



Halo Food Co.

29 April 2022

ASX Release Quarterly Report

For the quarter ending 31 March 2022

HALO CONTINUES TO PURSUE STRATEGIC GROWTH AGENDA, STRONG MOMENTUM LEADING INTO FY23 FOLLOWING A RECORD FY22 AND STRONG FINAL QUARTER

29 April 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 fourth and final quarter of the 2022 financial year ending 31 March 2022 (“Q4 FY22”). The quarter recorded further solid growth in Australian Contract Manufacturing and realised a record year, a record quarter for its proprietary brand Tonik and the announcement of the strategic acquisition of leading digital and wellness business, The Healthy Mummy.

Upon releasing the quarterly update and Appendix 4C to market, Halo’s CEO, Danny Rotman, commented “The final quarter of FY22 capped off another successful year of growth for Halo. Halo grew more than 18% over the prior year, a strong result in a challenging macro environment of lockdowns, significant supply chain challenges and escalating raw material price increases particularly into the final quarter. Notwithstanding the challenges, Halo is in a strong operational position moving forward, with a robust and growing sales book across our diversified manufacturing operations.”

“Our branded division has continued to focus over the last 12 months, culminating in the rebrand of Tonik and the recent launch of Tonik Protein Bars to further complement the Tonik product offering. Through the coming financial year the branded division is well placed to capitalise and realise strong growth as the foundations with key retailers and distribution partners have been laid supported by an ongoing and targeted social media marketing campaign.”

“Finally, the addition of The Healthy Mummy from 1 April 2022 will add significant product breadth and direct to consumer high margin recurring digital channels to Halo. Healthy Mummy products will be manufactured in-house realising operational synergies and offering further operational scale and leverage. The product development team are working closely with The Healthy Mummy team on a range of new products to complement well-advanced strategic growth initiatives with the business.”

Q4 FY22 Key Financial Highlights

- Q4 FY22 sales for the consolidated group totalled \$14.7m, contributing to a record sales year for Halo realising total sales of \$59.9m, an increase of 18% on the prior financial year of FY21. These results exclude any contribution from The Healthy Mummy acquisition to be consolidated into Halo from 1 April 2023 onwards;



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- Q4 FY22 sales were 12% up on the prior corresponding period of Q4 FY21 however eased 15% compared with the third quarter of FY22;
- The reduction in Q4 sales compared with Q3 is due to significant employee absenteeism caused by the Omicron variant of COVID-19 and isolation requirements of Australia State Governments. This abnormally high absenteeism resulted in the delayed manufacture and dispatch of orders to clients. The order book and sales pipeline through the Halo group remains strong with orders subject to manufacturing delays through January and February beginning to be realised through March and into the following quarter;
- The month of March 2022 realised a record high for the Australian operations of Halo recording sales of \$5.3m and more than \$7.1m consolidated for the Halo group. March 2022 accounts for ~48% of sales for Q4 FY22, demonstrating the momentum and strong run rate to commence FY23. Notably the March and full year FY22 results highlight the continued push for scale, the continued strong demand from clients and the growing demand for Halo's proprietary brand Tonik;
- Cash receipts from customers for the quarter totalled \$16.9m, easing from a high of \$18.6m recorded in the prior quarter and a significant increase from \$13.6m compared with the prior corresponding period of Q4 FY21, noting that cash receipts for the quarter were adversely impacted by the delayed dispatched of sales as outlined above;
- Product manufacturing and operating costs rose significantly to \$17.3m driven by a growing forward sales order book, material and near universal price increases in raw materials of up to 40% for some key materials, packaging and freight. Furthermore, supply chain delays and COVID related absenteeism/delays resulted in longer lead times to dispatch sales and higher inventory requirements;
- Staff costs also materially increased as expensive casual labour was engaged and overtime incurred to maximise sales through the quarter due to loss of manufacturing hours from COVID absenteeism. These costs are expected to normalise as a percentage of sales as normal manufacturing shift patterns are resumed;
- Total cash burn materially reduced through FY22 to \$3.9m for the 12 months to 31 March 2022, a significant reduction of 60% compared with the cash burn of FY21 of \$8.2m;
- Macro-economic factors and one-off acquisition costs related to The Healthy Mummy incurred through the quarter realised a cash burn of \$3.3m for the final of FY22. This is expected to reverse over the coming quarters as the strong order book is executed upon and Government imposed isolation mandates have been materially wound back, thereby reversing absenteeism challenges of Q4 FY22 and material price increases are passed through to clients in line with raw materials and inventory pricing;
- Capital expenditure payments further materially decreased to \$157k in line with forecast; and



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- The final grant receipt for the protein bar line of \$150k was received through Q4 FY22.

