

KEYTONE TO ACQUIRE OMNIBLEND AND LAUNCH CAPITAL RAISE

ASX Announcement – 17 June 2019

Keytone Dairy Corporation Ltd (ASX:KTD) (“Keytone” or the “Company”) is pleased to announce that it has today executed a binding agreement for the strategic acquisition of Omniblend Pty Ltd (“Omniblend”) for \$22.6m¹ plus an earn-out (the “Acquisition”).

Highlights

- Keytone to acquire 100% of Omniblend, subject to satisfaction of conditions precedent including shareholder approvals
- Omniblend is a profitable and leading Australian product developer and contract manufacturer of health and wellness powdered and UHT drinks products
- Omniblend expects revenues of \$29.7 million and EBITDA of \$2.244 million for the 30 June 2019 year
- Purchase price of \$10.0 million in Keytone shares to Omniblend vendors, \$8.0 million in cash on completion plus the settlement of Omniblend’s existing debt of up to \$4.6m; plus an issue of performance shares convertible into Keytone shares dependent on substantial increases in Omniblend’s performance over the next three years
- A highly strategic and attractive acquisition for Keytone’s shareholders - Keytone is purchasing a substantial increase in revenues and earnings base
- Omniblend is a highly complementary, accretive and synergetic business in a logical adjacency
- Omniblend holds numerous accreditations, including from the Certification and Accreditation Administration of the People's Republic of China
- Keytone will fund the acquisition via a placement of up to \$8.0 million to institutional and sophisticated investors and a Share Purchase Plan to raise up to \$10.0 million for shareholders
- Completion expected to occur following shareholder approval at the shareholders’ meeting expected to be held during the second half of July 2019

Upon signing the acquisition agreement with the Omniblend parties, Keytone’s Chairman, Peter James, commented, “This is a compelling and transformational acquisition for Keytone. Omniblend is a leading Australian manufacturer in the health and wellness sector, with both dry powder and ready to drink dairy based product capability. Keytone is fast tracking its development and the Acquisition is underpinned by a strong strategic rationale and articulated upon our four-pillar growth strategy. Importantly, the Acquisition is highly EPS (earnings per share) accretive for Keytone’s existing shareholders.”

“The acquisition offers scale and diversification to Keytone’s existing business, with a depth of product offering and manufacturing expertise and capability. The Omniblend customer base includes a range of highly credible Australian and foreign contract manufacturing clients and the combined company will be substantially diversified, both in terms of its product mix, and in terms of its geographic markets and customer base.”

“Further, the Acquisition provides Keytone with an early mover advantage in the health and wellness sector into China. We believe that the combination of Keytone’s existing Asia and China sales channels, export-oriented brand and capital reserves, with Omniblend’s scale, breadth of product range, highly automated manufacturing facilities

¹ Subject to purchase price and working capital adjustments at completion

and proven customer relationships will produce substantial cross-sell synergies. The Acquisition is also expected to produce significant cost efficiencies and operating leverage commencing in the 31 March 2020 financial year.”

“Additionally, we are excited to welcome Danny Rotman, Managing Director of Omniblend and Arie Nudel, GM of International and Business Development, to the Board of Keytone. Danny and Arie have successfully and profitably run Omniblend since its inception and bring a wealth of experience and expertise in the sector.”

James Gong, Keytone’s Chief Executive Officer, said, “I am thrilled with the Acquisition of Omniblend and the opportunities it brings to Keytone. It offers a significant and complementary infrastructure platform for growth whilst enhancing the ability of the collective business to maximise the offering to our customers, being proprietary brand customers as well as our private label clients.”

“Keytone will not only be able to leverage its clean, green, pristine, New Zealand provenance and credentials, but also the highly complementary and robust Australian food safety standard conditions. These credentials are invaluable as we continue to penetrate our core markets, in particular China.”

