



ASX ANNOUNCEMENT

Trading Update and Sale of Port Melbourne Site

The Bega Group (ASX: BGA) has announced the sale and lease back of its Port Melbourne site for \$114.6 million (excluding GST). The transaction strengthens the Bega Group's balance sheet and enables the acceleration of an organisational restructure and business simplification program further transitioning the Group to a predominantly branded business.

The Bega Group also reported extremely robust competition for farm gate milk supply for FY2024 with a significant disconnect between the cost of farm gate supply in Australia and international dairy commodity market prices. Given the decrease in Australian milk production over recent years, the continued competition for raw milk and the relatively minor industry capacity rationalisation, the Bega Group has outlined the potential for a non-cash impairment of its bulk dairy ingredients assets.

The Bega Group confirms its previously announced normalised EBITDA guidance for FY2023 at the low end of the range of \$160 to \$190 million.

Sale and lease back of Port Melbourne site

As advised in May 2022, the Bega Group has been investigating the opportunity for the sale and lease back of its property at 1 Vegemite Way, Port Melbourne. The Bega Group has now executed agreements with Charter Hall, which will acquire the site for \$114.6 million (excluding GST). The Bega Group will lease back the site for an initial term of 15 years with two additional five year options. The Bega Group intends to continue the production of iconic brands including Vegemite and Bega Peanut Butter at the site. The funds from the sale will reduce debt and further support the Bega Group's strategy and transition to a company focused on market leading brands.

The transaction sees a significant cash inflow strengthening the Bega Group's balance sheet. Following the application of the lease accounting standard AASB16, a modest pre-tax statutory profit on the sale will be realised.

The Group has an extensive property portfolio and will continue to review opportunities across that portfolio.

Acceleration of organisational restructure and business simplification program

The execution of the above transaction has enabled the Bega Group to accelerate the final phase of synergy realisation associated with the acquisition of Lion Dairy and Drinks, being an organisational restructure and business simplification program.

The restructure will enhance the efficiency and effectiveness of our branded business and reduce costs in our bulk commodity business. This program is expected to have a cash cost of approximately \$21 million and create annual savings of an equivalent amount on an ongoing basis. The majority of the implementation will occur in 1H FY2024 with in year benefits of at least \$12 million and the remaining cumulative benefits to be recognised in the following year.

The business simplification program will include tax consolidation incurring a one-off after tax cost of \$10 to \$15 million, back office streamlining, refined customer engagement systems and product range review.

The restructure will be announced today and as such the cost associated will now be recognised in the Bega Group's FY2023 result.

Milk acquisition FY2024

In compliance with the Australian Dairy Code of Conduct, the Bega Group has commenced its milk acquisition program for FY2024. Competition for milk remains extremely robust and farm gate milk prices are not reflective of the significant reduction in global dairy commodity prices over recent months or the outlook for that market. While the Australian domestic market is relatively aligned with Australian farm gate prices, some bulk commodity products destined for international markets are not. The Bega Group's milk procurement campaign is incomplete, but it is already clear that the above disconnect will impact the performance of the Bega Group's bulk segment of the business in FY2024.

Given the continued decline in Australian milk production including a reduction of over 700 million litres in the last two years or 9% and relatively minor industry capacity rationalisation, the Bega Group now expects the intense competition for raw milk to continue beyond this year. The commodity asset portfolio that the Bega Group operates is of high quality and we continue to benefit from the specific nutritional and ingredients streams within this business segment.

The expected impact of the decline in performance of the bulk segment of the business associated with the ongoing circumstances described above will necessitate a review of the carrying value of the bulk dairy ingredient assets under the Australian Accounting Standard. This is expected to give rise to a non-cash impairment of these assets.

The precise impairment amount will be impacted by the finalisation of milk procurement and farm gate milk pricing program for FY2024. Our current anticipated non-cash impairment is in the range of \$180 to \$280 million. We would expect to conclude the calculation as we finalise our audited result for FY2023 and will update the market when we have more clarity.

The non-cash impairment will not impact the Bega Group's financial strength or create any adverse issues with our current banking arrangements.

Trading update

The Bega Group has been very pleased with the performance of the Brands segment of the business in last nine months of FY2023 following significant input cost increases particularly in farm gate milk prices, packaging, logistics and energy costs. These cost increases have seen the Bega Group further invest in continuous improvement programs and technology in our facilities and successfully realise price increases in the market. The Bega Group has experienced both volume and value growth in our branded products with customers continuing to demonstrate a strong loyalty to the brands.

The Bega Group's portfolio of brands including Vegemite, Bega Peanut Butter, Dare, Farmers Union, Yoplait and Daily Juice, continue to hold leading market positions, while we have also seen growth in our white milk brands and success in the convenience and food service channels. The previously detailed disconnect between farm gate prices and declining global traded dairy commodity prices have impacted FY2023 and this is expected to continue into FY2024.

While the Bega Group remains comfortable with the normalised EBITDA guidance at the low end of the previously advised range of \$160 to \$190 million, the statutory profit after tax for FY2023 will be impacted by the significant items and actions outlined above.

The FY2023 result will now bring to account a number of significant one-off items including the sale and lease back of the Port Melbourne property, restructure and business simplification costs and any non-cash impairment.

The organisation restructure places greater emphasis on the opportunities we have identified in our branded business, realises cost savings in our bulk business and when combined with a business simplification program will strengthen the business and position us well for FY2024 and beyond.

There will be an investor call today Tuesday, 27 June 2023 commencing at 12:00pm.

Participants looking to join the teleconference will need to pre-register using the following link:

<https://s1.c-conf.com/diamondpass/10031813-imu1jp.html>

Participants will receive a calendar invite, conference call details and a unique code which should be quoted when dialling into the call.

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