

Forbidden Foods Limited ASX: FFF

ASX Announcement

31 October 2022

Key milestones in the US market lay the foundation for major long-term growth

Q1 FY23 Quarterly Activities Report

Forbidden Foods Ltd (ASX: FFF) (“Forbidden Foods” or “the Company”), provides an update on its activities during the quarter ended 30 September 2022.

Key Highlights

- Quarterly revenue of \$1.21m, up 2% on the prior corresponding period (pcp) (\$1.19m) with cash receipts of \$1.346m, up 8.2% on pcp (\$1.244m)
- Quarterly revenue for Blue Dinosaur® jumps 23.6% on pcp – highly encouraging prior to US retail sales commencing in Q2 FY23
- First major distribution agreement secured for Blue Dinosaur® products with KeHE Distributors, one of the largest pure-play grocery and natural distributors in the US servicing 30,000+ store locations and 23 of the country’s top 50 retailers
- First production run for Blue Dinosaur® products in the US market completed, alongside a major product ranging agreement with Associated Food Stores, a retailer cooperative supplying over 500 retailers across eight US states
- Two additional US supermarket banners secured – Fresh Thyme Market (“Fresh Thyme”) and ShopRite Supermarkets (“ShopRite”) – providing additional product distribution for Blue Dinosaur® products across +375 store locations nationally
- In Australia, product ranging agreement for Blue Dinosaur with Coles supermarkets, facilitating distribution for three Blue Dinosaur® plant-based ‘Bites’ product items across 350 locations with favourable store position

Forbidden Foods’ Chief Executive Officer, Marcus Brown said: “The September quarter was highlighted by a number of key milestones with respect to the Company’s growth in the lucrative US market for healthy snack foods. As a result of that hard work, the group is now positioned with a major distribution opportunity in North America, which will be spearheaded by the Blue Dinosaur® product range of healthy plant-based snacks.”

“The strength of the Company’s footprint with Blue Dinosaur® products was evidenced by an extensive list of partnership and distribution agreements with some of the largest retail cooperatives and food distribution networks in the US market. These agreements were accompanied by the first successful US-based production run for Blue Dinosaur® products.

“In order to meet its longer-term strategic objectives in the US, the Board and management team were aligned in their execution strategy, which required a larger cash outlay in the September quarter to both establish the US production hub and build a distribution network capable of meeting the requirements of increased demand.

“With the groundwork for that strategy now complete, Forbidden Foods has the framework in place to build viable long-term growth channels for key products across the US market. In that context, the popular Blue Dinosaur® range has been selected to spearhead the US marketing campaign, with a suite of additional products expected to follow over the medium to long-term.

“The Company looks forward to providing investors with more exciting updates about its US growth strategy in the quarters ahead, as it converts its market opportunity into a material uplift in revenues and gross profit.”

Quarterly Financial Highlights

Key outcomes include:

- Quarterly revenue of \$1.21m, up 2% from pcp (\$1.19m)
- Quarterly digital revenue exceeded \$220k for the quarter, up 59% from pcp
- Cash receipts from customers of \$1.346m. Product manufacturing and operating costs increased by \$598,000 q/q in connection with focused expansion of US distribution footprint
- Quarterly revenue for Blue Dinosaur® rose 23.6% on pcp – highly encouraging ahead of launch into US market
- Cash and cash equivalents at the end of the quarter totalled \$964,000

Operational Review

The September quarter saw Forbidden Foods accelerate its strategic shift into direct retail and ecommerce channels as well as global export markets. With the achievement of a number of key distribution milestones in the quarter, the group is now positioned for a material uplift in retail sales and corresponding margin growth over the quarters ahead, following its strategic decision to pivot away from the bulk supply of raw materials through wholesale channels.

As previously highlighted, the revenue momentum from bulk supply channels is increasingly offset by high working capital costs – a trend which has been exacerbated by the COVID-19 pandemic and other ongoing geopolitical conflicts has have upward pressure on supply chain costs such as freight raw materials.

In that environment, Forbidden Foods was pleased to advise of a number of developments in the September quarter which were demonstrative on strong execution in its decision to deploy resources behind a strategy focused on global retail sales.