“The health and wellness sector is particularly attractive and offers a large number of cross selling opportunities through Keytone’s existing distribution platforms. I look forward to working with the expanded team as we drive future strategic growth initiatives forward, centred around our four-pillar growth strategy.”

“We look forward to exciting developments in the combined company and updating the market on its new marketing and sales initiatives and successes.”

Acquisition Details

Keytone has today executed a binding share purchase agreement (“SPA”) to acquire 100% of Omniblend for \$22.6 million² plus an earn-out, subject to certain performance milestones.

Founded in 2008, Omniblend is a profitable and leading Australian-based product developer and contract manufacturer of high value, formulated, blended powder products and long-life UHT drinks, specialising in the health and wellness sector. Omniblend currently employs 84 full-time employees operating across four sites in Melbourne, Victoria. In addition to its current third-party manufacturing business, Omniblend creates formulations for its clients as well as for its own proprietary products. Omniblend holds numerous accreditations including CNCA, Dairy Food Safety Victoria, Australian Certified Organic, British Retail Consortium (AA Grade) and Halal certified.

Omniblend has been profitable since inception and it is expected to realise revenues of \$29.7 million and earnings before interest, tax, depreciation and amortisation (“EBITDA”) of \$2.244 million on a pro-forma basis. Refer to investor presentation for further information regarding the financials.

On completion of the Acquisition, Keytone will pay the Omniblend shareholders a cash consideration of \$8.0 million and issue to Omniblend’s shareholders 23.3 million shares in Keytone (representing \$10.0 million of consideration at a price of \$0.43 per share (the “Offer Price”) (“Vendor Shares”). Keytone will also settle up to approximately \$4.6m in Omniblend’s debt. Danny Rotman and Arie Nudel, founders of Omniblend, will join the Board of Keytone subject to shareholder approval.

Additionally, the shareholders of Omniblend will receive earn-out consideration if the Omniblend business achieves certain financial milestones. Specifically, they will receive performance shares which will convert into:

- 23.3 million Keytone shares (representing \$10.0 million in consideration at the Offer Price), if Omniblend achieves \$2.6 million EBITDA in a given year within two financial years of the completion of the Acquisition;
- 23.3 million Keytone shares (representing \$10.0 million in consideration at the Offer Price), if Omniblend achieves \$50.0 million in annual revenue within three financial years of completion of the Acquisition and provided Keytone’s share price maintains a 30 day VWAP of at least \$0.65 per share; and

² Subject to purchase price and working capital adjustments at completion



- 23.3 million Keytone shares (representing \$10.0 million in consideration at the Offer Price), if Omniblend achieves \$100.0 million in annual revenue and \$7.5 million in annual EBITDA within three financial years of completion of the Acquisition and provided Keytone's share price maintains a 30 day VWAP of at least \$1.00 per share.

Completion of the Acquisition under the SPA is conditional upon the satisfaction of the following conditions precedent (among others):

- the Company raises at least \$8.0 million under the SPP and Placement;
- the Company's shareholders approve the issue of shares and performance shares to the Omniblend shareholders under the Acquisition and the issue of shares to professional and sophisticated investors under the Placement;
- Omniblend completes a pre-sale corporate restructure to the satisfaction of the Company;
- the parties obtain all necessary regulatory approvals pursuant to the ASX Listing Rules, Corporations Act and any other law, as are required to allow the parties to lawfully complete the Acquisition; and
- no material adverse change occurs in relation to Omniblend or becomes known to the Company or the Omniblend shareholders between the date of the SPA and completion.

