

Beston Global Food Co Limited (BFC)

Interim Results – Management clears the decks; Still work to do

4 April 2019

Wayne Sanderson
wsanderson@phillipcapital.com.au
+61 3 8633 9930

Summary

BFC now has 3 main wholly owned businesses, and 3 investment positions in associates & incubator companies:

- Dairy** (80% of estimated segment assets) – Two recently refurbished and upgraded cheese factories at Murray Bridge and Jervois in South Australia (300 million litres milk processing capacity), plus four dairy farms near Mt Gambier SA (~17m litres annual production).
- Provincial Food Group** (9% of segment assets, now 100% owned) – Specialist provider of pre-cooked meat products to supermarkets, food service and exports, based at Shepparton Vic.
- China Division** – Shanghai trading office (6 staff).
- Associates & Incubator investments** (9% of assets):
 - Seafood \$10.6m book value (Ferguson Australia)
 - Health BV\$4.7m (Aqua Essence mineral water)
 - Beston Technologies (BV undisclosed).

1H19 Result

- Revenue \$43.3m up 136% as mozzarella sales ramp up.
- Dairy EBIT loss -\$1.6m; Meat division EBIT loss -\$1.3m.
- NLoss (normalised) -\$5.5m Vs our forecast of -\$4.2m.
- Abnormal write-down \$5.9m on Investments.
- Further write-downs of \$9.8m taken directly to Reserves.
- Total loss to Shareholders Funds \$21.5m for the half.
- NTA 16.3 cents (Vs 24 cents at 30/6/18).
- Net debt \$31m (Vs \$17m Jun 18); Gearing 31% (V 14%).

Our Opinion

Management has taken decisive action to clear the decks and point BFC towards profitability. Some good progress made despite the poor headlines. We think there is a good base for the new CEO to add value to. However we think there is considerable work still to be done.

We downgrade NPAT (norm) by \$4.1m, \$2.2m, and \$0.0m for FY19e, 20e and 21e. Dairy profitability now expected this half (& FY19) but Group profit pushed back to FY21.

Our Sum of the Parts valuation is reduced from 22 cents to 18 cents. BFC is still an undervalued asset play.

Catalysts: Exit from Seafood (BV \$10.6m) & Health/Aqua (BV \$4.7m); New customer wins in Dairy & Meat to improve capacity utilisation and diversify customer risk; Reduce overheads; Eliminate unpopular external mgt structure.

Recommendation: We change from Accumulate to Hold due to increasing balance sheet risk and gearing. With \$31m of Net Debt and continuing losses BFC is still a very High Risk potential turn-around situation.

Recommendation

Hold

Risk Rating	High
12-mth Target Price (AUD)	\$0.18 (was \$0.22)
Share Price (AUD)	\$0.135
12-mth Price Range	\$0.105 - \$0.22
Forecast 12-mth Capital Growth	33.3%
Forecast 12-mth Dividend Yield	0.0%
12-mth Total Shareholder Return	33.3%
Market cap (\$m)	59.8
Net debt (net cash) (\$m)(June 19e)	26.6
Enterprise Value (\$m)	86.5
Gearing (Net Debt/ Equity)	27%
Shares on Issue (m)	443.3
Sector	Food & Beverages
Average Daily Value Traded (\$)	\$34,000
ASX 300 Weight	n/a

Financial Forecasts & Valuation Metrics

Years ending June \$m	17(a)	18(a)	19(e)	20(e)	21(e)
Sales revenue	23.8	47.9	97.7	121.7	138.5
EBITDA	-9.7	-11.6	-7.0	3.2	12.1
NPAT (rep'd Incl. NRIs)	-7.7	-12.6	-13.0	-0.7	5.2
NPAT (normalised)	-7.7	-8.8	-7.1	-0.7	5.2
EPS (norm) (cents)	-1.8	-2.0	-1.6	-0.2	1.2
EPS growth	237%	9%	-19%	-90%	Large
DPS (cents)	0.6	0.0	0.0	0.0	0.0
P/E	-7.4	-6.8	-8.4	-80.3	11.5
EV/ Ebitda	-3.2	-6.6	-12.4	29.0	7.7
Yield	4.4%	0.0%	0.0%	0.0%	0.0%
Net debt / equity	net cash	14.0%	27.1%	34.9%	32.3%

Source: Phillip Capital estimates

BFC SHARE PRICE PERFORMANCE



Interim Results

BFC reported a net loss of \$11.4m for the half year ended December 2018 (Vs \$3.0m loss in the pcip). This comprised an operating loss of \$5.5m (Vs \$3.0m) and a \$5.9m impairment on its investment in Neptune Bio-Innovations (NBI) convertible notes.

In addition, BFC booked a further write-down of \$5.7m for the equity investment component of NBI directly to "Other Reserves" (making it a 100% write-down of the \$11.6m book value of NBI at 30/6/18). And there was a \$5.9m write-down of long-term receivables (\$4.1m net after a tax benefit calculated at 30%) to Accumulated Losses under AASB 9 (effectively to reserves). Had these two items been taken through the P&L the reported loss would have been a \$21.5m NLoss (\$23m loss before tax credit).

These results and write-downs are disappointing, but not unexpected (we previously identified these items as potential issues and discounted both the NBI investment and the long term debtor by 50% in our Sum of the Parts valuation in our initiation report dated 17/12/18). We are however pleased that management and new CEO Jonathan Hicks seem to be tackling the big issues immediately and forcefully, clearing the decks for a better future performance.

BFC - Interim Results review				Change	Change	Comments	PCR est	Change
Year end June \$m	1H18	2H18	1H19A	Vs pcip	Vs 2H18		1H19e	Vs PCR
Operating Revenue	18.3	29.5	43.3	136%	47%	Significant increase due to new Mozzarella sales	42.1	3%
Cost of Goods Sold	-11.5	-21.2	-33.9	194%	60%		-28.8	18%
Gross Profit	6.8	8.4	9.4	38%	12%	Gross profit well below our expectations	13.3	-29%
Gross margin	37.3%	28.4%	21.8%	-42%	-23%	GP margin well below our expectations	31.6%	-31%
-Other Revenue Total	2.4	0.8	0.6	-73%	-20%	Leasing income from Ferguson	0.1	546%
Operating Expenses	-12.2	-17.8	-16.7	37%	-6%		-17.6	-5%
Ebitda	-3.0	-8.6	-6.6	124%	-23%	Ebitda loss \$2.2m below our expectation	-4.2	58%
Ebitda Margin	-16.2%	-29.3%	-15.3%	-5%	-48%		-10.0%	53%
Ebitda Growth	-45%	102%	124%	-372%	22%		42%	196%
Depn & Amort	-0.9	-1.1	-0.9	-8%	-23%		-1.3	-33%
Ebit	-3.9	-9.8	-7.5	92%	-23%		-5.5	36%
Ebit Margin	-21.3%	-33.1%	-17.3%	-19%	-48%		-13.1%	32%
Net Interest income (expense)	0.4	0.5	-0.5	-227%	-196%	\$31m net debt	-0.5	4%
Share of Associates' NPAT	-0.02	0.0	0.0	-100%		Share of Neptune Bio loss no longer included	0.0	
Pre-tax profit	-3.5	-9.2	-8.0	128%	-13%	Still in loss	-6.0	33%
Income Tax Credit (Expense)	0.5	3.0	2.4	431%	-19%	Tax losses stacking up	1.8	34%
Tax Rate	13%	32%	30%				30%	1%
Minorities (share of loss)	0.1	0.4	0.1	-44%	-85%		0.0	137%
Abnormals	0.0	-3.8	-5.9			Writedown of part of Neptune Bio investment	0.0	Large
NPAT (reported incl Abs)	-3.0	-9.6	-11.4	287%	19%		-4.2	174%
Adjustments	0.0	3.8	5.9			Add back Neptune Bio writedown	0.0	
NPAT (normalised)	-3.0	-5.9	-5.5	87%	-5%	Still in loss	-4.2	0.3
EPS (adjusted)(cents)	-0.7	-1.3	-1.2	87%	-5%	Still in loss	-0.9	33%
DPS (cents)	0.0	0.0	0.0			Still in loss	0.0	
Franking	0%	0%	0%				0%	

Source: Company for actuals; Phillip Capital forecasts

We review the result in detail:

- Revenue up 136% to \$43.3m (v \$18.3m) as sales from the new mozzarella plant ramped up, and the cheddar inventory build started to be sold down. This also included \$1.5m of revenue from the Meat division which was consolidated from 23/8/18 when BFC moved to 100% ownership.
- Gross profit up 38% to \$9.4m (v \$6.8m) mainly due to mozzarella sales ramping up. However this was around \$4m below our expectations. BFC have estimated a "lost margin opportunity" of approximately \$2.8m from lower than expected take up orders for mozzarella (which caused the plant to operate at levels below capacity targets), and that a significant portion of the milk received was traded out to other processors. There was also an estimated \$1.6m impact from selling down excess cheddar stocks at a lower margin in order to bring in cash flow.
- Gross profit margin declined to 22% (v 37%) due to the above factors. There was also a first time \$120k gross margin loss in the Meat division (Provincial Foods Group).
- It was difficult for us to forecast BFC's results accurately because of the large ramp up of the mozzarella production, the simultaneous rebalancing of cheddar production, limited historical data and comparatives, and generally, lots of moving parts to contend with. We think our ability to forecast BFC's results accurately should gradually improve

from here as the operations settle down.

- Operating costs were \$0.9m lower than we forecast, which helped reduce the gross margin shortfall.
- Ebitda was a \$6.6m loss (v \$3.0m loss). This was \$2.2m below our expectation of a \$4.2m ebitda loss.
- The group ebitda margin was a negative 15.3% (v -16.2%). BFC still has work to do to get the main Dairy and Meat businesses profitable.
- EBIT loss of \$7.5m (v \$3.9m). This was \$2.0m below our forecast of a \$5.5m loss, due to the Meat division loss of \$1.6m (we expected break-even), and higher Adjustments/ Eliminations / Unallocated segmental column items of -\$4.8m (Vs -\$4.0m forecast).
- Reported NLoss was \$11.4m (Vs \$3.0m NLoss). This included a \$5.9m abnormal write-down on investments (Neptune Bio-Innovations convertibles notes).
- Normalised NLoss was \$5.5m (v \$3.0m NLoss). This was \$1.3m lower than our forecast of a \$4.2m 1H19 NLoss.
- Normalised EPS loss -1.2 cents (Vs -0.7 cents), 87% worse than the pcp.
- No dividend due to continuing losses. We note that \$48.0m of losses have now been accumulated by the company since its IPO in August 2015 (higher still on a pre-tax basis).

