

TASFOODS LTD

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ASX Announcement: 31 July 2018

TasFoods Limited

Business Update and Appendix 4C for the quarter ended 30 June 2018

TasFoods Limited (TasFoods), specialist producer of premium Tasmanian food products, is pleased to release its Business Update and Appendix 4C Cash Flow Statement for the quarter ended 30 June 2018 (Q2 2018).

Business Update

Financial Performance

TasFoods continued to demonstrate improved performance in Q2 2018 with H1 2018 **preliminary unaudited operating results** showing sustained improvements over H1 2017.

	H1 2018 \$'000	H1 2017 \$'000	Growth
Sales Revenue	18,486	14,300	29%
Gross Profit	5,088	3,697	38%
Gross Profit Margin	28%	26%	
Operating EBITDA (Excluding Fair Value Movements)	(730)	(1,757)	58%

Key financial highlights include:

- Sales revenue for H1 2018 was 29% higher than H1 2017, driven by increased sales in the dairy and poultry segments. Organic sales revenue growth (net of sales revenue associated with Pyengana Dairy which was acquired in October 2017) of 18% was reported in H1 2018 when compared to H1 2017.
- Gross profit margins increased by a further 1% in Q2 2018 compared to Q1 2018, to achieve a gross profit margin of 28% for H1 2018. H1 2018 also reported an improvement in gross profit margin when compared to H1 2017 which reported 26%.
- Operating EBITDA (excluding fair value movements for biological assets) improved by 58% in H1 2018 when compared to H1 2017.



EBITDA performance for Q2 2018 was negative \$0.493 million, a decline when compared to Q1 2018 of negative \$0.237 million. This decline was driven by a number of predominantly one-off expenditure items including new product development, selling and marketing activities related to the launch of new products, higher freight and distribution costs and expenditure incurred annually in Q2 on compliance and reporting obligations (such as the Annual General Meeting and half-year financial reporting).

The **preliminary unaudited operating results** achieved in Q2 2018 are consistent with expectations and in accordance with advice provided in the TasFoods Annual General Meeting held in May 2018.

Sales Developments and Opportunities

Revenue for Q2 2018 remained consistent with revenue achieved in Q1 2018. A number of revenue growth initiatives have been crystallised in Q2 2018 that are anticipated to realise double digit sales revenue growth in H2 2018 compared to H1 2018. These initiatives include:

Meander Valley Dairy double cream

TasFoods has been successful in gaining ranging of its premium Meander Valley Dairy 200ml double cream product into 794 Coles stores nationally. Dispatch of first orders commenced in Q3 2018.

Pyengana Dairy milk

In Q2 2018, TasFoods launched nine new fresh milk products under a rebranded Pyengana Dairy brand into Coles, Woolworths and independent retail stores throughout Tasmania. Since the launch of these products in late-May weekly milk sales revenue has increased by 53%.

Expanded dairy distribution network

TasFoods has entered into a new distribution arrangement to service independent grocery channels with Meander Valley Dairy and Robur Farm Dairy products throughout Victoria, New South Wales, Queensland, South Australia and the Australian Capital Territory. This arrangement was finalised in late Q2 2018 and is anticipated to deliver strong growth in the dairy segment in H2 2018.

Expanded distribution of poultry products

Nichols Poultry has expanded the distribution of its Ethical Free Range poultry products through high end restaurants, hotels and butchers in Melbourne, Sydney and Brisbane. In addition, Nichols Poultry expanded distribution through wholesale channels within Tasmania.

Expanded contract chicken growing capacity

In Q2 2018 Nichols Poultry expanded its contract chicken growing through an increase in the number of contracted sheds. The expanded shed capacity will not only increase bird volumes, but also allow for greater live weight which will

increase available kilograms and production line efficiencies. Two additional growing sheds will be added in Q4 2018 further increasing production capacity.

This expanded chicken growing capacity will be supported by the capital investment made in the processing facility to upgrade the air chiller at Nichols Poultry. The new air chiller will be completed and operational in Q4 2018.

Pathway to Profit Project

In H1 2018 TasFoods completed a strategic review of its operating cost base and initiated a broad range of activities to optimise and reduce the fixed cost base of the business. These initiatives have commenced generating savings with improvements in gross margins commencing to flow through in H1 2018 results.

We are confident that H1 2018 production cost savings will be sustained in H2 2018 and deliver continued improved gross profit performance.

Van Diemen's Land Dairy and Van Diemen's Land Milk trademarks

In July 2018 TasFoods was advised it had been successful in its application for registration of the Van Diemen's Land Dairy and Van Diemen's Land Milk trademarks in Australia. This complements our existing registration of the trademarks in China.

This brand is planned to be utilised in the development of a premium Tasmanian dairy brand in 2019.

Quarterly Cash Flow

At the conclusion of Q2 2018 TasFoods held a strong cash position of \$8.895 million.

