Keytone Dairy
Corporation Limited
ABN: 49 621 970 652

Keytone Dairy

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ASX Release
Quarterly Report
For the quarter ending 30 September 2020



29 October 2020

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KEYTONE DAIRY QUARTERLY REPORT

Keytone Dairy Corporation Ltd (ASX:KTD) ("Keytone" or the "Company") is pleased to provide the following update on its activities and lodge the Appendix 4C Cash Flow Statement for the quarter ending 30 September 2020. Keytone operates on a 31 March 2021 financial year and consequently, the 30 September 2020 quarter was the second quarter of its financial year 2021 ("Q2 FY21").

The past quarter has been significant for Keytone and represents a material turning point in the evolution of the Company:

- Q2 FY21 recorded a seventh consecutive quarter of record **sales growth to more than $A14.4m**;
- Total customer **cash receipts for the quarter significantly increased to $A14.0m** and **net cash outflow from operations materially decreased by 83% to $A0.7m** compared with the prior quarter;
- Significantly, the consolidated Keytone business was net cash positive in the final month of the quarter, being September 2020, **recording a consolidated net cash inflow of $A0.2m**.

Upon releasing the update to the market, Danny Rotman, Keytone Dairy's Chief Executive Officer, stated: "The second quarter of FY21 has been a truly significant quarter in the development of the Keytone business and results have exceeded management expectations. Sales have continued to materially grow with all divisions recording strong growth. More significantly, cash receipts for the quarter were up by more than 70% and net cash outflow from operations materially decreased for the quarter, while the consolidated business recorded net cash inflow in the final month of the quarter. This net cash generation is ahead of management's internal forecast due in the second half of FY2021."

"Keytone has continued the aggressive pursuit of our own higher margin, higher value proprietary products and released several new products and ranges to market throughout the year with a strong product development pipeline to come through the balance of the FY21 year. Pleasingly, the launch of Tonik Plant was met with almost immediate ranging in Coles and independent supermarkets nationally with sales to be realised in future quarters."

"Keytone is well positioned moving into the second half of FY21 given the financial performance of the business year to date, the foundations that have been built across all business units over the last twelve months and the current momentum throughout the business. We look forward to updating the market as we continue to grow and scale up our operation to capitalise on the demand for our products and services."

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Select KeyDairy product launches and rebrands that occurred through Q2 FY2021

Financial Highlights

The second quarter of FY21, being 1 July 2020 to 30 September 2020, was the largest recorded sales result on record for Keytone with a number of material financial milestones also realised. These milestones include record sales, a material increase in customer cash receipts, a substantial decrease in the net cash outflow from operations while net cash generation across the consolidated business was recorded for the month of September 2020.

The financial performance across all business units in Keytone continued to scale and accelerate, notwithstanding COVID-19 related product indents and distribution delays in the Company's proprietary brands. These product indent delays into key distribution channels for the Company's proprietary brands are now largely expected to occur through the second half of the FY21 financial year.

