

ASX Announcement: 22 July 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 30 June 2022 (Q2 2022).

Highlights:

- Completion of successful capital raising in June 2022 with receipt of the final Tranche 2 funds (\$2.1m) and SPP of \$0.46m. The Company was extremely pleased with the level of support received by existing and new investors who are aligned with management's vision for the future of TasFoods.
- The leadership team is well progressed on the implementation of its revised strategy announced to ASX in February that is focussed on setting a strong foundation to profitably grow quickly in the Tasmanian market and on the mainland over time.
- The Company was proud to accept numerous gold and silver awards at the recent Australian Grand Dairy Awards. Pyengana Traditional Cheese, Pyengana Milk, Betta Milk Lactose Free and Meander Valley Dairy Sour Cream all won gold awards. Numerous other Meander Valley Dairy, Betta Milk and Pyengana Cheese products received silver awards. These awards are a great testament to the high quality of our authentic products.
- Revenue for Q2 2022 was up 2.1% over the pcp with the Poultry division recording a 1.6% increase and Dairy an increase of 2.2%. The company has begun the implementation of our pack, price and architecture review and this has driven the improved revenue metrics.
- As part of our ongoing efficiency program we have successfully rationalised our SKU count across both our Dairy and Poultry divisions, reduced logistics providers and increased cross-sell initiatives with our distributors and direct sales staff. The company has also started to implement initiatives to reduce per unit conversion costs in our facilities through efficiency and effectiveness measures.
- Like many of our competitors in the food and beverage sector we have experienced significant input cost pressure through the quarter particularly key inputs of poultry feed, milk, cream, fuel, and energy. The company remains dynamic and nimble to stay ahead of the forever changing nature of these costs and to quickly implement mitigation strategies.
- As announced at the AGM, the wind down of Organic Poultry operations commenced in June, with a full exit completed in H2 2022. There remains a future for Nichols to continue participation in the premium sector of the poultry market through expansion of our Ethical Free Range offering and plans are underway for that expansion.
- All key hires to increase capability have been on-boarded and are now working towards implementation of the renewed strategy.

Financial update

- Group revenue for the quarter increased by 2.1% over the pcp to \$17.3m.
- Direct cost of goods sold expenditure increased by \$0.6m, an increase of 4.4% versus pcp. Feed costs increases associated with the Poultry division have been somewhat mitigated during Q2 2022 by early wheat purchasing strategies adopted, nonetheless the cost per tonne increased by 14% on pcp. The significant impact of the cost of wheat continues to be monitored closely. Feed costs are approximately 45% of the Poultry Division input costs.

- The Company experienced a gross profit margin reduction of 2.0% percentage points on the pcp. The Company continues to actively review its supply chain contracts to ensure best available market pricing, quality and availability of supply through these challenging market conditions.
- The Company will pass on many of the increased input costs experienced in the H1 2022 through increased selling prices to our customers from Q3 2022. The delay in the Company's ability to increase selling prices has negatively impacted the Q2 2022 results. However, the increased selling prices will see a continuation of the improvement in key revenue metrics in H2 2022. The Company continues to review selling prices given the continuing increases in input costs.
- Raw milk input costs have increased by 4% in Q2 compared to pcp (13% increase compared to Q1 2022) driven by variances in milk composition and increased farm gate prices in May and June despite lower volume of milk purchased.
- Indirect expenditure in the quarter has focused on managing business as usual activities with a focus on re-setting the strategic and operational agenda and increasing essential core capabilities that will enhance future earnings performance. Distribution & Warehouse expenditure rose by 14.5% versus pcp, a direct result of increasing fuel and transport costs. Repairs & Maintenance costs rose 32%, spread across all divisions. There was no expenditure on material changes or other material developments.

FY2022 Strategic reset and operational priorities

As announced to the ASX in February, the Company determined the 10 priority initiatives that will deliver upon our strategy and drive operational improvement. TasFoods senior leadership team is well progressed in developing detailed operational plans and implementation of these initiatives. An update on the progress of these initiatives is below:

Initiative		Status update
Fix the foundations	✓	Complete – with the exception of ERP implementation noted below.
Reset strategic direction	✓	Complete. Operational plans for implementation now being developed and commenced.
Implement capital management framework	✓	Complete. Principles embedded into decision making.
Develop marketing & brand investment plans		Work in progress. GM of Marketing commenced with brand planning now underway.
Implement ERP		Work in progress. Meander Valley Dairy business unit successfully implemented 1 July. Other business units scheduled for implementation in future months.
Distribution & warehousing		Work in progress. Supply Chain and Logistics management roles now filled. Certain initiatives / Quick wins implemented with development of a one TasFoods solution underway.
Commercial accountability and capability	✓	Complete. Key metrics, plans and capability now imbedded into the organisation. Will be a continued focus.
Implement value chain findings		Work in progress. Nichols Poultry findings communicated and implemented. Results of analysis led to a significant reduction of SKU's and other associated changes. Betta Milk and Meander Valley Dairy analysis complete with outcomes to be implemented in August/September.
Build centre of excellence	✓	Primarily complete with finalisation dependent on ERP implementation.

