



ASX Release Quarterly Report For the period ending 30 June 2019

10 July 2019

KEYTONE DAIRY QUARTERLY REPORT

Keytone Dairy Corporation Ltd (ASX:KTD) (“Keytone Dairy” or the “Company”) is pleased to provide the following update on its activities and lodge the Appendix 4C Cash Flow Statement for the quarter ending 30 June 2019. Keytone Dairy operates on a 31 March 2020 financial year and consequently, the 30 June 2019 quarter was the first quarter of its financial year 2020 (“FY20”).

Releasing the update to the market, James Gong, Keytone Dairy’s Chief Executive Officer, commented: “The first quarter for the FY20 year was a record quarter in the history of Keytone Dairy, with respect to sales and the strategic acquisition of Omniblend. A number of significant milestones have been achieved across the business and Keytone Dairy is well-placed to capitalise on many strategic initiatives in the short-term pipeline.”

“Ahead of the new manufacturing facility being commissioned, the results of the first quarter have been achieved with no additional capacity yet online, and sales have increased considerably.”

“The acquisition of Omniblend offers a significant and complementary infrastructure platform for growth whilst enhancing the ability of the collective business to maximise the offering to our customers, being proprietary brand customers as well as our private label clients, such as the recently announced Walmart contract. Keytone will continue to leverage its clean, green, pristine, New Zealand provenance and credentials, as well as the highly complementary and robust Australian food safety standard conditions.”

Financial Highlights

The first quarter for the FY2020, being the period from 1 April 2019 to 30 June 2019, recorded a substantial increase in total sales revenues and cash inflows from customers compared with the prior, last quarter of the FY19 year. The record performance in the first quarter continues to lay the foundations for the success of Keytone Dairy ahead of the new manufacturing facility coming online. These record results were achieved notwithstanding the fact that the Company is currently not able to take advantage of the additional in-house manufacturing capacity that is under construction. The results for the quarter do not reflect any performance of the Omniblend business, as this acquisition remains subject to shareholder approval, scheduled for 26 July 2019.

The financial performance highlights include:

- Total sales revenue is **up 366% to approximately \$A1.5m** for the quarter compared with \$A0.32m for the prior corresponding period, being the first quarter of FY19 (1 April 2018 to 30 June 2018)
- Total sales revenue is **up 129% for the quarter** (1 April 2019 to 30 June 2019) compared with \$A0.65m for the prior quarter ended 31 March 2019
- Total cash receipts for the quarter were **up 75% to \$A1.4m** compared with \$A0.82m for the prior quarter ended 31 March 2019
- Sales of Keytone Dairy proprietary branded powder products (as opposed to products contract packed for third parties) for the quarter are **up 87% compared with the previous quarter**
- Sales of private label brands (products contract-packed by Keytone Dairy for third party customers) across the entire product range are **up 11% compared with the previous quarter**
- Repeat sale orders of the recently-launched Keytone Dairy’s AMF product and the private label Kobe Beef Milk Calf Replacer, an animal nutritional product targeted specifically at Kobe Beef calves in Japan, achieved during the quarter
- Significant one-off costs were incurred in the quarter in relation the acquisition of Omniblend Pty Ltd (“Omniblend”)

- The cash outflows from investing activities for the quarter were \$702,000, being purchases of plant and equipment for the second manufacturing facility currently under construction and nearing completion – this spend is in line with capital expenditure budget as the second manufacturing facility approached completion.
- As at 30 June 2019, Keytone Dairy had a combined cash balance of \$7,693,828, outlined in the accompanying Appendix 4C. In addition to the cash balance, during the quarter, Keytone received binding commitments for a placement of \$8,000,000 (to be completed following the shareholder approval sought at the shareholders' meeting on 26 July 2019) and launched a shareholder purchase plan of up to \$10,000,000. The placement was well supported in excess of the top range and significant scalebacks have been applied.

Omniblend Trading Update

As announced to the market on 17 June 2019, Keytone Dairy has executed a binding agreement for the strategic acquisition of Omniblend ("the Acquisition"). The Acquisition remains subject to shareholder approval to be sought at the forthcoming shareholder meeting, scheduled for 26 July 2019.

