



ASX Release Quarterly Report

For the quarter ending 30 June 2021

30 July 2021

KEYTONE DAIRY QUARTERLY REPORT

Keytone Dairy Corporation Ltd (ASX:KTD) (“Keytone” 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 2021. Keytone operates on a 31 March 2022 financial year and consequently, the 30 June 2021 quarter was the first quarter of its financial year 2022 (“Q1 FY22”).

Upon releasing the quarterly activities report to market, CEO Danny Rotman, commented “The first quarter of FY22 has seen a number of initiatives worked on through the back end of FY21 begin to come to fruition with the results starting to flow through to the operational units of Keytone.”

“Over the course of the last six months we have undertaken several strategic and tactical decisions which sets Keytone up for further scalable growth in FY22, building upon the outstanding results of FY21.”

“The first quarter of the financial year 2022 has seen significant developments across all divisions of the group. Some of these highlights include the successful launch of Tonik Energy, new client wins in the New Zealand business and the final phase of commissioning the protein bar facility in Sydney prior to the first production run commencing in this new quarter. FY22 year promises to be another record year for Keytone with exciting developments to unfold in the quarters ahead.”

Financial Performance

The quarter from 1 April 2021 to 30 June 2021 represents Keytone’s first quarter of the financial year 2022. Q1 FY22 recorded strong financial results and the continued delivery of strategic business development objectives resulting in a growing and robust sales pipeline for the balance of FY22. The Company’s streamlined cost base is also delivering margin improvement across all divisions of the business. Total consolidated sales for Q1 FY22 were approximately \$13.4m, ahead of consolidated sales for Q4 FY21 and representing approximately 17% growth over \$11.3m from the prior corresponding period of Q1 FY21.

The New Zealand Dairy business recorded sales of \$3.1m through a seasonally quieter quarter, realising growth of 60% over the prior corresponding period of Q1 FY21. As forecast, opportunistic and previously flagged advance purchasing of inventory, particularly raw materials, saw a tangible benefit to ambient margins and ultimately profitability for the quarter within the New Zealand Dairy division. Through the quarter, the business recruited an additional senior sales representative who has secured new international sales to China with opening orders of approximately \$2m to be invoiced through Q2 and Q3 FY22, in addition to advanced and ongoing discussions with other potential new customers.

The Australian Contract Manufacturing and Proprietary Brands divisions continued to deliver strong business performance and are set for continued and profitable growth through the balance of FY22. Q1 FY22 sales for the Australian divisions totalled \$10.3m with an uplift in margins realised through the quarter as a result of proactive strategic decisions taken in prior quarters. While strong results for Q1 FY22 these results do not include the full sales impact of previously announced contract wins, principally the Coles contract. The initial sales under this contract were booked in the last week of June 2021 and the full impact of the Coles sales will be realised through Q2 FY21 alongside initial sales of the protein bar manufacturing facility and further new client orders.

Through the quarter the net cash used in operating activities materially decreased to \$1.0m from more than \$3.0m in the prior quarter, and \$4.3m in the prior corresponding period being Q1 FY21. This reduction was driven by the realisation of proactive strategic decisions with the benefits beginning to flow through all divisions of Keytone and expected to continue over coming quarters. Specifically:

- Easing of global logistics delays through the quarter and improved procurement management resulting in advanced bookings of transport logistics to ensure the orderly and timely booking of sales and ultimately cash collections;
- Keytone has begun to unwind higher inventory levels compared with Q4 FY21, converting working capital to cash. The impact of this unwind is in an early phase as inventory carrying levels remain higher than historic levels due to a robust forward sales pipeline, mitigating the risk against further delayed sales due to macro logistics challenges and ensuring the continuity of supply to clients and the Company's own proprietary brands;
- Keytone has realised the benefits of opportunistic purchasing of inventory as evidenced by margin improvement through Q1 FY21 supported by the benefits of scale and volume as the business continues to grow;
- Unlocking of additional leverage in the New Zealand Dairy business of NZD1m to efficiently manage working capital and drive further growth initiatives through FY22; and
- Finally, the benefits of the significant cost reduction program through the latter end of FY21 and into Q1 FY22 are being realised. This is evident in the attached Appendix 4C at 1.2(e) and 1.2(f), where staff costs and administration and corporate costs have reduced in total by \$1.3m quarter on quarter. These targeted cost-out initiatives were largely completed through Q1 FY22 with the final initiatives to be realised in Q2 FY22.