During Q2 2018, TasFoods reported a net decrease in cash held of \$1.709 million.

Key results from the Q2 2018 quarterly cash flow include:

- Cash receipts from customers for the quarter of \$9.3 million, 30% higher than Q2 2017, however 2% lower than Q1 2018;
- Q2 2018 resulted in negative operating cash flows of \$0.679 million. This result is a 19% improvement when compared to Q2 2017 which reported operating cash outflows of \$0.838 million; and
- Cash outflows of \$0.901 million associated with expenditure on infrastructure and equipment related to upgrades to plant and equipment to improve efficiency and increase productivity. Capital investment expenditure in Q2 2018 is primarily related to the factory upgrade at Nichols Poultry to enhance air chill capacity. This development is forecast to be completed in early Q4 2018 and will allow future production capacity to increase by 50%.

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.

TasFoods Contacts

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Company Secretary
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Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

Name of entity

TasFoods Limited

ABN

53 084 800 902

Quarter ended ("current quarter")

30 June 2018

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	9,306	18,789
1.2 Payments for		
(a) research and development	(10)	(28)
(b) product manufacturing and operating costs	(6,460)	(13,908)
(c) advertising and marketing	(97)	(262)
(d) leased assets	(135)	(162)
(e) staff costs	(3,159)	(6,145)
(f) administration and corporate costs	(169)	(467)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	34	44
1.5 Interest and other costs of finance paid	(23)	(50)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other:		
Miscellaneous	34	108
1.9 Net cash from / (used in) operating activities	(679)	(2,081)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(901)	(1,493)
(b) businesses (see item 10)	-	-

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
(c) investments	-	-
(d) intellectual property	-	-
(e) other non-current assets	-	-
2.2 Proceeds from disposal of:		
(a) property, plant and equipment	-	-
(b) businesses (see item 10)	-	-
(c) investments	-	-
(d) intellectual property	-	-
(e) other non-current assets	-	-
2.3 Cash flows from loans to other entities	-	-
2.4 Dividends received (see note 3)	-	-
2.5 Other	-	-
2.6 Net cash from / (used in) investing activities	(901)	(1,493)

3. Cash flows from financing activities		
3.1 Proceeds from issues of shares	-	4,000
3.2 Proceeds from issue of convertible notes	-	-
3.3 Proceeds from exercise of share options	-	-
3.4 Transaction costs related to issues of shares, convertible notes or options	-	(215)
3.5 Proceeds from borrowings	151	151
3.6 Repayment of borrowings	(280)	(693)
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 Other (provide details if material)	-	-
3.10 Net cash from / (used in) financing activities	(129)	3,243

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of quarter/year to date	10,604	9,226
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(679)	(2,081)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(901)	(1,493)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(129)	3,243
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of quarter	8,895	8,895

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	2,564	6,135
5.2	Call deposits	7,179	5,179
5.3	Bank overdrafts	(832)	(716)
5.4	Other	(16)	6
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	8,895	10,604

6.	Payments to directors of the entity and their associates	Current quarter \$A'000
6.1	Aggregate amount of payments to these parties included in item 1.2	184
6.2	Aggregate amount of cash flow from loans to these parties included in item 2.3	-
6.3	Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2	

Not applicable

Appendix 4C
Quarterly report for entities subject to Listing Rule 4.7B

7. Payments to related entities of the entity and their associates	Current quarter \$A'000
7.1 Aggregate amount of payments to these parties included in item 1.2	-
7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3	-
7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2	

Not applicable

8. Financing facilities available	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	1,935	1,935
8.2 Credit standby arrangements	2,000	-
8.3 Other (please specify)	-	-

8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.

TasFoods total of loan facilities at 30 June 2018 amounted to \$1.935 million, which are secured over the assets financed. Interest rates on these liabilities range between 2.38% and 6.78%, with the average interest rate being 5.74%.

During the quarter ended 30 June 2018, the Group entered into two finance lease arrangements with ANZ Banking Group Ltd and Crown Equipment Pty Limited, which are secured over the assets financed.

Nichols Poultry Pty Ltd has access to a \$2.0 million facility with the ANZ which remained undrawn at 30 June 2018. This facility is secured.

9. Estimated cash outflows for next quarter	\$A'000
9.1 Research and development	(15)
9.2 Product manufacturing and operating costs	(6,952)
9.3 Advertising and marketing	(184)
9.4 Leased assets	(95)
9.5 Staff costs	(3,505)
9.6 Administration and corporate costs	(279)
9.7 Other (provide details if material)	
9.8 Total estimated cash outflows	(11,030)

10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
10.1 Name of entity	Nil during quarter	Nil during quarter
10.2 Place of incorporation or registration		
10.3 Consideration for acquisition or disposal		
10.4 Total net assets		
10.5 Nature of business		

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.



Sign here: Managing Director and CEO

Date: 31 July 2018

Print name: Jane Bennett

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly 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 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.