

ASX RELEASE

13 June 2017

Business Update

Bellamy's progresses its stabilisation plan, including the acquisition of a canning facility

Bellamy's Australia Limited (ASX:BAL) (**Bellamy's** or the **Company**) today announces several key initiatives to underpin the Company's turnaround plan, including the purchase of its own CNCA (Certification and Accreditation Administration of the People's Republic of China) licensed canning facility and a further reset of the Fonterra supply agreement.

The highlights are:

- **a binding agreement to acquire Camperdown Powder Pty Ltd (Camperdown)**, a CNCA licensed powder products blending and canning line in Braeside, Victoria. Total consideration of \$28.5 million to acquire a 90% interest in a newly formed entity that will hold the issued capital of Camperdown (the **Acquisition**).
- **a binding agreement to further reset its supply contract with Fonterra Australia Pty Ltd (Fonterra)** for a one-time consideration of \$27.5 million. This agreement removes anticipated shortfall payments over the life of the contract, increases operating flexibility to direct canning to Camperdown, introduces volume based rebates and a modified bulk formula price, and additionally secures R&D investment to improve Bellamy's formulations.

It is important to note that the agreement still includes minimum annual volume commitments that are subject to shortfall payments, however, the level of these commitments is now aligned with growth and production forecasts.

- **a fully underwritten \$60.4 million, 5 for 38 pro rata accelerated non-renounceable entitlement offer (Entitlement Offer)** of new ordinary shares in BAL (**New Shares**).
- **a revision in 2H17 reported EBIT guidance** from a profit of \$9.0-13.0 million to a loss of \$9.5-14.0 million, due to additional one-off costs associated with the Acquisition and revision to the Fonterra agreement. Normalised 2H17 EBIT guidance has increased from \$11.0-15.0 million to \$16.5-20.5 million.

Canning facility acquisition

Bellamy's is pleased to announce that it has signed a share purchase agreement in respect to the Acquisition of a 90% interest in an entity that will hold the issued capital of Camperdown for a total consideration of \$28.5 million.

The Board believes that the Acquisition:

- **provides an opportunity to reduce key regulatory risks**, by securing the element of the supply-chain responsible for controlling the CFDA registration submission;
- **strengthens Bellamy's competitive position**, by addressing trade and consumer concerns regarding CFDA registration and a contract manufacturing model;
- **adds a high-potential manufacturing asset at a fair price**, with an opportunity to upgrade both the quality and capacity of the facility;

- **is a strong business case**, leveraging Bellamy's volumes and a high-quality set of existing and new customers, including a major Chinese dairy and infant formula business;
- **brings a highly capable management team** with deep Chinese regulatory expertise.

The consideration for the Acquisition will be satisfied by way of a \$10.5 million cash payment on completion and the issue of approximately 3.2 million ordinary shares in Bellamy's valued at \$18.0 million. The implied price per share is equal to the theoretical ex-rights price (**TERP**) implied by the Entitlement Offer of \$5.64.¹ The Acquisition is scheduled to be completed in July 2017.

Commenting on the Acquisition, Mr Cohen, Bellamy's Chief Executive Officer said: *"The acquisition of Camperdown strengthens our strategic position by increasing control of our supply-chain and the CFDA registration process"*.

He further noted: *"The acquisition will help build our brand credibility with trade partners and consumers. We believe this is an attractive commercial investment"*.

Fonterra Supply Agreement

Bellamy's and Fonterra have entered into a revised supply agreement to realign incentives and establish a platform for mutual growth. As consideration for the renegotiated arrangements, Bellamy's has agreed to make a one-time \$27.5 million payment to Fonterra, conditional on successful completion of the Entitlement Offer.

The revised Fonterra agreement encompasses the following elements:

- **removes projected shortfall payments to Fonterra over the life of the agreement**, increasing expected gross margin and allowing greater investment in marketing and the Bellamy's brand.
It is important to note that the agreement still includes minimum annual volume commitments that are subject to shortfall payments, however, the level of these commitments is now aligned with growth and production forecasts.
- **increases operating flexibility to direct canning to Camperdown**, allowing Bellamy's to fully realise the canning margin on their own volumes and the rationale for the Acquisition.
- **introduces volume based rebates and a modified bulk formula price** to improve Bellamy's cost position as the business grows.
- **secures R&D investment to improve Bellamy's formulations**, with Fonterra to provide technical, quality and assurance support.

Commenting on the revision of the Fonterra agreement, Mr Cohen said: *"This a strategic and economic reset. It supports the Camperdown acquisition and investment rationale and fundamentally realigns incentives with Fonterra for future growth"*.

