

ASX Announcement: 28 April 2023

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 March 2023 (Q1 2023).

Highlights:

- Net Sales growth of 10% compared to prior comparable period (PCP). On a like-for-like basis (accounting for the deletion of loss-making SKUs in both the Poultry and Dairy divisions) net sales growth was 26%;
- Despite challenging macro trading conditions gross margin for the Group improved significantly for the quarter. Poultry experienced a 5% gross margin point improvement with Dairy remaining flat to PCP despite continued increased input prices;
- EBITDA performance improved by 82% on PCP driven by Poultry's return to profitability;
- Continued focus on cost management initiatives throughout the quarter resulted in operating indirect costs being flat on the PCP despite inflationary pressures;
- A signed contract for the sale & leaseback of non-core real estate assets associated with Betta Milk in Smithton and negotiations are well advanced for the Ulverstone site;
- The Company signed two new distribution arrangements (The Juice Guys and The Udder Way) to leverage the strength of our customer service and logistics operations;
- The Company is pro-actively assessing our business divisions and the asset profile within these divisions using the Board-approved Capital Management framework. We are cognisant of the current macro-economic operating environment and are striving to ensure we are able to drive strong returns for shareholders; and
- Positive results from our online channel focus (Boxolove) with sales up by 152% on PCP, albeit off a low base.

Operational & Business Unit Update

Consumer spending remains impacted by macroeconomic factors of rising inflation and interest rates. Household budgets continue to be tightened and consumers are actively seeking value in their everyday purchases, particularly in the grocery channel. This is noticeable in the categories that TasFoods operates in where value offerings continue to grow at the expense of premium brands, in addition to channel switching from independent local operators to major national chains. Despite these challenges, all our operating business units saw sales growth on PCP.

Group total revenue for Q1 2023 increased by 15% over PCP, with the Poultry and Dairy divisions recording a 14% and 15% increase respectively. In the current environment we continue to be focused

on cost recovery and this revenue result includes price increases successfully achieved. We continue to review and assess the opportunity to recover input cost increases and improve financial performance.

Gross margins for the Group improved by 3% against PCP, driven predominantly by the Poultry division which increased by 5%, with the Dairy division remaining flat. This was a strong result given the input cost pressures still being experienced industry wide.

The Company's ongoing cost review program has seen operating indirect costs remain consistent with PCP. Benefits from the Company's review of its logistics network are still being realised which is offsetting considerable fuel and other input cost increases. Other costs such as professional fees, maintenance and overtime have reduced compared to PCP, however these have been offset by IT and employment costs associated with the Company's capability build.

Input costs continue to increase (particularly milk and wheat), and a focus on implementing initiatives to reduce manufacturing conversion costs in our facilities through efficiency and effectiveness measures is a high priority for the Company.

The Company's new ERP system is operational across Meander Valley Dairy, Pyengana Dairy, Shima Wasabi and Shared Services (including e-commerce) business units. The Company is still in the planning phase for Betta Milk as the focus has been on bedding down such a fundamental shift in the way of working in the before mentioned business units.

The Company was pleased to announce the partnership arrangements with The Juice Guys and The Udder Way during Q1. Despite the partnerships being in their infancy we are buoyed by the positive developments to date and will explore additional partnerships to add to our distribution portfolio. Both partnerships help solidify the Company's 'Fortress Tasmania' pillar of growth as we maintain a focus on our home-grown advantage, with The Udder Way adding significant ESG credentials to our portfolio through reduction in the use of plastics in the value chain.

Dairy Division

Volumes in the Betta business unit reduced by 9% against PCP. The Company's white milk brands increased 4% on PCP with cream declining 30%. Revenue per litre has increased 16%, resulting in a net sales increase of 5%. Milk costs remain abnormally high with another cost increase in February. Milk costs per litre are 33% higher than the same period last year, which is significantly impacting gross margin performance.

The Meander Valley Dairy business unit saw volume increase 9% in cream but decline 8% in butter, predominately driven by our decision to exit loss making lines. Pleasingly net sales and gross margin are well ahead of last year by 14% and 260% respectively and we have stemmed operating losses. In the current macroeconomic climate, the premium MVD portfolio faces structural challenges and the Company continues to critically assess the division using the Board approved capital management framework to ensure adequate return on investment for shareholders. Cream costs remain at all-time highs and supply remains tight, resulting in challenging category dynamics and this continues to impact growth opportunities.

Pyengana Dairy delivered excellent growth in the quarter with sales increasing 15% on PCP, primarily as a result of improved distribution of cheese through our key mainland partner as a result of increased

promotional activity.

Poultry Division

The Poultry division reported revenue growth of 11% on PCP. Removing the impact of SKU rationalisation (particularly Organic and Ethical Free Range), sales growth was 40%.

The operating and efficiency measures implemented in the Poultry division in 2022 are showing positive results with net sales, gross margin and EBITDA all improved on PCP.