Blue Dinosaur®

Following a key quarter of growth for its flagship online store in Q2 CY2022, the group secured two major distribution boosts for its physical store footprint in the September quarter.

Results were highlighted by a major domestic update in early July, where the group secured national ranging into 350 Coles stores for three Blue Dinosaur® plant-based 'Bites' stock items. Stocking at Coles outlets nationally will commence from 31 October 2022 and is expected to contribute annual revenues of ~\$300,000. The agreement also stipulates that the 'Bites' range will be offered strong store position in the "Grab n Go" section which gets high foot traffic.

Separately in the September quarter, the group secured its first major US distribution partnership for Blue Dinosaur products through an agreement with KeHE Distributors. With 16 distribution centres across America, KeHE services over 30,000 stores in the US market where its networks comprise 23 of the top 50 retailers including Associated Food Stores, Walmart and Safeway.

The distribution agreement followed the successful completion of US manufacturing trials for Blue Dinosaur products in May 2022. Shortly after quarter-end (*refer ASX Announcement: 3 October 2022*), Forbidden Foods confirmed the completion of its first US production run of four key Blue Dinosaur stock items along with its first product ranging agreement with Associated Food Stores – a cooperative supplying more than 500 retailers across multiple US states.

Also post quarter-end, distribution momentum continued in the US market via an additional product ranging agreement through KeHE which will see Blue Dinosaur products stocked at 375+ stores across two US supermarket banners – Fresh Thyme Market and ShopRite Supermarkets (*refer ASX Announcement: 12 October 2022*).

As part of Forbidden Foods' global direct retail strategy, the Blue Dinosaur range provides the Company with a unique competitive advantage amid global tailwinds created by the shift in consumer preferences towards healthy snacking options. In that context, key developments in the September quarter confirm the Company is successfully executing on its global product manufacturing and distribution strategy – a platform that sets it up with a long-term high-margin revenue strategy.

FUNCH®

The FUNCH® children's nutrition shakes continue to grow in popularity, producing \$104,000 in gross sales to date. This popularity was further evidenced post quarter end, when the nutrition shakes were accepted into Baby Bunting stores nationally.

During the quarter, the Company extended the FUNCH® offering through the launch of a range of Kids Snack Bars. The two new flavours of FUNCH® Kids Snack Bars are a convenient and nutritious snack option for children's lunchboxes. The bars are gluten free, plant-based, dairy free and contain probiotics. The allergen-free snack is for children aged 4+ and are currently sold online via our flagship store as the Company starts to introduce it to its grocery customers.

The Australian flagship online store for FUNCH® continues to perform strongly online with digital revenue up 40% on pcp. The Company will continue to grow the FUNCH® product offering in a push to capture more of the children's nutrition market.

Sensory Mill®

Sensory Mill® launched its range of ambient plant-based meats in May 2022 which include minced pork, beef, chicken, and a plant-based burger mix. The range is made entirely from plants, and without GMOs, soy, wheat, or gluten.

During the quarter, the range of four SKUs commenced rolling out to new leading independent grocery customers including Romeo's Supermarkets (SA), Farmer Jacks (WA), Go Vita (National) and selected IGA and FoodWorks stores nationally.

While the plant-based food space remains competitive, Sensory Mill has a number of differentiating features and competitive advantages including not using common allergens like wheat and soy and providing a striking brand with a rich online experience.

Corporate

ASX additional information

In accordance with ASX Listing Rule 4.7C.3, Forbidden Foods advises that an amount of \$100,000 was paid to executive and non-executive directors in payment of their directors' fees, salaries, and post-employment benefits.

ENDS

This ASX announcement has been approved for release by the Board of Directors of Forbidden Foods Ltd.

