

ASX Announcement: 31 January 2022

Business Activity Report and Appendix 4C Quarterly Cash Flow

TasFoods Limited (ASX:TFL) today released its Business Activity Report and Appendix 4C Quarterly Cash Flow for the quarter ended 31 December 2021 (Q4 2021).

Highlights:

- Sales momentum remained in Q4 2021 with sales 7% higher than the prior comparative period (pcp) driven by both the Poultry (8% increase) and Dairy (5% increase) divisions.
- COVID-19 continues to negatively impact the business with subdued customer activity across all channels, particularly food service and Hotel Restaurant Café (HoReCa) channel with many also experiencing labour shortages.
- Input costs rose through the quarter, particularly in Poultry, as supply constraints further up the value chain experience limitations.
- Consequently the Company experienced a gross profit margin reduction of 27 percentage points on the pcp driven by increased labour, freight, grain and milk prices. Board and management continue to actively review its supply chain to ensure best available pricing and alternative models for key inputs. Revenue enhancing strategies undertaken to improve gross margin will take a period of time to flow through to improved operating performance.
- Pyengana Cheese performed well during the quarter with sales increasing by 4% showing the strength of this brand during Covid impacted trade.
- New leadership team is nearing finalisation of its business review and forward-looking strategy that will leverage the strong capabilities inherent in our Tasmanian operations to further grow into the wider domestic market and export market in time.
- Notwithstanding supply constraints, our new organic chicken products continue to receive strong customer feedback and new product development focussed on sustainable consumer growth trends will be a focus of the TasFoods strategy going forward.

Financial update

- Revenue for the quarter up \$1.2m, 7% versus pcp.
- The business completed an Asset Finance transaction with Causeway Financial for \$1.5m relating to a sale & lease-back of our organic chicken farm sheds. This facility is for a 3-year term. This transaction highlights management's commitment to extract value from our assets to deploy into building the foundations for growth and profitability.
- Expenditure increased by \$3.9m, 22% versus pcp. Expenditure has remained focused on managing business as usual activities prudently in these difficult times along with upweighting essential core capabilities that will enhance earnings performance. Whilst some of these costs are one-off payments the Company did experience an increase in its normalised cost base due to the labour shortages experienced throughout Tasmania. There was no expenditure on material changes or other material developments.

Dairy Division

Volumes in our Dairy division were slightly reduced versus pcp and financial performance negatively impacted by product mix. We are pleased with the performance of the Pyengana premium milk and Lactose Free SKUs which highlight the importance of continuing to focus our investments on value-add opportunities that capture the essence of Tasmania's idyllic cultivation and production capabilities.

The Betta Milk brand operates in a highly competitive sector of the milk market and we continue to experience competitive pressures from low priced private label brands in the grocery channel. Betta Milk is a proudly Tasmanian brand and management is actively reviewing its best fit in our product strategy on a go-forward basis.

Cream sales were strong versus the pcp which reinforces the value of the Meander Valley Dairy brand, particularly during the festive period experienced through Q4. Gross margins were impacted by input prices however management have put in place strategies to alleviate some of these supply challenges.

Poultry Division

The Poultry division reported Q4 revenue growth up 8% on the pcp however gross margin was negatively impacted by input costs. Management undertook a revaluation of stock on hand which had a negative flow through impact on profitability for the quarter.

Although the Poultry division experienced margin challenges through the quarter, management have implemented operational changes with a focus on simplification, reduction of duplication and revenue enhancement initiatives which we expect to result in solid financial improvements going forward.

TasFoods continues to monitor price pressures in substitute proteins such as red meat, salmon and pork which have seen retail prices increase beyond consumers standard grocery price expectations. As the highest consumed protein on a per capita basis in Australia we believe the Poultry division is well placed to take advantage of a renewed consumer focus on chicken protein as shoppers seek an affordable protein for everyday consumption.

Quarterly Cash Flow

TasFoods' Appendix 4C for the quarter ended 31 December 2021 (Q4 2021) has been lodged with the ASX today. Key points include:

- The quarter ended with a closing cash on hand balance of \$1.4 million and unused finance facilities of \$2.5 million.
- Cash receipts from customers increased by \$1.6 million, 9% on the pcp.
- Net operating cash outflows increased to negative \$2.2 million, reflecting the quarterly trading performance and a net increase in trade debtors balance from Q3 2021 of \$0.4 million.
- Investment in property plant and equipment of \$0.1 million comprised of various plant and equipment purchases across all business units.
- Cash flow from financing activities related to the receipt of asset finance funds of \$1.5 million and insurance premium funding of \$0.6 million.

FY2022 & Beyond – setting the foundation for strong, sustainable, brand-driven growth

Whilst the Q4 financial result was challenging, the new Board and leadership team have made significant headway in understanding the key drivers of performance and where we can best deliver sustainable profitability of TasFoods. Significant work is underway to enhance commercial and



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operational acumen throughout all levels of management within the business, implement important reporting and cost controls and to extract the maximum value from our stable of core brands.

We have started to embed new ways of working through the business in areas of value chain profitability analysis, pricing reviews and major input cost contract reviews. The implementation of a new Enterprise Resource Planning (ERP) system will occur in 2022 and this will enable operational excellence measures to be put in place to improve profitability and ensure positive cash flow.

Management has implemented changes across the operational head office of the Company to ensure streamlined reporting and an enhanced focus. Some senior management roles have been discontinued with or moved to a part-time basis to right-size TasFoods for its current level of operating profitability.

Importantly we have created new roles closer to our suppliers and customers that we expect will deliver improved operating performance over time. In particular we are pleased to have appointed our first Melbourne-based Business Development Executive (BDE) who will be expanding our product sales into the mainland HoReCa channel, a new procurement manager to better manage our input pricing and a GM of marketing focussed on growing the TasFoods portfolio of premium, value-add brands.