Normalisation Adjustments

Our normalised NLoss is (\$5.5m). We have only adjusted for the \$5.9m abnormal write-down on investments (Neptune Bio-Innovations convertibles notes).

BFC management believe the normalised NLoss should be \$1.5m as calculated below. We agree that these are probably one off items, but we don't know how items B & C below were calculated, how long it will take to get additional customer orders in Dairy and we are reluctant to add back "opportunity cost" type items. We show the detail below so investors can make their own informed view.

We also show our 2H19 forecasts as a comparison.

BFC - Management normalisation items		NPAT	EBIT
Item	Description	1H19	1H19
A	Operational Loss	-5.5	-7.5
B	Delay in Mozz plant commisioning / Slower than anticipated take up in customer orders / Lost margin opportunity	2.8	2.8
C	Accelerated inventory reduction / Lost margin opportunity	1.6	1.6
D	Tax impact of the above	-1.3	
E	Initial Provincial Foods Group post acquisition losses (after tax)	0.9	1.3
F	Normalised NLoss per Management	-1.5	
G	Implied Normalised EBIT per Management		-1.8
H	Phillip Capital 2H19 Forecasts	-1.6	-0.3

Source: BFC 1H19 result and discussions with mgt; Phillip Capital forecasts

Segmentals

BFC - Interim Results review				Change	Change	Comments	PCR est	Change
Year end June \$m	1H18	2H18	1H19A	Vs pcp	Vs 2H18		1H19e	Vs PCR
SEGMENTALS								
Milk intake (million litres)	57.0	33.0	58.0	2%	76%		57.5	1%
Segment Revenue								
Dairy	18.2	26.5	41.9	130%	58%	Huge increase as Mozz production ramps up	40.2	4%
Meat	0.1	0.8	1.6	1281%	104%	Now consolidated from 23/8/18	1.7	-6%
Seafood	0.2	0.5	0.2	14%	-51%	Lease income only; Underlying rev not shown	0.1	144%
Health	0.5	0.5	0.1	-74%	-76%	Aqua Essence - tiny rev - not really even a business	0.2	-37%
Unallocated/ Other	1.7	3.1	0.1	-93%	-96%		0.0	
Total Sales + Other Rev	20.7	31.3	43.9	112%	40%		42.2	4%
Segment EBIT								
Dairy	1.1	-4.2	-1.6	-244%	-61%	Still in loss, but small	-1.6	4%
Meat	0.0	0.1	-1.3	-32000%	-2508%	Unexpected loss; We expected break-even	0.0	
Seafood	0.1	0.4	0.2	221%	-33%	Lease income only; Underlying profit not included	0.1	141%
Health	-1.0	0.2	-0.1	-91%	-149%	Share of Neptune Bio loss no longer included	-0.1	84%
Unallocated/ Other	-4.1	-6.2	-4.8	16%	-23%	Big numbers here; Higher than expected	-4.0	19%
Abnormals	0.0	0.0	0.0				0.0	
Total EBIT	-3.9	-9.8	-7.5	92%	-23%		-5.5	36%
Segment Margins								
Dairy	6.2%	-15.8%	-3.9%			Small loss	-3.9%	
Meat	3.5%	6.9%	-81.1%			Unexpected loss; We expected break-even	0.0%	
Seafood	35.0%	73.1%	98.8%			Lease income only; Not meaningful	100.0%	
Health	-210.7%	35.6%	-73.0%			Aqua Essence loss	-25.0%	
Unallocated/ Other	N/a	N/a	N/a				N/a	
Abnormals	N/a	N/a	N/a				N/a	
Total EBIT margin	-18.8%	-31.2%	-17.1%				-13.1%	

Source: Company for actuals; Phillip Capital forecasts

- Dairy Division** - revenue was up 130% to \$41.9m, slightly better than we expected. Dairy EBIT was a loss of \$1.6m (v profit of \$1.1m) mainly due to inefficiencies and below budget volumes for the new mozzarella line. In addition, a large amount of the milk intake was on-traded at zero margin to competitors as BFC did not have the customer demand to utilise it. BFC estimate the lost margin opportunity here at \$2.8m. In addition BFC also decided to reduce inventory and sell some production at lower prices to maintain cash flow which cost a further \$1.6m in lost margin. Whilst disappointing, it is early days for mozzarella line which was commissioned Feb – May 2018. These issues should improve going forward as BFC builds out its customer base. Adding management's estimate of \$4.4m pre-tax impact for these issues, the divisional EBIT could have been a \$2.8m profit representing approximately a 6.7% EBIT margin (Vs the negative 3.9% margin actually achieved). Still not a great return on a \$140m asset (segment book value) but this does show the potential.
- Milk production at the four BFC owned dairy farms was up 17%. BFC's farms are located in a reliable rainfall area near Mt Gambier and the coast, and seem to have escaped much impact from the drought and extreme hot weather in the period. However there was a non-cash write-down on the value of the dairy cattle herd of \$386k.

BFC - Interim Results review - Dairy segment				Change	Change	Comments	PCR est	Change
Year end June \$m	1H18	2H18	1H19A	Vs pcp	Vs 2H18		1H19e	Vs PCR
SEGMENTALS								
Milk intake (million litres)	57.0	33.0	58.0	2%	76%		57.5	1%
Operating Revenue	17.7	26.6	41.6	135%	56%	Huge increase as Mozz production and Sales ramp up	40.2	4%
Cost of Goods Sold	-10.7	-15.9	-31.6	195%	99%	COGS up 60% more than revenue	-25.1	26%
Gross Profit	7.0	10.7	10.0	43%	-7%		15.1	-34%
Gross profit margin	39.3%	40.2%	23.9%	-39%	-40%	Big fall in GP margin (NB GP margin would be 35% if add back mgt's 2 Dairy abnormal items)	37.6%	
Other Income	0.5	-0.1	0.2	-53%	-313%		0.0	
Operating Expenses	-6.4	-14.7	-11.8	86%	-20%	Costs up less than Revenue, so operating leverage coming through	-13.5	-12%
EBIT	1.1	-4.2	-1.6	-244%	-61%	EBIT \$3.2m below our forecast	1.6	-201%
EBIT Margin	6.4%	-15.7%	-3.9%	-161%	-75%	(NB EBIT margin would be 6.7% if add back mgt's 2 Dairy abnormal items)	4.0%	
Gross Assets	190.2	131.6	139.9	-26%	6%	Significant asset base; The decline reflects lower inventory holdings		
Return on Gross Assets (annualised)	1.2%	-6.3%	-2.3%			No return on significant asset base yet		

Source: BFC accounts; Phillip Capital Research forecasts

- **Meat division – Provincial Food Group (PFG) -** BFC now consolidates this business following moving to 100% ownership on 23/8/18 (previously was an investment via convertible notes). This business contributed \$1.6m turnover for the 4.3 months (\$4.4m annualised) and a \$1.3m EBIT loss for the period. This was impacted by a four week shut-down by a major customer in October. This customer previously accounted for close to 80% of PFG’s revenue. BFC has moved to diversify the customer base, winning orders from three major new customers for “close to” an additional \$10m annualised, commencing Feb / March. Purchase orders from the major customer have only recently returned to normal levels so still some impact expected in 2H19.

BFC - Interim Results review - Meat segment	(129 Days)			Change	Change	Comments	PCR est	Change
Year end June \$m	1H18	2H18	1H19A	Vs pcp	Vs 2H18		1H19e	Vs PCR
Operating Revenue	0.1	0.3	1.5	1347%	403%	Business consolidated from 23/8/18 (129 days)	1.7	-12%
Cost of Goods Sold	-0.1	-0.3	-1.7	1847%	564%		-1.0	66%
Gross Profit	0.0	0.0	-0.2	-1375%	-598%		0.7	-130%
Gross profit margin	15.5%	13.9%	-13.7%	-188%	-199%	GP margin loss	40.0%	
Other Income	0.0	0.5	0.1	664%	-82%		0.0	
Operating Expenses	0.0	-0.5	-1.2	4926%	150%		-0.7	70%
EBIT	0.0	0.1	-1.3	-32000%	-2508%	Unexpected loss due to a shut-down at a major customer	0.0	
EBIT Margin	3.9%	17.9%	-85.6%	-2305%	-578%		0.0%	
Gross Assets	9.1	2.8	15.1	66%	432%	Business now 100% owned from 23/8/18		
Return on Gross Assets (annualised)	0.1%	3.7%	-16.9%					

Source: BFC accounts; Phillip Capital Research forecasts

- **Seafood** – BFC’s 32% stake in Ferguson Australia is treated in the accounts as an “Asset for Sale”, and therefore is not equity accounted (since 2H18). So we cannot see the revenue or profits or losses this business is generating. The sale process being run by the Ferguson family was delayed due to a death in the family, but has now resumed. The \$10.6m (book value) investment did not contribute to profit apart from \$244k of leasing income on lobster licences and certain plant and equipment owned by BFC and leased to Ferguson. (Note – in our Initiation report on BFC, we valued this investment at 90% of book value, to allow for selling costs and to be conservative.
- **Health** – BFC’s \$11.6m (book value) investment in Neptune Bio-Innovations made no contribution in the period. BFC has a 10% shareholding and a convertible note equivalent to a further 10%. The business is no longer equity accounted, so we cannot see the revenue or profits or losses this business is generating. The business has not performed to expectations and BFC management has written the \$11.5m book value investment down to zero in this result. The value of the equity investment of \$5.7m was written off directly against reserves, and the value of the convertible note of \$5.9m was written off through the P&L. The business is still operating, but is looking for a trade sale or further funding. It has a promising new natural health product set to launch in pharmacies in June called “Uricil” which treats and prevents urinary tract infections, plus several other existing products. Hopefully BFC will realise some value from this unsuccessful investment in the next year or so, but the book value is now nil. (Note – in our Initiation report on BFC, we valued this investment at 50% of book value as we could foresee a write-down coming).

