FY20 FINANCIAL RESULTS
FREEDOM FOODS GROUP LIMITED

30 NOVEMBER 2020

MAKING FOOD BETTER

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Agenda

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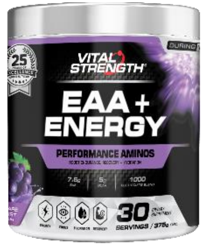

1. Executive summary

a. Background
b. FY20 results
c. Operational impacts on FY20 results
d. Summary of Accounting Matters
e. Earnings and balance sheet summary
f. COVID-19 impact on FY20 results
g. Segment results

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Background

	Comment
Key messages	▪ Financial position of the Group has now been established following a rigorous process with independent advisers ▪ Financial position necessitates a significant recapitalisation ▪ Shareholders will need time to understand the results before any recapitalisation occurs ▪ Freedom shares will remain suspended until a recapitalisation is announced
What has the Company been doing?	▪ Engaged with our customers and suppliers ▪ Secured $45 million of interim liquidity, guaranteed by the major shareholder, and a standstill arrangement with its lenders ▪ Conducted independent investigations on historical matters ▪ Undertaken product range and operational reviews ▪ Rebuilding of the management team and culture including review and improvement of remuneration framework and policies ▪ Rebuilding the financial reporting, cashflow monitoring and improving the financial reporting tools ▪ Updated costing standards and accounting policies and practices ▪ Improved internal management processes (e.g. inventory controls, delegation of authorities, clearer focus on operational KPIs and reporting) ▪ The external audit included restatement of historical financial accounts ▪ Assessed recapitalisation alternatives to provide the Company more flexible capital and runway for turnaround and growth ▪ Keeping the regulatory authorities informed – ASIC and ASX ▪ Addressed matters and commenced legal actions relating to almond paste supplier Blue Diamond ▪ Reviewed and improved governance and risk frameworks and policies

FY20 results | Overview

	Comment
FY20 results	▪ Total revenue of \$580 million, an increase of 26% on FY19 revenue (restated) ▪ Adjusted EBITDA (pre-AASB16) loss of \$86.5m, compared to a loss of \$88.0m in FY19 (restated) ▪ Statutory net loss after tax of \$174.5 million in FY20, compared to net loss of \$145.8 million in FY19 (restated) ▪ Dairy and Nutritionals revenue up 37% to \$363 million, with growing demand for lactoferrin ▪ Plant-based Beverages revenue up 30% to \$132 million, driven by strong growth in MILKLAB sales ▪ Offshore revenue up 29% to \$110 million on FY19, now 19% of overall revenue ▪ Net debt (pre-AASB16 lease liabilities) is \$275 million at 30 June 2020, and is expected to increase to approximately \$335 million at the time of the recapitalisation
Restatement Impacts	▪ Approximately \$590 million of restatements and writedowns in FY20 and prior years (refer slide 9 of this presentation) ▪ Net Assets reduced to \$61.0 million

FY20 results | Key operational metrics

Dairy & Nutritionals

- ✓ Processed 304m L of UHT milk at Shepparton[1]
- ✓ Total UHT processing capacity of 500m L[2]
- ✓ 4.1% growth in UHT export volumes
- ✓ Produced 13.1 tonnes of lactoferrin
- ✓ Total lactoferrin capacity of 33 tonnes

Plant Based Beverages

- ✓ Strong growth in MILKLAB, with 73% growth in sales
- ✓ New distribution pathways, including partnership with McCafé for MILKLAB Almond
- ✓ Processed 76.8m L of plant-based UHT milk
- ✓ Capacity of 120m L[3] with potential to scale operations

Cereal & Snacks

- ✓ Crankt sales growth of 51%
- ✓ Freedom Red consolidation

Specialty Seafoods

- ✓ Market leading position in Australia and New Zealand for canned sardines and #2 brand in canned salmon
- ✓ Internalised warehousing to Ingleburn

1. Includes UHT dairy products, bulk cream, standardised milk and retentate
2. Estimated capacity from January 2021 based on 7 days annualised
3. Estimated capacity from January 2021 based on 5 days annualised

