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Equity Research

Beston Global Food Co Limited (BFC)

Surprise $12m capital raise to accelerate growth; Debt slashed

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Summary

BFC is changing from a food related investment company, to an operating company focussed on Dairy and pre-cooked Meat products. Assets at 31/12/19 comprised:

1. **Dairy** ($101m or 69% of segment assets) – Two refurbished and upgraded cheese factories (Murray Bridge & Jervois) in South Aust (capacity: 300 million litres milk processing, 30k tonnes pa of cheese) plus a lactoferrin plant about to undergo a 4x volume upgrade to 12 Tpa.
2. **Provincial Food Group** ($14m, 9% of segment assets) – Specialist provider of pre-cooked meat products to supermarkets, food service and exports, based at Shepparton Vic. Significant new business recently won.
3. **Corporate/ Other** ($25m including $18m of tax assets).

Surprise Placement and SPP

- BFC has completed a surprise $10.0m placement at 8.5c with a $2.0m SPP to follow in July.
- On 11 June, BFC announced the outright sale of the 4 dairy farms to Aurora Dairies for $40.4m (Vs $30-35m expected), subject to FIRB approval. A 5% deposit has been received and completion is expected by September. So we were no longer expecting a raise.
- The new equity raised allows BFC to get cracking on the $12m 4x upgrade of its Lactoferrin plant, and also to consider possible complementary acquisitions.
- Net debt of $46.1m at 31/12/19 and gearing of 60% will be slashed to almost zero gearing on completion. The capital raising we feared has happened anyway, but for a more positive reason – To accelerate profit growth.

Lactoferrin Upgrade project now funded

- BFC has provided comprehensive details on a planned $12m upgrade and 4x expansion of its lacto plant, which should increase lacto production from ~3.0 tonnes to 12 tonnes pa. Incremental revenue of $13.5m expected, 85%+ of which should flow to Ebitda. Construction expected to take 6-8 months with only 1-2 weeks of production downtime at switchover.
- 2 further stages costing $9m could add another $12m of incremental sales and $10m of Ebitda.

Corporate structure to be normalised

- External Management structure to be internalised by Feb 2021. We estimate a $2.7-$3.0m pay-out.

Changes in Forecasts

We upgrade FY21 by 2%, but downgrade FY22 by 20% due to dilution from more shares on issue, but lower interest expense. We project BFC will finally become profitable with a respectable ROA of 8.9% in FY22.

Reiterate Buy; 12-mth PT $0.16; 24-mth $0.20

On just 4.3x FY22 and 3.0x FY23 (untaxed), and with the Balance Sheet de-risked, we rate BFC a BUY.

Recommendation — Buy

Risk Rating	**High**
12-mth Target Price (AUD)	**$0.16 (2 Yr: $0.20)**
Share Price (AUD)	$0.095
12-mth Price Range	$0.047 - $0.135
Forecast 12-mth Capital Growth	68.4%
Forecast 12-mth Dividend Yield	0.0%
12-mth Total Shareholder Return	**68.4%**
Market cap ($m)(incl. Placement & SPP)	**58.2**
Net debt (net cash) ($m)(June 21e)	11.5 (post farm sale & Lacto Stage1)
Enterprise Value ($m)	69.6
Gearing (Net Debt/ Equity)(June 21e)	13%
Shares on Issue (m)(incl. est. SPP issue)	612.3
Sector	Food & Beverages
Average Daily Value Traded ($)	$48,000
ASX 300 Weight	n/a

Financial Forecasts & Valuation Metrics

Years ending June	19(A)	20(e)	21(e)	22(e)	23(e)
Sales revenue	85.7	94.4	119.9	138.7	151.9
Sales growth %	79%	10%	27%	16%	10%
EBITDA	-19.0	-8.7	6.2	17.7	23.7
NPAT (rep'd Incl. NR	-27.0	-6.7	2.0	13.3	19.2
NPAT (normalised)	-17.4	-9.2	2.0	13.3	19.2
EPS (norm) (cents)	-3.9	-2.0	0.3	2.2	3.1
EPS growth	97%	-48%	Large	557%	44%
DPS (cents)	0.0	0.0	0.0	0.0	0.0
P/E	-2.4	-4.7	28.5	4.3	3.0
EV / Ebitda	-5.1	-11.2	11.2	3.6	2.1
Net debt / equity	49.2%	45.4%	13.2%	5.0%	net cash

BFC SHARE PRICE PERFORMANCE

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What has changed?

1. **Surprise $12m Capital Raising**. BFC has announced a $10.m placement and planned $2.0m share purchase plan (SPP) at $0.085 per share, to accelerate its plans for a major $12m project to increase Lactoferrin production, a high value by-product from the mozzarella cheese making process (used in infant formula 62%, food nutritional products 25% and pharmaceuticals / hygiene products such as mouthwash 13%). We had previously cautioned investors in earlier reports that a capital raising was likely, but with the announced sale of the 4 dairy farms for $40.4m (refer ASX announcement dated 11/6/20), we thought a raising was no longer required. (Refer our report dated 17/5/20). The very next day BFC went into a trading halt to conduct the capital raising. The placement will increase the shares on issue by 25%, and by 30% if the full amount of the SPP is subscribed – which we expect will happen.

BFC Capital Structure	Shares on Issue	% Increase
Current	471.077	
Placement	117.647	24.97%
Forecast at 30/6/20	**588.724**	
SPP (in the money, so we assume a full take-up; allots 24/7/20)	23.529	4.99%
Forecast at 24/7/20	**612.254**	**29.97%**

Source: Phillip Capital estimates

2. **Sale of dairy farms for $40.4m to Aurora Dairies** & Lactoferrin Upgrade project – Further thoughts – The sale is expected to complete by September. It is conditional on FIRB approval, as we understand there are Canadian shareholders in Aurora Dairies, but this is not expected to be a problem. Obviously COVID could easily delay the normal approval process, so this was probably in BFC's thinking regarding the capital raising decision too. But BFC wants to get cracking now on the Lactoferrin Stage 1 project, rather than having to wait 3 months or potentially longer.

   Another reason for going hard now, is that BFC has contracted to take additional milk (135 million litres Vs 111m in FY20, +22%), so it will have increased mozzarella production, and so will also have increased Lactoferrin volumes. Stage 1 will see a 4x increase in Lactoferrin production from the same volume of milk as before (from 3 tonnes to 12 tonnes), as the Lactoferrin will be extracted from skim milk at the start of the cheese making process, rather than from the whey at the end of the process. This will use technology and production methods proven overseas, and effectively extracts 4x more of the valuable ingredient from the same quantity of milk.

   With Lactoferrin selling for $1,500 -$2,000 per kilogram, we previously estimated a step change of $9m+ of incremental Ebitda. It is completely understandable that BFC wants to accelerate this project to get a double-whammy benefit from the contracted volume increase. **THIS SIGNIFICANT PROJECT WILL TRANSFORM BFC'S P&L.**
3. **Possible acquisitions** – In addition to the major profit increase expected from the Lactoferrin project, BFC is now in a position to consider synergistic acquisitions in dairy. We understand that BFC has previously considered a number of opportunities, but was unable to progress them because of funding constraints.
4. **Possible Takeover** – On 22 June 2020 BFC also advised the market that it had received a confidential, unsolicited expression of interest from a party to enter into discussions about a possible bid. This approach happened after the placement was completed. It sounds very preliminary in nature to us. We think that BFC will become more of a takeover target if the unpopular external

management agreement is terminated by February 2021 as currently planned (see further discussion in point 5 below). If our revenue and profit estimates are achieved, BFC is very cheap on both our FY22 and FY23 forecasts.