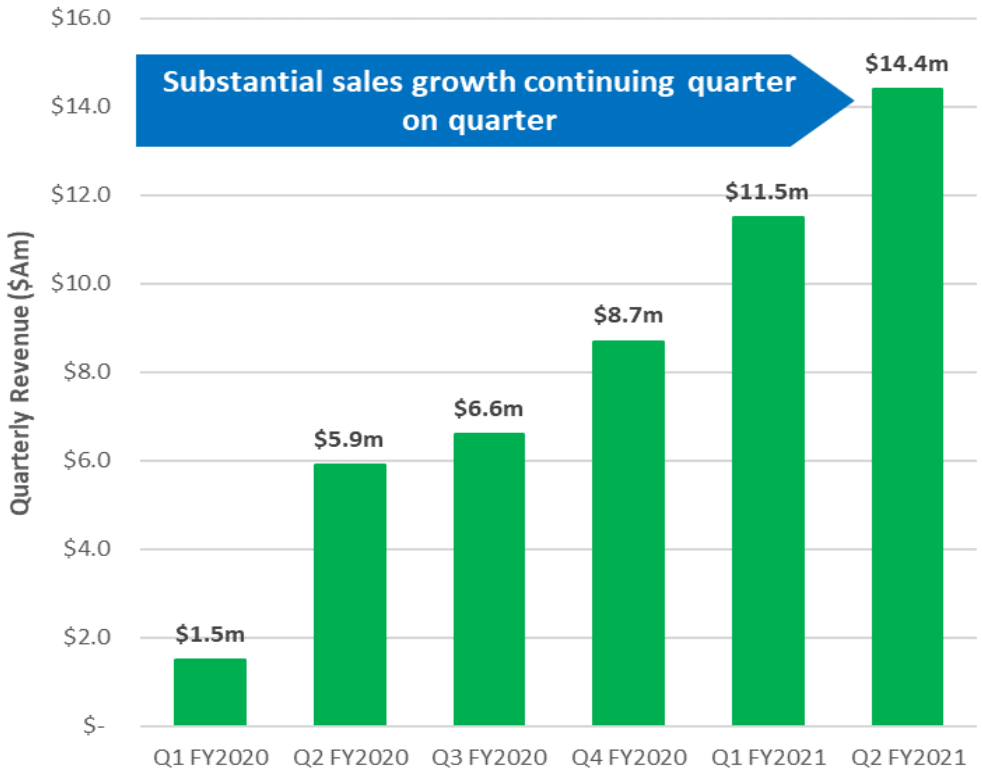
The financial performance recorded through Q2 FY21 places Keytone in a strong position moving into the second half of the FY21 financial year and provides a solid platform to continue to scale and grow across all business units.

The financial highlights for Q2 FY21 quarter include:

- Total sales revenue **increased to approximately $A14.4m, 26% growth** over the prior quarter's revenue of $A11.5m (1 April 2020 to 30 June 2020), **a seventh consecutive quarter of growth**;
- Sales growth through Q2 FY21 was like for like growth compared with Q1 FY21;
- Keytone's fully owned **Australian subsidiary Omniblend recorded $A11.0m of sales** through the quarter, including the proprietary brands, Tonik and Super Cubes;
- The sales of the Company's proprietary products including Tonik, Super Cubes and Grans **exceeded $A1.1m sales for the quarter and were 167% greater than the prior quarter**. Significant additional ranging is expected in the coming quarters with the launch and indent of Tonik Plant into Coles expected in November and further ranging and distribution for the existing proprietary product suite;
- The Keytone New Zealand business realised its highest sales quarter since listing on the ASX, recording **$A3.3m of sales, being 172% of the sales in New Zealand in Q1 FY21;**

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- For the first half of FY21, being the six months ending 30 September 2020, **Keytone New Zealand has realised sales of $A5.3m surpassing the full year 12-month result of FY20** of $A5.0m;
- **Total customer cash receipts significantly increased through the quarter to $A14.0m,** compared with the prior quarter's cash receipts of $A8.2m, highlighting the strong conversion to cash from prior quarters investment in working capital;
- Net **cash outflow from operating activities materially decreased by 83% to $A0.7m** in the quarter. The decrease in cash outflow is the result of growing frequency and volumes of orders, growth in Keytone's higher margin, higher value proprietary brands, increased distribution and channels and significantly improved working capital management;
- In the final month of Q2 FY21, being **September 2020, the consolidated Keytone group generated net cash from operations of more than $A0.2m**. The cash generation across the consolidated group highlights the financial trajectory of Keytone moving forward into the second half of FY21 and ahead of management's forecast net cash generation in the business;
- During the quarter, $A0.6m was spent on capex initiatives in Australia and New Zealand, including the expansion of Keytone's Sydney protein bar/snacking plant (the previously announced acquisition of the AusConfec assets) where capability enhancements and upgrades are currently taking place;
- Through Q2 FY21, Keytone New Zealand agreed a $A1.9m trade finance and overdraft facility with ANZ bank to assist with the working capital management in New Zealand as the business continues to grow and scale rapidly. At the end of the quarter the facility was $A1.2m drawn;
- As at 30 September 2020, Keytone had a combined cash balance of $A9.3m, compared with $A9.4m the prior quarter, outlined in the accompanying Appendix 4C.