Operational impacts on FY20 results

FY20 performance was impacted by the following operational matters

	Description	Mitigating steps being undertaken
Site Operations	▪ Delays in the commissioning of new capacity at Shepparton plant, resulting in higher wastage, under-recovery of protein and lower-than-anticipated yields of lactoferrin ▪ Cereal and Snacks operating facilities at Leeton, Dandenong and Darlington Point have been underutilised	▪ Now achieving more consistent operational performance at Shepparton, with the lactoferrin plant producing materially higher volumes in line with design expectations ▪ The Group has commenced a full strategic review of the Cereal and Snacks segment
Costs	▪ Unrealistic operational costing budgets have resulted in sales prices being set too low for some products, resulting in unprofitable sales	▪ Commenced a full review of all product lines
Milk supply	▪ Delays in plant commissioning and planning decisions resulted in surplus milk supply being traded at a loss	▪ Implemented thorough planning processes to ensure that supply is better matched with demand
Trade Spend	▪ Some trade spending in the retail channel, particularly in the Cereal and Snacks segment, was ineffective, which adversely affected profitability	▪ Trade spending policies have been reviewed, with funding reduced and re-focused
New Product Development	▪ New product development expenditure on some products, particularly in the Cereal and Snacks segment, did not achieve anticipated returns	▪ In line with its full review of all product lines, the Group has adopted a more focused approach to new product development decisions

Summary of accounting matters

	Accounting policy / practice	Impact $m
CWIP / fixed assets	▪ Capitalisation practices have been reviewed and amended with costs reclassified. Only directly attributable expenses to be capitalised. Assets start to be depreciated when regularly producing saleable product	$372.8m
Inventory	▪ Inventory stock take and write-off policies and practices have been reviewed and amended. Writedowns recognised	$60.1m
New product development	▪ Capitalisation practices have been reviewed and amended with costs reclassified. Directly attributable development costs to be capitalised e.g. design, production trials, direct NPD salaries on an asset specific basis. Impairment recognised for underperforming products	$38.9m
Revenue	▪ Revenue cut-off and other practices reviewed. Revenue recognised when performance obligations are met	$22.1m
Receivables	▪ Review of long-dated receivables unlikely to be collected with provisions recognised. Policies regarding provisioning and expected credit losses formalised. Expected impact of COVID-19 taken up	
Trade promotion / trade marketing spend	▪ Accrual recognition practices have been reviewed. Trade spend will be accrued when inventory is sold to the customer	$11.9m
Share based payments	▪ Expense adjustment required to recognise commitments made to senior employees	$5.5m
Other	▪ Various other restatement matters as outlined in Note 3 to the Financial accounts	$4.3m
Sub-total		**$515.6m**
Goodwill/brands	▪ Impact of changes shown above on assessment of carrying values	$75.9m
Total		**$591.5m**

Earnings and balance sheet summary

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- Group performance is shown for FY19 on a restated basis
- Net sales increased 26% to $580 million, with domestic sales up 25% to $470 million and export sales up 29% to $110 million
- Adjusted EBITDA (pre-AASB 16) losses decreased slightly to $86.5 million (FY19 loss of $88.0 million)
- The Group made a statutory net loss after tax for FY20 of $174.5 million (FY19 loss of $145.8 million)
- While higher profitability was obtained from the Group's plant-based products – particularly from MILKLAB – and from the commencement of sales of lactoferrin and similar nutritionals products, these contributions were outweighed by the performance of Cereal and Snacks, Specialty Seafood and losses from operations of UHT dairy
- Despite the impact of COVID-19 on international trade, overall export sales to Southeast Asian markets rose by 261% to $34 million, reflecting increasing market acceptance of the Australia's Own and MILKLAB dairy brands
- Export sales of UHT milk products to China rose by 7.7% to $60 million, led by increased sales to contract partners

12 months to 30 June ($m)	FY20	FY19 (restated)	Change ($)	Change (%)
Revenue	$580.2	$461.8	$118.4	26%
Adjusted EBITDA (pre-AASB 16)	($86.5)	($88.0)	$1.5	2%
Adjusted EBITDA (post-AASB 16)	($71.8)	n.m.	n.m.	n.m.
EBITDA	($96.7)	($118.6)	$21.9	18%
NPAT	($174.5)	($145.8)	($28.7)	(20%)
Shareholder equity	$61.0	$234.7	($173.7)	(74%)
Net debt[1]	$275.2	$122.0	$153.1	125%
Net debt[1] / shareholder equity	451%	52%	n.m.	n.m.
Net tangible assets per share (CPS)	8.75	66.56	(57.81)	(87%)

Note: 1. Pre-AASB16 lease liabilities.