In recent weeks, **Omniblend has achieved a number of significant milestones. The key highlights include:**

- **Omniblend's proprietary products** are continuing to gain traction in the local market; and its own branded "Tonik", a functional lifestyle beverage with a number of product SKUs, has **secured national ranging with Metro Petroleum** stations. Metro Petroleum currently has 225 sites nationally around Australia and Tonik will be in stock in stores from September 2019.
- The **commencement of the integration** between the existing Omniblend manufacturing sites into one large-scale powder manufacturing site, ultimately leading to significant operational synergies. The integration of the facilities are further advanced than anticipated and the project is expected to be complete prior to the end of calendar year 2019.
- Omniblend has **entered into an exclusive manufacturing agreement** with one of the world's leading protein brands for a new range of ready to drink products. Omniblend has received the first sales order from the customer for approximately 40 tonnes of product, scheduled to be manufactured during August 2019.
- Omniblend has recently dispatched its first product for a leading day spa network and new client, Endota Spa, which has **launched a new product** with the first commercial production run taking place in early July. Endota Spa has over 100 premium locations throughout Australia and is considered the largest network of its kind in the country.



Selected examples of Omniblend's proprietary brand, Tonik

Update on the Acquisition of Omniblend

The Acquisition of Omniblend is a compelling and transformational acquisition for Keytone Dairy. Omniblend is a profitable and leading Australian product developer and manufacturer in the health and wellness sector, with both dry powder and ready to drink dairy based product capability. Following the Acquisition, Keytone will be fast tracking its development and the Acquisition is underpinned by a strong strategic rationale and articulated upon the Company's four-pillar growth strategy. Importantly, the Acquisition is highly EPS (earnings per share) accretive for Keytone's existing shareholders.

The highlights of the Acquisition include:

- **Keytone to acquire 100% of Omniblend, subject to satisfaction of conditions precedent including shareholder approvals**
- **Omniblend is a profitable and leading Australian product developer and contract manufacturer of health and wellness powdered and UHT drinks products**
- **Omniblend expects revenues of \$29.7 million and EBITDA of \$2.244 million for the 30 June 2019 year**
- **A highly strategic and attractive acquisition for Keytone's shareholders - Keytone is purchasing an order of magnitude increase in revenues and earnings base**
- **Omniblend is a highly complementary, accretive and synergetic business in a logical adjacency**
- **Omniblend holds numerous accreditations, including from the Certification and Accreditation Administration of the People's Republic of China**
- **Completion expected to occur following shareholder approval at the shareholders' meeting scheduled to be held on 26 July 2019**

The placement of \$8.0 million was very well supported by new and existing shareholders, including new institutional shareholders, exceeding the top end of the range and significant scale backs have been applied. The Share Purchase Plan is currently open to all eligible shareholders who held shares as at 7pm, Sydney time on 14 June 2019. The Share Purchase Plan offers those shareholders the ability to purchase up to \$15,000 worth of shares at a 20.0% discount to the 5-day VWAP at 14 June 2019 (the last trading day prior to the announcement of the acquisition of Omniblend), being a price of \$0.43. The Share Purchase Plan is scheduled to close on Monday, 15 July 2019.

Adding Omniblend's four Australian manufacturing sites to Keytone's facilities in New Zealand diversifies the Company's location and provides operational and distribution benefits, whilst Keytone's revenue base will be diversified through an expanded range of value-added products and services (brands, whey protein, sports nutrition, nutraceuticals and ready-to-drink long life UHT products). In addition to its current third-party manufacturing business, Omniblend creates formulations for its clients as well as for its own proprietary products, utilising an in-house product development team and laboratory. This allows organic growth through increased customers, expansion of its product offering with existing clients and cost efficiencies and operating leverage.

Through the Omniblend facilities, Keytone will have the ability to contract manufacture high-value formulated, blended powder products and UHT drinks. Omniblend currently counts leading brands and retailers amongst its client base, including Bellamys, OptiSlim, Carman's, Muscle Milk and Aldi Stores. Omniblend retains IP for formulations created for the majority of private label clients as well as formulations for their own proprietary brands.



