

ASX Announcement: 31 January 2023

Business Activity Report and Appendix 4C Quarterly Cash Flow

TasFoods Limited (ASX:TFL) today released its Business Activity Report and Appendix 4C Quarterly Cash Flow for the quarter ended 31 December 2022 (Q4 2023).

Highlights:

- Net Sales growth of 5.0% compared to prior comparable period (PCP) on a like for like basis taking into account the deletion of loss-making SKUs in both the Poultry and Dairy divisions. Pleasingly, mainland sales were up 9% on PCP driven by the Poultry division;
- Gross margin for the Group showed positive growth compared to PCP. Poultry in particular experienced a 12.5% gross margin point improvement on PCP despite continued increased input prices;
- Continued focus on cost management initiatives through the quarter resulted in operating indirect costs 9.7% lower than PCP;
- Strong progress on our *Top 10 Strategic Reset and Operational Priorities* strengthening the business foundations with only two initiatives remaining to be fully implemented;
- Proactive capital management continues with signed contracts for the sale & leaseback of non-core real estate assets associated with Betta Milk in Hobart and Launceston (Launceston settled in December 2022 and Hobart settled in January 2023). Two sites, Ulverstone and Smithton, remain in negotiation;
- The Company is cognisant of the challenging current operating environment and will continue to assess the asset profile of both key business divisions, and the business divisions themselves to ensure we are able to drive strong long-term returns for shareholders;
- Successful completion of our Betta Milk grassroots sports promotion where we awarded \$100K of cash payments to worthwhile community-based sporting organisations; and
- Positive results from our online channel focus with sales up by 138% on PCP after the launch of our new gifting offering, Boxolove.

Operational Update

Consumer sentiment and subsequent spending continues to be impacted by the macroeconomic backdrop of rising inflation and interest rates. Consumers actively controlled their spending and value offerings saw growth at the expense of premium brands in the categories TasFoods operates in. Our Dairy division felt the impacts of this change in behaviour with sales revenue flat compared to PCP. Poultry sales performed well for the quarter with chicken one of the most affordable proteins available to Australian consumers, however the division did see a swing to more affordable cuts and pack formats. The Company is actively assessing changing consumer behaviour and initiatives have been implemented to ensure our products remain in the purchasing repertoire of consumers.

Net revenue for Q4 2022 increased by 5.0% over PCP (excluding the impact of deleted lines), with the Poultry and Dairy divisions recording a 6.3% and 3.5% increase, respectively.

Continued focus remains on maximising revenue as we implement changes to our packaging formats and this has continued to support improved revenue metrics companywide against PCP:

- Revenue per kilogram in Poultry (excluding the impact of deleted lines) has increased by 14.0%;
- Revenue per litre in Betta milk has increased by 14.0%; and
- Revenue in MVD core butter and cream brands increased by 4.3% per kilogram and 12.7% per litre, respectively.

Gross margins for the Group showed positive growth against PCP. This was driven predominantly by the Poultry division and Betta Milk. This was a strong result given the input cost pressures still being experienced industry wide.

Pleasingly, the Company's ongoing cost review program has seen operating indirect costs 9.7% lower compared to the PCP. Benefits from the Company's review of its logistics network are being seen which is offsetting considerable fuel and other input cost increases. Our focus on driving labour productivity measures has seen our overall Company overtime costs for the quarter reduce by 45% compared to PCP. The Company continues to focus on implementing initiatives to reduce manufacturing conversion costs in its facilities through efficiency and effectiveness measures.

Input costs remain at historically high levels and finding the appropriate balance between cost recovery and volume efficiencies is an ongoing focus for the management team. Given the quickly changing nature of consumer sentiment the Company remains agile in its approach to implement appropriate strategies to maximise overall value. Macroeconomic factors and subsequently lower household discretionary incomes have had an impact on volumes sold in the quarter and we expect this consumer behaviour to continue through 2023.

The Company's newly implemented ERP system is now operational across TFL's Meander Valley Dairy, Pyengana Dairy, Shima Wasabi and Shared Services business units. We have begun the implementation planning for Betta Milk, which will be operational in H1 2023 which will enable integration of all Dairy businesses to maximise efficiency and effectiveness measures. Management have made the decision to not implement the same ERP (SAP Business 1) into Nichols Poultry at this time as we feel this will not facilitate the same benefits as we will see in the Dairy division.

Financial update

The group recorded a net revenue increase for the quarter of 1.3% over PCP to \$18.3m. The business also saw multiple increases in costs across the supply chain, including:

- Feed costs associated with the Poultry division (excluding organic farming impact) increased by 19.8% per tonne. Overall direct cost of goods sold expenditure reduced versus PCP by 11.2% (noting last year included some one-off costs relating to stock adjustments);
- Milk costs increased by 38.0% per litre over PCP as a direct result of higher farm gate prices; and
- Cream prices increased by circa 22%.

We remain nimble on our selling price approach with constant review given the reduction in volumes seen during the quarter as we balance volume and price metrics.