Strategic Rationale

The Board believe that the Acquisition provides Keytone with diversification and scale and is in line with its stated four-pillar growth strategy, with strong strategic and financial rationale:

- Logical adjacency
 - Health and wellness sector is an attractive and logical adjacency for Keytone
 - Provides immediate exposure to the growing health and wellness industry, whilst still focusing on core dairy product capability
- Highly scalable infrastructure
 - Omniblend has established infrastructure, highly automated with substantial capacity to facilitate future growth:
 - manufactures products across formulated powders and UHT
 - retains IP with majority of clients for products produced
 - has grown organically through increasing the number of customers, expanding its product offering with existing customers, cost efficiencies and operating leverage, and bringing proprietary products to market
- Diversification
 - Diversifies Keytone's revenue base through expanded range of value-added products and services
 - broadens Keytone's customer base
 - no overlap between Keytone's existing customers and the customers of Omniblend
 - an ability to cross-sell to the broader combined customer base and enhance Keytone's ability to service new customers
- Financially compelling
 - Highly EPS accretive (pre-synergies)
 - Significantly strengthens management capabilities to drive growth and support integration
 - Proven sales track record and capability
 - Keytone to leverage Omniblend's wide range of products and capabilities into Keytone's distribution network into Asia, particularly China



- Vertical Integration
 - Opportunity for Keytone to pursue vertical integration, expanding proprietary brands and pursuing product acquisition opportunities

Value-added Capacity

Adding Omniblend's four Australian manufacturing sites to Keytone's existing site and new site that is currently being completed in New Zealand diversifies the Company's location and provides operational and distribution benefits, whilst Keytone's revenue base will be diversified through an expanded range of value-added products and services (brands, whey protein, sports nutrition, nutraceuticals and ready-to-drink long life UHT products). In addition to its current third-party manufacturing business, Omniblend creates formulations for its clients as well as for its own proprietary products, utilising an in-house product development team and laboratory. This allows organic growth through increased customers, expansion of its product offering with existing clients and cost efficiencies and operating leverage.

The integrated company will look to implement a step change in revenue and sales mix towards high value proprietary products as it looks to continue the roll out of its proprietary brands in the health and wellness sector, in addition to growing its product offering and capability to its existing combined customer base. The existing Keytone capacity of 1,500tpa is to be expanded to 5,000tpa via the continued construction of the purpose built manufacturing facility in Christchurch, New Zealand.

Through the Omniblend facilities, Keytone will have the ability to contract manufacture high-value formulated, blended powder products and UHT drinks. Omniblend currently counts leading brands and retailers amongst its client base, including OptiSlim, Carman's, Muscle Milk and Aldi Stores. Omniblend retains IP for formulations created for the majority of private label clients as well as formulations for their own proprietary brands. Omniblend's proprietary brands and private label clients can benefit from Keytone's international distribution channels including online platforms (JD.com, Tmall, Pinduoduo) and bricks and mortar retailers, such as Metro Retail. The Acquisition provides the ability to cross-sell to the broader combined customer base and enhance Keytone's ability to service new customers, with increased attractiveness to Omniblend's customers as they are able to leverage Keytone's distribution network into Asia, particularly China.

Funding

Keytone reported cash reserves of \$9.7m at the end of the March 2019 quarter. The Acquisition involves a payment of \$8.0 million to the shareholders of Omniblend on completion. In order to maintain its cash balance and a strong working capital position, Keytone will be raising equity as follows:

- up to \$8.0 million in a conditional placement to institutional and sophisticated investors at the Offer Price of \$0.43 per new share ("**Placement**"); and
- up to \$10.0 million through a conditional Share Purchase Plan at the Offer Price of \$0.43 per new share ("**SPP**") (see below for more detail).

The Offer Price of \$0.43 per new share represents the following discounts:

- an 18.1% discount to the last close price of \$0.525 on Friday, 14 June 2019; and
- a 20.0% discount to the 5 day VWAP of \$0.537 as at Friday, 14 June 2019.

The SPP will provide all existing eligible shareholders with an opportunity to apply for new Keytone shares at the same Offer Price as the Placement being \$0.43 per share. Under the terms of the SPP, eligible shareholders with a registered address in Australia and New Zealand as at 7:00pm (Sydney time) on Friday, 14 June 2019 will be entitled to subscribe for up to \$15,000 of Keytone shares to raise up to \$10.0 million (subject to Keytone's discretion to scale back applications). The Company reserves the right to accept oversubscriptions under the SPP at its absolute discretion, in consultation with the Joint Lead Managers. Further details of the SPP will be despatched to Keytone shareholders in due course.