Execution of Four Pillar Growth Strategy

During the course of the first FY20 quarter, Keytone Dairy continued to execute on its four-pillar strategic growth plan:

1. Capacity Expansion

Through the first quarter of the FY2020 year, Keytone Dairy continues to operate its existing manufacturing facility with a normal manufacturing capacity of 1,500 tonnes per annum. The Company continues to undertake the construction of a second purpose-built manufacturing facility.

Whilst construction of this new purpose-built and additional manufacturing facility is due for commissioning in the short term, once online, the additional capability from the second manufacturing facility will take Keytone Dairy's total normal powdered product manufacturing capacity to 5,000 tonnes per annum, from the existing 1,500 tonnes per annum today, on a one shift basis. Once the facility is completed, Keytone Dairy will be able to manufacture significantly higher volumes of finished product more efficiently, across a broader range of the Company's proprietary product suite, and re-align the sales mix towards higher value proprietary products, with a view to substantially growing sales.



Plant and equipment being installed and inspected for the new Keytone Dairy manufacturing facility through Q1 FY20

The plant is rapidly approaching completion and the remaining automated plant and equipment, being a canning line, a sachet line and ancillary automated manufacturing equipment are in the final stages of delivery and installation ahead of final compliance and licensing assessments by the New Zealand Ministry of Primary Industries.

Validating the capacity expansion pillar of Keytone Dairy's four pillar growth strategy, was the announced contract win with Walmart (China) Investment Co., Ltd ("**Walmart China**") to contract manufacture milk powder for Sam's Club West, Inc. (China) ("**Sam's Club China**"), a wholly owned subsidiary of Walmart Inc.





Sam's Club product labels for Whole (Formulated) and Skim Milk Powder manufactured by Keytone Dairy

Sam's Club is an American chain of membership-only retail warehouse clubs owned and operated by Walmart Inc., with 597 membership warehouse clubs in the US and 208 membership warehouse clubs internationally (including Mexico, Brazil and China). For the fiscal year ending 31 January 2018, Sam's Club generated US\$59bn in revenue globally. Sam's Club has over 50 million members globally, and Sam's Club China operates 18 superstores in China, located in Beijing, Shanghai, Shenzhen, Guangzhou, Fuzhou, Dalian, Hangzhou, Suzhou, Wuhan, Changzhou, Zhuhai, Tianjin, Xiamen, Nanjing and Changsha. Sam's Club China offers multi-channel distribution platforms for customers, including physical stores, online and via Sam's Club WeChat page.

Under the contract, Keytone Dairy will manufacture and provide Walmart China with Sam's Club private label-branded whole milk powder and skim milk powder. Over an extensive period of time preceding the execution of the contract, Walmart China has completed extensive compliance and quality audits on Keytone Dairy's facilities in Christchurch, New Zealand, demonstrating Walmart China's commitment to the relationship with Keytone Dairy as its contract manufacturer. Keytone Dairy has passed the rigorous audits in order to qualify for the supply arrangement and is pleased to have met Walmart Global quality and production standards.



2. Product Expansion

During the quarter, the Company launched a number of new premium formulated and functional powdered dairy proprietary products, including KeyDairy® SLIM Milk Powder and Key Dairy JOINT Milk Powder.



KeyDairy® Proprietary Products launched during the first quarter of FY20

KeyDairy® SLIM Milk Powder is a specially formulated milk powder with milk protein isolate which slows down the enzymatic digestion of protein to delay the onset of hunger for longer. It thereby assists consumers to feel fuller for longer and is a useful supplement in weight management control.

KeyDairy® JOINT Milk Powder is a formulated and functional milk powder, utilising core ingredients such as higher concentrations of milk calcium and minerals to assist with body bone formation, general joint health and the rehabilitation of joint related injuries.

Both KeyDairy® products are aimed at the premium markets and are to be packed in 400g and 900g cans, once the new manufacturing facility is operational. These products are ultimately aimed at Keytone Dairy's core markets, including China, and will be stocked through the company's existing distribution channels, including JD.com, Tmall, VIP.com, RT-Mart and Metro.

The products are designed for both the domestic and the export markets. Keytone Dairy holds a Certification and Accreditation Administration (CNCA) of the People's Republic of China manufacturer registration, which specifically covers the products, thereby enabling export of these products to China, where the Company has well-established routes to market, including those outlined above. The products are also Halal-certified, enabling exports to, among other geographies, the Middle East and the South-East Asian market.

