



Halo Food Co.

31 January 2022



ASX Release Quarterly Report

For the quarter ending 31 December 2021

HALO ACHIEVES STRONGEST QUARTERLY RESULTS ON RECORD, REALISING STRONG SALES GROWTH, THIRD CONSECUTIVE QUARTER OF EBITDA PROFITABILITY AND CASH GENERATIVE

31 January 2022

Halo Food Co. Limited (ASX:HLF) (“Halo” or the “Company”) is pleased to provide the following quarterly update on its activities and lodge the Appendix 4C Cash Flow Statement for the quarter ending 31 December 2021. The report highlights strong and sustained revenue growth through FY22 and improving profitability quarter on quarter, year on year and cash generation. Halo operates on a 31 March 2022 financial year and consequently, the 31 December 2022 quarter was the third quarter of its financial year 2022 (“Q3 FY22”).

Q3 FY22 Key Financial Metrics

Period	Revenue	Normalised EBITDA	Net Operating Cash Flow
Prior Quarter (Q2 FY22)	17% ▲ to \$17.5m from \$15.0m	134% ▲ to \$503k from \$216k	215% ▲ to \$2.6m from (\$2.3m)
Prior Corresponding Period (Q3 FY21)	35% ▲ to \$17.5m from \$13.0m	290% ▲ to \$503k from (\$265k) loss	456% ▲ to \$2.6m from (\$735k)
Cash Balance	23% ▲ Closing cash balance of \$4.6m as at 31 December 2021 compared with \$3.7m at 30 September 2021.		

Normalised EBITDA excludes the non-cash share-based payments expense, for the purpose of the table above, no other normalisations have been included

Q3 FY22 Key Financial Highlights

- Q3 FY22 sales for the consolidated group totalled \$17.5m, a record sales quarter for Halo, an increase of over 17% on the prior quarter;
- Through Q3 FY22 Halo realised sales of \$8.0m for the month of November alone, including more than \$3.9m in sales from New Zealand Dairy division. This is the highest sales on record for the New Zealand business to date and highlights the combined demand from new and existing customers as sales across the consolidated business continue to accelerate;
- Halo continued to grow profitability through the quarter recording a third consecutive quarter of positive normalised EBITDA of \$503k for Q3 FY22, a significant increase on both the prior quarter and the prior corresponding period. The normalisations take into



account the non-cash share-based payments expense only;

- Halo generated more than \$2.6m net cash from operations as cash receipts from customers grew more than 40% through the quarter to \$18.6m compared with \$13.3m in Q2 FY22;
- Product and manufacturing costs were fractionally up on the prior quarter to \$13.4m, notwithstanding the increased sales across the group and the new bar line facility being completely operational increasing the requirement for raw materials and inventory;
- The strategy of opportunistic purchasing of inventory in prior quarters has begun to unwind to the benefit of the group, highlighted in the strong EBITDA result for the Company and the stable product and manufacturing costs;
- Capital expenditure payments materially decreased to \$334k from \$825k in the prior quarter and in line with forecast as the protein bar line has now largely been completed. Capital expenditure payments are forecast to continue to reduce through the final quarter of FY22;
- The final grant receipt for the protein bar line of \$140k was expected in Q3 FY22, however, will now be received in Q4 FY22;
- Through Q3 FY22 Halo increased the existing debt facilities in New Zealand to account for the strong growth in that division by a further \$1,500,000 with the ANZ bank on the same terms as the existing facilities as outlined in the accompanying Appendix 4C. As at 31 December 2021, the increased facilities in New Zealand remain unutilised;
- As at 31 December 2021, Halo had a combined cash balance of \$4.6m, an increase of 23% over the prior quarter and undrawn debt facilities of \$5.1m.

New Zealand Dairy

The New Zealand Dairy vertical had its strongest quarter on record across all fronts, including sales, profitability and business development. Sales for the quarter totalled \$6.3m, with November contributing \$3.9m alone and the division continues to be EBITDA profitable. Moving into the fourth and final quarter of FY22 the sales pipeline remains robust and a number of clients have indicated increased volumes and additional SKUS over the coming 12 months, with forecasts to be provided in due course.

During the quarter, Halo signed a USD40m Memorandum of Strategic Cooperation forming a strategic partnership with Theland in China. The strategic partnership entails the development and manufacture of Theland's milk powder products into China, including whole milk powder, skim milk powder and other formulated nutritional powders across a range of pack formats including bags, cans and PET jars, has a two year term and opening orders of USD1.5m were received and manufactured during Q3 FY22. The sales and product development team are working proactively with Theland on new powdered product lines and the client has indicated



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further orders will be forthcoming following the completion of the Chinese New Year period in February 2022.

