

ASX RELEASE

21 March 2019

ASX CODE: BFC

Further Update on Capital Management Considerations

Beston Global Food Company Limited (ASX:BFC) ('BFC' or the 'Company') advised shareholders in an ASX announcement on 11 January 2019 and in its Appendix 4D Release on 28 February 2019 that it was giving consideration to capital management initiatives to assist the Company in improving its profitability in the near term. The Board of BFC considers that there are compelling opportunities to allocate capital to projects which can accelerate the profitability of the Company.

As part of the process of implementing a number of restructuring changes in recent months, the Company has identified a number of areas in the factories at Murray Bridge (SA), Jervois (SA) and Shepparton (VIC) and the farms at Mount Gambier (SA) where investment in new technology and plant and equipment could result in significant cost savings and increases in profits from the existing revenue base. A total of ten investment initiatives have been classified as "low hanging fruit" in terms of providing relatively short pay-back periods. These relate to in-house packaging, dairy protein expansion, storage and logistics, production line upgrades, energy cost saving measures and dairy cow herd expansion.

The Company advises that after consideration of various capital management options, the Board of BFC has resolved to proceed with the implementation of a number of these initiatives through the utilisation of existing debt facilities and internally generated funds.

The existing debt facilities in place with the Company's bankers do not carry earnings-based covenants and are the most cost effective source of funds to achieve the targeted returns on investment (i.e. enable the shortest payback period to be realised).

The following initiatives have now been implemented via a draw-down against existing facilities:

- **Increase in Herd Size**

BFC has acquired 320 additional dairy cows to utilise the expanded productive capacity of the Company's owned dairy farms and increase on-farm milk production.

The total size of the dairy farm herd on the BFC owned farms now totals 3,470 cows.

- **Dairy Protein Plant**

BFC has acquired and installed equipment in the Dairy Protein Plant at Jervois to bring the freeze-drying, milling and packing activities for Lactoferrin production in-house.



- **Provincial Food Group**

BFC has acquired additional specialised equipment from overseas suppliers for its Provincial Food Group (PFG) factory at Shepparton, Victoria to enable PFG to meet the production requirements for three new significant customer contracts.

- **Cut, Pack and Shred**

Work has commenced on an initiative to acquire and install new state-of-the-art equipment to bring the Company's Cut, Pack and Shred requirements in-house (which are expected to result in net savings in the order of \$1.6 million per annum). This project involves the largest investment amount (around \$6million) of the ten investment projects which have been earmarked to lift the Company's profitability and is likely to take the longest period of time to bring to finalisation (with a target date for completion in Q4 of FY20).

The implementation of the Cut, Pack and Shred project will bring multiple benefits to the Company, not only by reducing direct processing costs (from the currently engaged external contract processing companies), but also by reducing transport costs, improving quality control in the finishing process and minimising product trim issues and wastage. An added advantage of bringing these product finishing operations in-house is that the Company will achieve total control of the final product supplied to consumers. It will also provide the flexibility in packaging needed to meet the requirements of a number of new potential customers.

The Board will consider other capital management initiatives in due course, as required, to fund the earmarked cost savings/profit enhancing initiatives and to optimise the Company's working capital around a level which Directors believe is appropriate to meet the on-going volatility in the dairy industry and enable the Company to grow its profitability (including by securing additional milk volume).