

21st April 2020

Company Announcements Office  
ASX Limited  
Level 4, 20 Bridge Street  
Sydney NSW 2000

### Freedom Foods Group Limited COVID 19 and Trading Update

Freedom Foods Group Limited (ASX code: FNP) (**Freedom Foods**) today provided a COVID 19 impact and trading update.

#### Overview

- Hedge to current COVID 19 disruption through diversified capabilities, markets and channels
- Manufacturing operations responding to increased demand and upgraded COVID-19 protocols
- New strategic customers commencing in Q4 in both domestic and export markets
- Sufficient liquidity and financial flexibility for current environment and ongoing growth

The recent macro environment has highlighted that the Company's unique scale and diversification of activities including significant Australian-based food manufacturing capabilities, provides an important hedge to assist in mitigating impacts from the current disruption.

Increasing demand and customer enquiry in key channels and markets as well as exposure to on trend categories such as dairy, nutritionals and plant beverages provides a strong signal to the opportunities ahead as market uncertainties reduce.

Aligned with this, the Company is reshaping its operational footprint to ensure it is in a strong position to continue on a positive trajectory towards building a major global food and beverage business in key markets and channels in Australia, China and SE Asia. This will ensure a strong platform for growth in sales and profitability over the medium term.

#### General Trading in Key Markets and Channels

Trading in Retail Grocery and OOH channels prior to March 2020 was generally on plan. Group net sales revenues year to date February 2020 were ahead 41% on the prior corresponding period.

In Australia since March 2020, the Company has experienced growth above plan in the Retail Grocery channel, as consumer spending shifts to this channel reflecting government imposed stay at home restrictions. This growth has been experienced in key products in all categories including dairy, plant-based beverage, cereal and snacks and specialty seafood.

With the increased stay at home restrictions during March, the Company experienced a decline in sales in Out of Home (OOH) channels relative to pre-COVID 19 performance. In the OOH channel, distributors and retailers are adapting to changed market conditions through online sales and new direct to consumer models, with our key brands in this channel well supported through these initiatives.

We expect ongoing OOH sales weakness against our pre-COVID 19 plan until stay at home restrictions are removed and the OOH channel reopens.



During the COVID 19 period, the Company has continued to have success in securing distribution including national ranging with McDonalds for the MILKLAB brand and further ranging with other speciality food chains & quick service restaurants. The MILKLAB brand is well placed with its growing exposure in Australia and new markets into SE Asia to be a leading global plant-based beverage brand in the milk for coffee markets.

These ongoing successes with our key brands and market position in the OOH channel provide a key platform for growth in Australia, SE Asia and China in the post COVID19 period and over the medium term.

In Nutritional Ingredients, demand for Lactoferrin is strong, with all available production for FY2020 allocated to key customers. The Company has commenced supply of Lactoferrin under a previously announced long-term agreement with a major global pharmaceutical company. The supply agreement will utilise a significant component of current and planned capacity for Lactoferrin.

The Company has materially completed the capacity upgrade for Lactoferrin to 40tn to meet contracted requirements into 2021 and beyond. With growing awareness of our unique capabilities, the Company continues to see strong customer demand from infant formula and pharmaceutical manufacturers.

The Company will continue to commercialise a number of these key ingredients into applications under its own brands, including in Sports Performance, Diet and Adult Nutrition as well as consumer applications for Lactoferrin, such as the recently launched Vital Life immunity boost product, which is now available online in Australia's largest pharmacy chain, Chemist Warehouse & on shelf in Coles next month.

Sales to SE Asia and China represented approximately 17% of our net sales value in the the 1<sup>st</sup> half of FY2020. The underlying medium-term demand from key customers in SE Asia and China remains unchanged, with the Group scheduled to start supply to new customers from June 2020 as new capacity at Shepparton and Ingleburn facilities comes online.

In SE Asia, demand has increased in Retail Grocery channels, with weakness in OOH channels reflecting government imposed stay at home restrictions in key markets in Malaysia, Philippines, Vietnam and Singapore.

In China, customer demand is increasing from a low point in February 2020 with sales being impacted by the COVID 19 situation. Pleasingly, a number of key strategic customers are increasing their UHT dairy demand compared to pre-COVID19 levels commencing from May 2020.

In particular our "Australia's Own Kid's Milk" product is forecasted to achieve strong growth in sales as our China joint venture prepares for high seasonal promotional periods from June 2020.

Increased consumer activity in the China domestic market and supply constraints to China from our competitors in other countries provides further opportunity for Freedom Foods to grow sales in China over the medium term.

### **COVID 19 Operational Management**

With the first signs of the COVID 19 impact, the Company instituted upgraded internal protocols to ensure the health and safety of our people, maintain the integrity of our production facilities, support our customers and maintain continuity of operations.

The Company continues to work closely with key retailers and customers in Australia and export markets to prioritise supply within our operational capabilities. A key focus area is prioritising supply of UHT dairy and UHT plant milks including key seasonal SKU's.

In response to increased domestic demand from February 2020, the Shepparton operation has increased finished goods outputs well above average monthly rates achieved in the 1<sup>st</sup> half of FY2020 as the facility transitions beyond the completion of a significant capital expenditure period. The site is now progressing to

relocate all external warehouse and logistics functions to an integrated on-site operation, including commencement of an on-site container management function to facilitate further export growth.

The Company does not see any current production constraints arising from supply of key raw materials or packaging inputs.

#### **Banking Facilities and Liquidity**

As part of ensuring sufficient balance sheet strength and financial flexibility to support the business during this period of macro-economic uncertainty, the Company has restructured its syndicated and bi-lateral banking facilities with its long term banking partners HSBC and NAB to increase short term liquidity limits by \$100 million, while maintaining the existing overall indebtedness limit.

As a result of the restructuring, the facility now provides a more flexible structure to facilitate changes in sales and inventory mix in the current environment, increased covenant headroom, as well as ongoing growth of the Company over the medium term.

The Company has continued to undertake committed capital expenditure projects that are aligned to key customer and channel commitments into FY2021, with all major expansion works now drawing to completion.

As a prudent measure to ensure financial flexibility, the Company will defer the H1 FY2020 dividend as announced on 28<sup>th</sup> February 2020 to a payment date to be determined.

The Company will update on any further trading and operational developments as they occur.

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*Authorised by the Board of Directors*