

9 September 2020

Acquisition of Daly Potato Company

Pure Foods Tasmania Limited (ASX: PFT) is pleased to announce it has agreed to buy the business and assets of Daly Potato Company Pty Ltd (**DPC**) for \$1.8M with a mixture of cash and shares, subject to working capital adjustments. PFT has signed a binding Heads of Agreement (**HOA**), subject to a number of conditions including final due diligence, PFT entering into a potato supply agreement and other customary conditions. PFT has also agreed to additional investment to support ongoing product development and commensurate capital expenditure.

“This is a great opportunity for PFT shareholders as it cements our strategy of moving into new category’s” PFT’s Managing Director, Michael Cooper, commented. “As stated in previous updates, meal solutions is a \$1Billion market in Australia alone and we also see a large opportunity to support our Asian customers with unique 100% Tasmanian-based meal solutions. This acquisition also brings many synergies including customers, administration and supply chain benefits as well a range of new products that will be added to our new online store for our loyal consumers to enjoy “.

Transaction highlights

The deal is structured as follows:

- Shares to the value of \$1.4M will be escrowed in three equal tranches – one third to be available for release in intervals of 12 months; 24 months and 36 months;
- Based on a share price of 61.4c, being the 14-day VWAP up to and including 7 September 2020, PFT will issue DPC 2,279,608 shares, representing 4.44% of the total number of PFT shares on issue;
- PFT will take on ~\$300,000 of debt currently on DPC’s balance sheet and relating in the main to plant and equipment and pay the Daly family \$100,000 in cash on settlement;
- Susie Daly has been offered a minimum three-year employment contract;
- Susie and Gerard Daly or their related entity have agreed a potato supply contract with an agreed price, for five years with a five-year option to extend and with price increases subject to the CPI (but with no negative adjustments);
- Additional investment in plant and machinery, is required to support the launch of a number of new products. The immediate cost is estimated to be around \$250,000.

The acquisition meets a number of key metrics for PFT and merges two businesses that are both strategically and operationally aligned and service the same core retail customers. Notably:

- The DPC business recorded \$2M in sales revenue in FY20;
- It adds new products to PFT’s product range, including vegan options;
- PFT benefits from an array of new products that are planned to be launched nationally this financial year, as well as a portfolio of new products that are in the development stage. Notably, mayonnaise is produced in-house for all Daly products and potentially is the basis for a range of new premium mayonnaise-based products;

- There is also numerous new product development opportunities through complementary meal solutions using our full suite of products;
- DPC doesn't currently have an export licence and PFT believes there is strong international demand for DPC's products, particularly in Asia and will seek to attain an export licence for DPC;
- Significant capital investment is planned over the next several years with a view to increasing efficiencies, boosting productivity, and growing margins. DPC is expected to be EPS accretive from FY22 and onwards.

About Daly Potato Company

The Daly's have been growing potatoes on the pristine South-East Coast of Tasmania for over 30 years. Overlooking Marion Bay, the farm enjoys perfect conditions – sandy soils, rain and sunshine. They were also named "Farmers of the Year" in 2019.

DPC was founded by Gerard and Susie Daly in 2016 and with the view to 'value add' to potatoes from their potato farm and also use potatoes that were not suitable for sale to consumers, due in the main to their shape or size. Their daughter, Ruby, also decided to use some of the unmarketable potatoes to produce vodka under the name Hellfire Bluff.

DPC produces a variety of premium potato salads which are sold to the major supermarket chains, including Woolworths, Coles and Metcash. In FY17, sales were \$211,000 and have since grown to \$2M, reflecting compound annual growth of 115%.

PFT has been talking to the Daly's for some time regarding a possible merger but those discussions were high level and non-committal and it is only now, when DPC was at the crossroads between continuing to manage its already burgeoning business or invest heavily to meet the increasing national and international demand for its products, that both parties thought that the timing was right to enter into formal discussions.

The family decided there were benefits in expanding the business under the PFT umbrella as well as taking some of the pressure off the family. However, they believe in the product and PFT and will leverage some of the upside by accepting 78% of the purchase price in PFT shares.

Timeline

The "sunset" clause for settlement of the Contract is 30 October 2020 but PFT expects to have the acquisition completed before that time although will depend on the completion of PFT's final due diligence and working capital assessments and other customary conditions.

This announcement has been authorised and approved by the Board of Pure Foods Tasmania Limited.

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About PFT

Pure Foods Tasmania Pty Ltd (PFT) was formed in 2015 with the aim to acquire, grow and develop premium food businesses in Tasmania. To date and in line with this strategy, PFT has acquired two businesses: Tas Pate and Woodbridge Smokehouse (smoked salmon and trout). The Company listed on the ASX on 30 April 2020.

FORWARD LOOKING STATEMENTS

This announcement 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 Pure Foods Tasmania Limited. These factors may cause actual results to differ materially from those expressed in this announcement.

