

ASX RELEASE

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ASX: BFC

SALE OF DAIRY FARMS SECURES MILK SUPPLY AND POSITIONS BESTON TO FOCUS ON STRATEGIC GROWTH IMPERATIVES

- **Aurora Dairies to acquire Beston's dairy farms for \$40.4 million in cash.**
- **Transaction secures 100% of milk supply from these dairy farms for 10 years, with option to extend.**
- **Sale proceeds to reduce debt (to around 10% gearing) and fund Mozzarella and Lactoferrin production expansion.**
- **Transaction expected to complete by 30 September 2020.**
- **Continues the transition to a higher margin cash generating dairy business.**

Beston Global Food Company Limited ("Beston", ASX: BFC) is pleased to announce the signing of an agreement with Aurora Dairies ("Aurora") for the sale of Beston's dairy farms in Mount Gambier to Aurora for \$40.4 million in cash ("Proposed Transaction").

Under the terms of the Proposed Transaction, Beston will receive all milk from the farms, currently around 17 million litres per annum ("MLpa"), over a ten-year period. Aurora is expected to continue to grow production from these farms in the future.

The sale process for the farms was conducted through an international open tender process which commenced in January 2020 with final bids received on 5 March 2020.

The timing of final bids coincided with the introduction of travel and other restrictions due to the COVID-19 pandemic. This impacted on the due diligence processes for a number of bidders and slowed negotiations. Notwithstanding, Beston has been able to manage its way through these issues as a result of the goodwill and understanding demonstrated by the short-listed bidders and has negotiated a binding sale agreement with a high quality counterparty.

The transaction is not predicated on a leaseback arrangement as Beston had offered to the market but provides Beston with milk supply security from these farms for a period of 10 years, with an option to extend.

Staff currently employed by Beston Farms will be offered on-going employment with Aurora, subject to normal recruitment screening processes.

The transaction achieves Beston’s strategic objectives of releasing capital for re-investment in higher returning dairy factory assets, whilst securing long term milk supply from the farms.

The proceeds will allow the investment program at the dairy factories to continue and allow Beston to fast-track the delivery of increased margins and sustainable free cash flow, while positioning the Company to drive other actions consistent with its five strategic imperatives announced at the 2019 AGM. The sale price of the dairy farms is above book value.

Commenting on the economic logic of the transaction, Beston Chairman, Dr Roger Sexton said “The sale of our dairy farms is an important milestone in implementing the strategic initiatives outlined at Beston’s 2019 Annual General Meeting, and continues the journey toward a streamlined, cash generating company. The dairy farms allowed us to secure milk supply during our start-up phase. Beston is no longer reliant on owning farms due to our long-term milk supply contracts with independent farmers. The Company’s focus, as it moves into its next stage of growth and development, is on increasing the utilisation of its production capacities and generating enhanced margins with a product mix based around higher production of Mozzarella and Lactoferrin.”

Dr Sexton noted that the transaction would also enable Beston to reduce debt and provide the balance sheet strength to take advantage of opportunities as and when they arose in the future in line with the Company’s long-term business plan.

Proposed transaction terms

Acquirer	<ul style="list-style-type: none"> • Aurora Dairies
Transaction structure	<ul style="list-style-type: none"> • Aurora to acquire a 100% of Beston’s four dairy farms in Mount Gambier, including farmlands, water licences and all other operating assets i.e. a WIWO basis
Milk supply agreements	<ul style="list-style-type: none"> • Ten-year milk supply agreement for all milk produced from the dairy farms (currently 17 MLpa)
Sale proceeds	<ul style="list-style-type: none"> • \$40.4 million in cash
Use of proceeds	<ul style="list-style-type: none"> • Increase milk supply to increase production output • Expansion of Mozzarella and Lactoferrin production • Debt reduction: initially to gearing levels of ~10%
Conditions precedent	<ul style="list-style-type: none"> • Subject to Foreign Investment Review Board approval and other usual conditions precedent
Key transaction benefits	<ul style="list-style-type: none"> • Mozzarella and Lactoferrin production expansion • Resets Balance Sheet gearing to ~10% providing the ability to fund further growth initiatives • Continuity of milk supply from Beston’s existing farms with a supplier capable of continuing to grow supply • Increased capacity utilisation of dairy facilities to deliver operating efficiencies