Distribution, warehousing and logistics costs reduced by 4.4% on PCP as a result of the mitigation strategies implemented during Q3. This is an excellent result given continued cost pressures in this part of the value chain.

The company incurred a one-off expenditure of \$0.16m relating to the closure of the organic poultry operations in Q4 2022 (plant and equipment write downs).

The Company reported a profit on sale of \$0.6m associated with the sale/lease back transaction of the Betta Milk Launceston cool room which completed in December with a portion of proceeds from this transaction used to retire debt.

FY22 Strategic Reset & Operational Priorities

We are pleased to report that the Company identified 10 key initiatives that formed the core turnaround strategy announced in February 2022 have largely been completed. An update on the progress of these initiatives is detailed below:

Initiative	Status update
Fix the Foundations	✓ Complete – with the exception of ERP implementation noted below
Reset Strategic Direction	✓ Complete - Operational plans for implementation now being developed and commenced
Implement Capital Management Framework	✓ Complete - Principles embedded into decision making
Develop Marketing & Brand Investment Plans	✓ Brand planning complete for CY23 implementation
Implement ERP	🔄 Work in progress - Meander Valley Dairy, Pyengana Dairy, Shima Wasabi and Shared Services business units successfully implemented. Betta Milk scheduled for H1 2023 implementation.
Distribution & Warehousing	✓ Complete - Supply Chain and Logistics management roles now filled. Initiatives implemented with development of a one Dairy Division (comprising the 3 business units) solution underway. A Poultry solution has been completed.
Commercial Accountability & Capability	✓ Complete - Key metrics, plans and capability now imbedded into the organisation. This will remain a continued focus of management

Implement Value Chain Findings	✓	Complete - Nichols Poultry findings communicated and implemented. Results of analysis led to a significant reduction of SKU's and other associated changes. Betta Milk and Meander Valley Dairy analysis complete with outcomes implemented in Q3/Q4 2022.
Build Centre of Excellence	✓	Primarily complete with finalisation dependent on ERP implementation
Target Mainland & e-Commerce Growth	↻	Mainland growth a work in progress whilst e-commerce solution complete and in market (Boxolove)

Whilst TasFoods business has undergone significant change in the preceding 12 months there has been continued instability in the macroeconomic environment and consumer purchasing behaviour. The management team, with improved capability in process, systems and people, are well equipped to implement initiatives to respond to these changing market conditions. Whilst the business transformation agenda has been progressed very quickly, it is a multi-year programme that will deliver significant benefits over time and it needs to adapt to evolving market conditions.

Dairy Division

Volumes in the Betta business unit reduced by 12.8% against the PCP. Our white milk brands are down 10.4% on the PCP primarily as a result of a switch in consumer spending to house brands and lower value products. The reset of the Betta cream business implemented in March 2022 has resulted in reduced volume of 48.0% compared to PCP however this category is now profitable for the Company.

Gross margin percentage has increased by 4.3% versus PCP which is a result of revenue per litre metrics in Betta Milk improving following implementation of price rises to offset the substantial increases in input costs. The Company's Betta Milk consumer promotion completed in November with the awarding of \$100,000 in cash prized to local sporting clubs. The promotion was well received with over 108,000 redeemed tokens from specially marked packs claimed from 229 participating clubs.

The Meander Valley Dairy business unit performance was impacted by continuing high input costs during the quarter compared to PCP. Total volume reduced by 21.3% compared to PCP, mainly as a result of the Company's decision to delete loss making flavoured creams which negatively impacted sales by 15%. The MVD butter portfolio continued to show positive results with volume increased by 44.6% on the PCP. Mainland sales for MVD were up 8% compared to PCP. Cream costs remain at all-time highs and supply remains tight, resulting in challenging category dynamics and this continues to impact growth opportunities.

Pyengana Dairy showed solid growth in the quarter with sales up 12.9% on PCP, primarily as a result of increased visitation to the farmgate café. Cheese sales were flat on PCP, however increased promotional activity commenced during the quarter with our key mainland partner, Calendar Cheese, providing significant new business wins.

Poultry Division

The Poultry division reported Q4 revenue growth of 2.3% on PCP, however, removing the impact of SKU rationalisation (particularly Organic and Ethical Free Range), sales growth was 10.4%. Mainland sales were

up 21% on PCP, driven by new customer acquisition in Victoria.

The operating and efficiency measures implemented in this business unit in Q3 have started to show positive results with gross margin increased by 12.5% on the PCP (noting last year did include some one-off costs relating to stock adjustments).

During the quarter, volume sold has reduced by 7.5% against PCP, which is due to operating model changes (SKU and Customer simplification) however on a like for like basis, volume reduced by only 3.1%.

Major input cost of feed increased significantly on PCP, increasing by 19.8% per tonne, however direct labour showed a 12.9% improvement on PCP.

