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Freedom Foods Group Limited
COVID 19 Trading Update
April 2020 and performance through May 2020

Freedom Foods Group Limited (ASX Code: FNP) (**Freedom Foods**) today provided a COVID 19 impact and trading update to the market, together with matters required to be considered as part of finalising its FY2020 accounts.

1. Overview

- Sales normalising through May to pre COVID volumes in retail grocery in Australia.
- Lower demand in Out of Home and Industrial Channels through April and May, with tentative signs of recovery arising from changes to stay at home restrictions.
- Increasing export demand in SE Asia and China from retail grocery channels after periods of significant decline in the first quarter of calendar 2020.
- Margin decline against pre COVID plan given shifts in channel and portfolio mix.
- No delays in supply chain arrangements have been experienced into China and SE Asia.
- Reshaping of operational footprint to increase efficiency and realise material cash savings into FY 2021. Costs of restructuring and write-down of non-cash obsolete and discontinued stock provision to be required for FY 2020.
- Material impact on second half profitability with consequential flow on impact to our pre COVID 19 expectations.

Freedom Foods Managing Director and CEO, Rory Macleod said: "The recent macro environment has highlighted that the Company's unique scale, diversification of activities and channels, strong brands and Australian based food manufacturing capabilities, provide an important hedge against the adverse impacts from the current disruption. We continue to see increasing demand and customer enquiry across our key brands and markets with an emphasis on dairy, nutritionals and plant beverages. This indicates a strong signal about the opportunities ahead for the Company as COVID 19 related market uncertainties recede."

2. General trading and profitability in key markets and channels

Australian Retail Grocery Channel

In Australia during March and April, the Company experienced strong growth above pre COVID 19 plan , as consumer spending shifted to this channel, reflecting government imposed stay at home restrictions. Sales in this channel have now normalised to pre COVID 19 levels during May.

Margin return in this channel was mixed as pantry stocking in UHT Beverages and Cereal & Snacks occurred under promotional programs during March, with an offsetting improvement in margins in April as retailers cancelled promotions during the Easter and Anzac Day trading periods.

Out of Home Channel in Australia (OOH)

With the increased stay at home restrictions since March, the Company has experienced a decline in sales in this higher margin OOH channel relative to pre COVID 19 plans.

- In April, sales revenues from OOH were approx. 25% of pre COVID 19 plans as distributors destocked due to reduced demand from widespread outlet closures and restricted trading.
- With the recent changes to stay at home restrictions, demand has increased with sales for May from OOH expected to be around 50% of pre COVID 19 plans.

Overall, this channel shows tentative signs of recovery as stay at home restrictions are lifted. Distributors and retailers are adapting to changed market conditions through online sales and new direct to consumer models, and we are pleased to see our key brands in this channel well supported through these initiatives.

The Company's recent success in securing national ranging with McDonalds for the MILKLAB brand will see increased sales and distribution from July. 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.

Industrial Channel

In this channel, demand for cream utilised in food service and hospitality industries including restaurants, cafes and bakeries has reduced during April and May, reflecting stay at home restrictions.

- In April, sales revenues from this channel were approx. 55% of pre COVID 19 plans.
- As seen in OOH, demand has started to improve in this channel in the later part of May and is expected to be around 45% of pre COVID 19 plans during May.

As seen in OOH, this channel is showing tentative signs of recovery from lifting of stay at home restrictions. Demand in this channel is not impacted by stockpiling due to the short shelf of the ex factory product.

The impact of higher seasonal milk pricing, with milk containing higher levels of fat, normally offset through profit recovery from higher cream sales, has not occurred in the April-May period.

Dairy Nutritionals

In contrast, demand for nutritional ingredients has remained largely in accordance with plan over this period, with production building as the Company completed the planned upgrades to its capacity.

The Company continues to experience increased demand for Lactoferrin, reflecting continuing interest in immunity and the increasing application of Lactoferrin to infant formula applications. The Company has now contracted approximately 80% of planned FY 2021 output, including supply of Lactoferrin under a previously announced long-term agreement with a major global pharmaceutical company.

