



Australian Dairy Farms Group

24 October 2017

ASX Code: AHF

MARKET UPDATE TO INVESTORS - IMPLEMENTING STRATEGY

Australian Dairy Farms Group (the Group or AHF) provides this announcement as an update to investors on the Group's progress in recent months. The board advises that it is well underway in the implementation of several parts of the strategy published on 14 July 2017. This announcement deals with Camperdown Dairy product transition and development of Own Brands. A further announcement will be made within the next three months about the progress on joint venture plans and funding, which are progressing under several separate confidential negotiations.

The primary operational focus has been on managing the change in production, distribution and sales of Camperdown Dairy as the Group accelerates the move away from its historical corporate objective prior to acquisition by AHF's of being a service provider to its former parent company Aussie Farmers Direct (Aussie Farmers).

This includes building up AHF's suite of "Own Brands" and decreasing the reliance on contract packing dairy products for other brand owners, while also developing its own direct sales and distribution network outside of major retailers, which are predominantly low price focussed.

Camperdown Dairy has made significant advances from its position in April 2016 when acquired by AHF. At that time the turnover of Camperdown Dairy was dominated by two customers, its founder and former parent Aussie Farmers and the Farmers Own milk brand owned by Woolworths. The sales and take-up of Camperdown Dairy branded milks, cream and yoghurts products has been very encouraging since that time with solid marketing efforts. Management expects that with the distribution and marketing activities being undertaken in Victoria sales of Own Brands will continue to show strong growth from its current low base.

BUILDING BRAND EQUITY

The AHF Board recognised that contract packing "white milk" for others plays an important role in the Camperdown Dairy product and sales mix, however, it needs to meet key criteria to be successful and profitable for the Group. These criteria focus on solutions such as farm or milk type segregation or speciality products and financial returns. When acquired by the Group, Camperdown Dairy was essentially a service provider and not investing in its own goodwill and Own Brand values. The goodwill and brands primarily resided with the parent company.

Contract packing is very susceptible to market and management changes affecting brands and business decisions of others, over which Camperdown Dairy has no control, although such decisions can impact the AHF business significantly and at short notice.

The progressive transition process to a more diversified product and sales mix and to growing Camperdown Dairy's recognition as a premium product producer and brand owner is expected to require at least a two-year implementation period. This is in a market where consumers are heading back to \$1 per litre milk and a currently hyper-competitive wholesale market exists for standard white milks. Notwithstanding these challenges, solid progress on establishment and sales of Camperdown Dairy branded products is being made.

New brands and products have been introduced and their features are being progressively accepted by consumers as premium products assisted by a high degree of transparency to production source in the prime dairy country of South West Victoria and its proximity to the internationally known Great Ocean Road and Twelve Apostles. Our fresh product strategy is clearly premium and differentiation. Our brand charter is very clear.

"Building our Own Brands builds value in goodwill and brand recognition is a key strategic focus."

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NEW OWN BRANDS AND LABELS

Since March 2017, Camperdown Dairy, under the AHF Board's direction, has developed and launched the following Own Brands:

Jersey Milk: Both whole and low fat varieties.

Free Range Milk: both whole and low fat varieties.

Creams: available in real and thickened varieties.

Flavoured Milks: includes chocolate, strawberry and coffee varieties.



This complements our pre-existing products of milks, yoghurts and gourmet yoghurts on the market.

CAMPERDOWN DAIRY – TAKING CONTROL OF ITS OWN DISTRIBUTION AND MARKETING

Over the last 4 years Camperdown Dairy's main milk product participation in market segments has been as follows;

2014 – Home delivery market only, and indirectly via the former parent company's brand;

2015 – Home delivery and one supermarket chain via supermarkets brand;

2016 & 2017 – Refer below;

- Home delivery market indirectly via the parent company's brand;
- Home delivery of Camperdown Dairy brands via third party;
- Camperdown Dairy brand in mainstream supermarket segment in Victoria;
- Regional independent retail with direct distribution;
- Regional Foodservice market;
- October 17 independent retail and foodservice Victoria wide distribution launch (refer below).

Note: the above excludes small volumes of export market participation.

With establishment of Camperdown Dairy's Jersey Milk and Free Range Milk brands in the market being well accepted, plus the Camperdown Dairy Cream and soon to be released Camperdown Dairy Flavoured Milks, AHF has made real inroads into building a market and brand image by directly supplying coffee shops, cafes and independent retailers initially in the Geelong and South West Victorian regions.

The results have been very encouraging with strong up take of the milks in these regions. At the same time, new product development activities in creams flavours and other milks have been undertaken in order to have an impressive and relevant range ready to offer to an expanded geographical market space.

In October 2017, Camperdown Dairy commenced a milk distribution network via an arrangement with a very experienced and proven to be successful sales and distribution group which has taken over the Camperdown Dairy premium milks product range for distribution in the Greater Melbourne area via an extensive rollout with independent retailers and other direct outlets such as cafes and coffee shops. Criteria when selecting a partner in distribution of products included but was not limited to, a successful track record of selling premium milks and dairy products into independent retail and coffee shop markets with state wide network capability, and, given we are dealing with short shelf life products, excellent short shelf life supply chain skills.

