



ASX Release Quarterly Report

For the quarter ending 30 September 2021

29 October 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 September 2021. Keytone operates on a 31 March 2022 financial year and consequently, the 30 September 2021 quarter was the second quarter of its financial year 2022 (“Q2 FY22”).

Q2 FY22 Financial Performance Highlights

- Q2 FY22 sales for the consolidated group totalled \$15m, up more than 10% compared with the prior corresponding period of Q2 FY21 and the highest quarterly sales figure on record;
- Consolidated group sales for the month of September realised a record high of \$5.7m for the one month alone;
- Cash receipts from customers grew to \$13.3m compared with \$12.9m from Q1 FY21;
- The protein bar line commenced operations in September 2021 and contributed to the strong sales month in September;
- Through Q2 FY22 Keytone received confirmed purchase orders for more than \$2.0m at the protein bar line, approximately 25% of which were dispatched in September. The balance of the orders plus the receipt of additional purchase orders expected shortly will be manufactured through the December quarter;
- Bar line sales realised through September 2021 are not reflected in the cash receipts for Q2 FY22 and will be collected in Q3 FY22. Importantly, the cost of sales for the bar line were incurred and paid during the quarter and are reflected in the product and manufacturing costs;
- Product and manufacturing costs were broadly steady with the prior quarter at \$12.7m, notwithstanding the purchase of bar line raw materials and an increase in inventory to lock in raw material supplies ahead of further price increases, thereby improving margins for the group over the short to medium term;
- Staff costs up \$605k during Q2 FY22, driven by the scaling up of production across the bar line and other manufacturing plants as sales and volumes increase, thereby increasing the cost of casual labour. Additionally, one-off redundancies and payouts of employee entitlements of approximately \$300k contributed to the balance of the increase in staff costs. These staff costs are non-recurring with headcount largely to be unreplaced moving forward, representing further costouts for the business;
- Increase in capital expenditure payments to \$825k representing the completion of the protein bar line. Capital expenditure payments forecast to materially reduce through the balance of the financial year and the final grant payment of \$120k expected in Q3 FY22;
- Keytone secured a competitive trade debtor facility in the Australian business with Moneytech to support the working capital needs and further strategic growth initiatives of the Australian business. The increased debt facilities have now been drawn upon and will be deployed to focus on organic growth initiatives, new contract wins and the growing sales pipeline;
- As at 30 September 2021, Keytone had a combined cash balance of \$3.7m and undrawn debt facilities of \$6.3m.

Australian Contract Manufacturing

The Australian Contract Manufacturing business continued to perform strongly through the quarter, with further manufacturing capability of the protein bar line now added and generating revenue. The cash burn associated with the bar line through the period of the capital expansion has ceased from September. The overall strong performance is being driven by realising the benefits of scale, prior opportunistic inventory purchasing leading to gross margin expansion and increased underlying EBITDA profitability for the quarter and the first half in addition to the benefits of cost-outs beginning to flow through the business.

The Coles contract had its first full quarter of production and volumes are expected to increase into Q3 FY22 as New South Wales and Victoria emerge from long and protracted lockdowns.

The business won several new clients across powders, ready to drink products and protein bars. These new multi-million dollar orders are largely unreflected in the sales numbers of Q2 FY22 and will be manufactured and dispatched through the balance of the financial year. These additional sales are on top of the volumes from existing clients and an expected strong rebound given the end of lockdowns. The business is expected to deliver strong and profitable growth through the balance of FY22.

New Zealand Dairy

Similar to the Australian Contract Manufacturing, the New Zealand Dairy vertical has continued to soar ahead in Q2 FY22, recording strong sales of \$3.6m for the quarter, is EBITDA profitable, and has secured a significant and confirmed sales pipeline for the second half of FY22.

The New Zealand sales team have continued to convert sales opportunities into confirmed purchase orders across a range of existing and new products. The business has received its first purchase order from a third-party client for A2 Milk Powder in cans for sale into China with additional orders expected shortly. Follow on orders for further whole and skim milk private label products have been received through Q2 FY22 from one new client of \$2.5m, bringing their total purchase orders for the year to \$4.5m to date and yet to be invoiced.