As at 31 March 2022, Halo had a combined cash balance of \$8.9m. Through the quarter Halo raised \$3.5m via an oversubscribed placement to institutional and sophisticated investors plus an additional \$2.6m via an SPP from existing shareholders. These funds plus the \$13.0m of new debt funding raised from Arrowpoint Capital (backed by the Victor Smorgan Group) will be utilised towards the acquisition of The Healthy Mummy, strategic growth initiatives and working capital.

THM Acquisition

In February 2022, Halo announced the strategic acquisition of 100% of the issued share capital in leading digital health and wellness business, The Healthy Mummy (“THM”). THM was acquired recorded revenues of \$21m and normalised EBITDA of \$4m in FY21 and was acquired at a compelling acquisition multiple of 4.1x FY21 EV/EBITDA, compared with recent transaction precedents. The acquisition of THM is a transformational and highly complementary addition to the Halo group. Halo will benefit from higher margin digital distribution channels creating a vertically integrated brand owner and manufacturer, with a strong recurring digital subscription base. The production of the powdered products of THM will be transferred in-house to Halo’s manufacturing facilities, realising significant manufacturing synergies of approximately \$800,000 ahead of additional growth opportunities.

The acquisition of THM by Halo legally completed on 1 April 2022 subsequent to quarter end, and as such the financial results of THM are not included in this Appendix 4C cash flow statement for the quarter ended 31 March 2022. The financial results of THM will be consolidated into Halo from 1 April 2022 with the key performance indicators of THM growing year-on-year:

- New digital subscriptions are up 22% in March 2022 compared with March 2021;
- Total revenue for March 2022 is up 13% compared with March 2021; and
- App downloads are up 40% year-on-year.

Transition and integration of THM into Halo is well underway. THM powdered products are being migrated to Halo’s manufacturing facilities in a timely and orderly manner to minimise any potential disruptions to the supply chain and existing THM subscribers/customers. The first THM products have been manufactured and dispatched by Halo through April 2022 and have begun to contribute towards the manufacturing synergies for the benefit of margins to THM and the Halo group.

In addition to the new retail and online ranging (per the ASX announcements of 7 March 2022 and 1 April 2022) secured by Halo and THM following the announcement of the acquisition, THM is executing on a number of additional strategic growth initiatives expected to be launched in this current quarter. These include the launch of Marketplace to monetise the traffic to the THM website and a dedicated Wellness app to service the broader health and



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wellness needs of both existing THM customers while appealing to a larger and broader demographic of health-conscious women.

New Zealand Dairy

The New Zealand Dairy vertical recorded sales of \$16.0m for the 12 months ended 31 March 2022. Annual FY22 sales grew more than \$4.8m, representing 43% growth year-on-year. The Q4 FY22 result of \$3.2m was a seasonally quieter quarter given the occurrence of Chinese New Year and in line with both budget and the sales result of the prior corresponding quarter. The final month of the quarter, being March 2022, represented 56% of the sales for the Q4 FY22, demonstrating the momentum leading into 2023 financial year.

As announced through March, Halo New Zealand received a confirmed order for private label whole milk powder from WFresh valued at approximately NZD7,100,000. The order is to be manufactured and dispatched over four months from April 2022 through to July 2022 and exported to China. This order from one client represents 45% of the FY22 financial result, highlighting the growing sales pipeline of the New Zealand business. It also illustrates the diluted customer concentration risk as the business continues to diversify its client base and products manufactured while simultaneously growing orders and volume from the existing client base.

The sales and new product development team have continued to nurture sales leads resulting in the receipt of multiple orders for the manufacture of several new private label lines, including A2 milk powder in cans and pouches, A2 milk formulated children's powder in cans and goat milk powder in cans. These orders total approximately NZD900,000 and while not material on an individual basis, highlight the capability and growing demand within Halo's NZ operations for formulated powdered dairy products across multiple pack formats and Halo's access to highly sought-after nutritional ingredients including A2 milk powder. These orders will be manufactured through Q1 FY23.

Australian Contract Manufacturing

Australian Contract Manufacturing vertical recorded sales of \$41.2m for the 12 months ended 31 March 2022. Annual FY22 sales grew \$6.0m, representing 17.0% growth year-on-year. The Q4 FY22 sales result of \$11.1m represented 9.1% growth over Q3 FY22 and 24.8% over the prior corresponding period of Q4 FY21. The month of March realised \$5.1m in sales for one month alone, demonstrating strong momentum for the Australian business leading into the FY23 financial year.

Notwithstanding the recorded growth in the fourth quarter, the performance of the Australian Contract Manufacturing business was significantly hampered by the onset of the COVID Omicron variant. The Omicron variant resulted in absenteeism of employees and the loss of several weeks' production at a number of Halo's manufacturing sites throughout the second half of January and into February, leading to the delay of manufacture and dispatch of client



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orders. This was further exacerbated by delays in national and international supply chains and logistics particularly for the receipt of raw materials and packaging as well as the additional lead times required for road and sea freight.

