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ASX ANNOUNCEMENT

21 July 2020

TasFoods Limited – Expected Impairment Charge and Write-down in Biological Asset Value

In advance of TasFoods Limited's (TasFoods) half-year results announcement due in late August 2020, the Board wishes to provide an update to the market regarding an expected impairment of the value of goodwill associated with the poultry and dairy business units and a write-down in the valuation of the wasabi biological asset.

Expected Impairment of Goodwill

Following the completion of the intangible asset impairment testing process required by Australian Accounting Standards, an expected impairment charge relating to the carrying value of goodwill of both the poultry and dairy business units has been identified.

While both the poultry and dairy business units have continued to report year-on-year growth higher than market growth rates, future market growth rates are not certain given current and forecast conditions impacting the Australian economy as a result of COVID-19. The Board has taken a conservative approach to the underlying calculations, including the discount rate, that support the carrying amount of goodwill.

The expected goodwill impairment charges (unaudited) are anticipated to total \$3.5 million, allocated as follows:

- Poultry business unit - \$2.0 million
- Dairy business unit - \$1.5 million

The recently renewed Board has taken this step in light of the market capitalisation deficiency in TasFoods' share price, which indicates that the market has already adjusted TasFoods' intangible assets to reflect this write-down. The write-down will have no impact on the current or future trading potential of the Company, however it will enable a repositioning of the business within a new strategic framework, which will be developed and outlined to shareholders in the coming months.



Fair Value Movement in Wasabi Biological Asset

Sales for Shima Wasabi have historically comprised 73% fresh wasabi, made up of the various components of the plant including stem, leaves and flowers. These products are sold across Australia, predominantly to high-end restaurants and food service catering for corporate events. These markets closed in March, at the start of the COVID-19 pandemic in Australia, and will remain constrained until indoor mass gatherings are permitted and international travel recommences.

Australian Accounting Standard AASB 141 applies to all biological assets (excluding bearer plants) and agricultural produce at the point of sale and is applied to the valuation of the wasabi crop (the biological asset) as well as harvested material. The change in market conditions since the start of COVID-19 and the resulting change in product sales mix necessitated a review of the crop valuation focused on the fair value less cost-to-sell inputs.

This has resulted in an unaudited movement in fair value of biological assets of an anticipated \$1.2 million. This write-down does not impact the cash position of TasFoods or the biomass of the wasabi crop available for future sale.

Board Renewal and Strategy Phase

As announced previously, two new Directors have been appointed to the Board and one Director has resigned. Craig Treasure has been appointed as a Non-Executive Director and was elected to the role of Chair. Ben Swain has been appointed as a Non-Executive Director. Both Directors will be considered by shareholders for election at our upcoming AGM.

This change provides us with Board renewal. Directors resolved to reduce their fees by 25% for the period April – June 2020 in recognition of COVID-19 challenges.

The Board is holding an initial high-level strategy session this week to review all operations from both a risk and opportunity perspective. Following this it intends to engage external advisors to assist with the development of a detailed strategic plan and will update shareholders on outcomes from that process when appropriate.

Operational Update

The half year financial report has not yet been completed for review by TasFoods' auditor. Whilst sales revenue has increased overall there have been parts of the business more severely impacted by COVID-19 than others.

Poultry sales experienced significant volatility in Q2 2020 as a result of a national over-supply of chicken meat that subdued pricing. This oversupply was caused by a COVID-19-induced reduction in the number of quick-service restaurant outlets and a decrease in demand from the food service sector. In response to the reduction in demand for chicken meat, Nichols Poultry reduced by 5% the volume of eggs set for chicken production. While this occurred in mid-April, the reduction in production did not take effect for ten weeks. H1 2020 sales revenue for Nichols Poultry increased on H1 2019, however pricing volatility reduced gross margins.

In response to the emerging economic conditions, the Executive Team undertook a cost review process during April to determine measures that could be taken to further reduce costs across the business. This included a recommendation to the Board to withdraw previously approved short and long-term incentive plans for FY2020.

A further trading update will be provided on or before 31 July 2020.

We look forward to our shareholders' input at our virtual AGM this Thursday 23 July at 11 am.

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

Enquiries

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About TasFoods

TasFoods is a diversified food business focused on leveraging the natural attributes of Tasmania's agricultural and food production environment to create premium food products for sale to Australian and export customers. TasFoods is a public company listed on the ASX with a mix of institutional investors, high net worth individuals and retail investors.