¹ The Theoretical-ex-rights-price (TERP) is a theoretical price at which Bellamy's shares should trade immediately after the ex-date for the Entitlement Offer and prior to the share placement to the Camperdown Powder vendor shareholders. TERP is a theoretical calculation only and the actual price at which Bellamy's shares trade at that time will depend on many factors and may not be equal to TERP. TERP is calculated by reference to Bellamy's closing price of A\$5.76 on 9 June 2017.

Trading update

Recent trading performance has been in line with expectations. 2H17 net sales are forecast to be above the mid-point of guidance (\$105-120 million). Indirect costs in 2H17 are forecast to be materially lower than 1H17 excluding one off redundancy and restructuring costs.

Reported EBIT guidance for 2H17 has reduced from a profit of \$9.0-13.0 million to a loss of \$9.5-14.0 million, due to the addition of one-off costs associated with the Acquisition and Fonterra agreement.

Normalised 2H17 EBIT guidance has increased from \$11.0-15.0 million to \$16.5-20.5 million, due to the removal of a \$5.5 million shortfall payment to Fonterra, which is no longer payable under the revised Fonterra agreement.

The balance sheet is improving. Cash-flow has been positive since March 2017 and the net-cash position is expected to be close to neutral at 30 June 17. Inventory at 30 June 2017 is expected to be similar to 31 December 2016. However, it is important to note that inventory has been declining since reaching a peak in March 2017.

Proposed LTI program

Bellamy's is at a critical stage in its life cycle requiring considerable board support and therefore it is key to align incentives between shareholders and directors and management.

As such, a new LTI program has been proposed for eligible directors and management, noting that grants to directors are subject to the approval of shareholders at Bellamy's 2017 Annual General Meeting. In order to attract and retain talent, it is proposed that director compensation is set in line with market benchmarks and a portion of director fees be paid in the form of equity options. It is worth noting that the Company's Chairman, John Ho, has waived all cash and equity compensation and has led the design of the LTI program.

Management and director grants will comprise each eligible person's equity remuneration for the next three years, with the options vesting over approximately three and half years.

- No options will vest below a hurdle of a 50% increase in total shareholder value (TSR)
- At a 50% increase in TSR, 50% of options will be eligible to vest
- To receive 100% of the options granted, the business is required to achieve 100% TSR, which equates to an estimated increase in shareholder value of more than \$500 million.

The program is estimated to cost a total of \$8.2 million over 3 years (subject to valuation at grant date). The cost in FY18 is estimated to be \$3.4 million, which is incremental to a further \$1.0 million charge for legacy programs linked to prior management.

A leading remuneration consultant has designed the LTIP plan.

Commenting on the new LTI program, the Chairman, Mr Ho said: *"This plan is designed to align the interest of the Board, management and shareholders, and most importantly the long-term enterprise value creation of Bellamy's".*

Finalisation of CEO Package

Further to our announcement on 13 April 2017, Bellamy's is pleased to confirm that it has finalised a new employment contract and remuneration package with Mr Cohen.

Mr Cohen was appointed Bellamy's acting CEO on the 11 January 2017 and was confirmed as Bellamy's permanent CEO on 13 April 2017. Mr Cohen's remuneration package review was undertaken using market data provided by Godfrey Remuneration Services, and this together with an assessment of Mr Cohen's experience and capability to manage a turn-around environment, has been the basis for establishing the remuneration package as follows:

	At target	Maximum
Total Fixed Remuneration (TFR)	\$820,000	\$820,000
STI at-target (28.1%)	\$230,884	
STI maximum (46.9%)		\$384,808
LTI (subject to valuation)	\$1,116,667	\$1,116,667
Total Reward	\$2,116,551	\$2,321,475

The Board is pleased to have finalised Andrew's remuneration package.

Mr Ho said *"Andrew and his team have made terrific progress in stabilising the Company over the past few months. We have designed his remuneration package with appropriately challenging targets that aligns "at risk" pay with long-term performance and sustained value creation. While there are still significant challenges, I know Andrew is committed to lead the business to realise Bellamy's long-term growth potential."*

Entitlement Offer

Today, Bellamy's also announces the launch of its Entitlement Offer. The Company intends to raise approximately \$60.4 million in new equity through a fully underwritten, 5 for 38 pro rata accelerated non-renounceable Entitlement Offer of New Shares to eligible shareholders.