This strategic partnership is a major milestone for Halo as Theland, a Chinese brand distributor with sales capabilities in more than 25 Chinese provinces and majority owned by Alibaba, is one of the largest importers of powdered dairy products into China. Theland is undertaking a strategic growth agenda in core markets and is rapidly building scale and breadth of product offering across its formulated dairy powders. The partnership further validates the Company's world class manufacturing capabilities and scale, further diversifying the division's growing and substantial client base.

Australian Contract Manufacturing

The Australian Contract Manufacturing business added further strategic contracts, including an additional Coles private label tender, and new clients across powders, drinks and protein bars, through the third quarter. These new clients (excluding Coles) have placed opening orders ranging in value and volume up to \$1.3m per purchase order highlighting the growing volume and increasingly diversified nature of the customer base. These new orders will be manufactured and dispatched through the first half of calendar year 2022 and repeat and ongoing orders are expected thereafter on a regular basis.

The second and significant Coles private label tender was won in a competitive process in Q3 FY22 and has an estimated sales forecast of \$3.3m per annum. While no term has been specified, Halo expects the term will be longer than an initial 12 month period, implying a gross sales value multiples higher than the annual value. Products to be manufactured under the tender win include multiple SKUs across various pack formats, flavours and sizes. This is the second Coles private label tender win in under 12 months highlighting the ability of Halo to deliver on large and material contracts.

The bar line, commissioned in late Q2 FY22, continued to ramp up through Q3 FY22 with both commercial orders and Halo branded products being manufactured at the site. As the new protein bar line continues to scale, the sales team have actively secured new clients through the quarter and are pursuing a promising and robust sales pipeline into early 2022.

Brands Division

Activity in the branded division increased through Q3 FY22 with notable call outs as follows:

- Tonik recorded its highest sales month on record in November, as the brand continues to build a loyal customer following, benefiting from increased distribution and a net beneficiary of increased social marketing;
- A number of new products have been developed and commercialised, including Tonik High Protein Bars to be manufactured at Halo's newly commissioned protein bar line through calendar year 2022 and the relaunch of Tonik Active Amino Performance drink;



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- A redesign of the Tonik brand and packaging occurred through the quarter to further enhance the appeal of the brand and products to consumers. The redesign will be launched in early 2022;
- The sales team have secured further national ranging across multiple channels including speciality health stores, major petrol and convenience retailers and gyms with more than 200 retail stores added through the quarter with further distribution expected in the first half of calendar year 2022; and
- Tonik Pro has been signed as the official protein and supplement partner of Melbourne United Basketball for the 2021/2022 season, further building brand awareness and targeting key consumers as the brand builds scale and increased awareness.



Tonik High Protein Bars to be launched into market over through the first half of 2022, with confirmed ranging at gyms, speciality channels and national petrol and convenience channels



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Other

Payments to executive and non-executive directors totalled approximately \$258,000 for salaries and wages in the period, as outlined in section 6.1 of the accompanying Appendix 4C.

As at 31 December 2021, 106,067,442 Performance Shares are on issue.

	Performance Shares on issue at start of period or issued through the period (A)	Performance Shares converted to KTD shares during the period (B)	Performance Shares expired during the period (C)	Performance Shares on issue at the end of the period (A) – (B) – (C)
Class A ¹	16,500,000	0	0	16,500,000
Class B ²	16,500,000	0	0	16,500,000
Class D ³	23,255,814	0	0	23,255,814
Class E ⁴	23,255,814	0	0	23,255,814
Class F ⁵	23,255,814	0	0	23,255,814
Class H ⁶	3,300,000	0	0	3,300,000
Total	106,067,442	0	0	106,067,442

1 Each Class A Performance Share will convert into one share upon Keytone Enterprises (NZ) Company Limited achieving, \$3,000,000 of earnings before interest, taxes, depreciation and amortisation (EBITDA) in any financial year occurring on or before 31 March 2022.

2 Each Class B Performance Share will convert into one Share upon Keytone Enterprises (NZ) Company Limited achieving, \$6,000,000 of EBITDA in any financial year occurring on or before 31 March 2022.