The key financial metrics for Q1 FY22 quarter include:

- Sales for the consolidated group totalled \$13.4m for Q1 FY22 compared with \$13.2m in Q4 FY21 and a 17% uplift from \$11.3m in the prior corresponding period of Q1 FY21. The sales results do not reflect new contract wins, with only one week of sales to Coles recorded in the period, the full impact of the Coles contract to be realised in Q2 FY22, new client wins in New Zealand Dairy to be realised from September onwards and the protein bar line facility will commence production through Q2 FY22;
- Consolidated cash receipts received from customers was \$12.8m for the quarter, a 56% increase from \$8.2m cash receipts in the prior corresponding period;
- Production and manufacturing costs were down to \$12.0m for the quarter, representing a saving of approximately \$700,000 compared with the prior quarter as the benefits of prior opportunistic inventory purchases were realised and begun to unwind in Q1 FY22;
- During the quarter, a further \$408,000 of capital expenditure was incurred on the establishment and expansion of Keytone's Sydney protein bar/snacking plant. This capital expenditure was completely offset by the receipt of the second payment of the Manufacturing Modernisation Grant of \$440,000 during the quarter. The capital expenditure program is expected to conclude in Q2 FY22 as the capability enhancements and upgrades are finalised and the plant begins commercial production runs of protein bars. The final payment of the grant is expected in Q2 FY22 for \$120,000; and
- As at 30 June 2021, Keytone had a combined cash balance of \$3.8m and undrawn debt facilities of \$1.0m as outlined in the accompanying Appendix 4C. The undrawn debt facilities exclude the facilities announced subsequent to the end of the quarter for a further \$7m in the Australian business.



Brands Division

Q1 FY22 realised the much-anticipated launch of Tonik Energy under the Company's proprietary brand, Tonik. Tonik Energy was successfully and simultaneously launched in Australia and New Zealand in three flavours - Blood Orange, Green Apple and Tropical. The first production run was completely pre-sold to select distributors/retailers, including Brackenbury Nutrition and Nutrition Systems, totalling approximately \$100,000.



The second production run has now been manufactured at double the volumes of the first given early success and is to be dispatched through Q2 FY22.

Brackenbury Nutrition and Nutrition Systems are currently distributing to leading gyms and health stores throughout Australia and New Zealand, including Anytime Fitness, Snap Fitness, F45, Plus Fitness, Jetts Fitness and Supplement World amongst others. The wide distribution of these partners in key target markets will continue the brand growth and trajectory of Tonik and each of its product ranges - Tonik Pro, Tonik Plant and Tonik Energy.

The launch of Tonik Energy, a better-for-you energy drink into a global USD53 billion energy market, is a strategic choice to grow the Tonik brand in the fast growing and ready-to-drink healthy beverage market.

Through the quarter, the Company has continued to work and secure further ranging and distribution for all its proprietary brands. There are a number of well-advanced discussions with outcomes expected over the coming months. Further range reviews are scheduled with key retailers across multiple channels through Q2 FY22.

Furthermore, the Company has doubled its efforts with licensing partner Baileys through the quarter and is in the process of developing a range of new products under licence taking advantage of the Company's broad manufacturing capabilities. Keytone will update the market on these new product launches under the Baileys agreement as they occur.