The proceeds of the Entitlement Offer will be used to fund:

- \$10.5 million cash component for consideration of Camperdown;
- \$8.5 million capital expenditure and working capital investment to upgrade Camperdown;
- \$27.5 million one-time payment to Fonterra in relation to the revised supply agreement;
- \$10.4 million in general purpose expenses and working capital to support business growth and navigate ongoing risks and challenges;
- \$3.5 million in transaction and restructure costs relating to the Acquisition, Fonterra agreement and Entitlement Offer.

The Offer Price of \$4.75 per New Share represents a discount of 15.8% to TERP² and 17.5% to the last close price of BAL's ordinary shares on ASX of \$5.76 on 9 June 2017.

The Entitlement Offer comprises a pro rata accelerated non-renounceable offer of New Shares to eligible institutional shareholders (**Institutional Entitlement Offer**) and a pro rata non-renounceable entitlement offer of New Shares to eligible retail shareholders (**Retail Entitlement Offer**).

There is a capped retail oversubscription facility for those eligible retail shareholders of the Company who hold 100,000 shares or less in the Company on the Record Date (defined below) for the Entitlement Offer (as further described below).

Under the Entitlement Offer, eligible shareholders will have the opportunity to subscribe for 5 New Shares for every 38 existing ordinary shares in BAL held at 7.00pm (AEST) on Thursday, 15 June 2017 (**Record Date**) at an offer price of \$4.75 per New Share.

The Entitlement Offer is fully underwritten.

Approximately 12.7 million New Shares will be issued under the Entitlement Offer. New Shares will rank equally with existing shares in all respects from the date of quotation.

Institutional Entitlement Offer

Eligible institutional shareholders will be invited to participate in the Institutional Entitlement Offer which will take place from Tuesday, 13 June 2017 to Wednesday, 14 June 2017.

Eligible institutional shareholders can choose to take up all, part or none of their Entitlements (**Institutional Entitlements**).

Institutional Entitlements cannot be traded on ASX or transferred. Institutional Entitlements that eligible institutional shareholders do not take up by the close of the Institutional Entitlement Offer, and entitlements that would otherwise have been offered to ineligible institutional shareholders, will be offered to new and existing institutional investors concurrently with the Institutional Entitlement Offer. The Company's shares will remain in trading halt while the Institutional Entitlement Offer is undertaken.

Retail Entitlement Offer

Eligible retail shareholders will be invited to participate in the Retail Entitlement Offer at the same offer price and offer ratio as the Institutional Entitlement Offer. The Retail Entitlement Offer will open on Tuesday 20 June 2017 and close at 5.00pm on Thursday 29 June 2017.

Eligible retail shareholders can choose to take up all, part or none of their Entitlements (**Retail Entitlements**). In addition, eligible retail shareholders who hold 100,000 shares or less in the Company on the Record Date may also apply for additional New Shares in excess of their entitlement (**Additional New Shares**) through the retail over-subscription facility, to be capped at 25% of each

² The Theoretical-ex-rights-price (TERP) is a theoretical price at which Bellamy's shares should trade immediately after the ex-date for the Entitlement Offer and prior to the share placement to the Camperdown Powder vendor shareholders. TERP is a theoretical calculation only and the actual price at which Bellamy's shares trade at that time will depend on many factors and may not be equal to TERP. TERP is calculated by reference to Bellamy's closing price of A\$5.76 on 9 June 2017.

eligible retail shareholder's entitlement under the Entitlement Offer. Applications for Additional New Shares in the retail over subscription facility will be scaled back in accordance with the allocation policy set out in the Prospectus prepared in connection with the Entitlement Offer.

Retail Entitlements cannot be traded on ASX or transferred. Eligible retail shareholders who do not take up their entitlement under the Retail Entitlement Offer in full or in part, will not receive any value in respect of those entitlements not taken up.

Enquiries

For further information in relation to the Entitlement Offer, please contact the offer information line on 1300 853 809 (local call cost within Australia) or +61 1300 853 809 (from outside Australia) at any time between 8.30am and 5.30pm (AEST), Monday to Friday (excluding public holidays).

Other information

Offers of New Shares will be made under a prospectus which was prepared in accordance with section 713 of the *Corporations Act 2001* (Cth) (**Prospectus**). Eligible shareholders should carefully consider the Prospectus before deciding to apply for New Shares under the Entitlement Offer. Eligible shareholders who wish to acquire New Shares will need to complete the application form in or accompanying the Prospectus. A copy of the Prospectus is available on ASX's website or can be obtained by contacting Link Market Services Limited on 1300 853 809.