Balance Sheet

- Net debt at 31/12/18 was \$31.3m (Vs \$17.0m at June 30) an increase of \$14.3m or 84%. This was largely due to \$9.3m of capex and a \$4.3m operating cash outflow. Net debt / net equity increased to 31% (Vs 14% at 30/6/18).
- Inventory was \$18.6m (Vs \$22.6m at June 2018 and Vs \$25.3m at 31/12/17) as the build up of cheddar stocks ahead of the start up of the new mozzarella line, began to be cleared. Inventory days was 78 (v 251 days in the pcp), a huge improvement.
- Current Debtors balance was \$18.1m (Vs \$26.6m) so \$8.5m lower with \$8.9m of debtors & convertible notes at Provincial Food Group (nee Scorpio Foods) being converted into equity as part of BFC's move to 100% ownership. Debtor days of 76 (Vs 203 for FY18) now appear a lot more reasonable.
- Net Assets \$99.7m (Vs \$121.3m) was a reduction of \$21.6m due to the Net Loss reported of \$11.4m and the two write-offs directly to reserves (-\$5.9m of long-term debtors and -\$5.7m write-off of the equity component of Neptune Bio-Innovations, as explained below.
- Shareholders Funds (excluding minorities) fell by \$21.5m or 18% for the half, due to the Operating loss and write-downs as shown below.

Shareholders Funds Reconciliation - BFC		\$m	Change %
Shareholders Funds at 30/6/18 (excl. minorities)		121.106	
Write-down of Long-term Receivables to Accumulated Losses on 1/7/18 under AASB 9	-5.855		
Tax benefit at 30% (Deferred tax asset)	<u>1.757</u>	-4.098	-3.4%
Write-down of equity investments (Neptune Bio-Innovations) directly to "Other Reserves"	-5.658		-4.7%
Write-down of convertible note investment (Neptune Bio-Innovations) through P&L	-5.900		-4.9%
FX differences on translation of foreign operations	-0.343		-0.3%
Operating loss before abnormals for 1H19	-5.541		-4.6%
Shareholders Funds at 31/12/18 (excl. minorities)	<u>99.566</u>		-17.8%
Total losses for the period		-21.540	

Source: Phillip Capital & company results

Cash Flow Statement & Working Capital

- There was an Operating Cash outflow of \$4.3m (Vs \$16.5m pcp). Although still negative, this was a big improvement on the pcp.
- Working capital was a positive movement of \$6.2m after we adjust for the Provincial Food Group (nee Scorpio Foods) debtor of \$6.1m which was converted into equity, and \$2.8m convertible note.
- Trade Debtor days improved significantly from 107 to 43 days. Total debtor days also improved from 203 days to 76 days.
- Trade Creditor days improved from 58 to 34 indicating that BFC is paying its creditors promptly.
- Inventory days improved significantly from 172 to 78 days or approximately 2 months worth of inventory. This shows the significant benefit of the mozzarella product which can be sold almost immediately, versus cheddar which has to be held for 4-12 months to mature before sale and cash collection. This benefit should continue to shine through in future results.

Working Capital Analysis - BFC		1H18	2H18	FY18	1H19A	Change Vs pcp	Change Vs 2H18	Comments
Year end June \$m								
A	Operating Revenue	18.3	29.5	47.9	43.3	136%	47%	Strong growth due to new Mozzarella sales
	Current Receivables:							
	Trade Receivables	24.6	14.1	14.1	10.3	-58%	-27%	
	Prepayments	2.7	1.1	1.1	2.7			
	GST receivable	3.4	2.6	2.6	2.9			
	Scorpio Foods Con Note	2.7	2.7	2.7				Repaid as part of consideration for acquisition in Oct 18
	Scorpio Foods - Other receivable		6.1	6.1				Repaid as part of consideration for acquisition in Oct 18
	Other Receivables	0.8			2.2			
B	Current Receivables (Short-term)	34.3	26.6	26.6	18.1	-47%	-32%	FY18 balance included Scorpio Foods
	Trade Debtor Days (Trade debtors/ Group Revenue)(Annualised)	244	87	107	43	-82%	-50%	Significant improvement in Trade debtor collections
	Current Debtor Days (Current Receivables/ Group Revenue)(Annualised)	341	164	203	76	-78%	-54%	Sig improvement due to Scorpio Foods restructure
	Current Receivables as a % of Revenue	187%	90%	56%	42%	-78%	-54%	
	Current Creditors:							
	Trade Payables	-21.0	-7.6	-7.6	-8.1			
	GST payable	-1.7	-0.3	-0.3	-1.2			
	Accrued expenses	-1.4	-3.1	-3.1	-3.5			
	Government Grants	-0.3	-1.0	-1.0	-0.6			
	Payroll liabilities	-0.4	-0.2	-0.2	-0.1			
	Deferred income on government grants		-1.7	-1.7	-0.4			
	Other payables	-2.8						
C	Trade & Other Creditors - Current	-27.6	-14.0	-14.0	-13.9	-50%	-1%	
	Trade Creditor Days (Trade Creditors / Group Rev)(Annualised)	209	47	58	34	-84%	-27%	Significant improvement in Trade Creditor payments
	Creditor Days (Current Creditors / Group Revenue)(Annualised)	274	86	107	58	-79%	-33%	Significant improvement in Group Creditor payments
	Current Creditors as a % of Revenue	-151%	-47%	-29%	-32%	-79%	-33%	
D	Inventories	25.3	22.6	22.6	18.6	-26%	-18%	
	Inventory Days (based on Group Revenue)(Annualised)	251	139	172	78	-69%	-44%	Significant improvement in Inventory days, now just 2 months
	Inventories as a % of Group Revenue	138%	77%	47%	43%	-69%	-44%	
E	Working Capital (B + C +D)	32.0	35.2	35.2	22.9	-28%	-35%	
	Working Capital Days (based on Group Revenue)(Annualised)	317	217	268	96	-70%	-56%	Still a capital intensive business, but improving
	Working Capital as a % of Group Revenue	174%	119%	74%	53%	-70%	-56%	
	Change in Working Capital	-11.5	-3.2	-14.8	6.2			\$6.2m working capital release to Cash Flow in 1H19

Source: Company accounts; Phillip Capital calculations

- Investing cash flow was a \$9.6m outflow comprising \$6.4m on acquiring and re-fitting the freehold property in Shepparton for Provincial Food Group (Meat division), \$0.5m Lactoferrin plant upgrades and freeze dryer, Cheese factories stay in business capex \$1.1m, Dairy farms stay in business capex \$0.6m, farm upgrades \$0.5m, and Other \$0.5m. We are pleased to see BFC investing positively and pro-actively into its businesses.

Outlook & Profit Improvement items

BFC management has listed or highlighted to us in discussions a large number of profit improvement items that should progressively improve gross margins and EBIT margins.

- New CEO with significant experience in Dairy industry commenced 7/1/19.
- Recruitment of new salaried sales personnel with extensive experience in FMCG, replacing several contracted third party providers.
- Meat division – 3 new large customer contracts for close to \$10m annualised (We assume a gradual ramp up). Additional specialised equipment acquired from overseas for this.
- Dairy –increased tender activity; Freeze dryer installed and Lactoferrin plant accredited 30/1/19 and now selling a new high margin product (customers have been waiting for it). Increase in Dairy cow herd (320 additional cows acquired, ~+10%).
- \$1.0-2.0m cost savings identified

Medium term items :

- Planned \$6m investment to bring cheese cutting, packing and shredding back in-house (target completion Q4 of FY20). This should reduce external processing costs (\$3.1m pa), transport costs and wastage, improve packaging flexibility and provide BFC with total control of the final product supplied to consumers.
- Introduction of solar energy based solutions at the 2 dairy plants (electricity and gas are the largest operating cost items).
- Introduction of trade waste recycling and treatment at Murray Bridge
- Further expansion of dairy nutraceutical capabilities (eg Immunoglobulin and Lactoperoxidase).

Changes in Estimates

We have reduced our NPAT estimates by \$4.1m in FY19, by \$2.2m in FY20, and left FY21 largely unchanged. This reflects the following:

- \$3.0m lower expectation for the Dairy business in FY19, -\$3.2m lower expectation in FY20.
- \$1.9m lower expectation at Provincial Foods Group (now 100% owned) for FY19 after a surprise loss in 1H. However if orders from three new customers continue, we expect a slight improvement (2%) in FY20 and a \$0.8m improvement in FY21.
- Unallocated costs \$0.5m higher than expected for FY19. Management is working on cost reductions, so we allow for a \$0.5m reduction in FY20 and FY21.
- Our revised forecasts are shown in detail on the following page, and in summary form below.

Changes in Estimates - BFC										
Years ended June (\$m)	FY18A	FY19e			FY20e			FY21e		
		Old	New	Chge	Old	New	Chge	Old	New	Chge
Operating Revenue	47.9	103.2	97.7	-5.3%	124.4	121.7	-2.2%	141.8	138.5	-2.3%
EBITDA	-11.6	-0.7	-7.0	919%	6.6	3.2	-51%	12.4	12.1	-3%
EBIT	-13.7	-3.3	-9.0	172%	3.4	0.7	-78%	9.1	9.4	4%
NPAT (reported incl NRIs)	-12.6	-3.0	-13.0	339%	1.5	-0.7	-149%	5.2	5.2	0%
NPAT (normalised)	-8.8	-3.0	-7.1	140%	1.5	-0.7	-149%	5.2	5.2	0%
EPS (normalised) cents	-2.0	-0.7	-1.6	141%	0.3	-0.2	-149%	1.2	1.2	-2%
DPS cents	0.0	0.0	0.0	0%	0.0	0.0	0%	0.0	0.0	0%
Segmental EBIT :										
Dairy	-3.0	4.3	1.3	-69%	10.5	7.3	-30%	16.1	15.0	-7%
Meat	0.1	0.2	-2.1	-1152%	0.6	0.6	2%	0.7	1.6	130%
Seafood	0.4	0.3	0.4	33%	0.3	0.3	0%	0.3	0.3	0%
Health	-0.8	-0.1	-0.1	0%	0.0	0.0	0%	0.0	0.0	0%
Unallocated	-10.3	-8.0	-8.5	6%	-8.0	-7.5	-6%	-8.0	-7.5	-6%
EBIT	-13.7	-3.3	-9.0	172%	3.4	0.7	-78%	9.1	9.4	4%

Source: Phillip Capital estimates

Revised Forecasts

We show our updated forecasts in detail below.