COVID-19 impact on FY20 results

- Staff safety, shift protocols, wellbeing program in place, and flexible and remote work practices enacted
- COVID-19 negatively affected revenue and EBITDA
  - Consumer demand temporarily shifted from Out-of-Home to the grocery channel
  - The profitability of the grocery channel is materially lower than Out-of-Home
  - The closure of food services caused a drop in demand for cream
  - Significant decline in exports to China in 2H FY20
  - Out-of-Home customers were impacted and we have provisioned for expected credit losses

- Other
  - Received strong support from our suppliers during challenging times with pantry stocking
  - Received accolades from our customers who acknowledged our support managing supply during this period
  - OHS practices and policies tested and proved to be well designed and communicated
- COVID-19 government funding /support
  - The Group deferred employee related tax payments during 4Q FY20, which has subsequently been caught up in FY21
  - The Group did not qualify for any JobKeeper payments

Segment results | Dairy & Nutritionals

Summary of performance

- Revenue rose 37% to $363 million, with the business experiencing an unprecedented spike in demand for UHT milk as a result of pantry stocking caused by the COVID-19 lockdowns, a rise in exports to Asia and increased industrial nutritionals sales
- Adjusted EBITDA pre-AASB16 losses increased to $46.1 million ($35.6 million loss for FY19) due to a number of factors, including selling prices not fully recovering costs for some products, losses from the sale of surplus milk and delays to the commissioning of the lactoferrin plant and UHT expansion in Shepparton
- Under-utilisation of specialty packaging formats within the plant
- Operational challenges at Shepparton during commissioning of expansion and lactoferrin plant integration led to increased costs. The state-of-the-art Shepparton plant is now operating on a much-improved basis, with focused controls around yield and recovery implemented and a review of product lines underway
- The Group is focused on returning the segment to profitability in FY21

Financial results

($m)	FY20	FY19 (restated)	Change ($)	Change (%)
Revenue	**$362.9**	**$264.8**	**$98.1**	**37%**
Adjusted EBITDA pre-AASB16	**($46.1)**	**($35.6)**	**($10.4)**	**(29%)**
Adjusted EBITDA pre-AASB16 margin (%)	(12.7%)	(13.5%)	n.m.	n.m.
Adjusted EBITDA	**($41.7)**	**n.m.**	**n.m.**	**n.m.**
Adjusted EBITDA margin (%)	(11.5%)	n.m.	n.m.	n.m.
EBITDA	**($52.4)**	**($49.3)**	**($3.2)**	**(6%)**
EBITDA margin (%)	(14.5%)	(18.6%)	n.m.	n.m.

Brands

Segment results | Plant Based Beverages

Summary of performance

- Revenue increased 30% to $132 million as the plant-based beverages segment experienced strong growth across all channels and all brands, particularly MILKLAB
- Adjusted EDITDA pre-AASB16 of $17.2 million (FY19 loss of $3.2 million)
- The strong performance came despite the impact of COVID-19, which caused major disruption to Out-of-Home demand during the peak lockdown periods
- Volumes have since recovered and profitability continues to improve as economies of scale increase
- MILKLAB has been at the forefront of the shift towards consumption of plant-based beverages, generating strong brand loyalty in a high-margin channel for the Group, leading to increased profitability
- The Group continues to produce Almond Breeze milk under licence from Blue Diamond Growers
- The Company is involved in legal disputes with Blue Diamond over this contract
- The Group disputes Blue Diamond's claims and is defending its position

Financial results

($m)	FY20	FY19 (restated)	Change ($)	Change (%)
Revenue	**$132.3**	**$101.5**	**$30.8**	**30%**
Adjusted EBITDA pre-AASB16	**$17.2**	**($3.2)**	**$20.4**	**n.m.**
Adjusted EBITDA pre-AASB16 margin (%)	13.0%	(3.1%)	n.m.	n.m.
Adjusted EBITDA	**$24.3**	**n.m.**	**n.m.**	**n.m.**
Adjusted EBITDA margin (%)	18.4%	n.m.	n.m.	n.m.
EBITDA	**$17.0**	**($6.5)**	**$23.5**	**n.m.**
EBITDA margin (%)	12.9%	(6.4%)	n.m.	n.m.