During the course of the quarter, amongst the Company's usual product sales, significant follow up orders have occurred for a number of the Company's product offerings, including Keytone Dairy's first "wet" product KeyDairy® AMF and the Kobe Beef Milk Calf Replacer made under private label as a specialised nutritional blend to improve the survival rate of the highly valued Kobe beef calves in Japan. These orders are reflected in the sales results for the quarter.

The Company is continuing to develop further proprietary powdered dairy products, including organic derivatives with the organic license received. These include customised products for specific distributors, retailers and geographic markets, and are expected to be released over the course of calendar year 2019 and as the new facility comes online.



3. Expansion of Distribution Channels

Keytone Dairy continues to work on expanding its distribution channels in a range of countries, including further channels in core markets.



In recent months, Keytone Dairy has exhibited at a number of trade shows, including most recently at the International Food Exhibition (“IFE”) in Guangzhou, China. IFE is one of the largest trade shows in the region and is a leading B2B platform for international food manufacturers exporting their products to China. IFE hosts 8 featured sectors across the food and beverage value chain and offers unrivalled access to those seeking to further their business collaborations in the region. There were 1,810 exhibitors across 76,000 square meters of exhibition space with more than 130,000 visitors attending in three days.

Over the course of the three days at IFE, Keytone Dairy held a series of one-on-one meetings in its personalised trade stand with potential distributors, e-commerce platforms and new customers, both within China and more broadly throughout Asia. The meetings covered Keytone Dairy’s existing proprietary product suite, plus potential new proprietary products in the pipeline once the new manufacturing facility is online. Further discussion and interest was registered on the Company’s deep expertise in product development and manufacturing of powdered dairy products for private label brands from potential new customers in the region. The company looks forward to updating the market on further developments as the result of contacts nurtured and made at IFE in due course.

As announced to the market on 8 July 2019, Keytone Dairy has reached **agreement with RT-Mart** in China to range its

proprietary products, both online and in its hypermarket complexes. RT-Mart is part of the Sun Art Retail Group (“Sun Art”), a leading hypermarket complex operator in China. As of 31 December 2018, Sun Art holds an approximately 16% market share by retail sales value with a national footprint of 484 hypermarket complexes, covering 233 cities across 29 provinces, autonomous regions and municipalities in China, with a total gross floor area of approximately 13 million square meters. Sun Art has secured another 55 sites to open hypermarket complexes, 37 of which are under construction. Sun Art is approximately 36% owned by Alibaba Group.

The Keytone Dairy team is continuing to actively work on further expanding the distribution footprint. The Company is continuing the process of recruiting senior and experienced sales staff to drive distribution channel expansion as well as sales volumes.

4. Geographic Expansion

Keytone Dairy continues to explore opportunities in new geographies and will actively seek to work on new partnerships and distribution agreements for both its existing product suite and Omniblend’s proprietary products, leveraging both sets of complementary credentials. The Company looks forward to updating the market on its entry into new geographic markets as it occurs.



Other

As at 30 June 2019, 49,500,000 Performance Shares are on issue. No performance share vesting or conversion milestones were met during the period, and no performance shares were redeemed during the period.

	Performance Shares on issue at start of period	Performance Shares converted to KTD shares during the period	Performance Shares expired during the period	Performance Shares on issue at the end of the period
	(A)	(B)	(C)	(A) – (B) – (C)
Class A ¹	16,500,000	0	0	16,500,000
Class B ²	16,500,000	0	0	16,500,000
Class C ³	16,500,000	0	0	16,500,000
Total	49,500,000	0	0	49,500,000

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Further Information

Jourdan Thompson
Chief Financial Officer, Keytone Dairy Corporation Limited
Email: investors@keytonedairy.com
Tel: +612 9969 9690

About Keytone Dairy Corporation Limited

Based in Sydney, Australia and Christchurch, New Zealand, Keytone Dairy is an established manufacturer and exporter of formulated dairy products. In addition to Keytone Dairy's own brands, the company is a trusted production partner, contract packing for well-known brands in New Zealand and internationally. Keytone's purpose built dairy production facility offers a wide range of dairy and nutrition packing solutions, meeting the diverse needs of consumers from different markets and cultures.