BFC - Forecasts								
Year end June \$m	1H18	2H18	FY18	1H19A	2H19e	FY19e	FY20e	FY21e
Operating Revenue	18.3	29.5	47.9	43.3	54.5	97.7	121.7	138.5
Cost of Goods Sold	-11.5	-21.2	-32.7	-33.9	-38.4	-72.3	-85.9	-93.3
Gross Profit	6.8	8.4	15.2	9.4	16.1	25.5	35.7	45.2
Gross margin	37.3%	28.4%	31.8%	21.8%	29.5%	26.1%	29.4%	32.7%
-Other Revenue Total	2.4	0.8	3.2	0.6	1.0	1.6	1.2	1.2
Operating Expenses	-12.2	-17.8	-30.0	-16.7	-12.8	-29.5	-29.6	-30.2
Ebitda	-3.0	-8.6	-11.6	-6.6	-0.3	-7.0	3.2	12.1
Ebitda Margin	-16.2%	-29.3%	-24.3%	-15.3%	-0.6%	-7.1%	2.7%	8.7%
Ebitda Growth	-45%	102%	19%	124%	-96%	-40%	-146%	273%
Depn & Amort	-0.9	-1.1	-2.1	-0.9	-1.1	-2.0	-2.5	-2.6
Ebit	-3.9	-9.8	-13.7	-7.5	-1.5	-9.0	0.7	9.4
Ebit Margin	-21.3%	-33.1%	-28.6%	-17.3%	-2.7%	-9.2%	0.6%	6.8%
Net Interest income (expense)	0.4	0.5	1.0	-0.5	-0.7	-1.2	-1.8	-2.0
Share of Associates' NPAT	-0.02	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pre-tax profit	-3.5	-9.2	-12.7	-8.0	-2.1	-10.2	-1.1	7.4
Income Tax Credit (Expense)	0.5	3.0	3.4	2.4	0.6	3.0	0.3	-2.2
<i>Tax Rate</i>	13%	32%	27%	30%	29%	30%	30%	30%
Minorities (share of loss)	0.1	0.4	0.5	0.1	-0.1	0.0	0.0	0.0
Abnormals	0.0	-3.8	-3.8	-5.9	0.0	-5.9	0.0	0.0
NPAT (reported incl Abs)	-3.0	-9.6	-12.6	-11.4	-1.6	-13.0	-0.7	5.2
Adjustments	0.0	3.8	3.8	5.9	0.0	5.9	0.0	0.0
NPAT (normalised)	-3.0	-5.9	-8.8	-5.5	-1.6	-7.1	-0.7	5.2
EPS (adjusted)(cents)	-0.7	-1.3	-1.988	-1.2	-0.4	-1.605	-0.168	1.175
DPS (cents)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Franking	0%	0%	0%	0%	0%	0%	0%	0%

GROWTH RATES

Operating Revenue				136%	84%	104%	24%	14%
Gross Profit				38%	92%	68%	40%	26%
Ebitda				124%	-96%	-40%	-146%	273%
EBIT				92%	-85%	-34%	-108%	1184%
NPAT (normalised)				87%	-73%	-19%	-90%	-799%
EPS (normalised)				87%	-73%	-19%	-90%	-799%

SEGMENTALS

Segment Revenue								
Dairy	18.2	26.5	44.7	41.9	49.9	91.8	105.3	121.1
Meat	0.1	0.8	0.9	1.6	4.5	6.1	16.0	17.0
Seafood	0.2	0.5	0.7	0.2	0.2	0.4	0.3	0.3
Health	0.5	0.5	1.0	0.1	0.1	0.2	0.4	0.4
Unallocated/ Other	1.7	3.1	4.7	0.1	-0.1	0.0	0.0	0.0
Total Sales + Other Rev	20.7	31.3	52.0	43.9	54.6	98.5	122.0	138.8
Segment EBIT								
Dairy	1.1	-4.2	-3.0	-1.6	3.0	1.3	7.3	15.0
Meat	0.0	0.1	0.1	-1.3	-0.8	-2.1	0.6	1.6
Seafood	0.1	0.4	0.4	0.2	0.2	0.4	0.3	0.3
Health	-1.0	0.2	-0.8	-0.1	0.0	-0.1	0.0	0.0
Unallocated/ Other	-4.1	-6.2	-10.3	-4.8	-3.7	-8.5	-7.5	-7.5
Abnormals	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total EBIT	-3.9	-9.8	-13.7	-7.5	-1.5	-9.0	0.7	9.4
Segment Margins								
Dairy	6.2%	-15.8%	-6.8%	-3.9%	5.9%	1.5%	7.0%	12.4%
Meat	3.5%	6.9%	6.4%	-81.1%	-18.4%	-34.6%	3.8%	9.5%
Seafood	35.0%	73.1%	61.6%	98.8%	101.9%	100.0%	100.0%	100.0%
Health	-210.7%	35.6%	-81.7%	-73.0%	-10.8%	-50.0%	0.0%	0.0%
Unallocated/ Other	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a
Abnormals	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a
Total EBIT margin	-18.8%	-31.2%	-26.3%	-17.1%	-2.7%	-9.1%	0.6%	6.8%

Source: Company for actuals; Phillip Capital forecasts

Valuation & Recommendation

BFC looks very expensive on near term price earnings (P/E) and Enterprise Value (EV) to Sales and EV to Ebitda multiples, compared to other food manufacturing stocks (shown below in descending order of Revenue), as BFC's dairy division is still in an early ramp up phase, and several of its investee companies are in loss. Therefore, an earnings based valuation is not appropriate at this stage. BFC shares start to look good value in FY21 on our earnings estimates (light blue shaded row below).

Reuters Code	Valuation Comparisons	Price 3/4/19	Market Cap \$m	Revenue FY18 \$m	EV/ Sales Last 12mths	Ebitda Margin FY19e	P/E FY19e	P/E FY20e	P/E FY21e	EPS Growth FY19e	EPS Growth FY20e	EPS Growth FY21e	PEG FY19e	PEG FY20e	EV/Ebitda FY19e	EV/Ebitda FY20e
FCG.NZ	FONTERRA CO-OP (FCG.NZ)	\$ 4.350	7,012	20,438	0.7x	7.8%	19.1x	12.6x	10.3x	-5%	51%	23%	-3.8x	0.2x	9.1x	8.3x
ING.AX	INGHAMS (ING.AX)	\$ 4.430	1,684	2,374	0.8x	8.7%	15.7x	14.7x	13.9x	-5%	7%	5%	-2.9x	2.2x	9.0x	8.6x
BGA.AX	BEGA CHEESE (BGA.AX)	\$ 4.990	1,064	1,438	1.1x	7.3%	22.7x	17.7x	15.1x	-8%	28%	17%	-2.9x	0.6x	12.3x	10.3x
ATM.NZ	A2 MILK (ATM.NZ)(A2M.AX)	\$ 14.740	10,350	922	9.5x	32.0%	37.8x	30.0x	24.7x	48%	26%	22%	0.8x	1.2x	25.3x	20.2x
SM1.AX	SYNLAIT MILK (SML.NZ)(SM1.AX)	\$ 10.850	1,945	879	2.4x	15.9%	22.1x	19.4x	15.3x	18%	14%	27%	1.2x	1.4x	13.9x	11.1x
BKL.AX	BLACKMORES (BKL)	\$ 93.250	1,619	602	2.7x	15.0%	24.0x	21.9x	19.2x	-4%	9%	14%	-5.8x	2.3x	15.7x	13.9x
TGR.AX	TASSAL GROUP (TGR)	\$ 4.910	870	499	1.8x	20.4%	15.3x	13.6x	12.4x	11%	12%	10%	1.4x	1.1x	8.3x	7.3x
FNP.AX	FREEDOM FOODS (FNP)	\$ 4.800	1,175	353	3.3x	11.8%	53.9x	27.0x	18.2x	41%	100%	48%	1.3x	0.3x	23.4x	14.5x
BAL.AX	BELLAMYS AUSTRALIA (BAL)	\$ 10.880	1,233	329	4.2x	19.0%	35.7x	27.5x	22.2x	-25%	30%	23%	-1.4x	0.9x	20.8x	15.9x
FRM.AX	FARM PRIDE FOODS (FRM)	\$ 0.360	19.9	85.6	0.4x	5.2%										
CLV.AX	CLOVER CORP (CLV)	\$ 2.150	355.1	63.0	5.4x	18.5%	40.5x	33.9x	26.5x	26%	20%	28%	153%	173%	27.3x	22.8x
FOD.AX	THE FOOD REVOLUTION GROUP	\$ 0.090	45.3	33.1	1.7x	13.7%										
	Loss makers (difficult to value accurately):															
BFC.AX	BESTON GLOBAL FOODS (BFC)	\$ 0.135	57.7	47.9	1.8x	-7.2%	-8.4x	-80.4x	11.5x						-12.4x	27.1x
BUB.AX	BUBS AUSTRALIA (BUB)	\$ 0.805	358.1	16.9	9.8x	-16.7%	-40.3x	-80.5x							-47.6x	-79.4x
LON.AX	LONGTABLE GROUP (LON)	\$ 0.180	36.4	8.6	1.8x	-67.7%										
WHA.AX	WATTLE HEALTH AUST (WHA)	\$ 0.790	153.7	1.6	83.1x	-1359.5%										
	Median (excluding loss makers)				2.1x	14.4%	23.3x	20.7x	16.7x	-4%	26%	22%	-0.3x	1.1x	14.8x	12.5x
	Average (excluding loss makers)				2.8x	14.6%	28.7x	21.8x	17.8x	8%	31%	21%	-1.0x	1.2x	16.5x	13.3x

Source: Phillip Capital estimates for BFC & CLV; Thomson Reuters for all others.

A2 Milk & Synlait Milk in NZ\$; Ebitda margins are for FY19e, but for FRM FOD LON & WHA we use FY18A as there are no forecasts

On an asset value basis, BFC shares look good value, trading at a 17% discount to the \$0.163 NTA (net tangible assets) at end-December 2018. Further, management believes the Dairy assets (cheese factories and the four dairy farms) were acquired at prices well below their replacement cost.