All directors of the Company whom are eligible to participate in the SPP have indicated they intend to subscribe for the full amount.

Completion of the Placement and the SPP, and the issuance of the Vendor Shares will occur subject to, and only following, receipt of the Keytone shareholder approvals noted above. The relevant shareholders' meeting is expected to be called for during the second half of July 2019. A Notice of Meeting will be sent to all shareholders in due course. In the event that the shareholder approvals noted above are not obtained, the Acquisition will not proceed and the SPP and the Placement will not occur with all application moneys being refunded.

Peloton Capital Pty Ltd and Bell Potter Securities Limited are acting as Joint Lead Managers to the Placement and the SPP.

Indicative Timetable

Event	Date
Trading halt and announcement of the Acquisition, Placement and SPP	Monday, 17 June 2019
Trading halt lifted and Keytone shares recommence trading on ASX	Wednesday, 19 June 2019
Record Date for determining eligible participation to subscribe for shares via the SPP	7:00pm (Sydney time) Friday, 14 June 2019
SPP Offer Booklet dispatched to eligible shareholders	Wednesday, 26 June 2019
SPP opens	Wednesday, 26 June 2019
SPP closes	5:00pm (Sydney time) Monday, 15 July 2019
AGM to approve issue of shares under the Acquisition and Placement	On or around Wednesday, 24 July 2019
Settlement of Placement	Monday, 29 July 2019
Allotment of shares issued under the Placement, SPP and Vendor Shares and completion of the Acquisition	Tuesday, 30 July 2019
Dispatch of holding statements in respect of shares issued under the Placement and SPP and Vendor Shares	Tuesday, 30 July 2019

Additional Information

Further details of the Acquisition are set out in the investor presentation also provided to ASX today. The investor presentation contains important information including the terms and effects of the Acquisition, key risks and foreign selling restrictions with respect of the Placement. Any person considering an investment in Keytone should read the investor presentation and seek his or her own independent advice before making any decision in this regard.



For Further Information

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About Keytone Dairy Corporation Limited

Based in Sydney, Australia and Christchurch, New Zealand, Keytone Dairy is an established manufacturer and exporter of formulated dairy products. In addition to Keytone Dairy's own brands, the Company is a trusted production partner, contract packing for well-known brands in New Zealand and internationally. Keytone's purpose built dairy production facility offers a wide range of dairy and nutrition packing solutions, meeting the diverse needs of consumers from different markets and cultures.

Keytone Dairy's facility is certified with the New Zealand Ministry of Primary Industries, and Keytone holds a Certification and Accreditation Administration (CNCA) of the People's Republic of China manufacturer registration, thereby enabling export of Keytone's products to China. In addition, the facility holds a Halal certification from the Federation of Islamic Associations of New Zealand (an accredited body recognised by Islamic countries worldwide). Please visit www.keytonedairy.com.

About Omniblend Pty Ltd

Omniblend was established in 2008 and is based in Melbourne, Australia. It has established high-quality food/nutraceutical and long-life UHT drinks manufacturing and blending facilities, with modern and highly automated plant and equipment operating in the health and wellness sector. Omniblend works with leading brands in the health and wellness space in addition to manufacturing its own branded products.

Omniblend holds numerous accreditations to manufacture products and export such products to Europe, Asia, North America and the Middle East. These include accreditations from Dairy Food Safety Victoria, the Certification and Accreditation Administration of the People's Republic of China (CNCA), Organic certifications, British Retail Consortium (AA grade) accreditation from the British Retail Consortium and Halal certifications.

With extensive experience in food and nutraceutical blends combined with an ability to provide relevant underlying science, intellectual property, research management and patented nutraceutical ingredients, the Omniblend business is considered a leading manufacturer in Australia.

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