5. **Termination of external Investment Management Agreement (IMA)** – More thoughts - The IMA between BFC and BPAM (Beston Pacific Asset Management) commenced in May 2015. We understand it can only be terminated after a resolution is passed at the AGM (November), after which three months' notice is given (hence the indicated 26 February 2021 date in BFC's 12/6/20 presentation). The management company BPAM and BFC are working on arrangements to internalise the IMA at the expiry of the initial five-year term. The termination fee is prescribed in the IMA.

   According to the legal summary in the July 2015 prospectus (we have not seen the actual agreement and start date), it is calculated as 5.0% of the Portfolio Value reduced by one sixtieth for each month elapsed from the commencement of the term (or extended term) to the termination date. **We understand that the IMA automatically rolled over for a further 5 years in May 2020,** so if terminated at 26 February 2021 we estimate it would be 5.0% reduced by 9x60^{ths}. In other words it would be 51/60 x 5.0% = 4.25%.

   Based on the pro-forma market cap of $64.3m (including the placement & SPP), the termination fee we estimate to be around $2.7m. Please also note that if BFC's share price performs strongly as we expect, the termination fee will be higher. There could also be performance fee, but that is unlikely at this stage with the share price still well below the $0.35 IPO price, before adjusting for the performance of the All Ordinaries index as well. But it is technically possible. We have allowed for a $3.0m cash payment in our cash flow forecast for 2H21 for this item. We assume it would be treated as an abnormal / non-recurring item in the P&L.
6. **MOU signed with Digimarc Corporation (www.digimarc.com Nasdaq**: DMRC.O, Market cap US$211m, Net cash at 31/12/19 US$8.7m plus Marketable securities of US$25.6m, CY19 Revenue US$23.0m, Net Loss $32.8m, 216 employees).

   Digimarc is a digital technology company based in Beaverton, Oregon USA. The intention is to combine the Beston Technologies' Brandlok and Oziris product authentication and anti-counterfeiting solution for food with Digimarc's complementary technology. Integration work is expected to take around 6 months to complete, with assistance from the University of Adelaide and the University of Technology Sydney.

   Digimarc sounds like an excellent partner based on our reading of the CY19 Annual Report and the company description below per Refinitiv (Thomson Reuters). We have only valued Beston Technologies at a nominal $200k (5% of book value). We agree with the strategy of getting a credible US-based specialist partner involved, as this is probably the best chance of making something commercial from this technology, which is non-core to BFC.

Company Description: Digimarc Corporation (Digimarc) enables governments and enterprises to give digital identities to media and objects that computers can sense and recognize. The Company's Digimarc Discover, Digimarc Barcode and Intuitive Computing Platform are designed to optimize the identification of consumer brand impressions, facilitating mobile-centric shopping. The Company operates through media management solutions segment. The Company's platform includes means to embed Digimarc Barcodes, invisible and inaudible barcode-like information that is recognizable by smartphones, industrial scanners, and other computer interfaces into various forms of media content, including consumer product packaging. Its Digimarc Barcodes has a range of applications, including facilitating scanning of products at retail checkout, as well as engagement with smartphone-equipped consumers. The Digimarc Barcode allows automatic identification of media without visible computer codes, such as traditional barcodes.

Applying Digimarc Barcode

The process of applying Digimarc Barcode into a graphics file is called "enhancement." Digimarc enhancement of package artwork is performed by trained partners. Enhancement involves altering a file at the pixel level. This alteration is minor and may not be easily noticed on the file or plates. The process utilizes the specifications and color space for the specific press used to print each job, and it is important that tolerances are maintained. Once printed, Digimarc Barcode can be scanned by enabled barcode scanners as well as mobile devices with a Digimarc-enabled app.

Learn more about the enhancement process by visiting our online training course.

Source: www.digimarc.com

Customers and Business Partners

Our revenue is generated through commercial and government applications of our technology. We derive our revenue primarily from software development services, subscriptions for products and related services, and licensing of our patents. During 2019, we generated the majority of our revenue from software development services under a long-term contract with the Central Banks and from subscriptions for our products and related services.

In 2019, revenue from government contracts accounted for 61% of our total revenue. The Central Banks accounted for substantially all revenue generated under our government contracts. Our contract with the Central Banks runs through December 2024, with a 5-year extension option.

Information about customers that accounted for 10% or more of revenue in the last two years is included in Note 3 of our Notes to Consolidated Financial Statements.

Products and Services

We provide media identification and management solutions to government and commercial customers and license our technology and patented inventions to solution providers. Our largest government customer is the Central Banks, with whom we have been developing, deploying, supporting and enhancing a system to deter digital counterfeiting of currency using personal computers and digital reprographics for the last 20 years. We sell our products and related services to commercial customers for use in a wide range of applications providing for improved auto-identification of media. For instance, we provide solutions to the retail and consumer package goods industry that drive efficiency and reliability in product identification, and in the publishing industry we provide solutions that reduce piracy of e-publications, images and other materials. We also license our technology and inventions to providers of identification solutions to the media and entertainment industry. Many movie studios, record labels, broadcasters, creative professionals and other customers rely on our technology as a cost-effective means to:

- deter piracy and illegal use of movies, music and other media;
- protect entertainment content from copyright infringement;
- track and monitor entertainment content for rights usage and licensing compliance;
- monitor advertisements to verify ad placement and measure return on investment;
- enhance information access, search and provide marketing capabilities related to media content; and
- enable authorized use of content by consumers.

The market for patent licensing has become more challenging in recent years. As a result, we have shifted our focus from direct monetization through enforcement and licensing to facilitating progress toward the realization of our vision to enrich everyday living via pervasive, intuitive computing by:

- encouraging large scale adoption of our technologies by industry leaders;
- increasing the scale and rate of growth of our products and services business; and
- laying a foundation for continuing innovation.

Source: Digimarc FY19 Annual Report, page 4.

Markets

Our patented inventions are used in various media identification and management products and solutions supporting a variety of media objects, from movies and music to banknotes, secure credentials and consumer packaged goods. Each media object enabled by our inventions creates the potential for several applications, such as:

- retail point of sale transaction processing;
- track and trace of products within the supply chain;
- quality control in manufacturing processes;
- inventory management and planogram compliance;
- sorting of consumer packaged goods in recycling streams;
- counterfeiting and piracy deterrence;
- online e-publication piracy protection;
- content identification and media management;
- authentication and monitoring;
- linking to networks and providing access to information; and
- enhanced services in support of mobile commerce.

We believe the market for most of these applications is in the early stages of development and that existing solutions represent only a small portion of the potential market for our products, services and technology.

Source: Digimarc FY19 Annual Report, page 5.

Changes in Estimates

We have updated our forecasts for the increased shares on issue, and reduction in interest expense following the $10.0m placement. We assume that the $2.0m SPP will be fully subscribed in July. We also now show our FY23 forecast.

No changes to FY20e. Our FY21 EPS forecast is upgraded by 2%, and FY22 is reduced by 20% (being -30% due to dilution from new shares on issued, partly offset by lower interest expense).