Pro Forma Balance Sheet

The following table shows the estimated impact of the sale transaction on the balance sheet as at 31 December 2019 (the last audited balance sheet).	31 December 19 Audited Balance Sheet (summary)	After sale of Farms
	\$m	\$m
Current Assets	37.8	37.8
Property plant and equipment	70.2	38.7
Biological assets	5.7	0.0
Other non-current assets	32.3	31.5
Total Non-Current Assets	108.2	70.2
Total Assets	146.2	108.0
Current Borrowings	20.9	1.4
Other Current Liabilities	18.6	18.6
Non-Current Borrowings	26.7	5.8
Other Non-Current Liabilities	2.9	2.8
Total Liabilities	69.1	28.6
Net Assets/Equity	77.1	79.4

Note: The actual impact on the balance sheet will be determined on settlement reflecting normal adjustments between contract signing date and final settlement date.

Milk supply

One of the key benefits of the sale of the dairy farms to Aurora is the securing of long-term milk supply from the farms and the opportunity to grow that supply from Aurora over time, while minimising operational farm risks. Beston will receive all milk from its dairy farms (currently 17 MLpa) over a ten-year period.

The Chief Executive of Beston, Mr Jonathan Hicks said: “We are pleased to be forging this relationship with Aurora who share Beston’s desire to invest in growing the milk pool in South Australia overtime. The transaction will ensure continuity of milk supply to our cheese production facilities at Murray Bridge and Jervois and continue our focus on increasing output and improving efficiencies within the business.”

Mr Hicks said that: “Notwithstanding some changes in product mix sales brought about by the closure of restaurants and other food service outlets during the COVID-19 pandemic, the demand for Beston’s Mozzarella products has been steadily increasing. When we posted our Half Year Financials in February of this year, we reported that Mozzarella sales had increased by 59% to 4,290 tonnes, an increase of 2,690 tonnes on the previous Half. Since then, Beston’s award winning Mozzarella cheese has received a further boost in recognition when the Mozzarella produced for a major Australian retailer received the coveted Canstar Blue Award for the Mozzarella Cheese category, amassing it’s full 5 stars for overall satisfaction.”

“The sale of the farms, the securing of milk supply and the positioning of the business to focus on Beston’s strategic growth initiatives comes at a good time for the business as we work through the other side of the restrictions brought on by COVID-19.” he said.

About Aurora Dairies (Aurora)

Established in February 2019 following the acquisition of 11 dairy farms from Warakirri Dairies, Aurora is committed to long-term investment in the Australian Dairy Industry. It currently manages 18 dairy farms in Victoria and South-East South Australia, with a forecast annualised milk production of 100 million litres.

Aurora employs local expertise to operate and improve the productivity of its dairy farms by employing and developing local talent, investing in technology and farm development strategies, and supporting infrastructure.

Aurora’s operating culture prioritises the Health and Safety of its employees and seeks to positively contribute to the environment and communities in which it operates.

CEO of Aurora Dairies, Ben James said, “We are very pleased to have secured these high-quality farms and increase our portfolio weighting to a very good dairy region. We look forward to building a strong commercial relationship with Beston over the coming years”.

For more information about Aurora Dairies visit www.auroradairies.com.au

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ABOUT BESTON GLOBAL FOOD COMPANY LIMITED

Beston Global Food Company is a proud SA multi award-winning company taking the best of Australian produce to the world with fresh milk supplied by valued Farmers. The company provides direct and indirect employment for nearly 300 people. For more information please visit: www.bestonglobalfoods.com.au