



ASX ANNOUNCEMENT

MARKET UPDATE

Bega Cheese provides the following update on overall business performance and the acquisition of Koroit.

The Australian dairy industry is being impacted by the effect of severe drought and significantly increasing farming costs resulting in overall milk supply for the industry being expected to be down in excess of 5% in the current financial year. Bega Cheese milk acquisition program has been successful and the Company continues to forecast that its overall milk intake in FY2019 will be between 1.0 and 1.1 billion litres of milk compared to a total intake of 750 million litres in FY2018.

The overall reduction in the Australian milk supply pool has created significant competitive farm gate milk pricing pressure. The outlook for Bega Cheese's financial performance in FY2019 is expected to be impacted by this competitive pressure. Bega Cheese is forecasting a normalised EBITDA in the range of \$123 to \$130 million for FY2019, this compares to the FY2018 normalised EBITDA of \$109.6 million.

The integration of the Koroit manufacturing facilities and the successful milk acquisition program, particularly in the Western Region, has resulted in a seasonal build of inventory with associated funding costs. In addition, increased depreciation charges on the Koroit infrastructure have been reflected in the forecast normalised profit after tax. Current forecasts indicate a normalised profit after tax range of \$44 and \$48 million.

While the current decrease in milk supply in the Australian dairy industry is creating significant competitive pressure across our entire dairy business, we are very pleased with the integration of Koroit and the forecast performance of that acquisition. The seasonal inventory build associated with the Koroit acquisition and strong milk procurement will mean a more balanced H1 and H2 in FY2019 compared with the prior year where approximately 65% of earnings were received in H1.

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