Keytone's quarterly revenue growth profile

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Proprietary Product Expansion

Through Q2 FY2021 Keytone has launched multiple new proprietary products and refreshed/rebranded others. Specifically, the Company launched Tonik Plant and KeyDairy Immunity Booster Powder. The proprietary product offering and range of the Company has continued to grow month-on-month and has resulted in another strong quarter of growth across the higher value, higher margin proprietary brands as outlined in the financial highlights above.

Notwithstanding the record sales results and material growth recorded, the impact of COVID-19 has continued to hamper potential further upside throughout the last six months in the proprietary brands portfolio due to cancelled or postponed range reviews with key retailers, delayed product indents into retail channels and continued lockdowns and COVID restrictions, particularly in the State of Victoria, Australia.



Keytone's KeyDairy Immunity Booster launched during Q2 FY2021

Keytone undertook a number of initiatives throughout the quarter in the proprietary brands portfolio:

1. Launch of Tonik Plant

   Following the successful creation and roll-out of the Company's Tonik brand, Keytone launched a new proprietary product range under the brand, Tonik Plant. Tonik Plant is the first vegan/plant based ready-to-drink protein shake in the Australian marketplace and has been developed, manufactured and commercialised in-house by the Company's product development team.

   Tonik Plant has been developed in response to rapidly growing demand for plant-based health products and in particular to capitalise on a number of the top global trends for food[1]; namely plant based foods, better for you snacking and health food on demand.

[1] www.mintel.com/global consumer trends - December 2019

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Tonik Plant has six flavour SKUs which are manufactured at the Company's ready-to-drink bottling facility in Melbourne. A selection of the current retailers selling Tonik Plant nationally through the initial indent period include major grocer Coles Supermarkets, independent supermarkets, Ritchies IGA Group and Romeos IGA Group, Anytime Fitness and Snap Fitness. Further ranging through the Keytone branded distribution channels is expected in the near term, both nationally and internationally.

2. Launch of KeyDairy Immunity Booster

Through the quarter Keytone launched a premium dairy-based functional Immunity Booster Powder under its proprietary brand, KeyDairy.

Market interest in immune strengthening functional supplements continues to grow at an accelerated rate as global consumers seek products that strengthen the immune system due to COVID-19. The global immune health supplements market is expected to record high growth following the ongoing health pandemic. In China alone, the dietary supplements market is forecast to reach USD22.3 billion in 2020. China e-Commerce giant JD.com has stated the sale of vitamins and dietary supplements has soared by more than 5 times since the beginning of COVID-19.

Keytone will showcase the Immunity Booster Powder, alongside our other proprietary brands at the forthcoming China International Import Expo (CIIE) in Shanghai in early November 2020.

3. Coles Ranging Achieved

Following the successful launch of Keytone's Tonik Plant range, the Company's sales team secured national ranging for Tonik Plant at major grocer Coles Supermarkets. While Coles was not undertaking a formal range review nor seeking submissions, Coles recognised the true innovation and disruptive potential to the protein shake category with Tonik Plant being the first high protein vegan/plant based ready-to-drink protein shake in the Australian marketplace.

A number of Tonik Plant flavours will be ranged in 396 large format Coles stores throughout

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Australia. Keytone have undertaken the production of Tonik Plant for the initial Coles roll-out and it is anticipated Tonik Plant will be available in store from November 2020.

4. Middle East Distribution

Keytone has now established relationships with multiple distributors and agents in the Middle East for its Tonik Pro, Tonik Plant and Gran's Fudge ranges. While continued and initial sample orders for the proprietary ranges were fulfilled during the quarter, they remain relatively immaterial to this point. The Company believes there is strong potential in the region as the products and brands continue to receive strong and positive feedback. Keytone will continue to invest in these strategic relationships as it seeks to grow brand awareness, distribution and traction for the portfolio of branded products in the Middle East and other select international markets.