3 Each Class D Performance Share will convert into one share upon the Omniblend Pty Limited achieving, in relation to the Omniblend Group, \$2,600,000 of earnings before interest, taxes, depreciation and amortisation, in any financial year occurring on or before 31 March 2022

4 Each Class E Performance Share will convert into one share upon the Company achieving a volume weighted average price of its shares over a period of 30 consecutive trading days upon which the shares are traded that exceeds \$0.65 and, in relation to the Omniblend Group, \$50,000,000 of annual revenue, in any financial year occurring on or before 31 March 2023

5 Each Class F Performance Share will convert into one share upon the Company achieving a volume weighted average price of its Shares over a period of 30 consecutive trading days upon which the Shares are traded exceeding \$1.00 and, in relation to the Omniblend Group, \$100,000,000 of annual revenue and \$7,500,000 of earnings before interest, taxes, depreciation and amortisation, in any financial year occurring on or before 31 March 2023

6 Each Class H Performance Share will convert into one share upon the business of Super Cubes achieving sales revenue of \$35,000,000 and Omni Brands Pty Limited achieving \$5,000,000 of earnings before interest, taxes, depreciation and amortisation in the financial year ending 31 March 2022



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The release of this announcement was authorised by the Non-Executive Chairman, Mr. Peter James on behalf of the board.

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Further Information

Jourdan Thompson
Chief Financial Officer, Halo Food Co. Limited
Email: investors@halofoodco.com
Tel: +613 9587 6483

About Halo Food Co. Limited

Based in Sydney and Melbourne, Australia and Christchurch, New Zealand, Halo Food Co. Limited is an established manufacturer and exporter of formulated dairy products and health and wellness products. Halo Food Co. is a leading Australian and New Zealand product developer and manufacturer in the health and wellness sector, with dry powder, ready to drink UHT and protein bar health and wellness-based product capability. In addition to Halo Food Co.'s own brands, the company is a trusted production partner, contract packing for well-known brands in Australia, New Zealand and internationally. The Company's purpose-built production facilities in Australia and New Zealand offer a wide range of dairy, health and wellness and nutritional packing solutions, meeting the diverse needs of consumers from different markets and cultures. Please visit www.halofoodco.com for further information.

ENDS



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Appendix 4C

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

Name of entity

Halo Food Co. Limited

ABN

49 621 970 652

Quarter ended ("current quarter")

31 December 2021

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	18,609	44,756
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(13,396)	(38,493)
(c) advertising and marketing	(51)	(177)
(d) leased assets	-	-*
(e) staff costs	(1,987)	(6,132)
(f) administration and corporate costs	(565)	(1,100)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	7	16
1.5 Interest and other costs of finance paid	(80)	(129)
1.6 Income taxes paid	-	-**
1.7 Government grants and tax incentives	89	621
1.8 Other (provide details if material)	(6)	(20)
1.9 Net cash from / (used in) operating activities	2,620	(658)
<p><i>* payment for leased assets has been reclassified to section 3.6 Repayment of borrowings consistent with AASB 16 disclosure requirements.</i></p> <p><i>** income taxes paid has been reclassified to section 1.2 (b) product manufacturing and operating costs.</i></p>		

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(334)	(1,567)
(d) investments	-	-
(e) intellectual property	(1)	(4)
(f) other non-current assets	-	-
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	(335)	(1,571)

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	1,162	12,828
3.6 Repayment of borrowings	(2,569)	(10,134)
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	(1,407)	2,694

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	3,700	4,105
4.2	Net cash from / (used in) operating activities (item 1.9 above)	2,620	(658)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(335)	(1,571)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(1,407)	2,694
4.5	Effect of movement in exchange rates on cash held	(10)	(2)
4.6	Cash and cash equivalents at end of period	4,568	4,568

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	4,568	3,700
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)	4,568	3,700

6. Payments to related parties of the entity and their associates

6.1	Aggregate amount of payments to related parties and their associates included in item 1	258
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

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

7. Financing facilities

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.

	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1 Loan facilities	10,470	5,098
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	-	-
7.4 Total financing facilities	10,470	5,098

7.5 **Unused financing facilities available at quarter end** 5,372

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.

The financing facilities outlined above are as follows:

- Trade Finance facility within the New Zealand Dairy business provided by ANZ Bank for a total of NZD\$3,500,000.
- Overdraft of NZD\$1,000,000 provided by ANZ Bank
- Trade debtor facility for \$6,000,000 with Moneytech in the Australian Contract Manufacturing and Brand business.
- The interest rate for the trade finance facility in New Zealand and Australia are 2.29% and 5.98% per annum, respectively, on funds drawn.

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (Item 1.9)	2,620
8.2 Cash and cash equivalents at quarter end (Item 4.6)	4,568
8.3 Unused finance facilities available at quarter end (Item 7.5)	5,372
8.4 Total available funding (Item 8.2 + Item 8.3)	9,940
8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	N/A

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.

8.6 If Item 8.5 is less than 2 quarters, please provide answers to the following questions:

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?

Answer: N/A

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: N/A

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: N/A

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: Peter James, Chairman on behalf of the Board
(Name of body or officer authorising release – see note 4)

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.