During the final month of the quarter, Keytone has retained an established and full-service third-party



marketing agency to further drive brand creative and awareness of its proprietary brands, provide further consumer insight tools and analysis while simultaneously creating innovative content for the Company's social channels, including Instagram and Facebook. This renewed program will commence in August 2021 focussing on Tonik and SuperCubes in the short to medium term.

Protein Bar Manufacturing Facility

The expansion of the acquired assets of AusConfec are highly strategic and complete Keytone's fully diversified manufacturing operation across powders, ready to drink protein drinks and protein bars. The ongoing upgrade offers significant upside for sales across the Company and substantial cross-sell opportunities for the Company's large existing client base and new contract manufacturing clients with regards to ready-to-eat healthy snacking and protein bars. In this regard, advanced sales discussions with clients are well progressed and a robust sales pipeline now developed.

Expansion of the facilities is now largely complete and in the final stages of commissioning. First commercial production runs of protein bars will occur in Q2 FY22 offering significant further sales upside and improved earnings profile through FY22 as Keytone continues to grow across all divisions.

Secured Debt Funding

Subsequent to the end of Q1 FY22 and as announced, Keytone has secured a competitive trade debtor facility for \$7m with Moneytech to support the working capital needs and further strategic growth initiatives of the Australian business. The increased debt facilities, in Australia and New Zealand, will be deployed to focus on organic growth initiatives, new contract wins and the growing sales pipeline.



Other

Payments to executive and non-executive directors totalled approximately \$237,000 for salaries and wages in the period, as outlined in section 6.1 of the accompanying Appendix 4C.

As at 30 June 2021, 106,067,442 Performance Shares are on issue.

	Performance Shares on issue at start of period or issued through the period (A)	Performance Shares converted to KTD shares during the period (B)	Performance Shares expired during the period (C)	Performance Shares on issue at the end of the period (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 D ³	23,255,814	0	0	23,255,814
Class E ⁴	23,255,814	0	0	23,255,814
Class F ⁵	23,255,814	0	0	23,255,814
Class H ⁶	3,300,000	0	0	3,300,000
Total	106,067,442	0	0	106,067,442

The release of this announcement was authorised by the Non-Executive Chairman, Mr. Peter James on behalf of the board.

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Further Information

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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 D Performance Share will convert into one share upon the Omniblend Pty Limited achieving, in relation to the Omniblend Group, \$2,600,000 of earnings before interest, taxes, depreciation and amortisation, in any financial year occurring on or before 31 March 2022

4 Each Class E Performance Share will convert into one share upon the Company achieving a volume weighted average price of its shares over a period of 30 consecutive trading days upon which the shares are traded that exceeds \$0.65 and, in relation to the Omniblend Group, \$50,000,000 of annual revenue, in any financial year occurring on or before 31 March 2023

5 Each Class F Performance Share will convert into one share upon the Company achieving a volume weighted average price of its Shares over a period of 30 consecutive trading days upon which the Shares are traded exceeding \$1.00 and, in relation to the Omniblend Group, \$100,000,000 of annual revenue and \$7,500,000 of earnings before interest, taxes, depreciation and amortisation, in any financial year occurring on or before 31 March 2023

6 Each Class H Performance Share will convert into one share upon the business of Super Cubes achieving sales revenue of \$35,000,000 and Omni Brands Pty Limited achieving \$5,000,000 of earnings before interest, taxes, depreciation and amortisation in the financial year ending 31 March 2022



About Keytone Dairy Corporation Limited

Based in Sydney and Melbourne, Australia and Christchurch, New Zealand, Keytone Dairy Corporation Ltd is an established manufacturer and exporter of formulated dairy products and health and wellness products. Keytone Dairy's wholly-owned subsidiary Omniblend is a leading Australian product developer and manufacturer in the health and wellness sector, with both dry powder, ready to drink and protein bar health and wellness-based product capability. In addition to Keytone Dairy's own brands, the company is a trusted production partner, contract packing for well-known brands in Australia, New Zealand and internationally. The Company's purpose-built production facilities in Australia and New Zealand offer a wide range of dairy, health and wellness and nutritional packing solutions, meeting the diverse needs of consumers from different markets and cultures. Please visit www.keytonedairy.com for further information.