The confirmed orders and sales pipeline in Australian Manufacturing remain strong. The challenges resulting from the Omicron variant are a timing delay and delayed sales orders through January and February 2022 have begun to be realised in March and will continue through the following quarter.

More broadly, the business is continuing to optimise operations across its manufacturing base of 5 sites in Australia. In particular, Halo's newly commissioned bar line in NSW continued to ramp up through Q4 FY22 and had a first full run rate month in March 2022, recording sales of \$941,000 for the month. The rapid scaling and commercialisation of the bar line will offer further growth and upside not realised in the FY22 year.

Brands Division

The Brands division of Halo recorded total sales of \$2.7m for FY22 compared with \$4.1m for FY21. While the sales underperformed the FY21 year, primarily due to the shift away from fudge sales (as the fudge plant underwent significant upgrade/conversion to the production of protein/healthy snacking bars), sales for Tonik grew significantly throughout FY22 and are continuing to grow and gain traction in key retail channels. Throughout the quarter, the branded division continued to pursue further retail distribution and growth. The key highlights include:

- Building on the success of Q3 FY22 sales, Tonik recorded its highest sales month on record in February as unit sales continue to grow in key distribution channels, including major retailer Coles;
- Tonik Plant Protein Bars have been accepted into Coles and were manufactured through March into early April, as such they were not included in the record sales month for Tonik in February 2022;
- Tonik Plant Protein bars are due to be in store by early May. A number of SKUs will be included in more than 90% of the full large format store count of Coles, while other SKUs will be ranged across approximately 70% of the stores at this point in time;
- The launch of the redesigned Tonik brand and packaging occurred through the quarter and is currently being rolled out to Coles stores. Further retailers will follow with the redesign in due course as stock is re-ordered;
- The sales team have secured further national ranging across multiple channels and products will be available in additional major petrol and convenience retailers though the first half of FY23; and



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- Under Halo’s licensing agreement for premium Baileys™ non-alcoholic coffee flavoured ready-to-drink (“RTD”) products, ranging has continued to expand across major retailers throughout the North and South Island of New Zealand. Baileys™ RTDs are now stocked nationally in New Zealand in major grocery chain, Foodstuffs. Additionally, Countdown (New Zealand subsidiary of major Australian grocer Woolworths) has confirmed ranging of the Baileys™ RTD products nationally from July 2022. The sales of Baileys™ products across New Zealand are expected to be \$1,500,000 for the next twelve months.

Other

Payments to executive and non-executive directors totalled approximately \$277,000 for salaries and wages in the period, as outlined in section 6.1 of the accompanying Appendix 4C.

As at 31 March 2022, 106,067,442 Performance Shares are on issue, per the table below.

	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

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



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Class H ⁶	3,300,000	0	0	3,300,000
Total	106,067,442	0	0	106,067,442

The release of this announcement was authorised by the Board of Directors of Halo.

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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

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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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 March 2022

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	16,924	61,680
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(17,339)	(55,832)
(c) advertising and marketing	(58)	(235)
(d) leased assets	-	-
(e) staff costs	(2,408)	(8,540)
(f) administration and corporate costs	(540)	(1,640)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	57	73
1.5 Interest and other costs of finance paid	(79)	(208)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	152	773
1.8 Other (provide details if material)	-	(20)
1.9 Net cash from / (used in) operating activities	(3,291)	(3,949)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(157)	(1,724)
(d) investments	-	-
(e) intellectual property	(1)	(5)
(f) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	915	915
	(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	757	(814)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	6,079	6,079
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	(520)	(520)
3.5	Proceeds from borrowings	2,516	15,344
3.6	Repayment of borrowings	(1,161)	(11,295)
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	6,914	9,608

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	4,568	4,105
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(3,291)	(3,949)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	757	(814)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	6,914	9,608
4.5	Effect of movement in exchange rates on cash held	(21)	(23)
4.6	Cash and cash equivalents at end of period	8,927	8,927

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	8,927	4,568
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)	8,927	4,568

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

6.2 Aggregate amount of payments to related parties and their associates included in item 2

**Current quarter
\$A'000**

277

-

Note to Item 6.1: The amount of \$277k was payment of Director remuneration for the quarter ended 31 March 2022.

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	10,418	5,107
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	-	-
7.4 Total financing facilities	10,418	5,107

7.5 **Unused financing facilities available at quarter end** 5,312

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)	(3,291)
8.2 Cash and cash equivalents at quarter end (Item 4.6)	8,927
8.3 Unused finance facilities available at quarter end (Item 7.5)	5,312
8.4 Total available funding (Item 8.2 + Item 8.3)	14,239
8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	4.3

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: **29 April 2022**

Authorised by: **Board of Directors**
(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.