We have highlighted in yellow the impact of our key assumptions for the key Lactoferrin (LF) project Stage 1. (No changes in our Lactoferrin assumptions since our 17/6/20 report). There could be upside in each of our assumptions.

BFC: Changes in Estimates											
	FY19	FY20e			FY21e			FY22e			FY23e
Years ended June ($m)		Old	New	Chge	Old	New	Chge	Old	New	Chge	New
Operating Revenue	85.7	94.4	94.4	0.0%	119.9	119.9	0.0%	138.7	138.7	0.0%	151.9
EBITDA	**-19.0**	**-8.7**	**-8.7**	**0%**	**6.2**	**6.2**	**0%**	**17.7**	**17.7**	**0%**	**23.7**
Ebitda margin %	-22%	-9.2%	-9.2%	0.0%	5.2%	5.2%	0.0%	12.8%	12.8%	0.0%	15.6%
Depreciation & Amortisation	-1.9	-3.3	-3.3	0%	-3.5	-3.5	0%	-4.1	-4.1	0%	-4.3
EBIT	**-20.9**	**-12.0**	**-12.0**	**0%**	**2.7**	**2.7**	**0%**	**13.6**	**13.6**	**0%**	**19.5**
Net interest expense	-1.3	-1.7	-1.7	0%	-1.2	-0.7	-42%	-0.8	-0.3	-63%	-0.3
NPAT (reported incl NRIs)	**-27.0**	**-6.7**	**-6.7**	**0%**	**1.5**	**2.0**	**33%**	**12.8**	**13.3**	**4%**	**19.2**
Add back: Abnormal items	-9.6	**0.0**	0.0		0.0	0.0		0.0	0.0		0.0
NPAT (normalised)	**-17.4**	**-9.2**	**-9.2**	**0%**	**1.5**	**2.0**	**33%**	**12.8**	**13.3**	**4%**	**19.2**
EPS (normalised) cents	**-3.9**	**-2.0**	**-2.0**	**0%**	**0.3**	**0.3**	**2%**	**2.7**	**2.2**	**-20%**	**3.1**
DPS cents	0.0	0.0	0.0	0%	0.0	0.0	0%	0.0	0.0	0%	0.0
Shares on issue (Wavge)	443.3	454.6	456.8	0.5%	471.1	610.3	30%	471.1	610.3	30%	610.3
Shares on issue (Year-end)	443.3	471.1	588.7	25%	471.1	612.3	30%	471.1	612.3	30%	612.3
Balance Sheet:											
Net Cash (Net Debt)	-39.4	-49.0	-39.0	-20%	-21.0	-11.5	-45%	-15.0	-5.0	-67%	8.2
Net Debt / Net Equity %	49%	65%	45%	-19%	27%	13%	-14%	17%	5%	-12%	-7%
							NB. We have not allowed for Lacto Stage 2 $6m capex				
Key assumptions:											
Milk intake (million litres)	102.8	111.0	111.0	0%	135	135.0	0%	142	141.8	0%	148.8
less: milk traded out / sold locally	-42.0	-7.0	-7.0	0%	-7	-7.0	0%	-7	-7.0	0%	-7.0
Milk processed (million litres)	**61.0**	**104.0**	**104.0**	**0%**	**128.0**	**128.0**	**0%**	**134.8**	**134.8**	**0%**	**141.8**
Mozzarella production (tonnes)	4,387	9,100	9,100	0%	12,177	12,177	0%	12,908	12,908	0%	13,682
Cheddar & other (tonnes)	1,404	1,000	1,000	0%	500	500	0%	500	500	0%	500
Total cheese production (tonnes)	**5,791**	**10,100**	**10,100**	**0%**	**12,677**	**12,677**	**0%**	**13,408**	**13,408**	**0%**	**14,182**
Lactoferrin (tonnes)	0.3	1.3	1.3	**0%**	3.5	3.5	**0%**	10.0	10.0	**0%**	12.0
Total Revenue :											
Dairy - Basic	76.3	80.0	80.0	0%	101.7	101.7	0%	107.0	107.0	0%	112.6
Dairy - Lactoferrin (est.)	0.4	2.0	2.0	0%	5.3	5.3	0%	15.0	15.0	0%	18.0
Dairy Total	**76.7**	**82.0**	**82.0**	**0%**	**107.0**	**107.0**	**0%**	**122.0**	**122.0**	**0%**	**130.6**
Meat	6.5	12.0	12.0	0%	12.5	12.5	0%	16.3	16.3	0%	21.1
Australia - Other	0.3	0.2	0.2	0%	0.2	0.2	0%	0.2	0.2	0%	0.0
International - Other	2.6	0.7	0.7	0%	0.7	0.7	0%	0.7	0.7	0%	0.7
Unallocated	0.0	0.2	0.2	0%	0.0	0.0	0%	0.0	0.0	0%	0.0
Total Revenue :	**86.1**	**95.1**	**95.1**	**0%**	**120.4**	**120.4**	**0%**	**139.2**	**139.2**	**0%**	**152.4**
Segmental EBIT :											
Dairy	-8.2	-4.9	-4.9	0%	7.3	7.3	0%	17.1	17.1	0%	21.4
Meat	-2.4	-3.5	-3.5	0%	-1.0	-1.0	0%	0.1	0.1	0%	0.9
Australia - Other	-1.0	-0.7	-0.7	0%	-0.7	-0.7	0%	-0.7	-0.7	0%	0.0
International - Other	-2.8	-0.4	-0.4	0%	-0.4	-0.4	0%	-0.4	-0.4	0%	-0.4
Unallocated	-6.4	-2.5	-2.5	0%	-2.5	-2.5	0%	-2.5	-2.5	0%	-2.5
EBIT	**-20.9**	**-12.0**	**-12.0**	**0%**	**2.7**	**2.7**	**0%**	**13.6**	**13.6**	**0%**	**19.5**
EBIT margins %											
Dairy	-10.8%	-6.0%	-6.0%	0.0%	6.9%	6.9%	0.0%	14.1%	14.1%	0.0%	16.4%
Meat	-37.5%	-28.9%	-28.9%	0.0%	-8.0%	-8.0%	0.0%	0.6%	0.6%	0.0%	4.3%
Group	**-24.2%**	**-12.6%**	**-12.6%**	**0.0%**	**2.3%**	**2.3%**	**0.0%**	**9.8%**	**9.8%**	**0.0%**	**12.8%**

Source: Phillip Capital estimates

Key Lactoferrin project assumptions

- We are assuming 10.0 tonnes of high-grade Lactoferrin are produced in FY22 (Vs management's target of 12 tonnes from Stage 1), and 12.0 tonnes in FY23.
- We continue to assume an effective start date for the new equipment and process

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of 1 July 2021 (management is targeting March 2020, but we want to be conservative). But we now have increased confidence because BFC has the capital to start ordering long-lead time items immediately, reducing the risk of delays. A 6-8 month construction period is expected, with minimal disruption of only 1-2 weeks at changeover / completion time.

- We assume a sale price of $1,500 per kg.
- We assume an 85% Ebitda margin on these incremental sales.
- We have not factored in capex or revenue and profit benefits from possible Stages 2 ($6m capex) or Stage 3 ($3m capex). Management currently expect that Stage 2 would start soon after satisfactory completion of Stage 1. So that would be a potential added benefit from late FY22 – not yet in our forecasts because timing is uncertain. Investors will want to see the clear results from Stage 1 also.