ENDS



Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

Keytone Dairy Corporation Limited

ABN

49 621 970 652

Quarter ended ("current quarter")

30 June 2021

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	12,877	12,877
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(12,070)	(12,070)
(c) advertising and marketing	(76)	(76)
(d) leased assets	(13)	(13)
(e) staff costs	(1,770)	(1,770)
(f) administration and corporate costs	(318)	(318)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	4	4
1.5 Interest and other costs of finance paid	(15)	(15)
1.6 Income taxes paid	(100)	(100)
1.7 Government grants and tax incentives	449	449
1.8 Other (provide details if material)	(4)	(4)
1.9 Net cash from / (used in) operating activities	(1,036)	(1,036)
<i>* payment for leased assets have been reclassified to section 3.6 Repayment of borrowings consistent with AASB 16 disclosure requirements.</i>		
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities	-	-
(b) businesses	-	-

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
(c) property, plant and equipment	(408)	(408)
(d) investments	-	-
(e) intellectual property	(1)	(1)
(f) other non-current assets	-	-
2.2 Proceeds from disposal of:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	-	-
(d) investments	-	-
(e) intellectual property	-	-
(f) 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	(409)	(409)

3. Cash flows from financing activities		
3.1 Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
3.2 Proceeds from issue of convertible debt securities	-	-
3.3 Proceeds from exercise of options	-	-
3.4 Transaction costs related to issues of equity securities or convertible debt securities	-	-
3.5 Proceeds from borrowings	2,942	2,942
3.6 Repayment of borrowings	(1,846)	(1,846)
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	1,096	1,096

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	4,105	4,105
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,036)	(1,036)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(409)	(409)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	1,096	1,096
4.5	Effect of movement in exchange rates on cash held	3	3
4.6	Cash and cash equivalents at end of period	3,759	3,759

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	3,759	4,105
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)	3,759	4,105

6. Payments to related parties of the entity and their associates

6.1	Aggregate amount of payments to related parties and their associates included in item 1
6.2	Aggregate amount of payments to related parties and their associates included in item 2

**Current quarter
\$A'000**

237

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Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments

7. Financing facilities

Note: the term "facility" includes all forms of financing arrangements available to the entity.

Add notes as necessary for an understanding of the sources of finance available to the entity.

	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1 Loan facilities	4,227	3,201
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	-	-
7.4 Total financing facilities	4,227	3,201

7.5 **Unused financing facilities available at quarter end** 1,026

7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.

The financing facilities outlined above include:

- equipment finance facilities, secured against selected plant and equipment. Commonwealth Bank of Australia is the financier at an average interest rate of 5.7% with an average maturity of December 2022;
- A secured rolling overdraft facility of NZD500k with ANZ New Zealand at an interest rate of 5.2%; and
- A secured rolling trade finance facility of up to NZD1,500k with ANZ New Zealand at an average rate of 2.29%.

These finance facilities exclude the new debt facility announced subsequent to the end of the 30 June 2021 quarter for a further \$7m. These facilities will be included in the calculations for Q2 FY22 in addition to the above.

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (Item 1.9)	(1,036)
8.2 Cash and cash equivalents at quarter end (Item 4.6)	3,759
8.3 Unused finance facilities available at quarter end (Item 7.5)	1,026
8.4 Total available funding (Item 8.2 + Item 8.3)	4,785
8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	4.6

8.6 If Item 8.5 is less than 2 quarters, please provide answers to the following questions:

1. Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

Answer: N/A

2. Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer: N/A

3. Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer: N/A

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.

Date: 30 July 2021

Authorised by: Peter James, Chairman on behalf of the board
(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow 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 cash flow 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.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.