Brands

MILKLAB

Australia's Own

Almond Breeze [1]

Note: 1. Produced under license

Segment results | Cereal & Snacks

Summary of performance

- While the Group retained its leadership position in the growing health food cereal market, overall revenue declined 14% to $70 million ($81 million in FY19), with the adjusted EBITDA pre-AASB16 loss rising slightly to $32.1 million ($31.6 million loss in FY19)
- Revenues declined due to the exit from some contract manufacturing and lower-than-expected sales to Asia, offset by increased grocery sales, which benefited from panic buying during COVID-19
- Lower-margin grocery sales mix reduced profitability
- Profitability was also affected by lower production levels and higher input costs due to the impact of the drought
- An operational review of Cereal and Snacks has determined that the business has been overly reliant on trade marketing to support new products, some of which have not achieved anticipated returns
- In line with its company-wide product rationalisation program to reduce the number of low-margin or loss-making product lines, the Group has adopted a more focused approach to new product development decisions

Financial results

($m)	FY20	FY19 (restated)	Change ($)	Change (%)
Revenue	**$69.9**	**$80.9**	**($11.0)**	**(14%)**
Adjusted EBITDA pre-AASB16	**($32.1)**	**($31.6)**	**($0.5)**	**(2%)**
Adjusted EBITDA pre-AASB16 margin (%)	(45.9%)	(39.0%)	n.m.	n.m.
Adjusted EBITDA	**($30.3)**	**n.m.**	**n.m.**	**n.m.**
Adjusted EBITDA margin (%)	(43.4%)	n.m.	n.m.	n.m.
EBITDA	**($34.3)**	**($34.2)**	**($0.1)**	**(0%)**
EBITDA margin (%)	(49.0%)	(42.2%)	n.m.	n.m.

Brands

Messy Monkeys
Arnold's Farm
Barley+
freedom FOODS
Heritage Mill
brekky heroes
crankt

Segment results | Specialty Seafoods

Summary of performance

- Revenue of $15 million was broadly in line with FY19 ($14.5 million), with the segment returning to profitability with adjusted EBITDA of $0.2 million, compared to a loss of $2.9 million in FY19
- While Brunswick Sardines maintained its No 1 brand leadership position in Australia and New Zealand and Paramount Salmon performed well, sales were affected by reduced grocery sales caused by necessary price increases
- Seafood pricing is in USD and movements in the exchange rate impact profitability

Financial results

($m)	FY20	FY19 (restated)	Change ($)	Change (%)
Revenue	**$15.0**	**$14.5**	**$0.5**	**4%**
Adjusted EBITDA pre-AASB16	**$0.2**	**($2.9)**	**$3.1**	**n.m.**
Adjusted EBITDA pre-AASB16 margin (%)	1.5%	(19.7%)	n.m.	n.m.
Adjusted EBITDA	**$0.2**	**n.m.**	**n.m.**	**n.m.**
Adjusted EBITDA margin (%)	1.5%	n.m.	n.m.	n.m.
EBITDA	**$0.2**	**($3.6)**	**$3.8**	**n.m.**
EBITDA margin (%)	1.3%	(24.7%)	n.m.	n.m.

Brands

2. Way forward

a. Company strategy
b. Leverage position
c. Proposed way forward

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Company strategy

- The Company has reviewed its operations with a view to focusing on segments with the greatest opportunity for further growth
  - Freedom Foods and its advisers are reviewing all strategic options for its Cereal and Snacks businesses – while actively pursuing a Fix and Retain strategy, we are also exploring a potential divestment
  - Reviewing all strategic options for the Specialty Seafood business, including divestment
- Go forward focus on branded plant-based beverages and dairy and nutritionals business
  - Strong performance of key brands and product lines in FY20 such as MILKLAB and lactoferin underpin the potential for sustainable, profitable growth in future years
  - Investment into key brands – MILKLAB, PUREnFERRIN, Australia’s Own and Vital Strength
  - Strategic new product development
  - Target addressable markets are large and growing for plant-based and dairy beverages
- Focus will be on
  - Consumer first
  - Employees - culture that values quality, honesty, trust and innovation
  - Sustainable growth
  - Optimising utilisation, yield enhancement and cost efficiency
  - Improvement in controls and reporting