5. Licensing Agreement for Baileys™ Indulgent Products

Following the signing of the Baileys license agreement by the Company, the initial indent of Baileys non-alcoholic products, being Original Irish Cream Iced Coffee, Iced Mochaccino and Iced Butter Caramel & Sea Salt was due to take place in Q2 FY2021. Due to COVID-19 this roll-out was delayed and will occur in the current quarter, Q3 FY2021. Accordingly, the sales results for the quarter do not reflect any sales related to the Baileys ready-to-drink products.

The products will be distributed nationally at Beer Wine Spirits ("BWS") (Woolworths Australian retail chain of 1,352 liquor stores), with more than half BWS stores confirmed.

As part of the license agreement and despite the delays, new product development work has continued in-house and three additional flavours under the Bailey's brand have been developed for future release in the Australian market. These additional flavours are Iced Strawberries & Cream, Iced Red Velvet Cupcake and Iced Chocolate Luxe.



Premium ready to drink Baileys flavoured non-alcoholic coffee drinks to be manufactured and sold by Keytone

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Capacity Expansion

Capital Enhancements to the Protein Bar Manufacturing Facility

As previously reported, Keytone acquired the assets of AusConfec in early FY2021. AusConfec is a highly strategic acquisition, completing Keytone's fully diversified manufacturing operation across powders, ready to drink protein drinks and now protein bars, while providing a synergistic and complementary permissible indulgence brand, Gran's Fudge. The acquisition offers significant upside for proprietary product development in the Company's existing proprietary product range, in addition to substantial cross-sell opportunities for the Company's large existing client base and other new contract manufacturing clients.

The assets consist of state-of-the-art German equipment for the manufacture of protein bars in an operational facility, with a high grade fit-out and customer contracts with Woolworths and Coles, among others. During Q2 FY2021 expansion of the AusConfec facilities commenced and the additional enhancements required for full protein bar manufacturing are well underway. These strategic and capital enhancements will utilise the $A800,000 Manufacturing Modernisation Fund grant awarded to Omniblend by the Australian Federal Government offsetting future capital expenditure.

The capital enhancement program for the protein bar manufacturing facility is expected to be completed by early FY2022 and as such, a number of discussions are underway with existing and new clients regarding the manufacture of protein bars providing significant upside for the FY2022 financial year, in addition to the manufacture of the company's own proprietary products.

Private Label Clients

The quarter delivered substantial growth in the contract manufacturing division of Keytone with a number of key strategic wins and higher than anticipated orders across Australia and New Zealand, evidenced in the strong sales growth recorded across the business.

Late in the quarter, Keytone received a significantly increased sales forecast from Walmart China for the manufacture of whole and skim milk powder for Sam's Club China in calendar year 2021. The sales forecast totalled NZD7.2m for the calendar year 2021 with production to commence in December 2020**.** The Walmart China forecast sales for calendar year 2021 represent 257% of the trailing 12 months sales to September 2020 and 3.8x larger than the prior forecast provided.

Additionally, Keytone has secured a number of new clients as well as continued follow-on orders from existing clients through the quarter. Keytone is confident that new strategic client wins will result in continued growth in the contract manufacturing business through subsequent quarters and into next financial year, with the value-add service provided by Keytone being a key success factor in securing these important and growing clients. The Company works closely with its clients in the private label portfolio to ensure innovation, quality and order commitments are met in full and on time.

The Company continues to work on a number of tenders for new strategic clients leveraging the broad manufacturing capability, capacity and expertise of Keytone, both in New Zealand and Australia, as Keytone continues its impressive growth trajectory in health and wellness.

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Other

Payments to executive and non-executive directors totalled approximately $A268,000 for salaries and wages in the period, as outlined in section 6.1 of the accompanying Appendix 4C.

As at 30 September 2020, 124,767,442 Performance Shares are on issue. No performance share vesting or conversion milestones were met during the period, and no performance shares were redeemed during the period.