BFC had \$56m worth of land, property plant and equipment at June 2018. This comprised \$21m land (4 dairy farms and two freehold cheese) factory sites, \$4m of buildings (the two cheese factories), and \$30m of plant and equipment - \$26.5m of which is the brand new mozz line at Jervois. So the whole cheddar factory at Murray Bridge, cream cheese facility, specialty hard cheese facility also at Murray Bridge, and the whey processing and lactoferrin plant at Jervois are effectively in the books at just \$56m. And all / most of the older plant had to be refurbished with new pumps, seals, hoses and electronic management software which we saw on our site visit. BFC believes the replacement cost of these assets is well over \$100m.

Sum of the Parts Valuation

We have prepared a sum of the parts asset valuation, based on the segment book values and making certain adjustments (see next page).

- We think a higher valuation for the Dairy assets is justifiable, based on the earnings potential of the two cheese plants in 3 years time, and the fact that BFC acquired the 3 principal assets under forced sale circumstances (Murray Bridge & Jervois for \$4.5m from the receivers, and the Lactoferrin plant (\$7m) – all non-operating at the time. The 4 dairy farms were also acquired cheaply. We apply a conservative 7.5 times our FY21 Ebitda forecast for Dairy.
- However, we make several adjustments to reduce our valuation on loss-making investee companies, to be more conservative.
- We also allow \$2.0m for BFC to exercise the option over the 80% interest in the Brandlok company which owns the core IP for BFC's Oziris track and trace technology.
- We allow \$2.9m for a possible buy-out of the BPAM management agreement.
- And we exclude a number of intangible items and subtract a provision for a \$2.6m long term debtor, all to be more conservative.
- We value BFC shares at \$0.241 per share (was \$0.288) on our sum of the parts basis, in three years' time. Discounting this back to today (10% discount rate) produces a valuation today of around \$0.18 per share (was \$0.22).
- Obviously there are many moving parts, in Dairy and in the investee companies, as BFC executes on its strategy. Above average execution risk here, as it is still early days for these businesses.
- We lower our 12-month price target to \$0.18 per share (was \$0.22 per share).

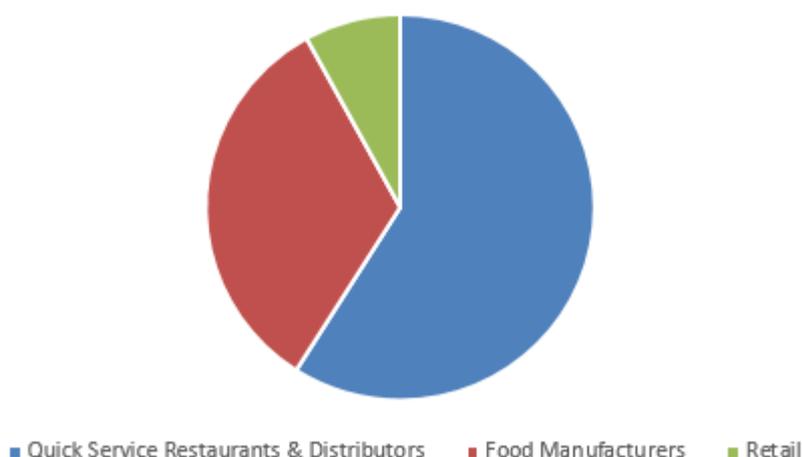
BFC: Sum of the Parts Valuation	Net Book Value \$m at 31/12/18	Per BFC Share	Alternative Valuation	Per BFC Share
Dairy - 2 factories + Lactoferrin plant + 4 farms acquired in bargain circumstances. - We value at 7.5x FY21 estimated EBITDA of \$17.2m	97.7	\$ 0.220	128.9	\$ 0.291
Meat - Now 100% of Provincial Food Group (was 45%) - Has been restructured, & 45% indirect interest converted to 100% at no extra cost. Has \$6.0m freehold property & \$6.2m of goodwill. - Has 1 very large customer at 80% before recent ~\$10m new orders from new customers - Business still in loss & not yet proven. Allow 25% deduction on BV	12.9	\$ 0.029	9.7	\$ 0.022
Seafood - 32% stake in Ferguson + \$5.0m lobster licences - Founders & BFC have commenced a sale process & confident of > book value - Business appears to have made a small loss in FY18 (BFC share -\$22k) - Allow 10% less to cover legals & selling costs, to be conservative	10.6	\$ 0.024	9.5	\$ 0.021
Health - 9.9% stake in Neptune Bio \$5.7m + \$5.9m convertible note was \$11.6m Now written down to zero - 51% stake in Aqua Essence mineral water & Other stock. BV \$3.7m. - Potential value in the water licence, but who would buy it? Value at 10% of BV.	3.7	\$ 0.008	0.0	
Unallocated - Includes China office which has incurred losses; and Group debt - Group Net Debt	-25.2	-\$ 0.057	-31.3	-\$ 0.071
Other Adjustments - Long term debtor \$2.588m re China - Allow 50% provision - Allowance to buy out Grape Ensemble re Beston Technologies - Allowance to buy out BPAM external mgt agreement. Use termination fee of 5.0% of "fair market value". We use current market cap of \$57.6m.			-1.3	-\$ 0.003
			-2.0	-\$ 0.005
			-2.9	-\$ 0.006
Book Value per 31/12/18 Balance Sheet	99.7	\$ 0.225		
Less: Intangible items at 30/6/18				
Goodwill on Provincial Foods Group - We have already allowed -\$3.2m reduction in Item 2 above	-6.3	-\$ 0.014		
Goodwill (Cream Cheese & others)	-1.8	-\$ 0.004	-1.8	-\$ 0.004
Internally generated software	-1.7	-\$ 0.004	-1.7	-\$ 0.004
Customer contracts - Impossible to assess the value of the 3 above, so we will deduct all	-0.8	-\$ 0.002	-0.8	-\$ 0.002
Water licences - Should be OK to include in valuation	-4.0	-\$ 0.009		
Deferred tax asset at 31/12/18 - Valuable only if BFC becomes profitable, to utilise. Accept for now.	-12.9	-\$ 0.029		
Total intangibles	-27.6	-\$ 0.062		
Net Tangible Assets	72.1	\$ 0.163	106.6	\$ 0.241
Alternative Valuation Shares on issue	443.3			
NPV			80.1	\$ 0.181

Source: FY18 Annual Report; FY19 interims; Phillip Capital adjustments

Positive Factors / Reasons to Buy (from our 17/12/18 Initiation)

- 1. We forecast BFC cheese revenues (and group revenue) to double in FY19** with the first full year of production from the new \$26.5m mozzarella line in the Jervois factory (vs ~2 months in FY18). This start up, after 3 years of preparatory work, should make a huge difference to BFC's P&L and overhead recovery. We forecast Dairy division sales to increase by 107% from \$44.3m in FY18 to \$91.5m in FY19 and another 15% to \$105m in FY20.
- 2. Mozzarella also brings on 3 important new high margin revenue streams from by-products** – 1) Cream; 2) a doubling of whey powder; and 3) Lactoferrin (very valuable additive used in infant formula) in 2H FY19. We estimate these will each be \$1.0m plus new Ebitda items for BFC. The cream and whey powder uplift are happening now, whilst the Lactoferrin is being collected for processing after January when a new freeze drier is installed (\$0.5m capex), with sales commencing in 2H FY19. BFC paid \$7.0m in September 2015 for the Lactoferrin processing plant previously owned by Probiotec, when Probiotec lost its source of supply when Jervois closed and entered receivership. We think BFC will be looking to make a greater than 20% return on this investment implying at least a \$1.5m increase to Ebitda in a full year. In addition, there are two further high value, high margin by-product opportunities still in the planning phase - Immunoglobulin G (“IGG”) and Lactoperoxidase which are used in pharmaceuticals. Capex could be \$5m + with first revenues possible in FY21.
- 3. With superior economics and earlier cash flow generation (Vs cheddar) we expect 60-70% of BFC's milk intake will be directed into the new mozzarella plant.** The economics of mozz manufacturing are superior to cheddar for a number of reasons, despite selling prices being similar. The mozz manufacturing process is a continuous process taking approximately 5.5 hours. It can produce 80 tonne per day (v 40 tonne per day for the cheddar line). The finished mozz product is allowed to cool and settle for two weeks of quality assurance and so is available almost immediately for sale. Cheddar manufacturing is a batch process, and the finished product is then aged for 3-9 months before sale. So cash flows from sale of mozz are 60 days rather than 4-10 months with cheddar. Further, the mozz product uses less milk than cheddar, and mozz has more valuable by-products – cream, lactoferrin and a higher amount of whey.
- 4. Higher margin, specialty cheeses now coming through**
Cheddar volumes are expected to decline (in favour of mozz), but BFC has an interesting offset here. Specialty aged hard cheeses made at the Murray Bridge cheddar plant – gruyere (aged for 7+ mths, sold in 6kg rounds – see pic below), vintage cheddar (aged for 18+ mths, and sold in cloth-wrapped rounds of 2.3kgs or 4.9kgs, or black waxed), and parmesan (18+mths) are now ready for release. These products sell for 2-3-4 times the price of regular cheddar. We estimate about 3% of BFC's milk intake is directed to these products. New Raclette and Tilsit varieties coming in 6 months.
These premium and award winning products also help to build equity in BFC's “Edwards Crossing” brand and the “Beston Pure Foods” umbrella brand.
- 5. Sales Mix Opportunity** - The majority of BFC's sales are currently into lower margin food service and bulk channels. The challenge and opportunity for BFC is to build more customers for branded and retail product.

FY18 Dairy revenue by channel



6. Significant available capacity

We forecast BFC's milk intake at 112 million litres for FY19, up 24% on FY18, and up three-fold on FY16's 36m litres. BFC was able to benefit from dairy farmers moving their supply away from Murray Goulburn and others. BFC has capacity to process 300 million litres, but gaining further increases in milk supply won't be easy. The Murray Bridge cheddar & hard cheese plant is currently running at 30% of capacity, and the new Jervois mozz plant is in its early stages of production (and customer) ramp up. If BFC can continue to increase its milk supply volumes and the number of farmer suppliers, there should scale benefits at the two factories.