Valuation and Price Targets

We have refined our valuation further, using 3 methods – A Sum of the Parts valuation as before ($0.16 per share, refer p9), and EV / Ebitda and P/E based valuations. We apply to discount to the latter two methods because there is execution risk on the new Lactoferrin project, and BFC does not yet have an established track record of profitability. The required discount should fade as BFC achieves various milestones. BFC can earn a serious positive re-rating if it can sustain the recent positive achievements.

Our 12-month price target is $0.16 based on our Sum of the Parts valuation. We believe it is not appropriate to value BFC on an earnings basis in FY21 as we are only expecting a small Net Profit of $2.0m (EPS 0.3c).

Our 24-mth price target is $0.20 based on EV/ Ebitda and P/E multiples with an appropriate discount for execution risk.

Looking out 3 year, a valuation of around $0.26 is possible.

BFC: Valuation	FY21 Multiple Used	FY22 Multiple Used	FY23 Multiple Used	FY21 Valuation	FY22 Valuation	FY23 Valuation
1. Sum of the Parts Valuation	n/a	n/a	n/a	**$ 0.158**		
2. EV / Ebitda Valuation						
Food Coy Average multiple	10.1x	8.4x	7.6x			
Assumed for BFC	**8.5x**	**7.0x**	**7.0x**	**$ 0.10**	**$ 0.21**	**$ 0.26**
Discount assumed	-16%	-17%	-7%			
3. P/E based Valuation						
Food Coy Average multiple	15.2x	12.4x	11.2x			
Assumed for BFC (untaxed)	**10.0x**	**8.5x**	**8.5x**	**$ 0.03**	**$ 0.19**	**$ 0.27**
Discount assumed	-34%	-31%	-24%			
4. Average of Methods				**$ 0.10**	**$ 0.20**	**$ 0.26**

Source: Phillip Capital estimates

Recommendation & Price Target (12-Mth: $0.16; 2-yr: $0.20)

We upgraded BFC to a BUY (High Risk) in our previous report on 17 June 2020, with a 12-mth price target of $0.15 and a 24-mth price target of $0.23. These are revised to $0.16 and $0.20 respectively. With 68% to 111% upside over the next two years, we reiterate our Buy recommendation.

We note that BFC will be approximately debt free when the Dairy Farm sale completes, although an expected $12m capex on the Lactoferrin project should see Net debt at around $11.5m at June 2021 (Gearing of just 13%). So the balance sheet risk at BFC has now been significantly reduced. There could still be some further minor write-downs in the 30/6/20 accounts but we think all the major items have already been dealt with. We have actively encouraged management to write down any remaining skeletons in the closet, so the company and investors can have a clean passage ahead.

Ref	BFC: Revised Sum of the Parts Valuation Item	Net Book Value $m at 31/12/19	Per BFC Share	Alternative Valuation	Per BFC Share
1	**Dairy**	**101.2**	**$ 0.165**	**170.1**	**$ 0.278**
	Comprising:				
	- 4 Dairy farms acquired in bargain circumstances.	38.2	$ 0.062	40.4	$ 0.066
a	- 2 factories + old Lactoferrin plant acquired in bargain circumstances.	63.0	$ 0.103		
	- Capex required for Lacto project - Stage 1			-12.0	-$ 0.020
b	- We value at 7.0x FY22 estimated EBITDA of $20m (includes LF Stg 1 project)			141.7	$ 0.232
2	**Meat**	13.7	$ 0.022		
a	- Now 100% of Provincial Food Group				
b	- Has been restructured, & 45% indirect interest converted to 100% at no extra cost. Has $6.3m of goodwill.				
c	- Has 1 very large customer at 80% before recent ~$10m new orders fm new customers				
d	- Business still in small loss & not yet proven. Allow 25% deduction on BV			10.2	$ 0.017
3	**Australian Other**	3.8	$ 0.006		
a	- 100% of Beston Technologies Pty Ltd				
b	- BFC has lacked the funds to develop this properly. Merger with DataDot abandoned.				
c	- Key patent is owned by Dr Sexton, with BFC having a right to buy for > $2.0m				
d	- We value at a nominal $200k (5% of book)			0.2	$ 0.000
e	- 9.9% stake in Neptune Bio $5.7m + $5.9m convertible note (was $11.6m)				
f	- Now written down to zero	0.0		0.0	$ -
g	- 51% stake in Aqua Essence mineral water (written down to Nil)	0.0		0.0	$ -
h	- Potential value in the water licence, but who would buy it?				
4	**Corporate (Unallocated)**				
a	- Deferred tax asset	18.0	$ 0.029	0.0	$ -
b	- Shepparton freehold - rented to Provincial Foods	6.5	$ 0.011	0.0	$ -
c	- Other unallocated	3.1	$ 0.005	0.0	$ -
d	- Group Net Debt (at 31/12/19)	-46.1			
	- Group Net Debt (at 30/6/20e)(pre farm sale & capex for Lacto Stage 1)			-39.0	-$ 0.064
e	- Other group liabilities at book value	-22.9		-22.9	-$ 0.037
f	- Corporate costs (5.0x FY21 EBIT costs of -$3.6m)			-18.0	-$ 0.029
5	**Book Value per 31/12/19 Balance Sheet**	**77.1**	$ 0.126		
6	**Less: Intangible items at 30/6/19 (excl Lobster licences now sold)**				
a	Goodwill on Provincial Foods Group	-6.3	-$ 0.010		
b	- We have already allowed -$3.5m reduction in Item 2 above				
c	Goodwill (Cream Cheese & others)	-1.8	-$ 0.003	-1.8	-$ 0.003
d	Internally generated software	-1.6	-$ 0.003	-1.6	-$ 0.003
e	Customer contracts	-0.7	-$ 0.001	-0.7	-$ 0.001
f	- Impossible to assess the value of the 3 above, so we will deduct all				
g	Water licences	-4.0	-$ 0.007		
h	- Should be OK to include in valuation				
i	Deferred tax asset at 31/12/19	-18.0	-$ 0.029		
j	- Valuable only if BFC becomes profitable, to utilise. Accept for now.				
k	Adjustment from 30/6/19 to 31/12/19	0.2			
l	**Total intangibles**	**-32.2**	-$ 0.053		
7	**Net Tangible Assets at 31/12/19**	**44.9**	**$ 0.073**		
8	Plus: New capital raised by SPP	2.4	$ 0.004	2.4	$ 0.004
9	**Other Adjustments**				
a	- Allowance to buy out Grape Ensemble re Beston Technologies			-2.0	-$ 0.003
b	- Allowance to buy out BPAM external mgt agreement. Use termination fee of 5.0% of "fair market value". We use adjusted market cap of $64.3m.			-2.7	-$ 0.004
10	**Valuation (including LF Stage 1 project)**	**47.2**	**$ 0.077**	**96.5**	**$ 0.158**
13	Shares on issue (including SPP)(million)	612.3		612.3	

Source: FY19 Annual Report; FY20 interims; Phillip Capital adjustments & forecasts