	Performance Shares on issue at start of period or issued through the period (A)	Performance Shares converted to KTD shares during the period (B)	Performance Shares expired during the period (C)	Performance Shares on issue at the end of the period (A) – (B) – (C)
Class A[2]	16,500,000	0	0	16,500,000
Class B[3]	16,500,000	0	0	16,500,000
Class C[4]	16,500,000	0	0	16,500,000
Class D[4]	23,255,814	0	0	23,255,814
Class E[5]	23,255,814	0	0	23,255,814
Class F[6]	23,255,814	0	0	23,255,814
Class G[7]	2,200,000	0	0	2,200,000
Class H[8]	3,300,000	0	0	3,300,000
Total	124,767,442	0	0	124,767,442

The release of this announcement was authorised by the Non-Executive Chairman, Mr. Peter James on behalf of the board.

* * * * * * *

2 Each Class A Performance Share will convert into one share upon Keytone Enterprises (NZ) Company Limited achieving, $3,000,000 of earnings before interest, taxes, depreciation and amortisation (EBITDA) in any financial year occurring on or before 31 March 2022.
3 Each Class B Performance Share will convert into one Share upon Keytone Enterprises (NZ) Company Limited achieving, $6,000,000 of EBITDA in any financial year occurring on or before 31 March 2022.
4 Each Class C Performance Share will convert into one share upon (I) the shares achieving a 30-day volume weighted average price per share exceeding $0.30, and (II) Keytone Enterprises (NZ) Company Limited achieving, in relation to Keytone, $6,000,000 of revenue in any financial year occurring on or before 31 March 2022.
4 Each Class D Performance Share will convert into one share upon the Omniblend Pty Limited achieving, in relation to the Omniblend Group, $2,600,000 of earnings before interest, taxes, depreciation and amortisation, in any financial year occurring on or before 31 March 2022
5 Each Class E Performance Share will convert into one share upon the Company achieving a volume weighted average price of its shares over a period of 30 consecutive trading days upon which the shares are traded that exceeds $0.65 and, in relation to the Omniblend Group, $50,000,000 of annual revenue, in any financial year occurring on or before 31 March 2023
6 Each Class F Performance Share will convert into one share upon the Company achieving a volume weighted average price of its Shares over a period of 30 consecutive trading days upon which the Shares are traded exceeding $1.00 and, in relation to the Omniblend Group, $100,000,000 of annual revenue and $7,500,000 of earnings before interest, taxes, depreciation and amortisation, in any financial year occurring on or before 31 March 2023
7 Each Class G Performance Share will convert into one share upon the business of Super Cubes achieving sales revenue of $20,000,000 in the financial year ending 31 March 2021
8 Each Class H Performance Share will convert into one share upon the business of Super Cubes achieving sales revenue of $35,000,000 and Omni Brands Pty Limited achieving $5,000,000 of earnings before interest, taxes, depreciation and amortisation in the financial year ending 31 March 2022

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Further Information

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About Keytone Dairy Corporation Limited

Based in Sydney and Melbourne, Australia and Christchurch, New Zealand, Keytone Dairy Corporation Ltd is an established manufacturer and exporter of formulated dairy products and health and wellness products. Keytone Dairy's wholly-owned subsidiary Omniblend is a leading Australian product developer and manufacturer in the health and wellness sector, with both dry powder, ready to drink and protein bar health and wellness-based product capability. In addition to Keytone Dairy's own brands, the company is a trusted production partner, contract packing for well-known brands in Australia, New Zealand and internationally. The Company's purpose-built production facilities in Australia and New Zealand offer a wide range of dairy, health and wellness and nutritional packing solutions, meeting the diverse needs of consumers from different markets and cultures. Please visit www.keytonedairy.com for further information.