During the quarter, volume sold increased 4% against PCP. This is due to operating model changes regarding bird liveweight, and revenue per kg increasing by 9.5%.

Major input cost of feed increased by 14% per tonne on PCP, along with increases in grower costs (including the procurement of day old chicks).

Financial update

The Group recorded a net revenue increase for the quarter of 15% over PCP to \$19.7m. The Group also saw multiple increases in costs across the supply chain, including:

- Feed costs associated with the Poultry division (excluding organic farming impact) increased by 14% per tonne. Overall direct cost of goods sold expenditure increased 6% on PCP;
- Milk costs increased 33% per litre over PCP as a direct result of higher farm gate prices; and
- Cream prices increased by circa 20%.

Distribution, warehousing and logistics costs reduced 4% on PCP as a result of the mitigation strategies implemented during Q3 FY2022 which is a solid result given continued cost pressures in this area of the value chain.

The Company reported a profit on sale of \$0.6m associated with the sale and lease back transaction of the Betta Milk Hobart cool room which was completed in January. The majority of proceeds from this transaction were used to retire debt.

Quarterly Cash Flow

TasFoods' Appendix 4C for the quarter ended 31 March 2023 (Q1FY2023) has been lodged with the ASX today. Key points include:

- The quarter ended with a closing cash on hand balance of (\$0.96)m and unused finance facilities of \$2.91m.
- Cash receipts from customers were \$18.4m, an increase of 3.8% on the PCP.
- Net operating cash outflows were negative \$1.5m, reflecting a net increase in trade debtors balance from Q4 FY2022 of \$0.4m. This is flat on total operating cash outflows compared to PCP which is an adequate result given the cost pressures being experienced across the Company.

- Investing net cash inflows for the quarter of \$1.7m included net proceeds on sale of property, plant and equipment (mainly relating to the sale of the Hobart Betta Milk site) of \$1.8m. Investment in property plant and equipment of \$0.1m for the quarter comprised of various plant and equipment purchases across all business units.
- Financing net cash outflows for the quarter of \$1.6m reflected retirement of debt with proceeds from the Betta Milk Hobart property.

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

TasFoods contact

Scott Hadley
Chief Executive Officer
+61 3 6331 6983

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 March 2023

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	18,386	18,386
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(13,671)	(13,671)
(c) advertising and marketing	(227)	(227)
(d) leased assets	(2)	(2)
(e) staff costs	(5,072)	(5,072)
(f) administration and corporate costs	(768)	(768)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(101)	(101)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	(1)	(1)
1.9 Net cash from / (used in) operating activities	(1,456)	(1,456)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(79)	(79)
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	(38)	(38)

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	1,867	1,867
	(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	1,750	1,750

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	112	112
3.6	Repayment of borrowings	(1,608)	(1,608)
3.7	Transaction costs related to loans and borrowings	(30)	(30)
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	(88)	(88)
3.10	Net cash from / (used in) financing activities	(1,614)	(1,614)

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	357	357
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,456)	(1,456)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	1,750	1,750

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

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)	(1,614)	(1,614)
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	(963)	(963)

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	(963)	357
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	(963)	357

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)	6,515	6,515
7.2 Credit standby arrangements	-	-
7.3 Other (bank overdraft)	3,850	937
7.4 Total financing facilities	10,365	7,452
7.5 Unused financing facilities available at quarter end		2,913
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 March 2023 amounted to \$6.5 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 3.06% and 8.06%, with the weighted average interest rate being 6.50%.</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 \$3.85 million operating under a variable interest rate. As at 31 March 2023, a balance of \$2.91 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)	(1,456)
8.2 Cash and cash equivalents at quarter end (item 4.6)	
8.3 Unused finance facilities available at quarter end (item 7.5)	2,913
8.4 Total available funding (item 8.2 + item 8.3)	2,913
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	2
<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: TasFoods Ltd commenced implementation of key initiatives in late FY2022 that are starting to provide benefits in FY2023 which we expect to have positive impacts on cash flows.</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:

TasFoods has recently undertaken a successful sale and leaseback strategy of its non-core real estate assets associated with Betta Milk. Signed contracts for the sale & leaseback of Hobart and Launceston properties were achieved during Q4 2022 (Launceston settled in December 2022 and Hobart settled in January 2023), with the other two sites (Ulverstone and Smithton) awaiting settlement. The proceeds of the sales will go partially towards debt reduction and partially to support working capital of the business.

TasFoods also negotiated a further \$0.7m increase in its overdraft facility with ANZ during Q1FY2023, bringing the total facility to \$3.85m to support working capital needs of the business whilst the new profit improvement initiatives continue to be implemented.

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 – TasFoods Ltd commenced implementation of key initiatives in late FY2022 that are starting to provide benefits in FY2023.

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: 28 April 2023

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.