BFC Dairy Assets - Current Utilisation

Cheddar production assets	30%
Mozzarella production assets	35%
Whey powder plant	40%
Specialty hard cheese assets	20%
Cream Cheese assets	25%
Lactoferrin	5%

Source: BFC AGM; Whey powder updated per mgt

7. China division restructured after heavy losses; taken full control of Scorpio Foods (now called PFG) and is looking to exit its Seafood investments (BV \$10.6m) -

BFC incurred losses of \$4.2m in FY18 on exiting its trading company and operations in Dalian city, Liaoning Province Northern China. The Dalian location was chosen originally to support trade expected with Dashang, BFC's cornerstone 14.9% investor in the IPO. However as we now know, no orders ever came. That trading company and inventory (mainly wine) was sold to its former manager for \$5.7m in FY18. BFC has established a new smaller operation in Shanghai with 6 staff.

We welcome the simplification of the group structure. We prefer to see BFC focus on its major dairy businesses and building long term customer base, over sporadic trading of in-house and external food and beverage products which was happening before (eg the 18-mth contract with Clean Seas Tuna for the sale of fresh and frozen kingfish into China, Vietnam and Korea which did not repeat).

8. **Decks cleared and New CEO appointed** – Despite the impact on short-term profit and the Balance Sheet, we were pleased to see management take decisive action in writing down the Neptune Bio-Innovations investment to Nil, and part of a long-term debtor that we also had doubts about (we highlighted both items in our Initiation report). BFC has also announced several profit improvement / cost reduction plans (eg. ~10% increase in dairy herd; new specialised equipment for Provincial Foods to help service three large new customers; \$6m investment to bring back in-house cutting, packing and shredding) and has arranged several investor tours of the two cheese factories that we visited last year. Whilst we think there could be some further write-downs required, we welcome a fresh and proactive approach. The decks have now largely been cleared, and new CEO Jonathan Hicks (commenced 7 January 2019) has a firm base to work with and add value to. Mr Hicks has over 20 years of experience working in senior positions in the Australian Dairy industry, including Bega Cheese Limited and Tatura Milk Industries Ltd, and was Chief Executive of international dairy trading company Pure Dairy Australia from 2014 to 2017. Whilst it is early days, we have had some encouraging discussions with Mr Hicks regarding the two main businesses (Dairy & Meat) and gained some insight into his "Volume, Value and Velocity (three V)" strategy.

Risks & Negative Factors

1. **Complicated Group Structure** – Outside of its main Dairy business which is 80% of assets, BFC has a fairly complicated group structure of investments and incubator businesses. Less information is available when the investment is equity accounted, and less again if only investment accounted. This makes analysing and modelling challenging. We also highlight that all 6 businesses were in loss in FY18. We query whether BFC is trying to do too much, and for too little benefit – many of these investments are small and unlikely to ever make a material contribution. The outlook is improving however, with Dairy and Meat forecast to become profitable, and Seafood to be sold :

Accounting snapshot	Ownership	FY18 Accounting Treatment	FY18 Operating Result \$m	FY19e Forecast \$m
Dairy	100%	Consolidated	-3.0	1.3
Meat - Provincial Food Group	45% via C/notes; now 100%	Investment accounted. Now consolidated.	Loss (est)	-2.1
Other Businesses & Investments:				
Seafood - Ferguson	32% + leases	Equity accounted; Asset held for sale	-0.022	Break even
Health - Neptune Bio-Innovations	9.9% +C/note	Investment accounted	Loss (est)	Written Off
Health - Aqua Essence	51%	Consolidated	-1.020	-0.1
Beston Technologies	100% (+option on BBPS)	Consolidated, but not disclosed	Loss (est)	Loss (est)
Central overhead and adjustments	100%	Consolidated	-10.3	-8.5

Source: BFC reports; Phillip Capital estimates

2. **External Management structure** – BFC also has an external manager – Beston Pacific Asset Management (BPAM) which provides the senior management team. The base fee is 1.2% (plus GST) based on market capitalisation. And there is a potential out-performance fee of 17.5% (Vs All Ords Accumulation, subject to recouping prior years' under-performance). In our opinion, externally managed vehicles are not popular with investors because of the potential for fee leakage and reduced disclosure of the actual costs of the services being provided. Stocks such as Sydney Airport (SYD) and Atlas Arteria Roads (ALX) re-rated strongly when their external management structure was brought in house. BFC says the actual costs incurred are larger than the management fee paid by BFC to BPAM, so BPAM is actually subsidising BFC, but we have no way of verifying that. We would prefer this function to be brought in house, for the reasons discussed. We prefer full transparency, accountability and simplicity. The agreement has a 5 year initial term, plus automatic 5 year extension. The Chairman has raised the possibility of this agreement being collapsed, but only when it is in the best financial interests of BFC shareholders to do so. Currently there is a benefit in keeping it in place if actual costs are larger. And there are probably more important issues for the new CEO to focus on.

3. **Net debt and gearing** – BFC had a huge swing from net cash of \$29m at June 2017 to net debt of \$17m at June 2018, and now \$31m at December 2018. Meanwhile Shareholders Funds on the balance sheet has also deteriorated from \$121m at June 2018 to \$100m at December 2018 due to the further losses and large write-downs in 1H19. Gearing (Net debt / Net equity) increased from 14% to 31% which fortunately is still fairly low, but the trend in gearing is still negative. We highlight that with BFC being in loss, interest expense is not covered by any profit. We now expect BFC to become profitable in FY21. We would prefer BFC to have no gearing at all until profitability is established. Please also note that the partial "un-wind" of about \$5-7m for the cheddar cheese inventory which built up whilst the mozzarella plant was being installed has now largely occurred, but gearing still increased in 1H19. Gearing should also improve once the Ferguson seafood investment is sold.

4. **Milk intake (supply risk)** – Cheese making is a high fixed cost business, and requires a sufficient volume for operations to run profitably. Rising volumes generally bring good scale efficiencies. But it works in reverse if the volume of milk supply is reduced (eg Murray Goulburn). It is essential that BFC retains its current volumes, and ideally continues to increase as we have forecast. We understand BFC has approximately 38 different dairy farmer suppliers. We understand the available milk pool for all of South Australia is about 550m litres, so at 115mL this year, BFC is already at a sizeable 20% market share. BFC is partly self-sufficient, with its four owned dairy farms providing 17-20m litres of its 120mL target for FY19 (~14-17%). It may be possible to contract milk from the Victorian side of the border, but that entails extra transport costs. Drought and climate change are also possible factors that could reduce milk supply.

5. **Narrow customer base** – BFC's Dairy business currently has over 65 customers (and growing), including one very large customer for mozzarella as announced to the ASX. BFC has to date been heavily reliant on sales to a fairly narrow group of food service and wholesale customers, where margins would be slimmer. The challenge for BFC is to broaden out its customer base both in Australia and overseas. For example, approximately 30% of the next year's mozz product is going into a single large Australian retailer. This is a necessity at BFC's early stage of maturity, and should improve over time. We understand that BFC has numerous new customer tenders out at present.

BFC's meat business has one large customer that until recently, accounted for 80% of the business. Three significant new customer contracts were announced with the 1H19 result, which is a step in the right direction. But these are still immature businesses with narrow customer bases and a heavy reliance of a small number of key accounts.

6. Investee companies under-performing; Possible impairments

As noted in point 1 above, all of BFC's non-dairy investments were loss making in FY18. This partly reflects BFC's investment strategy of buying under-valued assets to which it can add value, but after 3 years, these have under-performed even on BFC's own expectations. Some of this is due to BFC's cornerstone shareholder at IPO, Dashang not coming good with large orders for Chinese retailers that were promised.

However, actions have been taken. **Provincial Foods Group** (nee Scorpio Foods) has been restructured, a new manager appointed, and a significant step up in revenue is forecast from FY19 with profitability in FY20.

Seafood – Ferguson Australia is for sale, expected during FY19.

Neptune Bio-Innovations has been written down to nil. However the business continues to trade, and has a number of new products being launched with good customers including PriceLine and Woolworths. Should these perform, BFC may regain some value. Neptune Bio is looking to raise more capital.

Aqua Essence has reduced its headcount and costs significantly, and upgraded its bottling plant. It will target new customers in SA and Vic. The business has a huge water resource but looks under-capitalised to us.

BFC needs to get these businesses performing or sold, or there will be a risk of impairments being required in 2H19. Management has already written down Neptune Bio investment to Nil. We expect further impairments on Aqua Essence (\$4.7m segment asset value remaining on the Balance sheet) and possibly on Ferguson where we have no visibility on current trading. Seafood is generally a growth category and the continuing fall in the A\$ should be beneficial for Ferguson's exports. Based on discussions with the new CEO we think the carrying value of Provincial Foods will be OK at June 2019 provided the large new customers are retained. There is \$6.3m of goodwill on the Balance sheet for this business.

Also there is still a **long-term Receivable of \$2.6m** on BFC's Balance Sheet. We checked again and Management are confident of collecting this, but we continue to have doubts.

7. Sovereign Risk

BFC is seeking to develop sales to emerging markets in China and Asia. Whilst this is a significant opportunity, there is a risk of changes in government rules and regulations, or new or higher tariffs being imposed on imported goods. BFC has already experienced a negative impact from changes to importing rules adversely affecting Ferguson Australia's seafood exports and Scorpio's Meat exports to China. Other companies such as Bellamys Australia (BAL) have also experienced major problems.

Description of Businesses

BFC listed in August 2015 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:

Dairy (82% 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 mozz plant into high value proteins for infant formula and pharmaceuticals.
- Four dairy farms in the Mt Gambier region of South Australia, with approximately 3,470 dairy cows and expected annual milk production of around 17m litres. Kurleah (314 hectares, located at Allendale East, 30kms south from Mt Gambier), cost \$7.2m including livestock, plant and equipment; and Pedra Branca (3 farms totalling 1,229 hectares, 20 kms south of Mt Gambier). Cost \$19.2m including livestock. BFC also believes these farms were acquired at prices below market value – the Pedra Branca farms were acquired from the banks out of receivership.

Australian Provincial Foods (nee Scorpio Foods); 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 \$15.1m (including \$6.0m building) or about 10% of Total Group Assets.

China Division

- Shanghai trading office (6 staff). Assists BFC export orders of Dairy and also looks for new export opportunities for BFC investee companies.