Valuation Comparables

Refinitiv Code	Company	Market Cap $m	Net Cash (Debt)	Price A$	Revenue $m	Revenue $m	Revenue $m	Ebitda $m	Ebitda $m	Ebitda $m	Ebitda Margin	Ebitda Margin	Ebitda Margin	Revenue Growth	Revenue Growth	Revenue Growth
			FY0	25-06-20	FY0	FY1e	FY2e	FY0	FY1e	FY2e	FY0A	FY1e	FY2e	FY1e	FY2e	FY3e
BFC.AX	Beston Global Food Cor	58.2	(39.4)	0.095	85.2	94.4	119.9	(19.0)	(8.7)	6.2	-22.3%	-9.2%	5.2%	10.1%	27.0%	15.7%
CLV.AX	Clover - Our forecasts	395.7	(5.2)	2.360	76.7	88.9	97.2	13.8	17.4	17.9	18.0%	19.6%	18.4%	16.0%	9.3%	27.0%
Infant formula, dairy and food processor comps																
ATM.NZ	A2 Milk Company Ltd	14,534.1	464.8	19.400	1,304.3	1,745.7	2,082.0	420.6	557.1	638.9	32.2%	31.9%	30.7%	33.8%	19.3%	16.2%
FSF.NZ	Fonterra Shareholders'	6,121.8	(6,020.0)	3.750	19,255.0	20,783.8	21,568.7	886.0	1,408.5	1,418.5	4.6%	6.8%	6.6%	7.9%	3.8%	3.1%
FCG.NZ	Fonterra Co-Operative	6,121.8	(6,020.0)	3.750	19,255.0			886.0			4.6%					
UMG.AX	United Malt Group Ltd	1,309.2	(221.3)	4.460	1,316.5	1,267.6	1,337.9	160.2	125.6	149.9	12.2%	9.9%	11.2%	-3.7%	5.5%	7.1%
ING.AX	Inghams Group Ltd	1,229.2	(358.5)	3.280	2,489.8	2,554.7	2,635.1	192.3	185.7	203.3	7.7%	7.3%	7.7%	2.6%	3.1%	3.0%
SM1.AX	Synlait Milk Ltd	1,222.4	(333.1)	6.890	1,024.3	1,250.8	1,417.8	152.7	171.8	197.9	14.9%	13.7%	14.0%	22.1%	13.4%	6.1%
BGA.AX	Bega Cheese Ltd	1,001.1	(287.3)	4.630	1,420.0	1,530.4	1,610.9	104.4	96.9	121.5	7.4%	6.3%	7.5%	7.8%	5.3%	4.8%
FNP.AX	Freedom Foods Group L	841.0	(122.0)	3.010	476.2	595.0	708.5	43.9	73.5	117.2	9.2%	12.3%	16.5%	24.9%	19.1%	16.8%
TGR.AX	Tassal Group Ltd	794.9	(178.7)	3.770	551.8	583.7	648.6	114.4	137.6	158.9	20.7%	23.6%	24.5%	5.8%	11.1%	9.4%
SHV.AX	Select Harvests Ltd	626.5	(27.4)	6.460	298.5	270.3	273.5	90.7	73.5	80.8	30.4%	27.2%	29.5%	-9.4%	1.2%	8.5%
CLV.AX	Clover consensus	395.7	(5.2)	2.360	76.7	87.7	98.6	13.7	17.5	19.1	17.8%	20.0%	19.3%	14.3%	12.4%	14.6%
RIC.AX	Ridley Corporation Ltd	228.8	(101.4)	0.715	1,003.1	959.2	974.3	49.2	51.4	55.9	4.9%	5.4%	5.7%	-4.4%	1.6%	3.9%
Vitamin & Skin care comps																
BKL.AX	Blackmores Ltd	1,473.3	(94.5)	78.230	609.5	597.8	649.3	91.2	52.3	76.7	15.0%	8.7%	11.8%	-1.9%	8.6%	7.9%
BWX.AX	BWX Ltd	469.8	(42.8)	3.750	150.4	182.4	208.3	21.3	29.2	35.9	14.1%	16.0%	17.3%	21.3%	14.2%	11.0%
Other Dairy & Food comps - Loss makers (difficult to value)																
BUB.AX	Bubs Australia Ltd	556.5	21.3	0.985	43.9	64.2	107.7	(33.5)	(4.3)	4.3	-76.3%	-6.7%	4.0%	46.2%	67.7%	59.1%
WHA.AX	Wattle Health Australia	130.4	26.0	0.530	1.1	NaN	NaN	(8.7)	NaN	NaN	-791.4%	NaN	NaN	NaN	NaN	NaN
BFC.AX	Beston Global Food Cor	58.2	(39.4)	0.095	85.2	94.4	119.9	(19.0)	(8.7)	6.2	-22.3%	-9.2%	5.2%	10.1%	27.0%	15.7%
FOD.AX	Food Revolution Group	40.9	(4.5)	0.056	29.3	NaN	NaN	(7.3)	NaN	NaN	-25.0%	NaN	NaN	NaN	NaN	NaN
LON.AX	Longtable Group Ltd	32.4	6.8	0.155	25.8	NaN	NaN	(9.0)	NaN	NaN	-35.0%	NaN	NaN	NaN	NaN	NaN
AHF.AX	Australian Dairy Nutriti	26.6	(8.9)	0.071	21.4	NaN	NaN	(1.6)	NaN	NaN	-7.6%	NaN	NaN	NaN	NaN	NaN
FRM.AX	Farm Pride Foods Ltd	15.0	(14.5)	0.270	86.6	NaN	NaN	1.1	NaN	NaN	1.3%	NaN	NaN	NaN	NaN	NaN
Median (food coys, excluding loss makers)											10.7%	12.3%	14.0%	7.8%	5.5%	7.1%
Average (food coys, excluding loss makers)											13.9%	14.9%	15.8%	9.3%	8.7%	8.5%

Source: Refinitiv actuals and consensus forecasts; Phillip Capital research forecasts for Beston Global Foods (BFC) and Clover Corp (CLV)

BFC looks fairly valued on FY2e (FY21e) EV / Ebitda of 11.2x, but very cheap on 3.6x FY22 EV/ Ebitda once the profit uplift from the major Lactoferrin upgrade project comes through. BFC also looks very cheap on 4.3x FY3e EPS (FY22e) – zero tax charge however.