New management are finalising its revised strategy and will communicate this to investors over the coming months. Management is encouraged by the quality of the produce TasFoods supplies to customers throughout Tasmania and the domestic market. The new strategy will have an increased focus on our core commercial competencies and ensuring it is executed in a cost-effective, profitable way. As we build our capability across the FMCG sector our value to our distribution partners will ensure improved financial performance for TasFoods and provide us with the platform to seek further organic and inorganic growth opportunities.

TasFoods expects to release its full year 2021 financial results at the end of February 2022. Management looks forward to presenting its results and new strategy to shareholders through Q1 2022.

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

TasFoods contact

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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.

Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

TasFoods Limited

ABN

53 084 800 902

Quarter ended ("current quarter")

31 December 2021

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	18,659	69,724
1.2 Payments for		
(a) research and development	(1)	(27)
(b) product manufacturing and operating costs	(14,215)	(51,106)
(c) advertising and marketing	(271)	(702)
(d) leased assets	225	(6)
(e) staff costs	(5,283)	(19,734)
(f) administration and corporate costs	(993)	(2,092)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	1
1.5 Interest and other costs of finance paid	(38)	(262)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	(18)	9
1.8 Other (provide details if material)	(292)	41
1.9 Net cash from / (used in) operating activities	(2,227)	(4,154)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(144)	(2,444)
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	(47)	(159)

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
2.2 Proceeds from disposal of:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	-	-
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	-	-
2.3 Cash flows from loans to other entities	-	-
2.4 Dividends received (see note 3)	-	-
2.5 Other (provide details if material)	-	-
2.6 Net cash from / (used in) investing activities	(191)	(2,603)

3. Cash flows from financing activities		
3.1 Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
3.2 Proceeds from issue of convertible debt securities	-	-
3.3 Proceeds from exercise of options	-	-
3.4 Transaction costs related to issues of equity securities or convertible debt securities	-	(14)
3.5 Proceeds from borrowings	2,137	3,137
3.6 Repayment of borrowings	(335)	(2,170)
3.7 Transaction costs related to loans and borrowings	(23)	(23)
3.8 Dividends paid	-	-
3.9 Other (provide details if material)	-	-
3.10 Net cash from / (used in) financing activities	1,779	930

4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of period	2,056	7,244
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(2,227)	(4,154)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(191)	(2,603)

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	1,779	930
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	1,417	1,417

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	1,412	2,468
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	(393)
5.4	Other	5	(19)
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	1,417	2,056

6.	Payments to related parties of the entity and their associates	Current quarter \$A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	-
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-
<i>Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.</i>		

Quarterly cash flow report for entities subject to Listing Rule 4.7B

7. Financing facilities	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
<i>Note: the term "facility" includes all forms of financing arrangements available to the entity. Add notes as necessary for an understanding of the sources of finance available to the entity.</i>		
7.1 Loan facilities (includes lease liabilities under AASB 16)	8,986	8,986
7.2 Credit standby arrangements	-	-
7.3 Other (bank overdraft)	2,500	-
7.4 Total financing facilities	11,486	8,986
7.5 Unused financing facilities available at quarter end		2,500
7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.		
<p>Item 7.1 – TasFoods Ltd Group's total loan facilities (including financial liabilities under AASB 16 Leases) at 31 December 2021 amounted to \$8.986 million. Borrowings are secured over assets financed and by mortgage over property and water rights owned by Nichols Poultry Pty Ltd and Van Diemen's Land Dairy Pty Ltd. Interest rates on these liabilities range between 0% and 8.06%, with the average interest rate being 4.56%.</p> <p>Item 7.3 and 7.5 – Nichols Poultry Pty Ltd and Van Diemen's Land Dairy Pty Ltd (subsidiaries of TasFoods Ltd) have bank overdraft facilities with the Australia and New Zealand Banking Group Ltd for a combined amount of \$2.5 million operating under a variable interest rate. As at 31 December 2021 a balance of \$2.5 million remained undrawn.</p>		

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (item 1.9)	(2,227)
8.2 Cash and cash equivalents at quarter end (item 4.6)	1,417
8.3 Unused finance facilities available at quarter end (item 7.5)	2,500
8.4 Total available funding (item 8.2 + item 8.3)	3,917
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	1.8
<i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i>	
8.6 If item 8.5 is less than 2 quarters, please provide answers to the following questions:	
8.6.1 Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?	
<p>Answer:</p> <p>The entity has/is in the process of undertaking the following steps to improve cash flows and is confident these steps will be successful:</p> <ul style="list-style-type: none"> • Sale and lease-back of assets • embedding new ways of working through the business in areas of value chain profitability analysis, pricing reviews and major input cost contract reviews • implementing improved trading terms with suppliers 	

8.6.2 Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer:

The entity has/is in the process of undertaking the following steps to improve cash flows and is confident these steps will be successful:

- sale and lease-back of assets
- embedding new ways of working through the business in areas of value chain profitability analysis, pricing reviews and major input cost contract reviews
- implementing improved trading terms with suppliers

8.6.3 Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer:

Yes, the entity does expect to continue its operations and to meet its business objectives.

Whilst the Q4 financial result was challenging, the new Board and leadership team have made significant headway in understanding the key drivers of performance and where the Company can best deliver sustainable profitability. New management are finalising its revised strategy and will communicate this to investors over the coming months. The new strategy will have an increased focus on our core commercial competencies and ensuring it is executed in a cost-effective, profitable way.

Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.

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.

Date: 31 January 2022

Authorised by: TasFoods Limited Board

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow 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 cash flow 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.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.