ENDS

Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

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Name of entity

Keytone Dairy Corporation Limited

ABN	**Quarter ended ("current quarter")**
49 621 970 652	30 September 2020

Consolidated statement of cash flows		**Current quarter $A'000**	**Year to date (6 months) $A'000**
1.	**Cash flows from operating activities**		
1.1	Receipts from customers	13,968	22,165
1.2	Payments for		
	(a) research and development	-	-
	(b) product manufacturing and operating costs	(11,960)	(21,766)
	(c) advertising and marketing	(151)	(318)
	(d) leased assets	(10)	(23)
	(e) staff costs	(2,321)	(4,183)
	(f) administration and corporate costs	(706)	(1,413)
1.3	Dividends received (see note 3)	-	-
1.4	Interest received	9	15
1.5	Interest and other costs of finance paid	(10)	(25)
1.6	Income taxes paid	-	(16)
1.7	Government grants and tax incentives	446	496
1.8	Other (provide details if material)	-	-
1.9	**Net cash from / (used in) operating activities**	**(735)**	**(5,068)**
2.	**Cash flows from investing activities**		
2.1	Payments to acquire:		
	(a) entities	-	-
	(b) businesses	-	(2,286)
	(c) property, plant and equipment	(609)	(916)
	(d) investments	-	-
	(e) intellectual property	(10)	(12)
	(f) other non-current assets	-	-

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Consolidated statement of cash flows		Current quarter $A'000	Year to date (6 months) $A'000
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	**Net cash from / (used in) investing activities**	**(619)**	**(3,214)**

3.	**Cash flows from financing activities**		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	12,859
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	(855)
3.5	Proceeds from borrowings	1,210	3,010
3.6	Repayment of borrowings	-	(1,800)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	**Net cash from / (used in) financing activities**	**1,210**	**13,214**

4.	**Net increase / (decrease) in cash and cash equivalents for the period**		
4.1	Cash and cash equivalents at beginning of period	9,420	4,389
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(735)	(5,068)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(619)	(3,214)

Consolidated statement of cash flows		Current quarter $A'000	Year to date (6 months) $A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	1,210	13,214
4.5	Effect of movement in exchange rates on cash held	8	(37)
4.6	**Cash and cash equivalents at end of period**	**9,284**	**9,284**

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter $A'000	Previous quarter $A'000
5.1	Bank balances	9,284	9,420
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	**Cash and cash equivalents at end of quarter (should equal item 4.6 above)**	**9,284**	**9,420**

6.	Payments to related parties of the entity and their associates	Current quarter $A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	268
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments

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7.	**Financing facilities** *Note: the term "facility' includes all forms of financing arrangements available to the entity.* *Add notes as necessary for an understanding of the sources of finance available to the entity.*	**Total facility amount at quarter end $A'000**	**Amount drawn at quarter end $A'000**
7.1	Loan facilities	3,752	2,595
7.2	Credit standby arrangements	-	-
7.3	Other (please specify)	-	-
7.4	**Total financing facilities**	3,752	2,595

7.5	**Unused financing facilities available at quarter end**	1,157

7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.

The financing facilities outlined above include:

- equipment finance facilities, secured against selected plant and equipment. Commonwealth Bank of Australia is the financier at an average interest rate of 5.7% with an average maturity of December 2022;
- A secured rolling overdraft facility of NZD500k with ANZ New Zealand at an interest rate of 5.2%; and
- A secured rolling trade finance facility of up to NZD1,500k with ANZ New Zealand at an average rate of 2.29%.

8.	**Estimated cash available for future operating activities**	**$A'000**
8.1	Net cash from / (used in) operating activities (Item 1.9)	(735)
8.2	Cash and cash equivalents at quarter end (Item 4.6)	9,284
8.3	Unused finance facilities available at quarter end (Item 7.5)	1,157
8.4	Total available funding (Item 8.2 + Item 8.3)	10,441
8.5	**Estimated quarters of funding available (Item 8.4 divided by Item 8.1)**	14.2

8.6 If Item 8.5 is less than 2 quarters, please provide answers to the following questions:

1. Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

Answer: N/A

2. Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer: N/A

3. Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer: N/A

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Compliance statement

1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.

2 This statement gives a true and fair view of the matters disclosed.

Date: 29 October 2020

Authorised by: Peter James, Chairman on behalf of the board
(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.

2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.

3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.

4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [*name of board committee – eg Audit and Risk Committee*]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".

5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

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