Quarterly Cash Flow

TasFoods' Appendix 4C for the quarter ended 31 December 2022 (Q4 2022) has been lodged with the ASX today. Key points include:

- The quarter ended with a closing cash on hand balance of \$0.3 million and unused finance facilities of \$3.26 million.
- Cash receipts from customers were \$18.7 million, an increase of 9.9% on the PCP.
- Net operating cash outflows were negative \$1.8 million, reflecting the quarterly trading performance and a net increase in trade debtors balance from Q3 2022 of \$0.1 million. This is an improvement on total operating cash outflows compared to PCP by 16.3%.
- Investing net cash inflows for the quarter of \$1.1 million included net proceeds on sale of property, plant and equipment (mainly relating to the sale of the Launceston Betta Milk site) of \$1.3 million. Investment in property plant and equipment of \$0.2 million for the quarter comprised of various plant and equipment purchases across all business units.
- Financing net cash outflows for the quarter of \$0.4 million reflected proceeds from insurance premium funding received for the FY22/23 year of \$0.8 million, offset by repayment of first quarter of insurance costs of \$0.3 million plus repayment of debt of \$1.0 million.

Authorised for ASX release by the Board of Directors of TasFoods Ltd.

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Forward-looking statements

The Appendix 4C contains certain forward-looking statements that are based upon information and assumptions known to date and are subject to various risks and uncertainties. Actual results, performance or achievements could be significantly different from those expressed in, or implied by, these forward-looking statements. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of TasFoods. These factors may cause actual results to differ materially from those expressed in the Appendix 4C contained in this announcement.

Appendix 4C

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

Name of entity

TasFoods Limited

ABN

53 084 800 902

Quarter ended ("current quarter")

31 December 2022

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	18,707	71,679
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(14,179)	(53,112)
(c) advertising and marketing	(237)	(581)
(d) leased assets	(1)	(5)
(e) staff costs	(5,404)	(20,856)
(f) administration and corporate costs	(485)	(2,381)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(185)	(440)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	(70)	(32)
1.9 Net cash from / (used in) operating activities	(1,854)	(5,728)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(201)	(745)
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	(106)	(177)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	1,386	1,582
	(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	1,079	660

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	5,963
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	-	(232)
3.5	Proceeds from borrowings	884	925
3.6	Repayment of borrowings	(1,324)	(2,660)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	(13)	(22)
3.10	Net cash from / (used in) financing activities	(453)	3,974

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	1,585	1,451
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,854)	(5,728)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	1,079	660

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

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(453)	3,974
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	357	357

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	357	1,585
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	357	1,585

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	-
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-
<i>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.</i>		

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

7. Financing facilities	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
<i>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.</i>		
7.1 Loan facilities (includes lease liabilities under AASB 16)	8,042	8,042
7.2 Credit standby arrangements	-	-
7.3 Other (bank overdraft)	3,260	-
7.4 Total financing facilities	11,302	8,042
7.5 Unused financing facilities available at quarter end		3,260
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.		
<p>Item 7.1 – TasFoods Ltd Group's total loan facilities (including financial liabilities under AASB 16 Leases) at 31 December 2022 amounted to \$8.0 million. Borrowings are secured over assets financed, and by mortgage over property and water rights owned by Nichols Poultry Pty Ltd and Van Diemen's Land Dairy Pty Ltd. Interest rates on these liabilities range between 3.06% and 8.06%, with the weighted average interest rate being 6.50%.</p> <p>Item 7.3 and 7.5 – Nichols Poultry Pty Ltd and Van Diemen's Land Dairy Pty Ltd (subsidiaries of TasFoods Ltd) have bank overdraft facilities with the Australia and New Zealand Banking Group Ltd for a combined amount of \$3.26 million operating under a variable interest rate. As at 31 December 2022, a balance of \$3.26 million remained undrawn.</p>		

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (item 1.9)	(1,854)
8.2 Cash and cash equivalents at quarter end (item 4.6)	350
8.3 Unused finance facilities available at quarter end (item 7.5)	3,260
8.4 Total available funding (item 8.2 + item 8.3)	3,610
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	1.95
<i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i>	
8.6 If item 8.5 is less than 2 quarters, please provide answers to the following questions:	
8.6.1 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?	
<p>Answer: TasFoods Ltd has commenced implementation of key initiatives that are expected to begin providing benefits during Q1 FY23.</p>	

8.6.2 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:

TasFoods has recently undertaken a successful sale and leaseback strategy of its non-core real estate assets associated with Betta Milk. Signed contracts for the sale & leaseback of Hobart and Launceston properties were achieved during Q4 2022 (Launceston settled in December 2022 and Hobart settled in January 2023), with the other two sites (Ulverstone and Smithton) being in negotiation stages. The proceeds of the sales will go partially towards debt reduction and partially to support working capital of the business.

TasFoods also negotiated a further \$0.7m increase in its overdraft facility with ANZ during Q4 2022, bringing the total facility to \$3.26m to support working capital needs of the business whilst the new profit improvement initiatives are implemented in Q1 2023. The total facility limit of \$3.26m was unused as at 31 December 2022.

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

Answer:

Yes – TasFoods Ltd has commenced implementation of key initiatives that are expected to begin providing benefits during Q1 CY23.

Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.

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: 31 January 2023

Authorised by: TasFoods Limited Board

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.