



## APPOINTMENT OF VOLUNTARY ADMINISTRATORS

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**Beston Global Food Company Ltd** (ASX:BFC) ('Beston') advises that on 20 September, 2024 at 5:00pm AEST, Tim Mableson, James Dampney, Gayle Dickerson and David Kidman of KPMG were appointed as Joint and Several Administrators of the Beston and its wholly owned subsidiary, Beston Pure Dairies Pty Ltd pursuant to Section 436A of the Corporation Act 2001 ('Administrators').

### Background

Beston has experienced a perfect storm of adverse events in recent times. Beston went into COVID with relatively little debt and came out the other side with a debt burden which has weighed heavily as interest rates have increased.

In the FY23 year, the first full year, post the Covid-19 pandemic, Beston recorded a trading EBITDA of \$4.4 mill in its dairy business as well as record sales of circa \$170 mil, while noting that margins had been squeezed in the second half by adverse trends in global dairy prices. The encouraging result delivered during FY23 was a direct outcome of a competitive farm gate price paid to dairy farmers and the successful expansion of BFC's Lactoferrin business.

Over the last 12 months, Beston has experienced exceptionally high operating costs particularly due to onerous energy prices at a time when Australian farmgate milk prices have been uncompetitive in world markets. An unintended consequence of the Australian Dairy Code legislation introduced in 2019 (i.e., four years after Beston commenced operations) has been to keep farmgate milk prices at high levels and disconnected from the global prices of dairy commodities.

The government regulated operating model between dairy processors and dairy farmers embodied in the Australian Dairy Code does not recognise the volatile nature of dairy markets globally, nor allow appropriate price signals to be captured through the movements in supply and demand and has contributed to the closure of 11 dairy processing businesses in Australia during the past 18 months.

Favourable weather conditions in Q2 of FY24 substantially increased the supply of milk to our factories, at a time when farmgate milk prices were at record highs. Global dairy commodity prices remained volatile during this period on the back of China's rising domestic production and lower imports. The avalanche of cheaper dairy imports that have reached the Australian market during 2023 and 2024 from overseas producers (including from NZ, Europe and the USA) have also impacted on the Beston's sales margins and short-term liquidity.

While the Beston's Lactoferrin and fast-growing Cream Cheese business (which accounts for around 20% of sales) has earned strong profits over this period, the cheese and whey powder business (which accounts for around 80% of sales) has incurred losses due to the on-going cost/price pressures.

The business absorbed some \$28 million in additional costs in FY23, including a 300% increase in energy prices. However, the persistence of cost pressures (particularly with gas, electricity, labour, chemicals and transport) in continuing to push up the cost of goods in FY24, along with the higher-than-expected milk volumes and farmgate prices that have remained uncompetitive versus global markets, have adversely impacted profits and cash flows.

### Corporate Actions

The Board and Management of Beston have been working through a plan to address these challenges, including by making a number of operational enhancements and by divesting the Beston's meat processing business (which was completed in July 2024).

In response to various corporate actions initiated by Beston, Beston has received several non-binding indicative offers in recent months, around both debt refinancing and equity solutions relating to Beston's core business of dairy and dairy nutrition.

As advised to shareholders, Beston recently received an offer from Megmilk Snow Brands Co Ltd (Japan) ('**Megmilk**' or '**Snow Brands**') to acquire its cheese and lactoferrin production facility at Jervois, South Australia by way of an asset and business sale. Beston welcomed the offer as an opportunity to capitalise on all the hard work done to date to build and scale the business, secure the jobs of our employees and provide long-term security for our farmers.

However, Megmilk Snow Brands advised on 20 September 2024 that they will not be proceeding with the binding offer submitted on 6 September 2024. The Offer is no longer open and capable of acceptance. The Megmilk Offer was subject to a number of conditions precedent and would have required, inter alia, the support of Beston's senior lenders and the shareholders of Beston.

Snow Brands undertook very extensive due diligence investigations including with visits to our factories, our farmers, our customers and bankers, and by successfully using the dairy fractionation plant at Jervois to trial the manufacture of nutraceutical product to their own specifications.

Notwithstanding the positive findings from the Megmilk Snow Brands due diligence process, it became apparent that agreement could not be reached on the terms and conditions of a sale that was acceptable to all parties. Accordingly, the Directors have formed the opinion that Beston should be placed into voluntary administration and allow time to evaluate options for Beston. The decision of the Board has not been taken lightly, and is unavoidable in the circumstances.

The Board and Management team are proud of all that has been achieved in building the Beston Global Food Company from scratch to the size it is today, producing premium quality dairy and health nutrition products and generating revenues, in FY24, of circa \$170 million. Over its journey, Beston has become one of the largest exporters of dairy products from South Australia and has won over 160 domestic and international awards for product quality. Lactoferrin manufactured by Beston is now supplied to a number of China's leading Infant Formula companies and brands.

Investments made by Beston in technology, research and innovation over the past decade reflects the long-term objectives which the Beston put in place at the outset to develop a state-of-the-art capability (and capacity) to produce high value nutraceutical products by extracting the proteins which occur naturally in cow's milk.

We have produced world-class products with premium levels of quality. The lactoferrin produced at Jervois has shown consistent levels of purity of 98% and above, and has been sold over the past few years to some of the world's major pharmaceutical and health nutraceutical companies. Beston's cheese products (mainly mozzarella and cream cheese) have been sold to more than 30 major companies in Australia, and overseas (including Thailand, Philippines, Vietnam, China and Korea). But, the soaring costs of manufacturing in Australia since Covid, particularly with the high cost of the key inputs, raw milk and energy vis-à-vis other countries, have made it extremely difficult to do so competitively in a global market.

The Chief Executive Officer of Beston, Mr Fabrizio Jorge, said that he deeply regrets that the Megmilk Snow Brands offer could not be progressed through to completion.

"The Megmilk offer would have enabled all of the jobs at Jervois to be preserved and would have led to an increase in demand for milk for processing at the Jervois factory over time" he said.

"It would have represented a win for the workers, a win for our loyal dairy farmers and ultimately would have been a win for the whole of South Australia as the significance of the Jervois plant in producing premium quality, health enhancing products from dairy have become increasingly recognised around the world via the global marketing and distribution networks of Megmilk Snow Brands" Mr Jorge said.

The Board expresses its heartfelt thanks to the management team and to all of our employees for their amazing contributions, particularly during the difficult times of the past 12 – 18 months. Beston supported our farmers through the tough times of the drought years in 2017-18 and we are immensely grateful for the support which our farmers have in turn given to Beston in more recent times.

#### Current Status of Beston

The Administrators have assumed control of Beston's business and assets with the current intention is to continue to trade the Group while an assessment of trading is undertaken and options for its sale and/or recapitalisation are explored.

The Administrators will provide updates of any material events throughout the administration by way of announcements to the ASX.

This announcement has been authorised by the Board of Beston.

For further information on Beston, please visit: [bestonglobalfoods.com.au](http://bestonglobalfoods.com.au)

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