Incubator investments (9% of segment assets)

Seafood \$10.6m book value

- Ferguson Australia – 32.0% equity stake in a third generation seafood company that catches, processes, packages and distributes live, chilled and frozen seafood (Southern rock lobster and other seafood delicacies), primarily to customers in China and Asia. Based in Adelaide, with operations at Kangaroo Island and Port MacDonnell South Australia.
- BFC also owns 100% of two Lobster quotas (5.4 tonnes and 4.2 tonnes) and \$0.5m of plant and equipment which are all leased to Ferguson.
- Now classified as “Assets held for sale” in the Balance sheet.

Health & Nutrition Products (Segment book value \$4.7m)

- Aqua Essence (51% owned; BV \$370k at 30/6/18) - 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. Based in Lidcombe, Sydney.

Beston Technologies (BV undisclosed)

- 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 August.

Management Agreement

- BFC has an external management structure, with the senior management team 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 and \$2.422m in FY18.
- 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 or FY18 as BFC's share price under-performed the benchmark by -58.24% and -35.95% respectively.
- 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; eg 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".
- 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 possibly negotiated) and the costs and benefits being explained adequately.

Directors Shareholdings and Substantial Shareholders

Directors shareholdings

BFC was founded by Dr Roger Sexton and Stephen Gerlach in 2015.

BFC has a six person board. The new CEO is not a member of the Board at this stage.

Three directors have bought additional shares post the IPO – Dr Sexton, Ian McPhee and Catherine Cooper which is encouraging.

Directors Shareholdings	FY16	FY17	FY18	% of Coy
Dr. Roger Sexton, Executive Chairman	17,053,205	17,853,205	18,306,215	4.1%
Stephen Gerlach, NED	3,476,445	3,476,445	3,476,445	0.8%
Petrins Coventry, NED	57,142	57,142	57,142	0.0%
Jim Kouts, NED	142,857	142,857	142,857	0.0%
Ian McPhee (app 7/4/16), NED	-	400,000	1,000,000	0.2%
Catherine Cooper (app 7/9/16), NED	-	175,000	355,000	0.1%
Don Taylor (resigned 7/4/16) NED	-	-	-	-
Total	20,729,649	22,104,649	23,337,659	5.3%
Changes in Directors' shareholdings				
Dr. Roger Sexton, Exec. Chairman	17,053,205	800,000	453,010	
Stephen Gerlach	3,476,445	-	-	
Petrins Coventry	57,142	-	-	
Jim Kouts	142,857	-	-	
Ian McPhee	-	400,000	600,000	
Catherine Cooper	-	175,000	180,000	
Don Taylor (resigned 7/4/16)	-	-	-	
Source: BKL FY08 Annual Report; FY16 holdings include founders options				

Substantial Shareholders

BFC has two cornerstone shareholders, Dashang from the IPO at \$0.35 per share and Kunteng / DHG from a placement at \$0.45 per share.

The relationship with Dashang was intended to be a strategic relationship, with significant orders for BFC products, but no orders were ever received.

The relationship with DHG we understand is passive. DHG has assisted with some customer introductions, but nothing significant.

Major Shareholders	No.	%	Comment
Australia Aulong Auniu Wang Food Holdings Pty Ltd (Dashang Group Co. Ltd)	66,894,345	15.09%	Acquired at IPO at 35 c (A\$23.4m)
Kunteng Pte Ltd (Singapore based subsidiary of Dalian Hairunlai Group "DHG")	64,051,111	14.45%	Acquired in a placement on 31/8/16 at \$0.45 per share (A\$28.3m)
I.G. Investment Management Ltd	39,525,741	8.92%	
Allianz SE	21,955,164	4.95%	
Total as At 23/9/18	443,315,867	100.00%	
Source: BFC Annual Report			

Beston Global Food Company Limited (BFC) \$ 0.135

Profit & Loss

Year end June	FY18	FY19e	FY20e	FY21e
	A\$m	A\$m	A\$m	A\$m
Op. Revenue	47.9	97.7	121.7	138.5
Cost of Goods Sold	(32.7)	(72.3)	(85.9)	(93.3)
Gross Profit	15.2	25.5	35.7	45.2
Gross Profit Margin	31.8%	26.1%	29.4%	32.7%
Other Income	3.2	1.6	1.2	1.2
Cash Operating Expenses	(30.0)	(29.5)	(29.6)	(30.2)
EBITDA	-11.6	-7.0	3.2	12.1
Ebitda Margin	-24.3%	-7.1%	2.7%	8.7%
Depreciation & Amort	(2.1)	(2.0)	(2.5)	(2.6)
EBIT	-13.7	-9.0	0.7	9.4
Ebit Margin	-28.6%	-9.2%	0.6%	6.8%
Net Interest Income (Expense)	1.0	(1.2)	(1.8)	(2.0)
Share of Assoc NPAT	(0.0)	0.0	0.0	0.0
Pre-tax profit	-12.7	(10.2)	(1.1)	7.4
Income Tax Credit (Expense)	3.4	3.0	0.3	(2.2)
Tax Rate	-26.9%	-30.0%	-30.0%	-30.0%
Minorities (share of loss)	0.5	0.0	0.0	0.0
Abnormals	-3.8	-5.9	0.0	0.0
NPAT (reported incl NRIs)	-12.6	-13.0	-0.7	5.2
Adjustments	3.8	5.9	0.0	0.0
NPAT (normalised)	-8.8	-7.1	-0.7	5.2

Balance Sheet

Cash	4.5	6.9	11.2	11.4
Receivables	26.6	21.8	26.1	28.7
Inventories	22.6	19.8	19.7	20.4
Other	10.1	10.1	10.1	10.1
Total current assets	63.8	58.6	67.1	70.6
PP&E	55.9	66.0	72.0	78.0
Investments	11.6	0.0	0.0	0.0
Intangibles	8.4	14.6	14.6	14.6
Deferred tax assets	8.4	12.9	12.9	12.9
Other	10.7	7.6	7.6	7.6
Total non-current assets	94.9	101.1	107.1	113.1
Total Assets	158.7	159.7	174.3	183.8
Payables	-14.0	-16.6	-20.7	-23.6
Interest bearing liabilities - Current	-21.4	-14.2	-14.2	-14.2
Provisions	-0.2	-0.2	-0.2	-0.2
Other	0.0	0.0	0.0	0.0
Total Current Liabilities	-35.7	-31.2	-35.2	-38.1
Interest-bearing liabs - Non-current	0.0	-19.2	-30.9	-30.3
Provisions	-0.1	-0.1	-0.1	-0.1
Other	-1.6	-11.1	-10.6	-12.5
Total Non-current Liabilities	-1.6	-30.4	-41.6	-42.9
Total Liabilities	-12.2	-61.5	-76.8	-81.0
Total Shareholders' Equity	121.3	98.2	97.4	102.8

Interims

Year end June	1H18	2H18	1H19	2H19e
Sales	18.3	29.5	43.3	54.5
Sales Growth (g)	84.3%	112.9%	135.9%	84.4%
EBITDA	-3.0	-8.6	-6.6	-0.3
EBITDA Margin	-16.2%	-29.3%	-15.3%	-0.6%
EBIT	-3.9	-9.8	-7.5	-1.5
Equity Share of Assocs NPAT	-0.022	0.000	0.0	0.0
NPAT (Reported incl.NRIs)	-3.0	-9.6	-11.4	-1.6
NPAT (Normalised)	-3.0	-5.9	-5.5	-1.6
EPS (norm)(cents)	-0.7	-1.3	-1.2	-0.4
EPS growth (g)	-25.7%	43%	87.3%	-73%
DPS (cents)	0.0	0.0	0.0	0.0

Source: Phillip Capital estimates

Per share & Ratio data

Year end June	FY18	FY19e	FY20e	FY21e
Reported EPS (cents)	(2.8)	(2.9)	(0.2)	1.2
Growth	56.0%	3.3%	-94.3%	-799.5%
P/E ratio (x)	-4.8x	-4.6x	-80.3x	11.5x
EPS (norm)(cents)	(2.0)	(1.6)	(0.2)	1.2
Growth	9.2%	-19.3%	-89.5%	-799.5%
P/E ratio (x)	-6.8x	-8.4x	-80.3x	11.5x
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)	-6.7	0.5	0.3	2.2
Price/OCF (x)	-2.0x	28.5x	45.0x	6.2x
EV/ Sales	1.6x	0.9x	0.8x	0.7x
EV/EBITDA	-6.6x	-12.4x	29.0x	7.7x
EV/EBIT	-5.6x	-9.6x	127.5x	9.8x
Liquidity & Leverage				
Net Cash (Debt) \$m	(17.0)	(26.6)	(34.0)	(33.1)
Net Debt / Equity %	14%	27%	35%	32%
Net Debt / EBITDA	n/a	n/a	10.5x	2.7x
ROA (EBIT / TAssets) %	-8.6%	-5.6%	0.4%	5.1%
ROE (NPAT / TEquity) %	-7.3%	-7.2%	-0.8%	5.1%
Interest Cover (EBIT)	14.4x	-7.5x	0.4x	4.7x
Dividend Cover	n/a	n/a	n/a	n/a

Cash Flow

EBITDA	-11.6	-7.0	3.2	12.1
Chge in Working Capital	-14.8	10.3	-0.1	-0.5
Interest Received (Paid)	0.1	-1.2	-1.8	-2.0
Income taxes paid	0.0	0.0	0.0	0.0
Other	-3.5	0.0	0.0	0.0
Operating cash flows	-29.8	2.1	1.3	9.6
Capex	-13.7	-5.0	-8.5	-8.6
Acqns & Investments	-4.6	-6.4	0.0	0.0
Sale of non-current assets	1.9	0.3	0.0	0.0
Other	-0.7	-0.2	-0.2	-0.2
Net investing cash flows	-17.1	-11.3	-8.7	-8.8
Equity raised (bought back)	0.0	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0
Change in Debt	21.4	12.0	11.7	-0.6
Other	0.9	0.0	0.0	0.0
Financing cash flow	22.3	12.0	11.7	-0.6
Change in Cash	-24.6	2.8	4.4	0.2

Segment Revenue

Dairy	44.7	91.8	105.3	121.1
Meat	0.9	6.1	16.0	17.0
Seafood	0.7	0.4	0.3	0.3
Health	1.0	0.2	0.4	0.4
Unallocated/ Other	4.7	0.0	0.0	0.0
Total Sales + Other Rev	52.0	98.5	122.0	138.8

