

ASX Announcement: 26 August 2022

First half 2022 challenged by COVID-19, Global events and significant input cost increases whilst significant progress made on operating platform

TasFoods Limited (ASX:TFL) today released its financial results for the half-year ended 30 June 2022 (1H 2022).

Highlights:

- Sales revenue in-line with prior comparative period (pcp) at \$34.3 million (1H 2021: \$34.3 million). Heavily impacting the revenue result was the substantial work that occurred on rationalisation of the product portfolio to remove low and loss margin making SKU's which has now been completed. We anticipate this will set a foundation for continued revenue growth in subsequent financial periods.
- Completion of successful capital raising with receipt of \$5.7 million, net of associated costs. 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.
- As previously announced the Company completed a strategic review of both its Dairy and Poultry divisions which has led to the establishment of our top 10 strategic initiatives to return to profitable growth. Implementation and execution of these initiatives is well progressed. The full extent of these initiatives will become visible in 2H 2022.
- The Company made the decision to exit its Organic Poultry operations and the wind down of operations commenced in June 2022 and will be complete in 2H 2022.
- The Company launched a brand awareness campaign for Nichols chicken in 2Q 2022 with the 'Nothing but' initiative to increase brand awareness and reinforce our unique selling proposition.
- All key hires to increase capability have been on-boarded and are now working towards implementation of the renewed strategy.
- Reduced gross margin of 22% (1H 2021: 27%) as result of significant per unit input cost increases. For example, milk increased by 12.8% per litre, chicken feed increased by 11.5% per tonne and cream increased by 17.1% per litre, over the pcp. TasFoods has moved proactively to pass on the increased input costs through customer price increases however the benefit of this will not be seen until 2H 2022.
- Continued Board renewal with the confirmation of John Murphy as Chairman following the retirement of Craig Treasure from the role.
- Cash position of \$3.1 million plus undrawn facilities of \$2.56 million.

Financial & Operational Performance

	1H 2022					1H 2021				
	Dairy \$'000	Poultry \$'000	Horticulture \$'000	Shared Services \$'000	Total \$'000	Dairy \$'000	Poultry \$'000	Horticulture \$'000	Shared Services \$'000	Total \$'000
Revenue	14,817	19,242	215	38	34,312	14,870	19,142	205	46	34,263
Expenditure	(14,476)	(20,230)	(216)	(3,559)	(38,482)	(13,783)	(18,290)	(240)	(2,249)	(34,562)
EBITDA	341	(988)	(2)	(3,521)	(4,169)	1,088	852	(36)	(2,203)	(299)
Movement in Fair Value	0	(73)	(43)	0	(116)	32	(266)	15	0	(219)
Operating EBITDA	341	(1,061)	(45)	(3,521)	(4,285)	1,120	586	(21)	(2,203)	(518)
GP Margin	32%	15%	49%		22%	35%	20%	35%		27%
NPAT					(5,406)					(1,424)

TasFoods has reported a 1H 2022 statutory net loss after tax of \$5.4 million (-1.24 cps), compared to a net loss after tax of \$1.4 million (-0.4 cps) for 1H 2021. Other financial and operational highlights include:

- Sales revenue was stable across all operating divisions on lower volumes compared to pcp. Revenue per unit of measure increased by 2.5% in Betta Milk and 5.6% in Poultry.
- Gross margin of 22% (1H 2021: 27%) was significantly impacted by covid related labour increases and increased input costs. Costs relating to distribution & warehousing, repairs and fuel/energy rose substantially and as a result operating EBITDA declined to negative \$4.3 million (1H 2021: negative \$0.5 million).
- Substantial one-off expenditure (\$1.2m) was incurred in the half relating to COVID-19 (\$0.4 million), strategic consulting advice (\$0.2 million), recruitment expenses in relation to capability build initiatives (\$0.1 million), and operating losses relating to the organic chicken operations (\$0.5 million).
- EBITDA declined by \$3.8 million to -\$4.3 million (1H 2021: -\$0.5 million) largely driven by increased input costs and operational restructuring.

Whilst the dairy division maintained a level of profitability, revenue was flat against the pcp and with gross margin impacted by 3%, operating EBITDA was \$0.78m lower for the half. Significant rises in the cost of milk (12.8% on pcp) were the primary driver of this result. Steps have been successfully undertaken to pass on these cost increases in 2H 2022.

The poultry division reported an EBITDA loss of ~\$1.0m for 1H 2022 as the impact of COVID-19 related labour increases, increased feed costs (11.5% per tonne versus pcp) and increased repairs & maintenance costs impacted the result. The operation of the organic poultry business contributed a \$0.5 million loss in 1H 2022. Significant work has been undertaken to simplify the poultry business and with the initiatives implemented in 2H 2022, an improved result is expected.

The horticulture segment reported sales revenue of \$0.2 million, consistent with the pcp. Gross profit margin for this division was 49%, a 14% increase on pcp.

Shared services consist of functions that support the entire TasFoods business and comprise the areas of sales, customer service, marketing, e-commerce, supply chain, logistics, procurement, IT, finance, HR and corporate costs. Significant work has been completed to increase capability in order to implement the significant number of initiatives identified to improve TasFoods performance and implement the renewed strategy. Shared services costs include the increased investment in people and capability, IT platforms to support future growth, share based payments expense and non-recurring costs associated with strategic reviews and recruitment.

Strategic Initiatives Update

The Company determined the 10 priority initiatives that will allow the Company to deliver upon its 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 streamlined 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.

Balance Sheet

Net assets at half year-end were \$29.1 million (FY21: \$28.6 million), representing 6.7 cents per share (FY21: 8.1 cents per share).

Cash and cash equivalents at 30 June 2022 were \$3.1 million (FY21: \$1.4 million), and undrawn facilities of \$2.56 million (FY21: \$2.5 million).

Total borrowings at 30 June 2022 were \$6.6 million (FY21: \$7.5 million).

Cash Flow

Key points relating to TasFoods' cash flow for the half year ended 30 June 2022 include:

- The half ended with a closing cash on hand balance of \$3.1 million and unused finance facilities of \$2.56 million.
- During the half, capital raise funds (net of costs) of \$5.7 million were received.
- Cash receipts from customers were \$35.0 million, 2.7% higher than the pcg.
- Net operating cash outflows were \$2.7 million, reflecting trading performance, a net increase in trade and other payables from 31 December 2021 of \$1.0 million and a net decrease in trade debtors balance from 31 December 2021 of \$0.2 million.
- Investment in property plant and equipment of \$0.3 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 \$0.9 million.

Board Changes

TasFoods announces that Mr John Murphy, has today been appointed Chairman. John has held the role of Acting Chairman since 31 May 2022, and has been on the Board since 23 June 2021.

John Murphy said, "I'm excited to be part of a Board and management team who really believe in the strength of brand Tasmania, are strongly aligned in pursuing a strategy razor focused on shoring up the foundations of the business and accelerate TasFoods building a portfolio of authentic and premium brands.

We believe that this focus will best place TasFoods to navigate the short, medium and long-term path to growth, and will bring to life our vision to create the most reputable, sustainable and authentic premium products collective."

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

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