Refinitiv Code	Company	EV/ Sales	EV/ Sales	EV/ Sales	EV/ Ebitda	EV/ Ebitda	EV/ Ebitda	P/E	P/E	P/E	EPS Growth	EPS Growth	Yield	Yield
		FY0	FY1e	FY2e	FY1e	FY2e	FY3e	FY1e	FY2e	FY3e	FY1e	FY2e	FY1e	FY2e
BFC.AX	Beston Global Food Cor	1.1x	1.0x	0.6x	-11.2x	11.2x	3.6x	-4.7x	28.5x	4.3x	NaN	Large	0.0%	0.0%
CLV.AX	Clover - Our forecasts	5.2x	4.5x	4.1x	22.9x	22.2x	17.3x	34.3x	32.5x	25.3x	24.6%	5.3%	1.2%	1.3%
Infant formula, dairy and food processor comps														
ATM.NZ	A2 Milk Company Ltd	7.9x	7.9x	6.6x	24.7x	21.5x	18.1x	36.9x	31.9x	27.0x	35.5%	15.9%	0.0%	0.3%
FSF.NZ	Fonterra Shareholders'	0.6x	0.6x	0.6x	8.6x	8.6x	0.0x	15.5x	11.9x	10.6x	Nan	30.2%	2.9%	4.4%
FCG.NZ	Fonterra Co-Operative Group Ltd													
UMG.AX	United Malt Group Ltd	NULL	1.2x	1.1x	12.1x	10.1x	8.4x	23.3x	18.1x	15.8x	-30.9%	28.9%	1.1%	2.8%
ING.AX	Inghams Group Ltd	0.7x	1.2x	1.2x	17.0x	15.5x	14.4x	15.5x	13.7x	12.4x	-36.3%	13.4%	4.3%	5.2%
SM1.AX	Synlait Milk Ltd	2.1x	1.3x	1.2x	9.5x	8.3x	7.6x	16.8x	14.2x	11.8x	-10.7%	18.4%	0.0%	0.0%
BGA.AX	Bega Cheese Ltd	0.9x	0.8x	0.8x	13.4x	10.7x	9.3x	36.1x	22.6x	17.4x	125.0%	60.2%	2.0%	2.4%
FNP.AX	Freedom Foods Group L	3.2x	1.9x	1.6x	15.6x	9.8x	7.3x	57.3x	21.9x	12.8x	11.9%	162.4%	0.0%	1.9%
TGR.AX	Tassal Group Ltd	1.9x	1.8x	1.7x	7.8x	6.7x	5.9x	11.8x	10.7x	9.4x	-3.0%	10.3%	4.9%	5.1%
SHV.AX	Select Harvests Ltd	2.6x	3.6x	3.5x	13.1x	11.9x	9.6x	16.8x	15.2x	11.5x	-30.6%	11.0%	3.1%	3.8%
CLV.AX	Clover consensus	5.1x	4.7x	4.1x	23.3x	21.4x	17.1x	33.1x	29.7x	23.2x	17.6%	11.2%	0.9%	1.6%
RIC.AX	Ridley Corporation Ltd	0.5x	0.4x	0.4x	7.2x	6.6x	6.3x	12.9x	12.3x	11.3x	-27.4%	4.5%	5.9%	6.0%
Vitamin & Skin care comps														
BKL.AX	Blackmores Ltd	2.7x	2.7x	2.5x	30.6x	20.8x	16.4x	70.0x	40.8x	28.8x	-63.9%	71.5%	0.0%	1.7%
BWX.AX	BWX Ltd	1.8x	2.8x	2.4x	17.3x	14.1x	11.7x	33.4x	24.1x	19.2x	46.2%	38.4%	1.0%	1.5%
Other Dairy & Food comps - Loss makers (difficult to value)														
BUB.AX	Bubs Australia Ltd	12.6x	8.1x	4.8x	NaN	120.0x	23.0x	NaN	328.3x	39.9x	-87.2%	-130.0%	0.0%	0.0%
WHA.AX	Wattle Health Australia	85.7x	NaN	NaN	NaN	NaN	NaN	NaN	NaN	NaN	NaN	NaN	NaN	NaN
BFC.AX	Beston Global Food Cor	1.1x	1.0x	0.6x	-11.2x	11.2x	3.6x	-4.7x	28.5x	4.3x	NaN	Large	0.0%	0.0%
FOD.AX	Food Revolution Group	1.8x	NaN	NaN	NaN	NaN	NaN	NaN	NaN	NaN	NaN	NaN	NaN	NaN
LON.AX	Longtable Group Ltd	1.4x	NaN	NaN	NaN	NaN	NaN	NaN	NaN	NaN	NaN	NaN	NaN	NaN
AHF.AX	Australian Dairy Nutriti	2.7x	NaN	NaN	NaN	NaN	NaN	NaN	NaN	NaN	NaN	NaN	NaN	NaN
FRM.AX	Farm Pride Foods Ltd	0.3x	NaN	NaN	NaN	NaN	NaN	NaN	NaN	NaN	NaN	NaN	NaN	NaN
Median (food coys, excluding loss		2.0x	1.3x	1.2x	13.1x	10.1x	8.4x	16.8x	15.2x	12.4x	-6.8%	15.9%	2.0%	2.8%
Average (food coys, excluding loss		2.5x	2.3x	2.1x	13.8x	11.9x	9.5x	25.1x	18.4x	14.9x	5.1%	33.3%	2.3%	3.0%

Source: Refinitiv actuals and consensus forecasts; Phillip Capital research forecasts for Beston Global Foods (BFC) and Clover Corp (CLV)

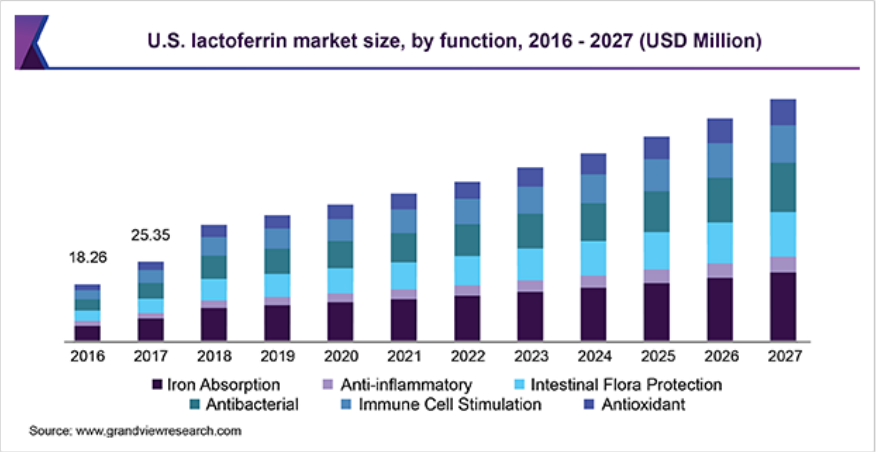
Share Price Catalysts - BFC

1. Possible formal takeover bid, if informal expression of interest develops into something.
2. **Completion of Dairy farm sale to Aurora (expected by September).**
3. Continuing to win new customers in both Dairy and Meat divisions.
4. Details of proposed termination of out-dated external management agreement. **Expected to be put before shareholders at the next AGM in November, and if approved, completed by 26/2/21 (refer 12/6/20 ASX presentation, page 21).**
5. Implement exciting high-margin, high ROCE Lactoferrin from skim milk project (Stage 1: $12m capex, >$8.0m incremental ebitda estimated), and other previously identified projects (in-house cheese shredding, waste reduction strategies, energy efficiency measures).
6. Close or exit any remaining legacy businesses (Mineral water, any other skeletons).
7. Beston Technologies / Digimarc MOU – 6 months of integration / evaluation work to be done. Could then lead to a formal agreement for a possible new commercial SaaS anti-counterfeiting solution.
8. Board renewal (Would probably be done in conjunction with termination of external management agreement). We note that the CEO is not currently a director of BFC.
9. Possible Lactoferrin Stages 2 (~$6m capex, extra 4Tpa, possible completion late FY22) & Stage 3 (~$3m capex, extra 4Tpa, probably late FY23).

Lactoferrin (LF) – from Grandview Research

The global lactoferrin market size was estimated at USD 203.7 million in 2019, and is expected to expand at a revenue-based CAGR of 8.1% over the forecast period. The rising awareness amongst consumers regarding health and diet, along with rising prevalence of skin-related health conditions, are expected to boost the demand. Lactoferrin is believed to have antiviral, antibacterial, anti parasitic, catalytic, and anti-allergic functions and properties, which is anticipated to drive the product demand from pharmaceutical and personal care industries.