Keytone Dairy's facility is certified with the New Zealand Ministry of Primary Industries, and Keytone holds a Certification and Accreditation Administration (CNCA) of the People's Republic of China manufacturer registration, thereby enabling export of Keytone's products to China. In addition, the facility holds a Halal certification from the Federation of Islamic Associations of New Zealand (an accredited body recognised by Islamic countries worldwide). Please visit www.keytonedairy.com

ENDS

1 Each Class A Performance Share will convert into one share upon Keytone Enterprises (NZ) Company Limited achieving, \$3,000,000 of earnings before interest, taxes, depreciation and amortisation (EBITDA) in any financial year occurring on or before 31 March 2022.

2 Each Class B Performance Share will convert into one Share upon Keytone Enterprises (NZ) Company Limited achieving, \$6,000,000 of EBITDA in any financial year occurring on or before 31 March 2022.

3 Each Class C Performance Share will convert into one share upon (I) the shares achieving a 30-day volume weighted average price per share exceeding \$0.30, and (II) Keytone Enterprises (NZ) Company Limited achieving, in relation to Keytone, \$6,000,000 of revenue in any financial year occurring on or before 31 March 2022.



Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

Name of entity

KEYTONE DAIRY CORPORATION LIMITED

ABN

49 621 970 652

Quarter ended ("current quarter")

30 June 2019

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	1,436	1,436
1.2 Payments for		
(a) research and development	(1)	(1)
(b) product manufacturing and operating costs	(1,103)	(1,103)
(c) advertising and marketing	(75)	(75)
(d) leased assets	-	-
(e) staff costs	(587)	(587)
(f) administration and corporate costs*	(1,069)	(1,069)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	35	35
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(1,364)	(1,364)

*Note section 1.2(f) includes one-off and non-recurring costs related to the acquisition of Omniblend

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(702)	(702)
(b) businesses (see item 10)	-	-
(c) investments	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
	(d) intellectual property	-	-
	(e) other non-current assets	-	-
2.2	Proceeds from disposal of:		
	(a) property, plant and equipment	-	-
	(b) businesses (see item 10)	-	-
	(c) investments	-	-
	(d) intellectual property	-	-
	(e) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	(702)	(702)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares	-	-
3.2	Proceeds from issue of convertible notes	-	-
3.3	Proceeds from exercise of share options	-	-
3.4	Transaction costs related to issues of shares, convertible notes or options	-	-
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	-	-

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of quarter/year to date	9,768	9,768
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,364)	(1,364)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(702)	(702)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	(8)	(8)
4.6	Cash and cash equivalents at end of quarter	7,694	7,694

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	7,694	9,768
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	7,694	9,768

6. Payments to directors of the entity and their associates

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

Current quarter
\$A'000

216

-

Salary for the executive director and director fees to non-executive directors.

7. Payments to related entities of the entity and their associates

- 7.1 Aggregate amount of payments to these parties included in item 1.2
- 7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2

Current quarter
\$A'000

-

-

NA

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	-	-
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	-	-
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		
NA		

9. Estimated cash outflows for next quarter*	\$A'000
9.1 Research and development	-
9.2 Product manufacturing and operating costs	805
9.3 Advertising and marketing	51
9.4 Leased assets	-
9.5 Staff costs	501
9.6 Administration and corporate costs	1,170
9.7 Other (provide details if material)	-
9.8 Total estimated cash outflows	2,527

* Note Section 9 relates to gross operational cash outflows and does not include cash inflows from generated sales and other income. The increase in product manufacturing and operating costs correlates to anticipated increase in sales. Further, the above outflows do not include the cashflows of the acquisition of Omniblend, subject to shareholder approval on 26 July 2019

10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
10.1 Name of entity	-	-
10.2 Place of incorporation or registration	-	-
10.3 Consideration for acquisition or disposal	-	-
10.4 Total net assets	-	-
10.5 Nature of business	-	-

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Sign here:
(~~Director~~/Company secretary)

Date: 10 July 2019

Print name: Andrew Bursill

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.