For further information, please contact:

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About Forbidden Foods Ltd

Forbidden Foods Ltd (ASX: FFF) is a multi-brand premium food company focusing on the infant & toddler and health & wellness plant-based markets. The Company was established with a vision to provide the very best foods to meet consumer demand for clean, sustainable, plant-based and healthy products. The business sells products via its three brands – Blue Dinosaur®, FUNCH® and Sensory Mill®

Appendix 4C

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

Name of entity

FORBIDDEN FOODS LIMITED (ASX: FFF)

ABN

82 616 507 334

Quarter ended ("current quarter")

30 September 2022

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	1,346	1,346
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(1,554)	(1,554)
(c) advertising and marketing	(404)	(404)
(d) leased assets	-	-
(e) staff costs	(622)	(622)
(f) administration and corporate costs	(41)	(41)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	1	1
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(1,274)	(1,274)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	-	-
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	(17)	(17)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 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	(17)	(17)

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	-	-
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	(42)	(42)
3.10	Net cash from / (used in) financing activities	(42)	(42)

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	2,297	2,297
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,274)	(1,274)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(17)	(17)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(42)	(42)
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	964	964

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	964	2,297
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	964	2,297

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	100
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>		

7.	Financing facilities <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>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000																																			
7.1	Loan facilities	1,250	(113)																																			
7.2	Credit standby arrangements	-	-																																			
7.3	Other (please specify)	152	126																																			
7.4	Total financing facilities	1,402	13																																			
7.5	Unused financing facilities available at quarter end		1,389																																			
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.																																					
	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 30%;">Facility</th> <th style="width: 15%;">Facility limit \$A'000</th> <th style="width: 15%;">Amount drawn \$A'000</th> <th style="width: 15%;">Interest rate</th> <th style="width: 25%;">Secured</th> </tr> </thead> <tbody> <tr> <td>American Express – Credit cards</td> <td style="text-align: center;">122</td> <td style="text-align: center;">122</td> <td style="text-align: center;">10.99% p.a.</td> <td style="text-align: center;">No</td> </tr> <tr> <td>NAB – Credit cards</td> <td style="text-align: center;">30</td> <td style="text-align: center;">4</td> <td style="text-align: center;">13.25% p.a.</td> <td style="text-align: center;">No</td> </tr> <tr> <td>Moneytech:</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td> Debtor finance</td> <td style="text-align: center;">1,000</td> <td style="text-align: center;">(189)</td> <td style="text-align: center;">10.06% p.a.</td> <td style="text-align: center;">Yes</td> </tr> <tr> <td> Trade finance</td> <td style="text-align: center;">250</td> <td style="text-align: center;">76</td> <td style="text-align: center;">10.86% p.a.</td> <td style="text-align: center;">Yes</td> </tr> <tr> <td>Totals</td> <td style="text-align: center;">1,402</td> <td style="text-align: center;">13</td> <td></td> <td></td> </tr> </tbody> </table>	Facility	Facility limit \$A'000	Amount drawn \$A'000	Interest rate	Secured	American Express – Credit cards	122	122	10.99% p.a.	No	NAB – Credit cards	30	4	13.25% p.a.	No	Moneytech:					Debtor finance	1,000	(189)	10.06% p.a.	Yes	Trade finance	250	76	10.86% p.a.	Yes	Totals	1,402	13				
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	<p>¹ The ANZ bank overdraft limit is NZD \$10,000 and has been converted to AUD in the above table.</p> <p>The items included as other facilities are the American Express and NAB credit cards.</p>																																					

8.	Estimated cash available for future operating activities	\$A'000
8.1	Net cash from / (used in) operating activities (item 1.9)	(1,274)
8.2	Cash and cash equivalents at quarter end (item 4.6)	964
8.3	Unused finance facilities available at quarter end (item 7.5)	1,389
8.4	Total available funding (item 8.2 + item 8.3)	2,353
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1)	1.8
	<p><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></p>	
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: The entity expects the level of operating expenditure will reduce in the next quarter.</p>	

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 Company has commenced negotiations to secure additional capital to fund the expected short-term cash flow requirements of the business. The directors are confident, based on past performance, that they will be successful in their plan to raise further funds from the issue of equity or securing an appropriate debt facility.

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: The Company is confident it will be able to secure additional capital to be able to continue its operations and meet its business objectives.

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.

31 October 2022

Date:

Authorised by: The Board of Directors

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.