Segment EBIT

Dairy	-3.0	1.3	7.3	15.0
Meat	0.1	-2.1	0.6	1.6
Seafood	0.4	0.4	0.3	0.3
Health	-0.8	-0.1	0.0	0.0
Unallocated/ Other	-10.3	-8.5	-7.5	-7.5
Total EBIT	-13.7	-9.0	0.7	9.4

Segment Margins

Dairy	-6.8%	1.5%	7.0%	12.4%
Meat	6.4%	-34.6%	3.8%	9.5%
Seafood	61.6%	100.0%	100.0%	100.0%
Health	-81.7%	-50.0%	0.0%	0.0%
Unallocated/ Other	N/a	N/a	N/a	N/a
Total EBIT	-26.3%	-9.1%	0.6%	6.8%

CONTACT INFORMATION

CEO					
John Miles	+61 3 8633 9838	jmiles@phillipcapital.com.au			
Research					
Wayne Sanderson	+61 3 8633 9930	wsanderson@phillipcapital.com.au			
Corporate Finance					
Sharon Cardy	+61 2 9233 9611	scardy@phillipcapital.com.au			
Institutional Sales					
Enzo Salvatore	+61 3 8633 9924	esalvatore@phillipcapital.com.au	Chris Walker	+61 3 8633 9928	cwalker@phillipcapital.com.au
Institutional Execution					
Craig Stephens	+61 3 8633 9881	cstephens@phillipcapital.com.au			
Private Wealth					
Enzo Salvatore	+61 3 8633 9924	esalvatore@phillipcapital.com.au	Luke Pitrone	+61 3 9618 8236	lpitrone@phillipcapital.com.au
Ben Roper	+61 7 3338 3835	broper@phillipcapital.com.au	Mark Wiseman	+61 3 9618 8228	mwiseman@phillipcapital.com.au
Bo Xin	+61 7 3338 3840	bxin@phillipcapital.com.au	Michael Cori	+61 2 9233 9648	mcori@phillipcapital.com.au
Chris Forte	+61 3 8633 9841	cforte@phillipcapital.com.au	Nick Katiforis	+61 3 8633 9847	nkatiforis@phillipcapital.com.au
Chris Walker	+61 3 8633 9928	cwalker@phillipcapital.com.au	Nigel Ormiston	+61 7 3149 8630	normiston@phillipcapital.com.au
Daniel McFarlane	+61 3 8633 9917	dmcfarlane@phillipcapital.com.au	Patricia Harrison	+61 2 9994 5505	pharrison@phillipcapital.com.au
Dinesh Magesan	+61 7 3338 3831	dmagesan@phillipcapital.com.au	Patrick Trindade	+61 3 8633 9926	ptrindade@phillipcapital.com.au
David Dwyer	+61 2 9233 9643	ddwyer@phillipcapital.com.au	Prasanna Wickramatunge	+61 3 9618 8270	pwickramatunge@phillipcapital.com.au
David Thang	+61 3 8633 9923	dthang@phillipcapital.com.au	Reg Keene	+61 2 9233 9603	rkeene@phillipcapital.com.au
Howard Elton	+61 3 9618 8233	helton@phillipcapital.com.au	Rob Hughes	+61 3 8633 9846	rhughes@phillipcapital.com.au
Jim Yong	+61 7 3338 3839	jyong@phillipcapital.com.au	Sam Sheffield	+61 7 3338 3837	ssheffield@phillipcapital.com.au
Joel Christie	+61 7 3338 3834	jchristie@phillipcapital.com.au	Shane Langham	+61 7 3338 3838	slangham@phillipcapital.com.au
Josh Graham	+61 3 92339645	jgraham@phillipcapital.com.au	Sue McDonald	+61 3 9618 8211	smcdonald@phillipcapital.com.au
Kate Hanrahan	+61 3 8633 9909	khanrahan@phillipcapital.com.au	Xiaoming Huang	+61 3 8633 9912	xhuang@phillipcapital.com.au
Lachlan Owen	+61 3 8633 9842	lowen@phillipcapital.com.au			
Funds Management					
Glenn Tan	+61 3 8633 9905	gtan@phillipcapital.com.au	Monica (Mengnu) Yu	+61 3 8633 9810	my@phillipcapital.com.au
Jessica Bell	+61 3 8633 9998	jbell@phillipcapital.com.au	Zane (Zheng) Song	+61 2 9233 9640	zsong@phillipcapital.com.au
Michael Laletas	+61 3 8633 9925	milaletas@phillipcapital.com.au			

CONTACT INFORMATION (Regional Member Companies)

SINGAPORE

Phillip Securities Pte Ltd

Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101

Tel +65 6533 6001

Fax +65 6535 6631

www.phillip.com.sg

HONG KONG

Phillip Securities (HK) Ltd

11/F United Centre 95 Queensway
Hong Kong

Tel +852 2277 6600

Fax +852 2868 5307

www.phillip.com.hk

INDONESIA

PT Phillip Securities Indonesia

ANZ Tower Level 23B,
JI Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia

Tel +62-21 5790 0800

Fax +62-21 5790 0809

www.phillip.co.id

THAILAND

Phillip Securities (Thailand) Public Co. Ltd

15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand

Tel +66-2 6351700 / 22680999

Fax +66-2 22680921

www.phillip.co.th

UNITED KINGDOM

King & Shaxson Capital Limited

6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS

Tel +44-20 7426 5950

Fax +44-20 7626 1757

www.kingandshaxson.com

MALAYSIA

Phillip Capital Management Sdn Bhd

B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur

Tel +603 2162 8841

Fax +603 2166 5099

www.poems.com.my

JAPAN

Phillip Securities Japan, Ltd.

4-2 Nihonbashi Kabuto-cho Chuo-ku,
Tokyo 103-0026

Tel +81-3 3666 2101

Fax +81-3 3666 6090

www.phillip.co.jp

CHINA

Phillip Financial Advisory (Shanghai) Co. Ltd

No 550 Yan An East Road,
Ocean Tower Unit 2318,
Postal code 200001

Tel +86-21 5169 9200

Fax +86-21 6351 2940

www.phillip.com.cn

FRANCE

King & Shaxson Capital Limited

3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France

Tel +33-1 45633100

Fax +33-1 45636017

www.kingandshaxson.com

UNITED STATES

Phillip Futures Inc

141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA

Tel +1-312 356 9000

Fax +1-312 356 9005

INDIA

PhillipCapital (India) Private Limited

No. 1, C - Block, 2nd Floor, Modern Center,
Jacob Circle, K. K. Marg, Mahalaxmi
Mumbai 400011

Tel: (9122) 2300 2999

Fax: (9122) 6667 9955

www.phillipcapital.in

TURKEY

PhillipCapital Menkul Degerler

Dr. Cemil Bengü Cad. Hak Is Merkezi
No. 2 Kat. 6A Caglayan
34403 Istanbul, Turkey

Tel: 0212 296 84 84

Fax: 0212 233 69 29

www.phillipcapital.com.tr

Recommendation Criteria

Investment View

PhillipCapital Investment View is based on an absolute 1-year total return equal to capital appreciation plus yield.

Buy	Accumulate	Hold	Reduce	Sell
>20%	10% – 20%	0% – 10%	0% to -10%	>-10%

A Speculative recommendation is when a company has limited experience from which to derive a fundamental investment view.

Risk Rating

PhillipCapital has a four tier Risk Rating System consisting of: Very High, High, Medium and Low. The Risk Rating is a subjective rating based on: Management Track Record, Forecasting Risk, Industry Risk and Financial Risk including cash flow analysis.

Disclaimer/Disclosure

This publication has been prepared solely for the information of the particular person to whom it was supplied by Phillip Capital Limited ("PhillipCapital") AFSL 246827.

Warning

This report is intended to provide general securities advice, and does not purport to make any recommendation that any securities transaction is appropriate to your particular investment objectives, financial situation or particular needs. Prior to making any investment decision, you should assess, or seek advice from your adviser, on whether any relevant part of this report is appropriate to your financial circumstances and investment objectives.

PhillipCapital's Research policy is to update research reports as and when the Research Analyst and Research Management deem appropriate, based on developments with the issuer, the sector, or the market that may have a material impact on the research views or opinions stated therein. The information contained in this report is drawn from sources believed to be reliable, but the accuracy and completeness of the information is not guaranteed, nor in providing it does PhillipCapital assume any liability. This information is given as of the date appearing on the report and PhillipCapital assumes no obligation to update the information or advise on further developments relating to these securities.

PhillipCapital and its associates within the meaning of the Corporations Act may hold securities in the companies referred to in this publication. This publication must not be distributed to retail investors outside of Australia.

Disclosure of Economic Interests

The views expressed in this research report accurately reflect the personal views of the author about the subject issuer and its securities. No part of the analyst's compensation was, is or will be directly or indirectly related to any recommendation or view expressed in this report.

The author of this report does hold an economic interest in the securities covered in this report or other securities issued by the subject issuer which may influence this report:

Disclosure of Corporate Involvement

PhillipCapital has not in the previous 24 months been involved in a publicly-announced transaction involving the payment of a fee to PhillipCapital by the corporate issuer described in this report. PhillipCapital may and may seek to do business with companies covered in its research.

PhillipCapital reports are available on Bloomberg, Reuters, FactSet, Capital IQ and www.phillipcapital.com.au

Important Notice

Copyright 2018. The Contents contained in this report are owned by Phillip Capital Limited ("PhillipCapital") and are protected by the Copyright Act 1968 and the copyright laws of other countries. The material contained in this report may not be copied, reproduced, republished, posted, transmitted or distributed in any way without prior written permission from PhillipCapital. Modification of the materials for any other purpose is a violation of the copyrights and other proprietary rights of PhillipCapital.

Regulatory Disclosure

This report was prepared solely by PhillipCapital. ASX did not prepare any part of the report and has not contributed in any way to its content. The role of ASX in relation to the preparation of the research reports is limited to funding their preparation, by PhillipCapital, in accordance with the ASX Equity Research Scheme. ASX does not provide financial product advice. The views expressed in this research report may not necessarily reflect the views of ASX. To the maximum extent permitted by law, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by ASX as to the adequacy, accuracy, completeness or reasonableness of the research reports.