Key dates of the Entitlement Offer

Event	Date
Announcement of Acquisition and Entitlement Offer	13 June 2017
Institutional Entitlement Offer opens	
Institutional Entitlement Offer closes	14 June 2017
Results of Institutional Entitlement Offer announced and trading on ASX resumes (by 10:00am, Australian Eastern Standard time) on an ex-entitlement basis	15 June 2017
Record Date for the Entitlement Offer	7.00pm (Australian Eastern Standard time) on 15 June 2017
Despatch of Prospectus and personalised entitlement and acceptance forms to eligible retail shareholders. Retail Entitlement Offer opens	9.00am (Australian Eastern Standard time) on 20 June 2017
Settlement of Institutional Entitlement Offer	22 June 2017
Issue and quotation of New Shares issued under the Institutional Entitlement Offer	23 June 2017
Retail Entitlement Offer closes	5.00pm (Australian Eastern Standard time) on 29 June 2017
Settlement of Retail Entitlement Offer	6 July 2017
Issue of New Shares and Additional New Shares under the Retail Entitlement Offer	7 July 2017
Normal trading of New Shares and Additional New Shares issued under the Retail Entitlement Offer expected to commence on ASX	10 July 2017

Mailing of updated CHESS notices and issuer sponsored holding statements in relation to New Shares issued under the Retail Entitlement Offer completed

10 July 2017

The above timetable is indicative only and subject to change without notice. All times and dates refer to Australian Eastern Standard time. The Company reserves the right, subject to the Corporations Act, ASX Listing Rules and other applicable laws, to vary the dates of the Entitlement Offer without prior notice, including extending the Entitlement Offer or accepting late applications, either generally or in particular cases, or to withdraw the Entitlement Offer without prior notice. Applicants are encouraged to submit their personalised entitlement and acceptance forms as soon as possible. No cooling-off rights apply to applications submitted under the Entitlement Offer. The commencement of quotation of New Shares and Additional New Shares is subject to confirmation from ASX.

A conference call on the transaction will be held at **11.00am Sydney time today**.

Dial-in details:

Participant toll-free line: 1800 123 296
Participant toll: +61 2 8038 5221
Conference ID: 3801 6289

Disclaimer

This announcement does not constitute an offer to sell, or the solicitation of an offer to buy, any securities in the United States. No action has been, or will be, taken to register, qualify or otherwise permit an offering of the New Shares in any jurisdiction outside Australia or New Zealand. In particular, the New Shares referred to herein have been not and will not be registered under the U.S. Securities Act of 1933, as amended (**Securities Act**) or under the securities laws of any state or other jurisdiction of the United States. Accordingly, the New Shares may not be offered or sold to any person in the United States or any person that is acting for the account or benefit of persons in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable U.S. state securities laws. The New Shares to be offered and sold in the Retail Entitlement Offer may only be offered and sold outside the United States in 'offshore transactions' (as defined in Rule 902(h) under the Securities Act) in reliance on Regulation S under the Securities Act. For more information on foreign offer restrictions, see the section titled 'Foreign Jurisdiction' in the Prospectus.

Forward looking statements

This announcement contains certain forward-looking statements including statements of current intention, statements of opinion and predictions as to possible future events. Forward-looking statements can generally be identified by the use of forward looking words such as "anticipate", "believe", "expect", "project", "forecast", "estimate", "likely", "intend", "should", "could", "may", "target", "plan", "consider", "foresee", "aim", "will" and other similar expressions within the meaning of securities laws of applicable jurisdictions, and include but are not limited to the outcome and effects of the Entitlement Offer. Indications of, and guidance or outlook on, future earnings, financial position, performance and strategies are also forward looking statements. Such statements are not statements of fact and there can be no certainty of outcome in relation to the matters to which the statements relate. These forward looking statements involve known and unknown risks, uncertainties, assumptions and other important factors that could cause the actual outcomes to be materially different from the events or results expressed or implied by such statements. Those risks, uncertainties, assumptions and other important factors are not all within the control of BAL and cannot be predicted by BAL. This includes changes in circumstances or events that may cause objectives to change as well as any statements about market and industry trends, which are based on interpretations of current market conditions. They also include general economic conditions, exchange rates, interest rates, regulatory environments, competitive pressures, selling price, market demand and conditions in the financial markets which may cause objectives to change or may cause outcomes not to be realised. This announcement includes forward looking statements in relation to and the Entitlement Offer and the Company's future financial results.

Actual results, performance or achievements may vary materially from any projections and forward-looking statements and the assumptions on which those statements are based. Readers are cautioned not to place undue reliance on forward-looking statements and none of BAL or any of its subsidiaries, affiliates and associated companies (or any of their respective officers, employees or agents) makes any representation, assurance or guarantee as to the accuracy or likelihood of fulfilment of any forward looking statement or any outcomes expressed or implied in any forward looking statements.

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