Theland opening orders for their private label whole and skim milk powders of approximately \$1.8m are to be manufactured through October and November and discussions are continuing for the manufacture of additional product lines to be manufactured at Keytone's New Zealand facilities. Keytone expects regular and repeat orders from Theland given the positive discussions taking place and the breadth of Theland's Chinese distribution in more than 25 Chinese provinces.

Brands Division

Sales in the branded division have continued, albeit growth has been hamstrung given the adverse impact of lockdowns across Australia's largest states of New South Wales and Victoria and the closures of key retail, specialty and gym channels. As lockdowns end and key retail, gyms and sales channels reopen in Q3 FY22, Keytone expects branded sales to rebound strongly and initial signs from distributors have been encouraging with outstanding product feedback received.

Notwithstanding the macroeconomic challenges, the Brands team has continued to secure additional ranging and launched new product variants through the quarter. Woolworths have confirmed ranging of four Super Cubes Wholefoods bars across more than 200 stores nationally. This roll-out occurred through October 2021. Tonik Active has been re-launched to market and is being distributed nationally by Brackenbury Nutrition, Nutrition Systems and Health Magic among others. Tonik Pro and Tonik Energy have continued to gain international attention and initial purchase orders have been received from a health distributor in Hong Kong for sale in their vending machines throughout the city. While



the initial purchase orders are modest, discussions of potential demand and uptake are encouraging.



Select images from the social media accounts of Tonik and Super Cubes

As previously announced, Keytone has retained an established 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 commenced in August 2021 and in a short amount of time the followers for Tonik have grown over 55% and more importantly, individual impressions of promoted and amplified posts have been in excess of 200,000 target consumers with increased unprompted engagement with product posting. The marketing campaigns and engagement will further accelerate over the second half of the FY22 year as Keytone looks to continue to grow brand awareness and conversion to sales.



Other

Payments to executive and non-executive directors totalled approximately \$363,000 for salaries and wages in the period, as outlined in section 6.1 of the accompanying Appendix 4C.

As at 30 September 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 September 2021

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	13,270	26,147
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(12,769)	(24,839)
(c) advertising and marketing	(50)	(126)
(d) leased assets	(15)	(28)
(e) staff costs	(2,375)	(4,145)
(f) administration and corporate costs	(217)	(535)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	5	9
1.5 Interest and other costs of finance paid	(33)	(48)
1.6 Income taxes paid	(159)	(259)
1.7 Government grants and tax incentives	83	532
1.8 Other (provide details if material)	(10)	(14)
1.9 Net cash from / (used in) operating activities	(2,270)	(3,306)
<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 (6 months) \$A'000
(c) property, plant and equipment	(825)	(1,233)
(d) investments	-	-
(e) intellectual property	(2)	(3)
(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	(827)	(1,236)

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	8,724	11,666
3.6 Repayment of borrowings	(5,691)	(7,537)
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	3,033	4,129

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 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	3,759	4,105
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(2,270)	(3,306)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(827)	(1,236)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	3,033	4,129
4.5	Effect of movement in exchange rates on cash held	5	8
4.6	Cash and cash equivalents at end of period	3,700	3,700

5. Reconciliation of cash and cash equivalents	Current quarter \$A'000	Previous quarter \$A'000
at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts		
5.1 Bank balances	3,700	3,759
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)	3,700	3,759

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**

363

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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	8,384	2,099
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	-	-
7.4 Total financing facilities	8,384	2,099

7.5 **Unused financing facilities available at quarter end** 6,285

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 are as follows:

- Trade Finance facility within the New Zealand Dairy business provided by ANZ Bank for a total of NZD\$2,500,000.
- Trade debtor facility for \$6,000,000 with Moneytech in the Australian Contract Manufacturing and Brand business.
- The interest rate for the trade finance facility in New Zealand and Australia are 2.29% and 5.98% per annum, respectively, on funds drawn.

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (Item 1.9)	(2,270)
8.2 Cash and cash equivalents at quarter end (Item 4.6)	3,700
8.3 Unused finance facilities available at quarter end (Item 7.5)	6,285
8.4 Total available funding (Item 8.2 + Item 8.3)	9,985
8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	4.4

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:

Authorised by:
(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.