Target mainland and e-commerce growth	Work in progress. New sales hires on mainland now in place to target café/deli route trade. New Shima Wasabi e-commerce platform and social media sites updated to reflect premium positioning of product. Initial results pleasing and learnings to be used as we update remaining TasFoods e-commerce platforms.
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The TasFoods business has undergone significant change in the preceding 9 months and there is an expectation of continued evolution as we build capability in process, systems and people. These changes are expected to improve efficiencies, leading to improved financial performance for shareholders and a platform for future organic and inorganic growth.

Dairy Division

Volumes in our Betta business unit reduced by 5.0% compared to pcp primarily as a result of the re-set of our Betta cream business implemented in March and reduced sales of Betta branded milk.

In March the profitability of the Betta milk and cream business was assessed, and price increases were implemented across all product lines. As expected, this strategy resulted in reduced volumes in Q2 2022 (Betta cream 23% lower than pcp, and Betta milk reduced by 5.4% on pcp), however revenue reduction was only 4.7% and 0.7% respectively, resulting in profitability being achieved in the Betta cream category and margin stabilisation in Betta milk.

We are seeing a shift towards value in the milk category with our own Tassie Taste brand experiencing a 2.2% increase in volume over the pcp and 3.9% increase in revenue. We believe the Betta Milk brand strongly resonates with consumers and plans have been developed and will be executed in Q3 to reinvigorate this proudly Tasmanian brand.

The Meander Valley Dairy brand had a solid quarter driven by volume increases on the pcp in butter (27%) and cream (8%). There has been a delay in timing of input cost increases and our ability to pass through these increases to our customers and this has negatively impacted gross margins, however management have reviewed our value chain findings and these will be implemented in August to alleviate some of these supply challenges and improve profitability.

Poultry Division

The Poultry division reported Q2 revenue growth of 1.6% on the pcp which was a solid result. The business has made a concerted effort to ensure a more appropriate balance between supply and demand and as a result we sold 5.8% less kg's in Q2 2022 compared to pcp. However, this has resulted in an increased revenue per kg of 6.1% compared to pcp which establishes a more solid foundation from which to grow profitably. Gross margin was negatively impacted by input costs, particularly feed (14% per tonne increase on pcp) and labour (9.8% increase on pcp).

The business has made the decision to close its organic poultry operations and will discontinue sales in July. The organic poultry operation placed significant financial and operational stress on the broader Nichols business unit. Organic poultry has not been profitable for Nichols since inception and using the TasFoods Capital Management framework we have decided to deploy the resources to other areas of the business. We believe there is a future for Nichols to participate in the premium sector of the market through expansion of our Ethical Free Range offering and plans are underway to deliver that in a profitable manner.

In order to improve the financial position of the Nichols business unit, management have implemented numerous operational changes such as SKU rationalisation, revenue enhancement initiatives and logistics



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consolidation which are expected to result in financial improvements going forward.

Quarterly Cash Flow

TasFoods' Appendix 4C for the quarter ended 30 June 2022 (Q2 2022) has been lodged with the ASX today. Key points include:

- The quarter ended with a closing cash on hand balance of \$3.12 million and unused finance facilities of \$2.56 million.
- During the quarter, capital raise funds (net of costs) of \$5.7 million were received.
- Cash receipts from customers were \$17.2 million, consistent with the pcp.
- Net operating cash outflows were negative \$1.3 million, reflecting the quarterly trading performance, a net increase in trade creditors from Q1 2022 of \$0.9 million and a net decrease in trade debtors balance from Q1 2022 of \$0.1 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 primarily related to net capital raise proceeds received of \$5.7 million as noted previously and loan and insurance premium funding repayments of \$0.4 million.

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

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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")

30 June 2022

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	17,242	34,963
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(12,714)	(25,469)
(c) advertising and marketing	(77)	(151)
(d) leased assets	(2)	(3)
(e) staff costs	(5,055)	(10,430)
(f) administration and corporate costs	(520)	(1,394)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(70)	(170)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	(134)	(93)
1.9 Net cash from / (used in) operating activities	(1,330)	(2,747)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(110)	(320)
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	(1)	(60)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	8
	(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	(111)	(372)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	5,883	5,964
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	(231)	(231)
3.5	Proceeds from borrowings	-	41
3.6	Repayment of borrowings	(467)	(984)
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	5,185	4,790

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	(622)	1,451
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,330)	(2,747)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(111)	(372)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	5,185	4,790
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	3,122	3,122

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	3,122	513
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	(1,135)
5.4	Other	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	3,122	(622)

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)	8,177	8,177
7.2 Credit standby arrangements	-	-
7.3 Other (bank overdraft)	2,560	-
7.4 Total financing facilities	10,737	8,177
7.5 Unused financing facilities available at quarter end		2,560
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 30 June 2022 amounted to \$8.2 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 \$2.56 million operating under a variable interest rate. As at 30 June 2022 a balance of \$2.56 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)	(1,330)
8.2 Cash and cash equivalents at quarter end (item 4.6)	3,122
8.3 Unused finance facilities available at quarter end (item 7.5)	2,560
8.4 Total available funding (item 8.2 + item 8.3)	5,682
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	4.3
<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?	

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?

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?

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: 22 July 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.

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

ASX Listing Rules Appendix 4C (17/07/20)
+ See chapter 19 of the ASX Listing Rules for defined terms.

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