Leverage position

Summary of net debt (pre-AASB16 lease liabilities)

($m)	30-Jun-20	31-Dec-19	Change ($)
Term loan facilities	$141.2	$91.2	$50.0
Recourse debtor financing facilities	$15.5	$6.7	$8.8
Revolver facilities	$36.2	$29.5	$6.7
Equipment financing facilities	$99.5	$68.4	$31.1
Total debt	**$292.3**	**$195.7**	**$96.6**
(-) Cash and cash equivalents	($17.2)	($7.2)	($10.0)
Net debt (pre-AASB16 lease liabilities)	**$275.2**	**$188.5**	**$86.6**

- Net debt increased by $87 million from $189 million at 31 December 2019 to $275 million at 30 June 2020
- Debt at the time of the recapitalisation is expected to be approximately $335 million
- Plan to refinance the existing senior debt facilities to reset the Company's balance sheet and provide a more flexible funding structure (covenant lite, increased tenor) to provide runway for the turnaround and future growth

Extensive process undertaken

- The Group has reviewed options to recapitalise the business – through debt, equity or a combination of both – with proceeds used to retire senior debt and for general corporate purposes
- The Board undertook an extensive process to select the right capital solution for the Company given the uniqueness of its current situation
- The Company received several offers from credible parties and is now in exclusive, advanced discussions with a new investor to support both the capital and operational turnaround of the business
- The recapitalisation process is incomplete and ongoing and the Group expects to provide an update by the end of the year
- The Group's majority shareholder, Arrovest, has indicated its support for the recapitalisation plan
- The Board intends to provide all of the Group's shareholders with an opportunity to participate in any capital raising

Proposed way forward

Rationale for proposed approach

- Recent unprofitability and material uncertainty as to the outcome of Blue Diamond litigation means it is prudent to raise capital in secured debt form that provides equity linked optionality and flexibility
- More traditional forms of raising capital, such as an equity raising, have been considered but are likely to be more dilutive
- Capital intended to be raised via an ASX listed secured convertible note underwritten by a new investor
- Key benefits of the proposed structure include:
  - I. Provides existing shareholders with an opportunity to participate
  - II. Providing flexible covenant–free capital
  - III. Protects new capital with a secured instrument, but with future equity upside
  - IV. Provides a premium valuation to other alternatives
  - V. New investor provides operational, governance and financial turnaround expertise

Next steps

- Further announcements on the recapitalisation will be made before the end of calendar 2020
- Capital raising needed up to $280 million, with final sizing and transaction structure to be finalised

Q&A

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Appendices

EBITDA reconciliation

12 months to 30 June ($m)	FY20	FY19 (restated)
Adjusted EBITDA pre-AASB16	**($86.5)**	**($88.0)**
AASB16 impact	$14.8	n.m.
Adjusted EBITDA	**($71.8)**	**n.m.**
Additional inventory provision	($18.0)	($18.3)
Restructuring expenses	($1.4)	($0.2)
Additional debtor provisioning	($3.6)	($1.8)
Acquisition costs	($0.9)	($1.3)
Discount charge - limited recourse facility	($1.5)	($1.2)
Unrealised foreign exchange loss	$0.0	($1.6)
Share based payments	$0.4	($6.2)
Other non trading expenses	$0.0	$0.0
EBITDA	**($96.7)**	**($118.6)**
Share of associates profit/(loss)	$0.6	($0.3)
Depreciation and amortisation	($30.6)	($18.1)
Impairment	($26.1)	-
Net finance costs	($21.8)	($9.7)
Net loss before tax	**($174.6)**	**($146.7)**
Income tax benefit	$0.1	$0.9
Net loss after tax	**($174.5)**	**($145.8)**