According to the American Academy of Dermatology, acne is the most prevalent skin condition in U.S., affecting over 40 to 50 million people in the country every year. The acne treatment market is also subsequently expected to witness strong growth during the forecast period. Various clinical trials have proven the ability of lactoferrin to effectively treat acne and other such skin conditions. Due to its anti-inflammatory properties, lactoferrin gets rid of the main food source for pathogens by neutralizing its contributors.



Source: www.grandviewresearch.com

Description of Businesses

BFC listed in August 2015 at $0.35 per share as an investment company to hold selected investments in the Australian food and beverage industry, and with a particular focus on products suitable for export to China and South East Asia. Today the BFC investment portfolio has three wholly owned businesses, and 4 investment positions in investee / incubator companies. A major restructuring has been underway since a few months before the new CEO Jonathan Hicks joined in January 2019.

Dairy ($101m book value - 69% of segment assets)

- Two recently refurbished and upgraded cheese factories at Murray Bridge (cheddar and other hard cheeses) and Jervois (mozzarella) in South Australia. These have a combined 300 million litres annual milk processing capacity, but are currently operating at about one third of that. These factories were purchased out of receivership in 2015 for $4.5m, before an extensive refurbishment, reopening in December 2015. A new $26.5m mozzarella line installed at Jervois, commenced production in February 2018 and full production in May 2018. Estimated capacity 10,000 tonnes pa at Murray Bridge and 16,000 tonnes pa at Jervois.
- Cream cheese processing and packing facility (acquired for $2.2m and relocated from Thomastown Melbourne to Murray Bridge, and refurbished and upgraded).
- Contract manufacturing facility eg “Le Rice” dairy desserts for Lion Nathan.
- Lactoferrin extraction plant – located at Jervois, but acquired separately in 2015 for $7.0m from Probiotec (PBP). PBP installed the plant here in 2012 at a cost of $22.0m after relocating it from Malanda Queensland. This plant has been idle for over 3 years, restarted in February 2019 to process whey from the mozzarella plant into high value proteins for infant formula and pharmaceuticals.
- Four dairy farms in the Mt Gambier region of South Australia which are being sold for $40.4m (slightly above book value).

Provincial Food Group (9% of segment assets)

- Specialist provider of pre-cooked meat products to supermarkets, food service and exports, based at Shepparton Vic.
- 100% owned since 23/8/18 (previously 45% indirect interest via convertible notes).
- Book value $13.7m or about 9% of Total Group Assets.

Australia – Other (Segment book value $3.8m or 2%)

- Aqua Essence (51% owned; BV $370k at 30/6/18, now written down to Nil) - Mineral water business. Owns rights to ~ 140 million litres of water pa sourced from underground aquifers surrounding the Blue Lake in Mt Gambier.
- Neptune Bio-Innovations (9.9% equity stake of $5.7m + $5.9m C/note; BV of $11.6m has now been written down to nil) - An accredited Research & Development food contract manufacturer operating in the food and beverage, nutritional, personal care and nutraceutical product industries. Sydney based.
- **Beston Technologies** - BFC has an option to purchase an 80% shareholding in Brandlok Protection Solutions Pty Ltd (BBPS). Data Dot Technology Limited (DDT) owns the other 20%. BBPS has developed an anti-counterfeiting system, whereby a BrandLok infrared and ultraviolet seal applied to a packaged product can be read by a consumer at the point of purchase to verify the authenticity of the product, and other information. The core technology was originally developed by the CSIRO. BFC has funded further development and applications of the technology to build a track and trace system, and applied it to some BFC food products. A proposed merger of Beston Technologies and Data Dot was announced in February 2018, valuing Beston Technologies at $13.0m and DDT at $7.0m, but the heads of agreement was terminated in May 2019. An MOU with a new potential partner to help develop the technology was announced on 17/6/20 with Nasdaq listed Digimarc Corporation (DMRC.O).

Corporate (Segment book value $27.5m, 19% of Total assets)

- Deferred tax assets $18.0m
- Shepparton freehold factory (rented to Provincial Food Group) $6.5m
- Other $3m

External Management Agreement

- BFC has an external management structure, with the senior management team (CEO & CFO and their assistants) employed by Beston Pacific Asset Management Pty Ltd (BPAM). BFC pays BPAM a management fee equal to 1.20% per annum (plus GST) of the gross portfolio value of BFC. This was $2.380m in FY17, $2.422m in FY18, and $2.383m in FY19.
- In addition, there is a performance fee of 17.5% of the out-performance of BFC shares over the All Ordinaries Accumulation index, subject to a clawback from prior negative years. BFC's share price out-performed the benchmark by 16.7% in FY16 (year 1), but BPAM waived the right to receive the outperformance fee entitlement for that year of $4.351m. There was no performance fee payable for FY17, FY18 or FY19 as BFC's share price under-performed the benchmark significantly.
- The term of the agreement is 5 years plus an automatic extension for a further 5 years, unless terminated earlier (under very strict rules summarised in the prospectus p110; e.g. if the Investment Manager becomes insolvent). After the initial term, BFC may terminate the management agreement on 3 months' notice where an ordinary resolution of the shareholders is passed. A termination fee is payable to the Investment Manager in that circumstance. The termination fee is 5.0% of the Portfolio value reduced by one sixtieth for each calendar month elapsed between commencement of the term (or extended term). Portfolio Value is the "Fair market value of the portfolio at 30 June and 31 December of each year".
- BFC has stated that the "fee paid to BPAM is less than the actual costs incurred by BPAM, which the fee was intended to cover". However we have no way of verifying that. In any event, it probably means that costs are simply too high, or that there has been too many complexities and distractions (e.g. the overseas operations).
- In the recent Chairman's AGM statement, the Chairman stated that "BPAM has made it known that at some point, it would accept the collapsing of this arrangement. However, that point would will be when it is in the best financial interest of the BFC shareholders to do so."
- We think that collapsing this external agreement would help simplify the company, and so would be positively viewed by shareholders and investors, subject to the termination fee being calculated and the costs and benefits being explained adequately. The agreement automatically rolled over for a further five years in May 2020.

Latest Update

- In the 12/6/20 Corporate Update presentation, BFC says that it is working on arrangements to internalise the IMA (external Investment Management Agreement) at the expiry of the initial five-year term. It is intended that the termination of the IMA will be completed by 26 February 2021. We understand this date has been estimated being 3 months' notice following the November 2020 AGM.

Beston Global Food Company Limited (BFC) $ 0.095

Profit & Loss

Year end June ($m)	FY19	FY20e	FY21e	FY22e
Op. Revenue	85.7	94.4	119.9	138.7
Revenue growth %	79.0%	10.1%	27.0%	15.7%
Cost of Goods Sold	(81.1)	(83.2)	(94.7)	(102.1)
Gross Profit	**4.6**	**11.1**	**25.1**	**36.6**
Gross Profit Margin	5.4%	11.8%	21.0%	26.4%
Other Income	0.4	1.6	1.4	1.4
Cash Operating Expenses	(24.0)	(19.7)	(20.3)	(20.3)
EBITDA	**-19.0**	**-8.7**	**6.2**	**17.7**
Ebitda Margin	-22.2%	-9.2%	5.2%	12.8%
Depreciation & Amort	(1.9)	(3.3)	(3.5)	(4.1)
EBIT	**-20.9**	**-12.0**	**2.7**	**13.6**
Ebit Margin	-24.4%	-12.7%	2.3%	9.8%
Net Interest Income (Expense)	(1.3)	(1.7)	(0.7)	(0.3)
Share of Assoc NPAT	-0.8	0.0	0.0	0.0
Pre-tax profit	**(22.9)**	**(13.7)**	**2.0**	**13.3**
Income Tax Credit (Expense)	5.2	4.1	0.0	0.0
Tax Rate	-22.8%	-30.0%	0.0%	0.0%
Minorities (share of loss)	0.3	0.3	0.0	0.0
Abnormals	-9.6	2.5	0.0	0.0
NPAT (reported incl NRIs)	**-27.0**	**-6.7**	**2.0**	**13.3**
Adjustments	9.6	-2.5	0.0	0.0
NPAT (normalised)	**-17.4**	**-9.2**	**2.0**	**13.3**

