever increasing focus on health, nutrition, food safety and food security. We have built a highly scalable business (as explained in our 2017 Annual Report) and are also well positioned to participate in the rationalisation which is currently taking place in the Dairy Industry in Australia.

Over the next few months, we hope to be able to announce the results from a number of strategic initiatives and negotiations which are currently in train although the focus of our efforts in the immediate term will very much be around our operational and financial results.

The old adage that “Rome wasn’t built in a day” remains valid when looking at the build-out of a start-up business, as was BFC in 2015. Of course, it would have been very satisfying if we were able to reach the point where we are today in the business, much earlier. But, the reality is that it takes time to build a great business, and we have had to jump through many hoops and over many hurdles along the course of our journey. The half year results for FY22 is not a good indication of the “run rate” of the business, for the reasons explained in this letter. Assuming that no unforeseen events occur in the period through to 30 June 2022, our Board believes that the 2H22 result will provide shareholders

with a much clearer indication of the earnings potential of the business over future periods.

We still have a way to go to realise on all of the original objectives when we put the Company together. However, we have come a very long way in the process of building BFC over the past six years and believe that all shareholders can look forward to an exciting and rewarding future as we continue to build on our hard yards of the past.

On behalf of the Board, I thank you and all of our shareholders for your patience and continuing support as we continue to grow and develop BFC to realise on its potential.

With best wishes



**Dr Roger Sexton AM**  
Chairman

This ASX Release was approved and authorised for release by the Board of BFC.

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