- **EBITDA** loss of $96.7m (FY19 restated loss of $118.6m)
- **Inventory provisions** of $18.5m (FY19 26.7m) were recognised during the year and included in costs of sales. An amount of $18.0m (FY19 $18.3m) was in excess of a normal level of provisioning due to commissioning the Shepparton dairy manufacturing site and unsuccessful product development in the Cereal and Snacks division
- Increase in **depreciation** reflects a transfer of most of the capital work in progress of the Shepparton expansion project to fixed assets and the introduction of AASB 16
- **Impairments of brands , goodwill and right of use assets** amounted to $26.1m in FY20 (nil in FY19) resulting from a reduction in the carrying value of right of use assets and intangible assets in the consumer nutritionals and Specialty Seafood cash generating units
- **Net finance costs** increased largely as a result of the adoption of the AASB 16 lease accounting standard from 1 July 2019
- **Income tax expense** is nil in FY20 given the Company’s loss-making position
- **Net loss after tax** attributable to the owners of the Group of $174.5m (2019 restated – a loss of $145.8m)

Reconciliation | Balance sheet

	FY20			FY19 (restated)		
($m)	Pre-AASB16	AASB16 impact	Statutory	Pre-AASB16	AASB16 impact	Statutory
Cash and cash equivalents	$17.2	-	$17.2	$55.4	-	$55.4
Trade and other receivables	$64.3	-	$64.3	$69.9	-	$69.9
Inventories	$59.8	-	$59.8	$79.5	-	$79.5
Other current assets	$5.3	-	$5.3	$3.5	-	$3.5
Investments accounted for using the equity method	$27.9	-	$27.9	$23.5	-	$23.5
Property, plant and equipment	$298.4	-	$298.4	$270.7	-	$270.7
Right-of-use assets	-	$172.3	$172.3	$0.0	-	$0.0
Intangibles	$36.8	-	$36.8	$53.0	-	$53.0
Total assets	**$509.6**	**$172.3**	**$681.9**	**$555.5**	**-**	**$555.5**
Trade and other payables	$123.4	-	$123.4	$130.5	-	$130.5
Current borrowings	$292.3	-	$292.3	$49.0	-	$49.0
Current lease liabilities	$2.3	-	$2.3	$0.0	-	$0.0
Other current liabilities	$8.9	-	$8.9	$7.8	-	$7.8
Non-current borrowings	$0.0	-	$0.0	$128.4	-	$128.4
Non-current lease liabilities	-	$192.3	$192.3	$0.0	-	$0.0
Other non-current liabilities	$1.6	-	$1.6	$5.1	-	$5.1
Total liabilities	**$428.6**	**$192.3**	**$620.9**	**$320.9**	**-**	**$320.9**
Net assets	**$81.0**	**$20.0**	**$61.0**	**$234.7**	**-**	**$234.7**

Reconciliation | Cashflow

	FY20			FY19 (restated)		
12 months to 30 June ($m)	Statutory	AASB16 impact	Pre-AASB16	Statutory	AASB16 impact	Pre-AASB16
Receipts from customers (inclusive of GST)	$574.8	-	$574.8	$455.8	-	$455.8
Payments to suppliers and employees (inclusive of GST)	($644.8)	($14.8)	($659.6)	($573.3)	-	($573.3)
Interest received	$0.7	-	$0.7	$0.2	-	$0.2
Interest on lease liabilities paid	($11.9)	$11.9	-	-	-	-
Other interest and finance costs paid	($12.7)	-	($12.7)	($10.6)	-	($10.6)
Income taxes paid	-	-	-	($4.9)	-	($4.9)
Net cashflow from operations	**($93.9)**	**($2.9)**	**($96.8)**	**($132.6)**	**-**	**($132.6)**
Net cashflow from investing activities	**($28.5)**	**-**	**($28.5)**	**($75.7)**	**-**	**($75.7)**
Net cashflow from financing activities	**$84.2**	**$2.9**	**$87.1**	**$165.6**	**-**	**$165.6**
Net increase/(decrease) in cash and cash equivalents	**($38.2)**	**-**	**($38.2)**	**($42.7)**	**-**	**($42.7)**
Cash and cash equivalents at the beginning of the financial year	$55.4	-	$55.4	$98.1	-	$98.1
Cash and cash equivalents at the end of the financial year	**$17.2**	**-**	**$17.2**	**$55.4**	**-**	**$55.4**

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