Export

Sales to SE Asia and China represented approximately 17% of our net sales value in the 1H FY2020. Sales to China in 3Q FY2020, recorded a 35% decline relative to pre COVID 19 plan, reflecting the restrictions in place through February and March. Sales into China and SE Asian markets are recovering in 4Q FY2020.

In SE Asia, a key strategic growth market for the company, demand has continued to grow in retail grocery channels, with increasing demand for Australia's Own Dairy range in Vietnam and the Philippines, as well as increased private label and contract manufacture volumes.

Sales in OOH channels in SE Asia are expected to recover in coming months with announced changes in stay at home restrictions in key markets in Malaysia, Philippines, Vietnam and Singapore.

As the Company continues to build brand and channel distribution in SE Asia, a long life (UHT) whipping cream product will be launched in July, complementing the existing dairy range and aligning to increasing demand in this market for high value-added dairy products.

In China a number of strategic customers are increasing their UHT dairy demand compared to pre COVID19 levels. The "Australia's Own Kid's Milk" product is also forecasting strong growth in sales as our China joint venture prepares for high seasonal promotional periods from June 2020.

At this stage, the Company has not experienced any delays in supply chain arrangements into China and SE Asia.

3. Operations

As noted in our April update, 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.

To date, no material issues have arisen at any Company site and supply of key raw materials or packaging inputs remains stable. The Company has a range of alternative suppliers across its key inputs.

The Company has also commenced reshaping its operational footprint. With the Shepparton operation transitioning beyond the completion of a significant capital expenditure period, the site has commenced relocating 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. Internalisation of other external warehousing relating to Cereal, Snacks and Specialty Seafood businesses is also underway.

The Company has also progressed a reshaping of its commercial and organisational structures to reflect the new operational footprint and key products, channels and markets. These changes also reflect a requirement to remain agile in our response to the markets in which we operate and ensure we can adapt quickly to changing circumstances. These actions have resulted in some redundancies across all parts of our business.

The Company expects to realise material cash cost savings into FY 2021 from these initiatives, with one off costs associated with the closure of external warehousing facilities and redundancies to be expensed in FY 2020. As part of the Company's response to its trading performance, the CEO has decided to forego his entitlement to his options incentive plan.

4. Profitability

The Company has historically experienced low levels of provisioning for doubtful debts. It is expected that a provision of approximately $4m will be required to be created in 2H FY2020 in respect of an export account. The Company does not foresee any other material doubtful debts in its export markets.

Typically, the second half of the financial year is a significant sales and margin contributor to the overall result: normally the second half contributes over 60% of full year operating EBDITA. For FY2020, the combination of the level of sales, changed sales mix from March to June, the impact of doubtful debts and an unrecovered higher seasonal milk pricing will materially impact the second half operating EBDITA relative to pre COVID 19 plans.

5. Inventory

The consolidation of external warehousing activities together with a detailed review of product offerings and formats will result in a one-off non-cash write down of the carrying value of inventory in FY 20.

Initial estimates indicate that the write down will be approximately $25 million. Final details will be announced with the release of the FY 20 results.

Additional amortisation of new product development charges may be required.

6. FY 2020 statutory result

It is anticipated that the full year earnings result will be materially impacted by COVID 19 issues and one off charges referred to above.

7. Banking Facilities and Liquidity

As advised in February, the Company is accelerating the final stages of its capital investment program, with a large proportion of the remaining program to be completed in FY2020, from the previously expected timing of FY2021.

The Company expects total capital expenditure in FY2020 to be in the range of $120 million to $130 million, with a materially reduced capital expenditure program in FY2021

As updated in April, as part of ensuring sufficient balance sheet strength and financial flexibility to support the business during the current macro-economic uncertainty, the Company 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.

The amended facility provides a more flexible structure to accommodate 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.

As indicated, the Company as a prudent measure to ensure financial flexibility deferred the H1 FY2020 dividend as announced on 28 February 2020 to a payment date to be determined. The Company has now decided to cancel this dividend. The Company does not anticipate paying a full year dividend.

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

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Authorised by the Board of Directors