Balance Sheet

Cash	1.9	10.8	13.4	19.9
Receivables	15.7	20.3	24.8	28.7
Inventories	14.2	13.6	15.3	17.7
Other	0.0	0.0	0.0	0.0
Total current assets	**31.9**	**44.8**	**53.5**	**66.3**
PP&E	68.2	72.2	44.2	48.2
Investments	0.0	0.0	0.0	0.0
Intangibles	19.4	14.4	14.4	14.4
Deferred tax assets	15.8	19.8	19.8	19.8
Other	5.3	5.3	5.3	5.3
Total non-current assets	**108.7**	**111.7**	**83.7**	**87.7**
Total Assets	**140.6**	**156.5**	**137.2**	**154.0**
Payables	-15.7	-17.3	-21.9	-25.4
Interest bearing liabilities - Current	-5.5	-5.5	-5.5	-5.5
Provisions	-0.4	-0.4	-0.4	-0.4
Other	0.0	0.0	0.0	0.4
Total Current Liabilities	**-21.7**	**-23.3**	**-27.9**	**-31.0**
Interest-bearing liabs - Non-current	-35.8	-44.3	-19.3	-19.3
Provisions	-0.2	-0.2	-0.2	-0.2
Other	-2.8	-2.9	-2.9	-3.4
Total Non-current Liabilities	**-38.8**	**-47.4**	**-22.4**	**-22.9**
Total Liabilities	**-60.4**	**-70.7**	**-50.4**	**-53.8**
Total Shareholders' Equity	**80.1**	**85.8**	**86.8**	**100.2**

Interims

Year end June	1H19	2H19	1H20	2H20e
Sales	43.7	42.0	51.2	43.2
Sales Growth (g)	138.3%	42.1%	17.1%	2.9%
EBITDA	-6.6	-12.4	-5.7	-3.0
EBITDA Margin	-15.2%	-29.5%	-11.2%	-6.9%
EBIT	-7.5	-13.4	-7.3	-4.6
Equity Share of Assocs NPAT	0.0	-0.8	0.0	0.0
NPAT (Reported incl.NRIs)	-11.4	-15.5	-3.1	-3.6
NPAT (Normalised)	**-5.5**	**-11.8**	**-5.6**	**-3.6**
EPS (norm)(cents)	**-1.2**	**-2.7**	**-1.3**	**-0.8**
EPS growth (g)	87.3%	102%	1.5%	-71.8%
DPS (cents)	0.0	0.0	0.0	0.0

Source: Phillip Capital estimates

Per share & Ratio data

Year end June	FY19	FY20e	FY21e	FY22e
Reported EPS (cents)	(6.1)	(1.5)	0.3	2.2
Growth	114.2%	-75.9%	-122.7%	557.0%
P/E ratio (x)	-1.6x	-6.5x	28.5x	4.3x
EPS (norm)(cents)	**(3.9)**	**(2.0)**	**0.3**	**2.2**
Growth	97.0%	-48.4%	-116.5%	557.0%
P/E ratio (x)	**-2.4x**	**-4.7x**	**28.5x**	**4.3x**
DPS (cents)	0.0	0.0	0.0	0.0
Franking	0%	0%	0%	0%
Yield	**0.0%**	**0.0%**	**0.0%**	**0.0%**
OCF per share (cents)	-2.1	-2.8	0.7	2.4
Price/OCF (x)	-4.6x	-3.4x	14.5x	4.0x
EV/ Sales	1.1x	1.0x	0.6x	0.5x
EV/EBITDA	**-5.1x**	**-11.2x**	**11.2x**	**3.6x**
EV/EBIT	-4.7x	-8.1x	25.5x	4.6x

Liquidity & Leverage

Net Cash (Debt) $m	(39.4)	(39.0)	(11.5)	(5.0)
Net Debt / Equity %	49%	45%	13%	5%
Net Debt / EBITDA	n/a	n/a	1.9x	0.3x
ROA (EBIT / TAssets) %	-14.9%	-7.7%	2.0%	8.9%
ROE (NPAT / TEquity) %	-21.7%	-10.8%	2.3%	13.3%
Interest Cover (EBIT)	-16.2x	-7.0x	3.9x	45.5x
Dividend Cover	n/a	n/a	n/a	n/a

Cash Flow

EBITDA	-19.0	-8.7	6.2	17.7
Chge in Working Capital	21.0	-2.4	-1.5	-2.9
Interest Received (Paid)	-1.3	-1.7	-0.7	-0.3
Income taxes paid	0.0	0.0	0.0	0.0
Other	-9.8	0.0	0.0	0.0
Operating cash flows	**-9.1**	**-12.8**	**4.0**	**14.6**
Capex	-12.3	-7.3	-15.5	-8.1
Acqns & Investments	-0.9	0.0	0.0	0.0
Sale of non-current assets	0.6	8.1	40.0	0.0
Other	-0.4	0.0	-3.0	0.0
Net investing cash flows	**-13.0**	**0.8**	**21.5**	**-8.1**
Equity raised (bought back)	0.0	12.4	2.0	0.0
Dividends paid	0.0	0.0	0.0	0.0
Change in Debt	19.8	8.5	-25.0	0.0
Other	0.0	0.0	0.0	0.0
Financing cash flow	**19.8**	**20.9**	**-23.0**	**0.0**
Change in Cash	**-2.3**	**8.9**	**2.5**	**6.5**

Segment Revenue

Dairy	76.7	82.0	107.0	122.0
Meat	6.5	12.0	12.5	16.3
Aust - Other	0.3	0.2	0.2	0.2
International - Other	2.6	0.7	0.7	0.7
Unallocated/ Other	0.0	0.2	0.0	0.0
Total Sales + Other Rev	**86.1**	**95.1**	**120.4**	**139.2**

Segment EBIT

Dairy	-8.2	-4.9	7.3	17.1
Meat	-2.4	-3.5	-1.0	0.1
Aust - Other	-1.0	-0.7	-0.7	-0.7
International - Other	-2.8	-0.4	-0.4	-0.4
Unallocated/ Other	-6.4	-2.5	-2.5	-2.5
Total EBIT	**-20.9**	**-12.0**	**2.7**	**13.6**

Segment EBIT Margins

Dairy	-10.8%	-6.0%	6.9%	14.1%
Meat	-37.5%	-28.9%	-8.0%	0.6%
Aust - Other	-412.4%	-350.0%	-350.0%	-350.0%
International - Other	-106.0%	-57.1%	-57.1%	-57.1%
Unallocated/ Other	N/a	N/a	N/a	N/a
Total EBIT	**-24.2%**	**-12.6%**	**2.3%**	**9.8%**

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>20%	10% – 20%	0% – 10%	0% to -10%	>-10%

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