This takes the Camperdown Dairy product range for the independent retail and foodservice markets into reach of a population base of approximately 5 million people versus the roughly 350,000 in Geelong and regional South Western Victoria.

As set out in the Strategy Overview, the Group has been actively assessing distribution options for its milk and yoghurt Own Brands including the potential acquisition of, or partnership with distributors to achieve strong and consistent sales volumes at premium prices. After considerable assessment of options, it was decided that a close association or partnering with experienced and incentivised distributors investing their own money was logistically and financially preferable to corporate acquisition of existing distributors at this time. This has now been implemented. The Board will continue to review current acquisition opportunities and monitor targeted monthly roll out volumes with our new distribution partner.

AUSSIE FARMERS DIRECT

Aussie Farmers Direct (Aussie Farmers) was founded approximately 10 years ago on the principle of "looking after farmers" and provided home delivery of a range of grocery items including milk and other products carrying the Aussie Farmers brand. Camperdown Dairy was established by Aussie Farmers to provide the milk products. AHF acquired Camperdown Dairy from Aussie Farmers in April 2016. Since 2015, the ownership structure of Aussie Farmers has changed and the business model has progressively varied from grocery deliveries to delivery of prepared meal packages. This combined with a much larger offering of products including other milks has affected Camperdown Dairy sales.

The introduction of supermarket \$1 per litre milks has also had noticeable shift in consumer sentiment and buying habits with most brand owners effected.

Aussie Farmers asked Camperdown Dairy and other white milk processors to submit competitive pricing for continuing the supply and packing of their branded Aussie Farmers white milk for Victoria. The AHF Board submitted pricing based on competitive but realistic margins and declined to offer lower contract packing prices for the lower volumes being sought and as a result the supply of service for packing Aussie Farmers branded milks to Aussie Farmers will cease. The sales of yoghurt will continue.

The Board appreciates that Aussie Farmers have now also commenced ranging Camperdown Dairy branded Jersey and Free Range milk and are interested in other Camperdown Dairy branded products being ranged.

Volumes have already been affected via the market shift back to \$1 milk which we have been seeing in the volumes we pack of others brands, and the Aussie Farmers change will affect short term volumes however new sales channels in the pipeline are significant.

OTHER SALES

Camperdown Dairy commenced packing a value add milk product for a sizable new customer in August.

Additional new customers of value added packing are expected to start progressively of the period February to April 2018.

The expanded ranging of Camperdown Dairy brands is anticipated to be part of a range review in the mainstream supermarket channel.

MARKETING

As with any marketing program, effectively targeting the prospective purchaser and accentuating the points of positive difference in the products offered is essential. Camperdown Dairy has developed a comprehensive program of social media advertising which is aligned with sales and promotion activities with participating retailers.

This form of marketing is cost effective to establish and provides solid and timely feedback on results. Camperdown Dairy has also produced a comprehensive point of sale marketing and sales kit which is now being rolled out as areas of delivery are implemented.

Australian Dairy Farms Group

Ends.

Further Details

For additional company information or media enquiry matters please contact:

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Communications Policy

As a policy, because of the heavy demands on limited management resources and to ensure compliance with continuous market-wide disclosure regulations, AHF does not respond to individual security holder communications regarding the management of the business, the company or with respect of any opinion or analysis that is not contained in market releases and released financial reports.

AHF makes ASX market releases at times directors believe it would be helpful or necessary for investors and as required by the Listing Rules. For further information regarding our shareholder communications policy, please refer to AHF's website: www.adfl.com.au

About Australian Dairy Farms Group

Australian Dairy Farms Group (AHF) was Australia's first ASX listed dairy farmer. Its initial focus was on aggregating high quality dairy farms in Victoria, initially in the South Western region with particular emphasis initially, on the famous Dairy Golden Triangle region of South West Victoria between Warrnambool and Colac south of the Princes Highway to the coast around Port Campbell.

In April 2016 the Group completed the acquisition of Camperdown Dairy Company Pty Ltd - ACN 140 640 606 (Camperdown Dairy) – see announcement on <http://www.adfl.com.au/announcements>.

Camperdown Dairy is a wholly owned subsidiary of AHF. The Group is now a vertically integrated milk producer, processor and product distributor in Australia and for export. Refer to the Group's Strategy Overview release to market on 11 July 2017 for additional information about AHF's immediate and longer term strategic planning. See the above link to ASX announcements or the Group's website for a copy of the Group's Strategy Overview.

Australian Dairy Farms Group is listed as a stapled security comprising one fully paid share in **Australian Dairy Farms Limited (the Company)** and one fully paid unit in **Australian Dairy Farms Trust (the Trust)**. Within the structure, the Company is the operator and manager of the dairy farm properties, which are leased from the Trust as the registered owner.

Disclaimer – Forward Looking Statements

This announcement may include "forward looking statements" within the meaning of securities laws of applicable jurisdictions. These forward-looking statements are not historical facts but are based on AHF's current expectation, estimates and projections about the industry, in which it operates, and beliefs and assumptions. Forward looking statements may include indications of, and guidance on, future earnings or distributions and financial position and performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of AHF, and its officers, employees, agents, or associates, that may cause actual results to differ materially from any projections and forward-looking statements and the assumptions on which those statements are based. Readers are cautioned not to place undue reliance on forward looking statements and AHF assumes no obligation to update such information.